



**ACCT5011**  
**Financial Statement Analysis**  
**Winter 2015**  
**March 3 – April 7 2015**

**Part I: Administrative**

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**Office:** Dunton 1010  
**Phone:** (613) 520-2600 ext. 2774  
**Class:** Tuesday 6:05 p.m. to 8:55 p.m. (Dunton 328)  
**Breakout rooms:** DT 312, 312A, 312B, 328A, 906  
**Office hours:** Tuesdays 11:00 a.m. – 1:00 p.m.  
 Or by appointment (Please contact me via e-mail to set up an appointment)

**Recommended Text:**

1. Financial Reporting for Managers – A Value-Creation Perspective, John Wiley & Sons, Inc. 2009, by Jamie Pratt and D. Eric Hirst
2. Articles posted on CULearn.

You will also be responsible for material handed out in class, for all cases discussed in class, as well as the content of group presentations.

**Drop Course Policy:**

The deadline for academic withdrawal is the last day of classes (each term).

**Grading Scheme:**

<b>Course Deliverable</b>	<b>Weight on Final Grade</b>	<b>Due Date</b>
<b>Class Participation</b>	<b>10%</b>	<b>Weeks 1 - 6</b>
<b>Group Company Profiles</b>	<b>10%</b>	<b>Week 3</b>
<b>Group Financial Statement Exhibits</b>	<b>5%</b>	<b>Week 4</b>
<b>Group Cash Flow Analysis</b>	<b>5%</b>	<b>Week 5</b>
<b>Group Presentation</b>	<b>10%</b>	<b>Week 6</b>
<b>Group Financial Statement Report</b>	<b>20%</b>	<b>Week 6</b>
<b>Final Exam</b>	<b>40%</b>	<b>Tuesday April 14, 2015 6 – 9 p.m.</b>
<b>Total</b>	<b>100%</b>	

## **Part II: Academic**

### **Course Description:**

A user-oriented approach to the study of financial statements. The role of the financial statements and the annual report in the financial reporting process, using ratio analysis to analyze firm performance and make forecasts of future performance.

**Prerequisites:** ACCT5001, ACCT5002, and FINA5502. **The School of Business enforces all prerequisites.**

### **Course Objectives:**

This course presents an overview of financial statement analysis (FSA) from a user perspective. The objective is for each student to become an informed and critical user of financial accounting information. This includes: 1. familiarizing students with financial statement analysis concepts and techniques; 2. addressing the role of financial accounting and financial statements in decision-making; and 3. introducing participants to current debates and challenges in financial reporting.

This course introduces a mix of practical tools and theoretical concepts used in FSA. FSA combines applied knowledge of business, accounting, governance, and finance to support decision making. FSA supports decision making in the following broad areas: investing, lending, and performance measurement. FSA can include both historical and future-oriented analysis. Financial statement ratios and other analytical tools will be introduced and applied in real-world corporate analyses. Accounting policy choices and their implications will be addressed. Current issues in financial accounting and corporate reporting will be discussed. In addition, we will emphasize the importance of supplementing FSA with critical thinking and contextual knowledge.

Specific course objectives are to:

- Introduce financial statement analysis concepts
- Master financial statement analysis techniques such as ratio analysis & interpretation
- Examine the impact of accounting policy choice on financial statements
- Introduce current issues and debates in financial accounting and corporate reporting
- Combine, synthesize and/or integrate ideas and information from a variety of sources
- Express information and concepts concisely, clearly and legibly when writing and concisely, clearly and with confidence when speaking

### **Course Approach:**

The teaching method uses a varied approach and focuses on active and co-operative learning by the student. The following approaches are used: in-class cases, corporate analyses, real-life examples, readings, lectures, team work, research activities, and classroom discussions. This approach requires you to prepare in advance of each class, and it requires your active participation and involvement in class discussions and cases. The case discussions are designed to facilitate classroom interaction, and learning through sharing and cooperation.

### **CULearn:**

CULearn will be used in this course. It is critical to use this learning tool on a regular basis. We will be using CULearn as follows:

- to communicate on regular basis (e-mail, announcements, front page messages, etc.)
- to post Powerpoint slides and other documents to support classroom activities

- to post problems or readings
- to post group presentation slides
- to post notes of an administrative nature or updates to the course outline, if required.

To access CULearn, type in the following URL: <https://www.carleton.ca/culearn/>

### **Policy on Mobile Devices:**

The use of mobile devices IS NOT PERMITTED in this class. It is disruptive to the instructor and class members. If you carry such a device to class, please make sure it is turned off. If an emergency situation requires you to keep it turned on, please discuss this with your instructor prior to class.

