

**Commerce 4FK3
Financial Statement Analysis
Winter 2020 Course Outline**

**Finance 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. It 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



Mon 19:00 – 22:00 (PGCLL M22)

Alicia Damley, CFA, CPA, CA

Instructor

damleya@mcmaster.ca

Office Hours: by appointment only

TBC

Course TA

TBC

Office Hours: TBC

Course website: Avenue 2 Learn (A2L)

Course resources and announcements will be communicated via A2L. This should be your first stop for course related information.

We are here to help you succeed!

Both our course TA and I are here to help you navigate this course successfully.

Outside of class, it is easiest to connect via email. We can address a question quickly via email or setup a time to speak directly. I endeavor to respond to emails within 48 hours. For our mutual benefit and protection, please send all emails from your Mac id. If I have not responded to your inquiry within 48 hours, please re-send it in case it has been lost between our in-boxes.

Please always remember to:

- be courteous and respectful in all communication
- not send emails within 48 hours of a mid-term, exam or assignment due date. We are all busy. And it is important to plan accordingly!

COURSE ELEMENTS

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

COURSE DESCRIPTION

This course will look at the Accounting Policies which can affect 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 3AC3 (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.

COURSE MATERIALS AND READINGS

Required textbook: Financial Reporting and Statement Analysis: A Strategic Perspective, 9th edition, Wahlen, Baginski, Bradshaw; South-Western (Nelson).

Further reading material may be suggested by the instructor or handed out during the lectures. Students are expected to come to class on time and be prepared for the class, i.e., to have read the assigned readings. Students are also encouraged keep themselves up-to-date with current issues in international finance, as they may be discussed in class when appropriate.

Calculator:

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

www.mcmaster.ca/policy/Students-AcademicStudies/UndergraduateExaminationsPolicy.pdf

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 4 cases will be analyzed throughout the semester. The cases will build on the topics covered in the lectures. Cases must be handed in at the start of the class. All groups will be required to hand in all 4 cases. In addition, depending on the # of groups 1-2 groups will be required to prepare a 15-20 minute presentation on the case and present their findings to the class. The group that does not present will be required to actively lead the discussion after the groups presentation. We will discuss this the first week in class when the class size is better known.

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 6-8 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 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. A company's financial statements, notes and MD&A can be

found on their websites as well as government websites where it is required they file 10-K forms. (The EDGAR database on the SEC website, www.sec.gov, has all filings for SEC registered companies). In order for the analysis to be meaningful, you will need at least 5 years of data. The use of Bloomberg or Reuters is also strongly encouraged.

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, 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 a basic forecasted F/S and do a simple valuation of the firm using the discounted cash flow method and a simple market method (P/E ratio or similar).

The term paper will be split up into 3 phases.

Phase 1 - (hard copy handed in Jan 27th) - Outline of the economic characteristics of the industry and the strategies of the firm. (Porter 5/ Economic Attributes Framework) See Chapter 1 for samples (not more than 1-2 pages in total).

Phase 2 - (hard copy handed in March 2th) A brief report on the FS and ratios, description of the accounting quality issues, explanation of any changes/adjustments to the F/S, comparative analysis and interpretation of the profitability and risk ratios. (not more than 5-6 pages in total).

Phase 3 – Final submit project - Completed project includes phase one and two as well as a Set of Forecasted F/S and Valuations of the company stock price using a discounted cash flow and one market method (P/E ratio for example). A buy/hold/sell supported decision based on the valuation and interpretation on the ratios is the outcome of the report.

The expected length is maximum 24 double-spaced typed pages (including Appendices). The project will be presented in class. You should have a separate power point or similar presentation software for the presentation. Presentations are to be 20 minutes in length and should be highlights of the major points of your material. You MUST hand in a full set of the most recent year-end Financial Statements from the company website. Do not download into excel and hand in. The F/S must be from the original source.

The presentation is marked and is worth 25% of the term paper overall mark with the written report making up the other 75% of the grade.

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. Participation mark is based on active participation and not attendance. However, attendance is necessary to participate!

Mid-term exam

This will be closed book, written answer and problem-oriented exam on all topics covered prior to the exam date. A formula sheet will be provided in the mid-term.

