

**DPA603  
Financial Reporting and Analysis  
Summer 2015 Course Outline**

**Accounting and Financial Management Services  
DeGroote School of Business  
McMaster University**

**\*\*\*CLASSES RUN MAY 02 – JUN 10, 2016\*\*\***

**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**

**Dr. T. Kang**  
Professor of Accounting  
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Office Hours: To be arranged  
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**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 Commerce 4AC3 and 4AF3. 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.

## REQUIRED COURSE MATERIALS AND READINGS

- *BUSINESS ANALYSIS & VALUATION IFRS EDITION*, 3<sup>rd</sup> edition, Cengage Learning, 2013, Palepu, Healy and Peek, ISBN 978-1-4080-5642-4.

## OPTIONAL COURSE MATERIALS AND READINGS

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

*FINANCIAL STATEMENT ANALYSIS*, 2nd edition, George Foster, Prentice-Hall, 1986.

## EVALUATION

### ***Class case discussions/participation (35% of total marks)***

The class will involve lectures and class discussions. The lectures will provide relevant theory and analytical tools to analyse firms' financial statements. The cases will give you an opportunity to apply the techniques to companies. You are expected to be prepared for each class by reading the assigned material and be a willing participant in discussions. Participation does mean talking a lot

or babbling, but sharing thoughtful insights about topics being discussed. Please ask questions, volunteer suggestions, and add insights as your participation is very important to the learning process in this class. Please minimize side conversations as it can be distracting to the class. Keep in mind that *destructive behaviors that hinder the flow of the class can lead to reduction in participation points*. In summary, attendance is a sufficient, but not a necessary condition for earnings participation points.

In addition, cases are used to reinforce, integrate and supplement the course material, and to provide practice in its application. 10 group cases will be analyzed throughout the semester. Answer all questions for the assigned case in case there is any. For the group cases, each group will be asked to lead a class discussion. The presenting group should provide a brief overview of the case, followed by qualitative/quantitative analysis of the case. The presenting group will have 20-30 minutes to present these, and another 30 minutes or so to answer questions raised by the class. You use the same group you work with for the analyst report. In contrast, the individual case will be an open discussion of the assigned case, without a specified presenter.

### **Quiz (10% of total marks)**

There will be one quiz during the semester. The quiz will cover the topics discussed to date, and the main purpose is to make sure you learned the basic concepts related to accounting analysis. The quiz will be given at the beginning of the session. No make-up will be given unless the student notified the professor *at least one week prior* to the quiz.

### **Group analyst report (30% of total marks)**

The firm you analyze can be a Canadian or an international (e.g., U.S., Asian or European) firm. What do the analytic tools you learned in this course tell you about the valuation of the company? Do you think any of the tools you learned in this course point to the possibility of fraudulent financial statements? What do you think is a fair valuation of the company?

Select a company that is publicly traded in either Canada or U.S., and provide an analysis of the company to provide an investment recommendation. You can refer to various business press websites to identify and research the company, e.g., Yahoo, Bloomberg, Wall Street Journal (marketwatch), etc. Your analysis should include (but not limited to):

- (1) An executive summary
- (2) Company description
- (3) Industry & strategic analysis
- (4) Financial analysis (including ratio analysis and analysis of accounting policy)
- (5) Develop forecasts of major valuation parameters, e.g., earnings, cash flows, dividends, over the next three to five years
- (6) Provide appropriate valuation of the company using multiple valuation models/techniques you learned in this course
- (7) Make an investment recommendation, including buy/hold/sell recommendation and the target price of the company you believe to be appropriate

Each group should analyze a different company. You should identify the company and submit a one-page memo that includes a brief description of the company, which includes its industry, listing location, etc., by session 3 (**May 10, 2016**).

The page limit for this analysis is 5 pages, double-spaced, using 12 fonts, excluding appendix, which can include specific financials, as well as press releases about the firm. Exceeding the limit can result in deduction of points. A good report is one that provides a thorough, insightful, yet concise analysis. Please clearly state your assumptions, justify them and discuss the sensitivity of your assumptions to different assumptions. This report is due on the last of day of class. The written report is worth 15% of the grade.

You are also required to present your analysis in 15 minutes on the last day of the class. The presentation should discuss choice of valuation models, your assumptions, and the key drivers to valuation. You should also summarize your analysis and explain which valuations you think are best and why. The presentation (both delivery and presentation format) is worth 15% of the grade.

### ***Exam (25% of total marks)***

This will be closed book, short answer and problem-oriented exam on all topics covered prior to the exam date. Absences for medical or serious personal reasons must be accompanied by appropriate documentation, e.g., a doctor's note, and the instructor should be notified within 24 hours. It is tentatively scheduled for **June 2, 2016**.