### **Evaluation and Feedback**

The evaluation in this course is firmly geared towards developing skills in analysis, synthesis, and critical thinking, quantitative analysis skills, skills in analyzing complex situations, problem solving, and decision-making.

I will provide you with feedback through comments on returned assignments, responses to e-mailed questions, verbal communications, and 1-on-1 or group meetings arranged by request (yours or mine). This feedback will be generally available to you one week after the deliverable is due, with the exception of the group financial statement analysis report and final exam results, which will be available after the end of the term.

### **Class Participation (10 percent)**

The success of this course for both students and professor depends on active thoughtful participation by the members of the class during lectures and case discussions. Attendance is, of course, an integral part of class participation. The mark each student receives will reflect the quantity and quality of that student's contribution to the course. In addition to assessing attendance, and the professor's evaluation of class participation, students will also be asked to submit a self-assessment of their participation. The grade awarded for class participation will be a composite of these factors. A self-assessment form is attached to this outline (Appendix 3) to facilitate documenting your class contributions in a consistent format. You are urged to update the self-assessment form on a weekly basis.

Note that attendance is a minimum prerequisite for participation. A student who attends class regularly, yet does not participate actively in class activities and discussions should expect a participation grade of no more than 6.0/10.

### **Group Project and its Component Parts (50 percent)**

The Sprott School of Business encourages group assignments in the school for several reasons. They provide you with opportunities to develop and enhance interpersonal, communication, leadership, follower-ship and other group skills. Group assignments are also good for learning integrative skills for putting together a complex task. Before embarking on a specific problem as a group, it is your responsibility to ensure that the problem is meant to be a group assignment and not an individual one.

All group members will be required to complete a peer evaluation form at the end of the multi-part group project. See details in Appendix 4. Peer evaluations will be used in determining whether individual deviations from group grades are necessary.

Groups of four members will be formed by the professor prior to the first class. Each group will be assigned one major group project in this course. However, the project is broken down into smaller deliverables, each of which builds on the previous parts. There will be group presentations (10%) in class in Week 6.

**Group Deliverables****Group Company Profiles (10%)**

An overview of the two firms selected for analysis is to be submitted in Week 3. A brief history of the companies, their key products or services, their main competitors, and their future plans should all be addressed (see requirements in Appendix 1).

**Group Common Size, Trend & Ratio Analyses (5%)**

The quantitative common size, trend and ratio analyses required for the FSA project are to be handed in for grading and feedback. This will ensure all groups are progressing towards completion of the Industry Analysis project.

**Group Cash Flow Analyses (5%)**

Each group is to analyze recent cash flow statements for the companies selected for their FSA. See Appendix 2 for additional details. An evaluation matrix will be provided on CULearn for this project in advance of its due date.

**Financial Statement Analysis Report (20%) & Group Presentation (10%)**

The financial statement analysis is a major group project to be worked on throughout the course. The final written document must be submitted in Week 6. See Appendix 1 for details on the financial statement analysis project. Financial Statement Analysis projects are to be presented to the class in Week 6. An evaluation matrix will be provided on CULearn for this project in advance. The written report (20%) and group presentation (10%) will be graded separately, with feedback on each component provided separately.

**Final Examinations (40 percent):**

The final examination (40%) will be written during the regular MBA exam period. It may address any material covered during the course, including the FSA presentations. In order to pass this course you must obtain a minimum grade on the final exam of 50%. The final exam will be a case-based exam.

**Deferred Examination:**

Students unable to write a final examination because of illness or other circumstances beyond their control must contact the instructor in writing to request a deferred exam. Permission may be granted when the absence is supported by a medical certificate and or appropriate document/s to support the reason for the deferral. Deferred exams are not granted for students who have made travel arrangements that conflict with examination schedule.

**Other Accommodations****Persons with disabilities**

Students with disabilities requiring academic accommodations in this course must register with the Paul Menton Centre for Students with Disabilities (PMC) for a formal evaluation of disability-related needs. Documented disabilities could include but are not limited to mobility/physical impairments, specific Learning Disabilities (LD), psychiatric/psychological disabilities, sensory disabilities, Attention Deficit Hyperactivity Disorder (ADHD), and chronic medical conditions. Registered PMC students are required to contact the PMC, 613-520-6608, every term to ensure your Letter of Accommodation is received by the professor no later than two weeks before the first assignment is due or the first in-class test/midterm requiring accommodations. If you only require accommodations for

your formally scheduled exam(s) in this course, please submit your request for accommodations to PMC by the deadlines published on the [PMC website](#).