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

Participation	15%
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Group Case & Presentation	20%
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Term Project	35%
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Mid-Term Exam	30%
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Total	100%
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Communication and Feedback

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 Area Administrative Assistants. Instructors are required to provide evaluation feedback for at least 10% of the final grade to students prior to Week #9 in the term. Instructors may solicit feedback via an informal course review with students by Week #4 to allow time for modifications in curriculum delivery.

ACADEMIC INTEGRITY

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

AUTHENTICITY/PLAGIARISM DETECTION

In this course we will be using a web-based service (Turnitin.com) to reveal authenticity and ownership of student submitted work. Students will be expected to submit their work electronically either directly to Turnitin.com or via Avenue to Learn (A2L) plagiarism detection (a service supported by Turnitin.com) so can be checked for academic dishonesty. Students who do not wish to submit their work through A2L and/or Turnitin.com must still submit an electronic and/or hardcopy to the instructor. No penalty will be assigned to a student who does not submit work to Turnitin.com or A2L. All submitted work is subject to normal verification that standards of academic integrity have been upheld (e.g., on-line search, other software, etc.). To see the Turnitin.com Policy, please go to;

www.mcmaster.ca/academicintegrity.

REQUESTING RELIEF FOR MISSED ACADEMIC WORK

Students may request relief from a regularly scheduled midterm, test, assignment or other course components. Please refer to the policy and procedure on the DeGroot website at the link below;

<http://ug.degroot.mcmaster.ca/forms-and-resources/misled-course-work-policy/>

STUDENT ACCESSIBILITY SERVICES

Students who require academic accommodation must contact Student Accessibility Services (SAS) to make arrangements with a Program Coordinator. Academic accommodations must be arranged for each term of study. Student Accessibility Services can be contacted by phone 905-525-9140 ext. 28652 or e-mail sas@mcmaster.ca.

For further information, consult McMaster University's Policy for Academic Accommodation of Students with Disabilities:

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

ACADEMIC ACCOMMODATION FOR 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 requiring a RISO accommodation should submit their request, including the dates/times needing to be accommodated and the courses which will be impacted, to their Faculty Office normally within 10 days of the beginning of term 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.

POTENTIAL MODIFICATION TO THE COURSE

The instructor reserves the right to modify elements of the course during the term. There may be changes to 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.

ACKNOWLEDGEMENT OF COURSE POLICIES

Your enrolment in Commerce 4FK3 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.

COURSE SCHEDULE

Commerce 4FK3 Financial Statement Analysis Winter 2020 Course Schedule

WEEK	DATE	ASSIGNMENT
1	Jan 6	Course Overview Introduction to Financial Reporting and F/S Analysis (Chp 1) Asset Valuation and Income Measurement (Chp 2)
2	Jan 13	Income Flow vs Cash Flow – Statement of Cash Flows / Free Cash Flows (Chp 3) Case review: W.T. Grant (due: Week 3)
3	Jan 20	Profitability Analysis (Chp 4) <i>Case Due: W.T. Grant (Hand-in and presentation)</i>
4	Jan 27	Risk Analysis (Chp 5) Case review: Fly By Night (due: Week 5) <i>Term Paper: Phase 1 due at start of class</i>
5	Feb 3	Accounting Quality (Chp 6) <i>Case Due: Fly By Night (Hand-in and presentation)</i>
6	Feb 10	Financing Activities (Chp 7) Case review: Arbortech (due: Week 7)
	Feb 17	<i>Mid-term Recess (No Class)</i>
7	Feb 24	Investing Activities(Chp 8) <i>Case due: Arbortech (Hand-in and presentation)</i>
8	Mar 2	Operating Activities (Chp 9) Case review: Walmart (due: Week 10) <i>Term Paper: Phase 2 due at start of class</i>
9	Mar 9	Mid-Term Exam (Material covered in Week 1 - 8 inclusive)
10	Mar 16	Forecasting Financial Statements (Chp 10)

		<i>Case due: Walmart (Hand-in and presentation)</i>
11	Mar 23	Valuation: Cash-Flow-Based Approaches (Chp 12)
12	Mar 30	Valuation: Market-Based Approaches (Chp 14)
13	Apr 6	<i>Group Presentations</i> <i>Term Paper due at start of class</i>

Cases covered:

W.T Grant. Part of e-textbook.

Fly By Night International. (Chp 5, pages 339 – 348)

Arbortech: Apocalypse Now (Chp 6, pages 418 – 426)

Walmart (Chp 9, page 632)