



Accounting Department
Spring 2012

ACCT-GB.6335-20 International Reporting and Analysis
ACCT-GB.3335.20

TR 11:00 - 12:15 am Room: 4-80

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KMC 10 - 97

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KMC 10-183A

Course Description and Learning Goals

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 give you an overview of the main topics in international accounting and 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 this class what you put into it. While your practical experience may be limited, the insights you have gained during your summer internships should prove helpful.

Grading

Your course grade will reflect the following emphases:

In-class assignments and participation	20%
Two mid-term exams	40%
International statement analysis project	40%

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.

Required course materials

Choi and Meek (CM), *International Accounting*, 7th ed. (Englewood Cliffs, N.J.: Prentice-Hall, Inc., 2011).

Other materials (notes, solutions, and other course documents) will be available on Blackboard.

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 in terms of institutions and business practices that influence 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-U.S. 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 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 **March 6. (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 (**May 1**) should not exceed 20 pages (not including appendices). Please submit a hard copy as well as an electronic version. Papers will be read by the TA and myself independently.

Academic Integrity

Integrity is critical to the learning process and to all that we do here at NYU Stern. As members of our community, all students agree to abide by the NYU Stern Student Code of Conduct, which includes a commitment to:

- Exercise integrity in all aspects of one’s academic work including, but not limited to, the preparation and completion of exams, papers and all other course requirements by not engaging in any method or means that provides an unfair advantage.
- Clearly acknowledge the work and efforts of others when submitting written work as one’s own. Ideas, data, direct quotations (which should be designated with quotation

marks), paraphrasing, creative expression, or any other incorporation of the work of others should be fully referenced.

- Refrain from behaving in ways that knowingly support, assist, or in any way attempt to enable another person to engage in any violation of the Code of Conduct. Our support also includes reporting any observed violations of this Code of Conduct or other School and University policies that are deemed to adversely affect the NYU Stern community.

The entire Stern Student Code of Conduct applies to all students enrolled in Stern courses and can be found here:

Undergraduate College: <http://www.stern.nyu.edu/uc/codeofconduct>

Graduate Programs: http://w4.stern.nyu.edu/studentactivities/involved.cfm?doc_id=102505

To help ensure the integrity of our learning community, prose assignments you submit to Blackboard will be submitted to Turnitin. Turnitin will compare your submission to a database of prior submissions to Turnitin, current and archived Web pages, periodicals, journals, and publications. Additionally, your document will become part of the Turnitin database.

Students with Disabilities

If you have a qualified disability and will require academic accommodation of any kind during this course, you must notify me at the beginning of the course and provide a letter from the Moses Center for Students with Disabilities (CSD, 998-4980, www.nyu.edu/csd) verifying your registration and outlining the accommodations they recommend. If you will need to take an exam at the CSD, you must submit a completed Exam Accommodations Form to them at least one week prior to the scheduled exam time to be guaranteed accommodation.

Tentative outline		
January 24	Read CM, Ch. 1	International Accounting Diversity 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?
January 26	Prepare: E1.10, and Case 1-1 and 1-2	Accounting Diversity - continued
January 31	Read: CM, Ch. 2.	Accounting Development Patterns 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?
February 2	Read: CM, Ch. 3	Comparative Accounting Europe
February 7	Read: CM, Ch. 4 Prepare Case 4.1	Comparative Accounting America and Asia
February 9	Read: CM, Ch. 5 and Ch. 10 (p. 379-380)	Reporting and Disclosure
February 14	Prepare: DQ 5.3, 5.6, 5.7, 5.8, 5.9, 5.10	Reporting and Disclosure - continued
February 16	Materials on Blackboard	Management commentary IFRS (Dec 2010)
February 21	Read: CM, Ch. 9 and Appendix 9-1 and 9-2 Prepare: Case 9.2	International Ratios 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?
February 23		Group Project Teams Formation Teams of five should be formed and each team should 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 of country, industry and company choices, together with the names of team members, are due by mid-night. (Please e-mail me the information.)
February 28	Read: CM, Ch. 6 Prepare E 6.4, 6.5, 6.6, 6.7	Foreign currency translation Chap. 6
March 1	Materials on Blackboard	Foreign Exchange rate: a reality check The impact of the foreign exchange rate on the subsidiary financial statements. Guest lecturer: Alessio Cioni - Project Finance Managing Director CIB Bank and Director Intesa

		Sanpaolo SpA
March 6	(Country/Industry/Company rationale due by e-mail)	Review
March 8	Exam I	
March 12-18	Spring Recess	
March 20	Read: CM Ch. 8 and Materials on Blackboard	US GAAP and IFRS convergence: a Roadmap
March 22	Materials on Blackboard	The IFRS framework
March 27	Read CM Ch. 7	Financial reporting and changing prices
March 29	Read CM Ch. 7	A successful example of internationalization: Lavazza Guest Lecturer: Ennio Ranaboldo - CEO Lavazza US
April 3	Read: CM Ch. 8	International Auditing I Guest lecturer: Professor Seymour Jones 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?
April 5	Case Swisscom AG on Blackboard	Out of class group case preparation written assignment due by mid-night
April 10	Read: CM Ch. 12	International Taxation and Transfer Pricing I Executive lecturers: PriceWaterhouse Coopers 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?
April 12		Review
April 17	Exam II	
April 19	Group presentations I	
April 24	Group presentations II	
April 26	Group presentations III	
May 1	Group presentations IV	International Statement Analysis Papers Due