### **Religious observance**

Students requesting academic accommodation on the basis of religious observance should make a formal, written request to their instructors for alternate dates and/or means of satisfying academic requirements. Such requests should be made during the first two weeks of class, or as soon as possible after the need for accommodation is known to exist, but no later than two weeks before the compulsory academic event. Accommodation is to be worked out directly and on an individual basis between the student and the instructor(s) involved. Instructors will make accommodations in a way that avoids academic disadvantage to the student. Students or instructors who have questions or want to confirm accommodation eligibility of a religious event or practice may refer to the Equity Services website for a list of holy days and Carleton's Academic Accommodation policies, or may contact an Equity Services Advisor in the Equity Services Department for assistance.

### **Pregnancy**

Pregnant students requiring academic accommodations are encouraged to contact an Equity Advisor in Equity Services to complete a letter of accommodation. The student must then make an appointment to discuss her needs with the instructor at least two weeks prior to the first academic event in which it is anticipated the accommodation will be required.

### **No Scents**

This classroom and my office are scent-free environments. In accordance with the no-scent university policy and in consideration for students, faculty and staff who have environmental and chemical sensitivities, students are asked to refrain from wearing strong perfumes, colognes and scented products.

### **PROFESSIONAL DEPARTMENT**

It is expected that each student's behavior will meet professional standards for attendance, attentiveness, courtesy and respect for others, particularly during other classmate's presentations.

**Unprofessional behaviour during class, such as talking during a lecture or presentation, will be reflected in the student's class participation mark.**

Further, students are called to maintain a high standard of ethical behavior. This requires students to avoid all types of academic dishonesty, including plagiarism, cheating, and submitting someone else's work as your own. This also requires students to advise the professor of any instances of academic dishonesty of which they become aware.

To assist you in fulfilling your ethical responsibilities as a student, the ethical standards for this course require: group work to be performed exclusively by members of the group and all group members must contribute their fair share to each assignment; all exams must be the exclusive work of the individual student. If outside research is performed, sources are to be cited and information discovered via outside research is to be clearly labeled as such. Cheating or plagiarism will not be tolerated. All infractions will be dealt with according to University regulations. These regulations are found in the university calendar.

### **Plagiarism**

The University Senate defines plagiarism in the regulations on instructional offenses as: "to use and pass off as one's own idea or product work of another without expressly giving credit to another." Borrowing someone else's answers, unauthorized possession of tests or answers to tests, or possession of material designed to give a student an unfair advantage in answering exam questions, are also subject to university policy regarding instructional offences. For more information on Carleton University's Academic Integrity Policy, consult:

<http://www1.carleton.ca/studentaffairs/academic-integrity/>

### **Important Dates – Winter 2015**

WINTER BREAK Monday, February 16<sup>th</sup> – Friday, February 20<sup>th</sup>

W1 (first six weeks) exams start Monday, February 23<sup>rd</sup> and end Thursday, February 26<sup>th</sup>

W2 (last six weeks) classes start Monday, March 2<sup>nd</sup> and end Thursday, April 9<sup>th</sup>

W2 (last six weeks) exams start Monday, April 13<sup>th</sup> and end Thursday, April 16<sup>th</sup>

## COURSE PLAN

<b>Week 1 – March 3, 2015</b>	
Topics:	FSA Framework; Common Size, Trend and Ratio Analysis
Readings:	Chapter 1; Questions to Guide Analysis
Cases:	Matching Exercise - Industry Profiles with Industry Descriptions
Method/Pedagogy:	Lecture and case discussion
Skills/Competencies:	Analytical skills; core knowledge development
Companies:	Loblaw Companies Limited

<b>Week 2 – March 10, 2015</b>	
Topics:	The Dupont Model
Readings:	Chapter 4
Cases:	Financial Ratios and Strategy in the Canadian Telecommunications Sector
Method/Pedagogy:	Lecture, examples and case discussion
Skills/Competencies:	Analytical skills, core knowledge development
Companies:	Loblaws; BCE; Rogers; Telus

<b>Week 3 – March 17, 2015</b>	
Topics:	Analysis of the Cash Flow Statement
Readings:	Chapter 7 & Chapter 8
Method/Pedagogy:	Lecture and in class exercise
Skills/Competencies:	Analytical skills; core knowledge development; team work; presentation skills
Companies:	Loblaw; Selection of Canadian mystery companies
Deliverables:	Company profiles due (10%)

