

Business F717
Financial Statement Analysis
Fall 2023 Course Outline

Accounting and Financial Management Services Area
and
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 principles, 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 C01:
Monday: 2:30pm – 5:20pm

Eric Bentzen-Bilkvist
Instructor
ericb@petmas.ca
Office: RJC/TBA
Office Hours: To be arranged
Tel: (905) 522-6555, ext 224

Course website: <http://avenue.mcmaster.ca/>

<http://app.tophat.com/>

COURSE ELEMENTS

Credit Value:	3	Leadership:	Yes	IT skills:	No	Global view:	Yes
A2L:	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.

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.
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REQUIRED COURSE MATERIALS AND READINGS

FINANCIAL REPORTING AND STATEMENT ANALYSIS: A STRATEGIC PERSPECTIVE, 9th edition, Wahlen, Baginski, Bradshaw; South-Western (Nelson). ISBN: 978-1-337-61468-9

EVALUATION

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 end of the 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 5-7 (tentative) 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 for the purpose of doing a valuation of the company. Each group must select the firm they wish to analyse. It must be a publicly-traded American (i.e., U.S.) firm in the **manufacturing or merchandising** sectors. You may select any company. You should get the latest financial statements and/or, the most recent 10-K form, any 10-Q forms since the last annual report, and the most recent proxy statement. Annual reports can be found easily on line by googling the company direct or via <http://www.cedar.com>. In order for the analysis to be meaningful, you will need at least 5 years of data. The F/S must be handed in along with the term report .

The analysis should include, among other things an industry summary, a SWOT or Porter 5 type analysis, Common size F/S, calculation of risk, solvency, efficiency and profitability ratios to support an analysis of the company in its industry. The paper should include comparison to either 2 direct competitor and /or the industry averages for your chosen company. The chosen company F/S need to be normalized (with qualitative support for the normalized entries) and then forecasted out for the purposed of a full valuation.

. The project is due on the last day of class and must be accompanied by copies of the latest annual report used in the analysis. The expected length is 20-24 **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 **Monday November 13, 2023**. If you cannot take the exam at the scheduled time, you must have a truly excellent excuse.

Important dates in the course

Week 1 and 2	Form groups and inform instructor
Week 3 and 4	Inform instructor of the term project topic (i.e., name of company to be analyzed)
Week 10	Midterm examination (IN CLASS)
Week 12	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	20%
Term project	30%
Midterm exam	40%
Total	100%

Grade 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 Associate Dean:
<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 are encouraged to 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

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
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AUTHENTICITY/PLAGIARISM DETECTION

Some courses may use a web-based service (Turnitin.com) to reveal authenticity and ownership of student submitted work. For courses using such software, students will be expected to submit their work electronically either directly to Turnitin.com or via an online learning platform (e.g. A2L, etc.) using plagiarism detection (a service supported by Turnitin.com) so it can be checked for academic dishonesty.

Students who do not wish their work to be submitted through the plagiarism detection software must inform the Instructor before the assignment is due. No penalty will be assigned to a student who does not submit work to the plagiarism detection software.

All submitted work is subject to normal verification that standards of academic integrity have been upheld (e.g., on-line search, other software, etc.). For more details about McMaster's use of Turnitin.com please go to www.mcmaster.ca/academicintegrity.

COURSES WITH AN ON-LINE ELEMENT

Some courses may use on-line elements (e.g. e-mail, Avenue to Learn (A2L), LearnLink, web pages, capa, Moodle, ThinkingCap, etc.). Students should be aware that, when they access the electronic components of a course using these elements, private information such as first and last names, user names for the McMaster e-mail accounts, and program affiliation may become apparent to all other students in the same course.

The available information is dependent on the technology used. Continuation in a course that uses on-line elements will be deemed consent to this disclosure. If you have any questions or concerns about such disclosure, please discuss this with the course instructor.

ON-LINE PROCTORING

Some courses may use online proctoring software for tests and exams. This software may require students to turn on their video camera, present identification, monitor and record their computer activities, and/or lock/restrict their browser or other applications/software during tests or exams. This software may be required to be installed before the test/exam begins.

