

**Business A750/F717/V701  
Financial Statement Analysis  
Winter 2020 Course Outline**

**Accounting and Financial Management Services Area  
&  
Finance and Business Economics Area  
DeGroote School of Business  
McMaster University**

**COURSE OBJECTIVE**

The course is designed to provide you with advanced conceptual background and analytical tools necessary to evaluate financial statements issued by publicly held enterprises. The course is meant to complement related studies in accounting, finance, economics, business policy, and statistical analysis. It focuses on understanding the uses and the limitation of both the financial statements and the traditional and non-traditional methods used in analyzing them. We will discuss the financial statements, the accounting disclosure rules, the differential effects of alternative accounting principals, and the interpretation of financial information. Student's motivation and skill development will be enhanced by using problems and cases for actual companies. You will ultimately be better able to make judgements about the cash flows, earnings quality, hidden assets and liabilities, and the overall performance of the enterprise.

**INSTRUCTOR AND CONTACT INFORMATION**

**Section 1:** Thursday 19:00-22:00

**Class Location:** RJC/TBA

**Eric Bentzen-Bilkvist**

Instructor

[ericb@petmas.ca](mailto:ericb@petmas.ca)

Office: RJC/TBA

Office Hours: To be arranged

Tel: (905) 522-6555

**COURSE ELEMENTS**

Credit Value:	3	Leadership:	Yes	IT skills:	No	Global view:	Yes
Avenue:	Yes	Ethics:	No	Numeracy:	Yes	Written skills:	No
Participation:	Yes	Innovation:	Yes	Group work:	Yes	Oral skills:	Yes
Evidence-based:	Yes	Experiential:	No	Final Exam:	No	Guest speaker(s):	Yes

## COURSE DESCRIPTION

This course will look at the Accounting Policies which can effect the profit activity of a corporation.

### Prerequisite:

It is assumed that all students have a basic knowledge of accounting principles comparable to the materials covered in A611/12 (Financial Accounting). If you do not, you should catch up as quickly as possible. (You may choose to review Appendix 1-A, pp. 35-55, in the first reference text.)

## LEARNING OUTCOMES

Upon completion of this course, students will be able to complete the following key tasks:

- Play the role of the main decision-maker(s) while taking all stakeholders into account;
- Formulate a strategic plan while considering the organization's capabilities and environmental context;
- Identify the important opportunities and challenges facing a business and setting out a course of action for dealing with them;
- Detail an action plan that is operationally specific.

## REQUIRED COURSE MATERIALS AND READINGS

*FINANCIAL REPORTING AND STATEMENT ANALYSIS: A STRATEGIC PERSPECTIVE*, 9<sup>th</sup> edition, Wahlen, Baginski, Bradshaw; South-Western (Nelson).

- There is an online version sold at the bookstore - or they also sell the hard copy version – but it is not a bound text book. To reduce the cost it is loose leaf paper only.

## OPTIONAL COURSE MATERIALS AND READINGS

*FINANCIAL REPORTING AND STATEMENT ANALYSIS: A STRATEGIC PERSPECTIVE*, 8<sup>th</sup> edition, Wahlen, Baginski, Bradshaw; South-Western (Nelson). **A copy of this will be in the Innis library under reserve for use in library only.**

*THE ANALYSIS AND USE OF FINANCIAL STATEMENTS*, Gerald I. White, Ashwinpaul C. Sondhi and Dov Fried, John Wiley & Sons, Inc., 1994.

<b>EVALUATION</b>
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### ***Group hand-in cases and presentation:***

The cases are used to reinforce, integrate and supplement the course material, and to provide practice in its application. A total of 5 cases will be analyzed throughout the semester. . Each case will be assigned to groups: one group will be responsible for presenting the case and the other groups will critique the analysis of the presenting group. The presenting group will have 25 minutes to present the highlights of its solution to the case and the other groups will have 10 minutes critique. At the start of each class , all groups will hand in their written analysis. The maximum length of a hand-in case will not exceed 8 pages of double-spaced **typed** text (inclusive of exhibits and figures).

Groups will be formed on a volunteer basis with 3-5 students in each group. Each group is required to submit a list with the names and student numbers for all the group' s members.

### ***Term project***

The project involves in-depth analysis of a firm' s financial statements and its industry. You select the firm to be analyzed. It must be a publicly-traded American (i.e., U.S.) firm in the **manufacturing or merchandising** sectors. Only one group can do a company and it is first come first serve for selection of the company. Firms financial statements, notes, MD &A can be found on their websites as well as government websites where it is required they file 10-K forms. ( EDGAR is site in US for all SEC registered companies). In order for the analysis to be meaningful, you will need at least 5 years of data.