<b>Week 4 – March 24, 2015</b>	
Topics:	Earnings Management & Distressed Firms
Readings:	Chapter 6
Method/Pedagogy:	Lecture and corporate examples
Skills/Competencies:	Quantitative skills; problem solving and decision making skills; Synthesis skills
Companies:	Loblaw & Research in Motion Limited
Deliverables:	Financial Statement Exhibits due (5%)

<b>Week 5 – March 31, 2015</b>	
Topics:	Valuation
Readings:	Chapter 5 & Chapter 8
Cases:	Depreciation in the Canadian Airline Industry
Method/Pedagogy:	Lecture and in-class case discussion
Skills/Competencies:	Analytical skills; core knowledge development; strategic thinking
Companies:	Loblaw; Air Canada; West Jet; Porter
Deliverables:	Company Cash Flow analyses due (5%)

<b>Week 6 – April 7, 2015</b>	
Topics:	Select topics in Reporting & Analysis Group Presentations
Method/Pedagogy:	Lecture; discussion; illustration with real-world examples; presentations
Skills/Competencies:	Core knowledge development, analytical skills Oral communication; written communication; analyzing complex situations; analytical and synthesis skills; problem solving and decision making; quantitative skills; team work; creativity & imagination; executive summary; prioritizing issues
Deliverables:	FSA Reports due (20%) FSA Presentations (10%)

## APPENDICES

### Appendix 1: Group Project Guidelines – Financial Statement Analysis

#### Preparation

Each group is required to select an industry to analyze. Suggested industries include: Pharmaceutical/Biotechnology, Retail, Extractive (Mining or Oil & Gas), Manufacturing, Food and/or Beverage, Hospitality/Hotel/Recreational, Telecommunications, Other Natural Resource (Timber, Pulp & Paper, etc.). No two groups are able to select the same industry. Reserve your industry choices with Professor Merridee Bujaki during the first class or by email [merridee.bujaki@carleton.ca](mailto:merridee.bujaki@carleton.ca). Industry choices will be reserved on a first-come first-served basis. Once your industry choice is approved, select **two** publicly traded Canadian companies from within that industry for detailed study. Note: You may wish to select an industry and companies that group members have a particular interest in, perhaps an employer or an industry or company that you invest in, or have thought of investing in. You may not select any of the companies that we discuss in class.

#### **Financial Statement Analysis: (50% of course grade)**

##### **Preparation:**

Obtain financial statements for the past four fiscal years for each of your companies. Corporate websites or the internet may be helpful in obtaining financial statements. The SEDAR website ([www.sedar.com](http://www.sedar.com)) can be searched for the public filings of all Canadian public companies. (To get four years of data, you will need only the past three annual reports).

Obtain industry averages for commonly used ratios for the industry (one source is the Financial Post DataGroup's **Industry Reports** ([www.library.carleton.ca](http://www.library.carleton.ca) then select Databases, F from the alphabetical listing, FP Advisor and Industry Reports) or similar reports by Dun & Bradstreet or Standard and Poor's).

##### **Objective:**

To analyse the financial performance of two firms and to formulate recommendations for decision making based on your analysis.

##### **Required:**

The written financial statement analysis report is due in the last class. Overall, your report (excluding appendices) should be approximately 20 double-spaced pages. Your analysis should include each of the following elements:

1. Briefly describe the primary business activities of the companies selected (recent Annual Reports are often a good source of information, as are industry publications or the financial press). For example, provide:
  - a brief historical summary
  - a list of key competitors
  - the relative industry position of the company

- recent developments in the industry/company
- future goals.

**Submit this part of your analysis in Week 3 for grading and feedback (10%)**

2. Prepare common-sized statements and trend analyses for four years for both the income statement and balance sheet of both companies.

For each of the last three fiscal years, for each company, calculate appropriate financial statement ratios.

**Submit this part of your analysis in Week 4 for grading and feedback (5%).**

3. Prepare a well-written analysis of the financial statements of each company based upon your *interpretation* of the common-sized statements, trend analyses, and financial statement ratios.

Comment on the ratio information for each of the companies and compare them to the industry averages.

Calculate z-scores for each of your companies for the most recent year. Do the z-scores support or contradict your other analyses?

4. Based upon your analysis, which of the companies would you advise a friend to invest in? As a banker would you lend these companies money? As a manager, where would you prefer to work?

**Support your recommendations.**

Include graphs, charts and tables to enhance your report (these are also very helpful in preparing your presentation).

