New York University
Stern School of Business
B10.6335/ B10.3335
International Accounting and Statement Analysis

Professors: Frederick D.S. Choi and Seymour Jones

Course Outline

Global competition and the continuing integration of the world’s financial markets mean that you will increasingly have to read and interpret the financial statements of non-U.S. reporting entities. The problem is that while you live and work in the United States, you will have to analyze financial data that are frequently expressed in a foreign currency, prepared according to non-U.S. measurement rules and influenced by institutions that often differ from those in the U.S. This invariably leads to problems of understanding and interpretation.

The objective of this course is to introduce you to the international dimensions of financial statement analysis. You will learn about differences in financial measurement and reporting practices that exist internationally, the reasons for these differences, their resultant financial statement effects and methods that you can employ to cope with such differences. You will also learn about the international financial reporting standards (IFRS) movement and the implications of reading financial statements based on IFRS.

Method of Instruction

This course will use a variety of teaching methods including lectures, readings, case analyses, web searches, and group assignments. This is a cross-listed course and is open to graduate students. We will conduct this class as though it were a graduate seminar. In short, you will get out of the class what you put into it. While your practical experience maybe limited, the insights you have gained during your summer internships should prove helpful.

Grading Policy

Your course grade will reflect the following emphases:

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<tr>
<th>Component</th>
<th>Percentage</th>
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<tr>
<td>In-class assignments and participation</td>
<td>20%</td>
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<tr>
<td>Mid-term examination</td>
<td>40%</td>
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<tr>
<td>Group project and research paper</td>
<td>40%</td>
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Assigning grades that reward excellence and reflect differences in performance is important to ensuring the integrity of our curriculum. In general, about 50% of students will receive A’s for excellent work and the remainder will receive B’s for good or very good work. In the event that a student performs only adequately or below, he or she can expect to receive a C or lower.

Note that the actual distribution for this course and your own grade will depend upon how well each of you actually performs in this course.
Financial Analysis Group Project

Financial statement analysis is today a well-established tool for performance evaluation, credit appraisal and security analysis. While financial ratios do not capture all variables affecting enterprise performance, they are an important basis for investor perceptions of risk and return.

International ratio comparisons are subject to a number of pitfalls. When doing a time series analysis, ratio comparisons are complicated by foreign exchange rate changes and changing prices. Inter-country comparisons are also complicated by differences in national accounting principles. Even when the financial statements underlying ratio analyses have been adjusted to international financial reporting standards, they are misinterpreted because investors do not understand a particular foreign environment that influences all financial measures in that environment.

Your assignment is to select a given country, and adopting a user's perspective, 1) compare the risk and return attributes of a large manufacturer relative to those of an American counterpart. You are to make an assessment as to which you feel is the "better" company and why. It will be necessary for you to adjust for currency differences and price differences, as well as significant differences in accounting principles. Your study should probably be done on a pre-tax basis to eliminate the effects of significant differences in tax practices internationally. You should also identify environmental variables, such as differences in social/cultural, financial and legal considerations that might further account for observed profitability and risk differences. Knowledge gained with regard to such environmental differences will sharpen your ability to properly evaluate the risk and return features of foreign security investments.

A suggested outline follows:

I. Introduction-objective and scope of financial analysis
II. Country analysis
   A. Macro-economic analysis
   B. Political analysis
   C. Market analysis
III. Industry analysis
IV. Company specific analysis
   A. GAAP adjustments
   B. Ratio analysis
   C. Cash flow analysis; i.e. free cash flows
V. Environmental (institutional) considerations (i.e., cultural, financial mores, legal, tax, etc.) that facilitate proper interpretation of company–specific analysis.
VI. Conclusion and recommendations
Group study teams (groups of 3-4) should meet early to select a country, an industry and a reporting entity domiciled in that country, together with a U.S. counterpart, for their financial statement analysis project. A one-page rationale for your country, industry and company choices will be due at the start of class on October 8. (You may e-mail me the information.) Your analysis will require two presentations; one oral, the other written. Group presentations should not exceed 20 minutes and the formal paper, to be submitted on the last day of class, should not exceed 20 pages.

**Academic Integrity**

All students are expected to abide by the **NYU Stern Student Code of Conduct**. A student’s responsibilities include, but are not limited to:

- A duty to acknowledge the work and efforts of others when submitting work as one’s own. Ideas, data, direct quotations, paraphrasing, creative expression, or any other incorporation of the work of others must be clearly referenced.
- A duty to exercise the utmost integrity when preparing for and completing examinations, including an obligation to report any observed violations.

Please see [www.stern.nyu.edu/uc/codeofconduct](http://www.stern.nyu.edu/uc/codeofconduct) for more information.

**Students with Disabilities**

If your class performance may be affected by a personal disability, please notify me early in the semester so that arrangements can be made, in consultation with the Henry and Lucy Moses Center for Students with Disabilities, to accommodate your needs.

