Course Objectives

The globalization of business and investment has triggered increased interest in the reported performance of international companies. Whether you are interested in purchasing international equities, managing an international operation, assessing the performance of foreign competitors, evaluating an international credit, or acquiring a foreign business venture, you are highly dependent on information contained in a firm’s financial statements.

The problem you face in reading the accounts of multinational entities is that you are often unfamiliar with the reporting entity’s accounting and reporting norms which may differ markedly from those of your country-of-domicile. Fluctuating currency values add another layer of complexity to international statement analysis. What we are seeking to avoid are problems of understanding, interpretation and, ultimately, sub-optimal decisions.

A major objective of this course is to sensitize you to some of the reporting issues in international financial statement analysis. Specifically we will examine some of the major differences that you will encounter when reading foreign accounts, the reasons underlying these reporting differences and avenues for coping with accounting diversity. We will also examine institutional structures that have evolved in response to international reporting differences and examine the current state of play with respect to the harmonization of global reporting standards.

Method of Instruction

This course will use a variety of teaching methods including lectures, readings, case assignments and discussion, statement analysis and a group project.

Grading Policy

Your course grade will reflect the following emphases:

- Class assignments and participation 30%
- Group project and research paper 70%
Suggested Reference

Choi and Meek (CM), *International Accounting, 5th ed.* (Prentice-Hall, 2005).

International Accounting and Statement Analysis
Topical Outline

September 27  I  **International Accounting Diversity**
What is international accounting? Why is it important? What are the basic issues? What are some methods for coping with accounting diversity?

**Read**: CM, Ch. 1.

II  **Development Patterns**
What accounts for national variations in observed accounting and reporting practices? Are accounting practices uniformly different in all countries? Are there any reporting patterns that can be identified?

**Read**: CM, Ch. 2.

October 11  I  **Comparative Accounting I**
Case analysis: “Sandvik,” (class handout)

II  **Comparative Accounting II**
What are some distinctive reporting practices in Europe?

**Read**: CM, Ch. 3.

October 18  I  **Comparative Accounting III**
What are some of the major reporting issues in emerging markets? The financial statement effects of changing prices.

**Read**: CFM, Ch. 4(pp. 132-136), Ch. 7(pp. 232-252).

II  **Case 7-2**: “Icelandic Enterprises,” (CM, pp. 273-74).

October 25  I  **International Accounting Harmonization**
Why harmonization?  Who are the major players in the harmonization effort?  Is harmonization necessary?

Read:  CM, Ch. 8.

II Accounting Harmonization—continued

Case 8-1 “Sinopec Shanghai Petrochemical Company Limited” (CM, p. 314).

November 1

I International Auditing Issues:
Role of auditing in evaluation of international financial statements; U.S. generally accepted auditing standards vs. statutory auditing standards; assessing credibility in light of auditing standard differences

II International Auditing Issues - continued

November 8

I International Auditing
Reconciliation of foreign accounting practices to U.S. generally accepted accounting principles in U.S. public filings with the SEC

II Accounting for Foreign Exchange Rate Changes

Read:  CM, Ch. 6.
Prepare:  E6.6, E6.7

November 15

I FX Accounting—continued

Case 6-1:  “Regents Corporation,”(CM pp. 227-228).

II FX Accounting and Statement Analysis


November 22

I 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 seldom mirror the cash flow patterns in local currency.

Read: CM, Ch. 9 (pp. 335-339).
Prepare: E.9.2, E9.3

II International Statement Analysis

Read: CM, Ch. 9 (pp. 317-335).
Case: “Hondo vs. Cherokee” (Class-handout)

November 29 Managerial Planning and Control
What is financial control? What are features of a good multinational control system?

Read: CM, Ch. 10 (pp. 393-402).
Prepare: Case 10-2 “Assessing Foreign Subsidiary Performance in a World of Floating Exchange Rates” (CM, pp. 411-412)

December 6 I International Taxation (Guest Speaker)

Read: CM, Ch. 12 (pp. 456-472)

II International Taxation-continued

Prepare: E12.3 and E12.11

December 13 Group Presentations

December 20 Group Presentations

Written Group Projects on Financial Analysis Due
Financial Analysis Guidelines

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 US GAAP, 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 non-US 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.)
VI. Conclusion and recommendations