### ***Calculation of the final grade***

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

<b>Grade (Points)</b>	<b>Percentages</b>
A+ (12)	90-100
A (11)	85-89
A- (10)	80-84
B+ (9)	75-79
B (8)	70-74
B- (7)	60-69
F (0)	00-59

Grading components and weights are as follows:  
 (\* denotes group grades – the rest are individual grades)

Class case presentations*		<b>15%</b>
Participation		<b>20%</b>
Quiz		<b>10%</b>
Group analyst report*		<b>30%</b>
	Written report	15%
	Final group presentation	15%
Exam		<b>25%</b>
<b>Total</b>		<b>100%</b>

NOTE: The use of a McMaster standard calculator is allowed during examinations in this course. See McMaster calculator policy at the following URL:

<http://www.mcmaster.ca/policy/Students-AcademicStudies/UGCourseMgmt.pdf>, page 15

### **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.

<b>ACADEMIC DISHONESTY</b>
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It is the student's responsibility to understand what constitutes academic dishonesty. Please refer to the University Senate Academic Integrity Policy at the following URL:

<http://www.mcmaster.ca/policy/Students-AcademicStudies/AcademicIntegrity.pdf>

This policy describes the responsibilities, procedures, and guidelines for students and faculty should a case of academic dishonesty arise. Academic dishonesty is defined as to knowingly act or fail to act in a way that results or could result in unearned academic credit or advantage. Please refer to the policy for a list of examples. The policy also provides faculty with procedures to follow in cases of academic dishonesty as well as general guidelines for penalties. For further information related to the policy, please refer to the Office of Academic Integrity at:

<http://www.mcmaster.ca/academicintegrity>

## **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.

**COURSE SCHEDULE**

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<b>Week</b>	<b>Topic</b>	<b>Readings</b>	<b>Class Activities</b>
1 (May 3)	Introduction	Ch 1	Assign groups and cases Introduction
2 (May 5)	Accounting Scandals & Politics of Standard Setting	Healy and Wahlen (1999) Hansen (2011)	Discuss Healy and Wahlen (1999) article; Watch Enron video
3 (May 10)	Strategy Analysis	Ch 2 Barth (2015)	<b>Group Case Presentation 1:</b> European Air Industry (pg.62-63) Submit company selection report
4 (May 12)	<b>No Class</b>		
4 (May 17)	Accounting Analysis: The Basics	Ch 3	In-Class Case Discussion: Fashion retailers' key accounting policies (pg. 108) <b>Group Case Presentation 2:</b> Euro Disney and the first steps of accounting analysis (pg.109)
5 (May 19)	Accounting Analysis: Accounting Adjustments I	Ch 4	<b>Group Case Presentation 3:</b> Audi, BMW & Skoda's R&D (pg.169)
6 (May 24)	Accounting Analysis: Accounting Adjustments II Financial Analysis	Ch 4 Ch 5	<b>Group Case Presentation 4:</b> Burberry's non-current assets (pg.171) <b>Group Case Presentation 5:</b> Ratios of three fashion designers (pg.211)
8 (May 26)	Valuation I	Ch 7 Lee, Myers and Swaminathan (1999)	Discuss Lee, Myers and Swaminathan (1999) article; <b>Group Case Presentation 6:</b> Estimating Hugo Boss' equity value (pg.298); <b>Group Case Presentation 7:</b> Estimating Adidas' equity value (pg.300);
9 (May 31)	Valuation II	Ch 8 Penman and Sougiannis (1998)	Discuss Penman and Sougiannis (1998) article; <b>Group Case Presentation 8:</b> Hugo Boss' and Adidas' terminal values (pg.354); <b>Group Case Presentation 9:</b> Anheuser-Bush InBev S.A. (pg.355)
10 (Jun 2)	<b>Exam</b>	Ch. 1-4, 5, 7, 8	<b>Exam</b> (Ch 1-4, 5,7,8)
11 (Jun 7)	Forecasting Analysis Market Efficiency	Ch 6 Ch 10	<b>Group Case Presentation 10:</b> Tesco (pg.259-260) In-Class Case Discussion: From Ch.10
12 (Jun 9)	<b>Group analyst report presentations</b>		

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**Group Evaluation Form**

You are asked to evaluate the effort of your team members throughout the semester. You have 100 points assign amongst yourself and the other members in your group. If you believe everyone put in more or less equal effort, you can assign  $100/n$  ('n' being the number of people in your group, including yourself) points to everyone. Otherwise, if you believe some put in more effort than others, you can assign that member (this includes yourself) more than  $100/n$  points. If you choose to assign non-equal points to each member, please explain why you assign more/less to each member.

Your Name: \_\_\_\_\_

Group Member Name	Points Assigned	Explanation for Assigning Non-Equal Points

This report should be handed in on the last day of class. It should be submitted individually in a regular letter envelope.