Please see [www.nyu.edu/csd](http://www.nyu.edu/csd) for more information.
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<tr>
<th>Date</th>
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<th>Topic</th>
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<tbody>
<tr>
<td>September 8</td>
<td>T</td>
<td><strong>International Accounting Diversity</strong></td>
<td>What is international accounting? Why is it important? What are the basic issues? What are some methods for coping with accounting and corporate reporting differences? <strong>Read</strong>: CM, Ch. 1 and Ch. 9 (pp. 314-336).</td>
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<td>10</td>
<td>Th</td>
<td><strong>Accounting Diversity—continued</strong></td>
<td>Prepare: Q1.11, Q1.12, E1.10, and E1.12.</td>
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<td>15</td>
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<td><strong>Accounting Development Patterns</strong></td>
<td>What accounts for national variations in observed accounting and reporting practices? Are accounting practices uniformly different in all countries? Are there any recognizable reporting patterns? <strong>Read</strong>: CM, Ch. 2.</td>
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<td>17</td>
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<td><strong>Comparative Accounting I</strong></td>
<td>Prepare: Case 9-1: Sandvik (pp. 362-365)</td>
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<td>22</td>
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<td><strong>Comparative Accounting II</strong></td>
<td>What are some distinctive reporting practices in Europe? <strong>Read</strong>: CM, Ch. 3. <strong>Prepare</strong>: Case 9-2: Continental A.G. (pp. 365-372).</td>
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<td>24</td>
<td>Th</td>
<td><strong>Comparative Accounting III</strong></td>
<td>Financial reporting in emerging markets and the phenomenon changing prices. <strong>Read</strong>: CM, Ch. 4, Ch. 7.</td>
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<td><strong>Prepare</strong>: E7.2, E7-3, E7.4, E7.5.</td>
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<td>October 1</td>
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<td><strong>Case 7.2 Icelandic Enterprises, Inc.</strong></td>
<td>How do you analyze a company located in a highly inflationary-devaluation prone country?</td>
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<td><strong>Out-of-Class Assignment</strong>: Group Project formation and Country Selections. Please e-mail me the names of your group members And country selections. <strong>(You may meet in our classroom to do this.)</strong></td>
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<td>October 8</td>
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<td><strong>Accounting for Foreign Exchange Rate Changes</strong></td>
<td>Nature and purpose of foreign currency translation. Transaction versus translation gains and losses. Translation methods used</td>
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by MNC’s.

Read: CM, Ch. 6.

13 T FX Reporting – continued

15 Th Case 6-1: Regents Corporation
What are the major differences between the temporal and current rate translation methods and how do they differentially impact reported earnings, assets and financial ratios?

20 T FX Reporting and Foreign Operations
Prepare: Case 10-1: Foreign Investment Analysis-A Tangled Affair

22 Th FX Changes and Reported Cash Flows
A reporting conundrum faced by managers of multinational enterprises is that consolidated numbers often do not reflect the results of operational decisions. To wit, reported sources and uses of cash in domestic currency do not mirror the cash flow patterns in local currency.
Read: CM, Ch. 9 (pp. 331-335)

27 T International Ratio Analysis
What is involved in comparing the risk and return profiles of non-domestic companies? Are measurement issues the only concern when attempting cross-border comparisons?
Read: CM, Ch. 9(pp. 321-25; Appendixes 9-1, 9-2).
Prepare: Case: Toyoza vs. Lincoln Enterprizes (class handout)

29 Th Wrap-up

November 3 T Mid-term Exam

5 Th International Accounting Harmonization I
What do you think of the prospect of having reporting entities in all countries adhere to a common set of accounting standards? Who are the major players in this effort and what is the current state of play with respect to international accounting convergence?
Read: CM Ch. 8
10 T International Accounting Harmonization II  
**Case 8-2:** Whither the Withering Standard Setters?

12 Th International Auditing I  
**Read:** CM Ch. 9 (pp. 336-348)  
What is the role of the attest function and is it the same around the world? What pitfalls should analysts be aware of when reading foreign financial statements.

17 T International Auditing II

19 Th International Auditing III

24 T Managerial Issues  
**Read:** CM, Ch. 10  
What is financial control? What are features of a good multinational control system? What are prevailing approaches to assessing foreign subsidiary performance?  
**Prepare:** Case 10-2: Assessing Foreign Subsidiary Performance in a World of Floating exchange Rates?

26-29 Thanksgiving Recess

December 1 T International Taxation  
Are tax systems the same around the world? What determines a multinational firm’s effective tax burden what is involved in the taxation of foreign source income?  
**Read:** CM Ch. 12  
**Guest lecture:** PriceWaterhouse Coopers.

3 Th Group Presentations

8 T Group Presentations

10 Th Group Presentations
15 T  Group Presentations
       International Statement Analysis Paper Due

17-  Final exam period
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