**Submit your final report in Week 6 for grading and feedback (20%). Incorporate your findings from all components of the project.**

**Presentation (10%)**

Group presentations will take place during the last class. Each group will have approximately 15 minutes to present their company analyses to the class (this may be adjusted once the number of groups is determined). The group presentations are intended to allow all participants to benefit from the insights and recommendations arising from each group's analysis of different industries.

In your group presentation:

1. Present highlights of your analysis of each company.
2. Provide your investment recommendations for each company; support your recommendation.
3. Indicate whether you, as a corporate banker, would lend the company money; why or why not?
4. Indicate where you would prefer to work? Why? Consider both accounting and qualitative aspects which affect your preference.
5. Address how your industry's financial statement ratios appear to be unique, relative to other industries you know or we have discussed in class.

Appendix 2  
Group Analysis of Cash Flow Statements (5%)

Assignment

**Use the two publicly traded companies you have selected for your financial statement analysis.**

**Obtain the cash flow statements for each of the last three years. Analyze the cash flow statements, using the following questions as a guide.**

For each year on the statement of cash flows:

Part 1:

1. What were the firm's major sources of cash? Its major uses of cash?
2. Was cash flow from operations greater than or less than net income? Explain the major reasons for the difference between these two figures.
3. Was the firm able to generate enough cash from operations to pay for all of its capital expenditures?
4. Did cash flow from operations cover both the capital expenditures and the firm's dividend payments, if any?
5. If not, what were the sources of cash the firm used to pay for the capital expenditures and/or dividends?

Part 2:

What was the trend in:

1. Net income?
2. Cash flow from operations?
3. Capital expenditures?
4. Dividends?
5. Net borrowings (proceeds less payments of short and long term debt)?

Part 3:

Based on the evidence in the statement of cash flows alone, what is your assessment of the financial strength of the company? Why?

**Appendix 3**  
**Individual Class Participation Assessment**

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

Week	Attendance	Participation in Class Discussion or Debates	Participation during Case Presentation by other group	Participation during own group Discussions or Meetings	Comments
1					
2					
3					
4					
5					
6					

**Identify strengths in terms of your class participation:**

**Identify areas for improvement:**

**Provide a fair assessment of your overall class participation:**

/20



**Appendix 4**  
**ACCT5011**  
**Financial Statement**  
**Analysis**

**PEER EVALUATION FORM**

To deter social loafing and ensure fairness in grading, we will consider the contributions made by individual group members when assigning final grades for the group project and presentation. This will be assessed using peer evaluation, and will entail individual deviations from the group grade in cases where this is warranted.

The procedure is as follows: Each member will take 100 points and allocate those points to their group members (including her/himself) to reflect their contributions. So, for instance, if there are 3 members in a group and everyone contributed equally, each individual would receive 33⅓ points. Conversely, if an individual contributed relatively little, the remaining group members might allocate few points to that member. To ensure that peer evaluation scores are reasonable and free from personal bias, any point allocation that is not equal should be accompanied by a detailed written explanation.

**PLEASE COMPLETE THIS FORM AND SUBMIT IT WITH YOUR FINAL REPORT**

<b>Name of Group Member</b> <i>(please include yourself)</i>	<b>Points</b>	<b>Rationale</b> <i>(if point allocation is not equal)</i>
<b>YOU:</b>		

**TOTAL**

**100**

**Additional Comments** *(if any)*



**ACCT5011**  
**Financial Statement Analysis**

**PEER EVALUATION FORM**

Assess each member of your group-including yourself-- on each of the criteria listed below. For each criterion, rate each member of your group as follows:

<b>Outstanding</b>	<b>+2</b>
<b>Above average</b>	<b>+1</b>
<b>Average</b>	<b>0</b>
<b>Below average</b>	<b>-1</b>
<b>Severely lacking</b>	<b>-2</b>

Name of Team Member				
<b>1. Reliability/Commitment</b> Did s/he participate in team meetings in an organized fashion & meet team deadlines?				
<b>2. Leadership</b> Did s/he provide leadership through listening to others and helping the team to function as a team?				
<b>3. Collaborative</b> Did s/he participate in team activities and contribute in a positive manner?				
<b>4. Respectful/Open</b> Did s/he show respect for team members, their ideas and their other commitments?				
<b>5. Contribution</b> Did s/he do his/her share of the work, provide useful ideas, input, helpful suggestions and feedback to the team in accordance with team decisions?				
<b>6. Output</b> Did s/he produce high quality work?				
<b>Totals for each team member</b>				