The term paper will include a discussion on the economics and current conditions in the industry, describe the strategies of the firm chosen, input the financial data with any necessary adjustments into a spreadsheet program (there is one include with the text book purchased) (FSAP), perform a profitability and risk analysis, compare the company with industry metrics or direct competitor (using Common Size F/S, Trend analysis, ratio analysis. P/E ratio) then prepare forecasted F.S which considers such items as inventories, marketable securities, pensions, and leases and the impact on the F/S and then value the firm using a minimum of 2 valuation methods. The report should concluded with a buy/hold/sell decision based on the valuation and interpretation of the ratios.

. The expected length is 15-20 **double-spaced typed** pages (including appendices). The project will be presented in class.

### ***Group evaluation***

Your individual mark for group work will be based on a combination of:

- the mark assigned to the group' s hand-in cases and term project;
- your contribution to the group work as evaluated by your peers and yourself. You will be given the opportunity to make your **confidential** peer evaluation in writing.

## ***Participation***

You are expected to be prepared for each class by reading the assigned material and be a willing participant in discussions.

## ***Midterm exam***

This will be closed book, short answer and problem oriented exam on all topics covered prior to the exam date. It is likely that part of this exam will involve finding and developing information from an annual report. It is tentatively scheduled for **Thursday, March 19, 2020**. If you cannot take the exam at the scheduled time, you must have a truly excellent excuse.

## ***Important dates in the course***

January 9	Form groups and inform instructor
January 16	Inform instructor of the term project topic (i.e., name of company to be analyzed)
March 19 (tentative)	Midterm examination
March 26/April 2	Project presentations and Term project report is due

Learning in this course results primarily from in-class discussion and participation of comprehensive business cases as well as out-of-class analysis. The balance of the learning results from the lectures on strategic concepts, from related readings, and from researching your presentations, cases, assignments, simulation decisions and projects. All work will be evaluated on an individual basis except in certain cases where group work is expected. In these cases group members will share the same grade adjusted by peer evaluation. Your final grade will be calculated as follows:

## ***Components and Weights***

Class participation	10%
Group's hand-in cases and presentations	25%
Term project	30%
Midterm exam	35%
<b>Total</b>	<b>100%</b>

## **Conversion**

At the end of the course your overall percentage grade will be converted to your letter grade in accordance with the following conversion scheme.

LETTER GRADE	PERCENT	POINTS
A+	90 - 100	12
A	85 - 89	11
A-	80 - 84	10
B+	75 - 79	9
B	70 - 74	8
B-	60 – 69	7
F	00 - 59	0

## **Communication and Feedback**

Students that are uncomfortable in directly approaching an instructor regarding a course concern may send a confidential and anonymous email to the respective Area Chair or Director:

<http://mbastudent.degroote.mcmaster.ca/contact/anonymous/>

Students who wish to correspond with instructors or TAs directly via email must send messages that originate from their official McMaster University email account. This protects the confidentiality and sensitivity of information as well as confirms the identity of the student. **Emails regarding course issues should NOT be sent to the Administrative Assistant.**

Instructors should conduct an informal course review with students by Week #4 to allow time for modifications in curriculum delivery. Instructors should provide evaluation feedback for at least 10% of the final grade to students prior to Week #8 in the term.

## **ACADEMIC DISHONESTY**

You are expected to exhibit honesty and use ethical behaviour in all aspects of the learning process. Academic credentials you earn are rooted in principles of honesty and academic integrity.

Academic dishonesty is to knowingly act or fail to act in a way that results or could result in unearned academic credit or advantage. This behaviour can result in serious consequences, e.g. the grade of zero on an assignment, loss of credit with a notation on the transcript (notation reads: “Grade of F assigned for academic dishonesty”), and/or suspension or expulsion from the university.

It is your responsibility to understand what constitutes academic dishonesty. For information on the various types of academic dishonesty please refer to the Academic Integrity Policy, located at:

[www.mcmaster.ca/academicintegrity](http://www.mcmaster.ca/academicintegrity)

The following illustrates only three forms of academic dishonesty:

1. Plagiarism, e.g. the submission of work that is not one's own or for which other credit has been obtained.
2. Improper collaboration in group work.
3. Copying or using unauthorized aids in tests and examinations

## **MISSED ACADEMIC WORK**

### ***Missed Mid-Term Examinations / Tests / Class Participation***

Where students miss a regularly scheduled mid-term or class participation for legitimate reasons as determined by the MBA Academic Services Office, the weight for that test/participation will be distributed across other evaluative components of the course at the discretion of the instructor. Documentation explaining such an absence must be provided to the MBA Academic Services Office within five (5) working days upon returning to school.