CONDUCT EXPECTATIONS

As a McMaster student, you have the right to experience, and the responsibility to demonstrate, respectful and dignified interactions within all of our living, learning and working communities. These expectations are described in the [Code of Student Rights & Responsibilities](#) (the "Code"). All students share the responsibility of maintaining a positive environment for the academic and personal growth of all McMaster community members, **whether in person or online**.

It is essential that students be mindful of their interactions online, as the Code remains in effect in virtual learning environments. The Code applies to any interactions that adversely affect, disrupt, or interfere with reasonable participation in University activities. Student disruptions or behaviours that interfere with university functions on online platforms (e.g. use of Avenue 2 Learn, WebEx or Zoom for delivery), will be taken very seriously and will be investigated. Outcomes may include restriction or removal of the involved students' access to these platforms.

MISSED ACADEMIC WORK

Missed Mid-Term Examinations / Tests / Class Participation

Please do not use the online [McMaster Student Absence Form \(MSAF\)](#) as this is for Undergraduate students only. The MBA program will not accept an MSAF.

When students miss regularly scheduled term work which contributes 10% or more to the final grade, for legitimate reasons as determined by the Student Experience – Academic Office (SEAO), the activity necessary to compensate for the missed work will be determined by the course instructor.

The compensatory activities assigned will vary with the nature of the course and the missed requirement. They include, but are not restricted to, an alternative assignment, a rescheduled midterm exam, or re-weighting the marks for the missed component to other mark components. Documentation explaining such missed work must be provided to the SEAO within five (5) working days of the scheduled date for completion of the work.

Acceptable reasons for missed work, along with the [Petition for Missed Term Work](#) and the [MBA Student McMaster University Student Health Certificate](#), can be found on the DeGroot MBA Student website (mbastudent.degroot.mcmaster.ca). Please direct any questions about acceptable documentation to the MBA Academic Advisors (askmba@mcmaster.ca).

University policy states that a student may submit a maximum of three (3) [Petition for Missed Term Work](#) per academic year, after which the student must meet with the Director of the program.

If term work is missed without an approved reason, students will receive a grade of zero (0) for that component.

Missed Final Examinations

Students must be available for the duration of the posted exam period regardless of their personal exam schedule. This is to ensure student availability throughout the entire exam period in the event that an exam must be rescheduled due to unforeseen circumstances (university closure, power outage, storm policy, etc.). A student who misses a final examination without valid reason will receive a mark of 0 on the examination.

Students who have missed a final exam for a valid reason can apply to the SEAO to write a deferred examination by submitting an [Application for Deferring a Final Exam](#) with supporting documentation. The application must be made within five days of the scheduled exam.

The [Application for Deferring a Final Exam](#) and the [MBA Student McMaster University Student Health Certificate](#) can be found on the DeGroot MBA Current Student website (mbastudent.degroot.mcmaster.ca)

Deferred examination privileges, if granted, are normally satisfied during the examination period at the end of the following semester. In select cases, the deferred examination may be written at a time facilitated by the SEAO and agreed to by the course instructor.

Requests for a second deferral or rescheduling of a deferred examination will not be considered.

ACADEMIC ACCOMMODATION OF STUDENTS WITH DISABILITIES

Student Accessibility Services (SAS) offers various support services for students with disabilities. Students are required to inform SAS of accommodation needs for course work at the outset of term. Students must forward a copy of such SAS accommodation to the instructor normally, within the first three (3) weeks of classes by setting up an appointment with the instructor. 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>

Students who are leveraging accommodation for tests and exams are supported by the SEAO. These exams are written at the Ron Joyce Centre and do not take place in the Tim Nolan Testing Centre. Correspondence for accommodations is managed via the DSBSAS@mcmaster.ca email address. Students must communicate their intent to leverage accommodations on a test or exam a minimum of 10 business days prior to the assessment.