To document absences for health related reasons, please provide the Petition for Relief for MBA Missed Term Work and the McMaster University Student Health Certificate which can be found on the DeGroot website at <http://mbastudent.degroot.mcmaster.ca/forms-and-applications/>. Please do not use the online McMaster Student Absence Form as this is for Undergraduate students only. University policy states that a student may submit a maximum of three (3) medical certificates per year after which the student must meet with the Director of the program.

To document absences for reasons other than health related, please provide the Petition for Relief for MBA Missed Term Work and documentation supporting the reason for the absence.

Students unable to write a mid-term at the posted exam time due to the following reasons: religious; work-related (for part-time students only); representing university at an academic or varsity athletic event; conflicts between two overlapping scheduled mid-term exams; or other extenuating circumstances, have the option of applying for special exam arrangements. Such requests must be made to the MBA Academic Services Office at least ten (10) working days before the scheduled exam along with acceptable documentation. Instructors cannot themselves allow students to unofficially write make-up exams/tests. Adjudication of the request must be handled by the MBA Academic Services Office.

If a mid-term exam is missed without a valid reason, students will receive a grade of zero (0) for that component.

## **STUDENT ACCESSIBILITY SERVICES**

Student Accessibility Services (SAS) offers various support services for students with disabilities. Students are required to inform SAS of accommodation needs for examinations on or before the last date for withdrawal from a course without failure (please refer to official university sessional dates). Students must forward a copy of such SAS accommodation to the instructor immediately upon receipt. If a student with a disability chooses NOT to take advantage of an SAS accommodation and chooses to sit for a regular exam, a petition for relief may not be filed after the examination is complete. The SAS website is:

<http://sas.mcmaster.ca>

## **POTENTIAL MODIFICATIONS TO THE COURSE**

The instructor and university reserve the right to modify elements of the course during the term. The university may change the dates and deadlines for any or all courses in extreme circumstances. If either type of modification becomes necessary, reasonable notice and communication with the students will be given with explanation and the opportunity to comment on changes. It is the responsibility of the student to check their McMaster email and course websites weekly during the term and to note any changes.

<b>COURSE SCHEDULE</b>
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**Business A750/F717/V701  
Financial Statement Analysis**

WEEK	DATE	TOPIC	TEXT BOOK
1	Jan 9	Introduction to Financial Reporting and F/S Analysis Ch 2 - Asset Valuation and Income Measurement	Wahlen, Ch. 1 and Ch 2
2	Jan 16	<b>Income Flow vs Cash flow - Statement of Cash Flows / Free Cash flows</b>	Wahlen, Ch. 3
3	Jan 23	W.T. Grant Case ( <b>hand in and presentation</b> ) <b>Profitability Analysis</b> ( Ratios- ROA ROE)	Wahlen, Ch. 4
4	Jan 30	<b>Risk Analysis</b> Review of Fly By Night (due Wk 5)	Wahlen, Ch. 5
5	Feb 6	Fly by Night ( <b>hand in and presentation</b> ) <b>Accounting Quality</b>	Wahlen, Ch. 6
6	Feb 13	<b>Financing Activities</b> –Equity Financing, Debt, Leases	Wahlen, Ch.7,
	Feb 17-21	Reading Week – no class	
7	Feb 27	Arbortech Case ( <b>hand in and presentation</b> ) <b>Investing Activities</b> – ( tangible and intangible assets, BV vs MV of Long lived assets, Investment in Securities)	Wahlen, Ch. 8
8	March 5	<b>Operating Activities</b> – Revenue Rec/Inventory Valuation, Taxes Kroger Case ( <b>hand in</b> )	Wahlen, Ch. 9
9	March 12	Midterm Exam - in class time	
10	March 19	International Paper Case ( <b>hand in and presentation</b> ) <b>Forecasting F/S</b> <b>Discounted Cash flow method for Valuation</b>	Wahlen, Ch. 10 Ch 12
11	March 26	<b>Valuation Models</b> ( Market Based ) Group presentation	Wahlen, Ch. 14
12	April 2	Group Presentations (5 groups)	