RELIGIOUS, INDIGENOUS OR SPIRITUAL OBSERVANCES (RISO)

Students requiring academic accommodation based on religious, indigenous or spiritual observances should follow the procedures set out in the [RISO](#) policy. Students should submit their request to their Faculty Office **normally within 10 working days** of the beginning of term in which they anticipate a need for accommodation or to the Registrar's Office prior to their examinations. Students should also contact their instructors as soon as possible to make alternative arrangements for classes, assignments, and tests.

COPYRIGHT AND RECORDING

Students are advised that lectures, demonstrations, performances, and any other course material provided by an instructor include copyright protected works. The Copyright Act and copyright law protect every original literary, dramatic, musical and artistic work, **including lectures** by University instructors.

The recording of lectures, tutorials, or other methods of instruction may occur during a course. Recording may be done by either the instructor for the purpose of authorized distribution, or by a student for the purpose of personal study. Students should be aware that their voice and/or image may be recorded by others during the class. Please speak with the instructor if this is a concern for you.

POTENTIAL MODIFICATION 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.

RESEARCH USING HUMAN SUBJECTS

ONLY IF APPLICABLE

Research involving human participants is premised on a fundamental moral commitment to advancing human welfare, knowledge, and understanding. As a research intensive institution, McMaster University shares this commitment in its promotion of responsible research. The fundamental imperative of research involving human participation is respect for human dignity and well-being. To this end, the University endorses the ethical principles cited in the Tri-Council Policy Statement: Ethical Conduct for Research Involving Humans: <http://www.pre.ethics.gc.ca>

McMaster University has mandated its Research Ethics Boards to ensure that all research investigations involving human participants are in compliance with the Tri-Council Policy Statement. The University is committed, through its Research Ethics Boards, to assisting the research community in identifying and addressing ethical issues inherent in research, recognizing that all members of the University share a commitment to maintaining the highest possible standards in research involving humans.

If you are conducting original research, it is vital that you behave in an ethical manner. For example, everyone you speak to must be made aware of your reasons for eliciting their responses and consent to providing information. Furthermore, you must ensure everyone understands that participation is entirely voluntary. Please refer to the following website for more information about McMaster University's research ethics guidelines: <http://reo.mcmaster.ca/>

Organizations that you are working with are likely to prefer that some information be treated as confidential. Ensure that you clarify the status of all information that you receive from your client. You **MUST** respect this request and cannot present this information in class or communicate it in any form, nor can you discuss it outside your group. Furthermore, you must continue to respect this confidentiality even after the course is over.

ACKNOWLEDGEMENT OF COURSE POLICIES

Your registration and continuous participation (e.g. on A2L, in the classroom, etc.) to the various learning activities of MBA A750.F717/V701 will be considered to be an implicit acknowledgement of the course policies outlined above, or of any other that may be announced during lecture and/or on A2L. **It is your responsibility to read this course outline, to familiarize yourself with the course policies and to act accordingly.**

Lack of awareness of the course policies **cannot be invoked** at any point during this course for failure to meet them. It is your responsibility to ask for clarification on any policies that you do not understand.

MBA F717 Financial Statement Analysis

Fall 2023 Course Schedule

WEEK	TOPIC	READING
1	Organizational Issues & Introduction: Reading Between the Lines Economic Environment, Accounting Reports, Institutional Framework and the Financial Accounting Process	Wahlen, Ch. 1
2	Statement of Cash Flows and Cash Flows Analysis	Wahlen, Ch. 3
3	W.T. Grant Case & Free Cash Flows Profitability	Wahlen, Ch.4
4	Inventory Valuation and Risk Analysis	Wahlen, Ch. 5
5	Fly by Night Case Accounting Quality	Wahlen, Ch. 6
6	Liabilities and Pensions	Wahlen, Ch. 7
7	Arbotech Case Investing Activities – Long Lived Assets	Wahlen, Ch. 8
8	International Paper Case Income Taxes Off balance sheet financing: Leasing & Post-Retirement Benefits	Wahlen, Ch. 9;
9	Forecasting / Valuation Models	Wahlen, Ch. 10
10	Midterm Exam	
11	Valuation Models Group Presentation	Wahlen, Chs. 11, 12, 13 & 14
12	Group Presentations	