

**Université du Québec en Outaouais**  
**Advanced Financial Analysis and Accounting MBA8714A**  
**Course outline - Winter 2011**

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This course is offered in the *DESS in finance* and in the *MBA Financial Services*. The Course outline provides the following information:

- Objectives
- Methodology
- Evaluation
- References
- Subject matters and readings
  - . Part 1 - Introduction to financial analysis and foundations of accounting information
  - . Part 2 - Selected accounting practices
  - . Part 3 - Financial analysis deepening
  - . Part 4 - Application to the business world and in the international context

## **Objectives**

Official description of the course<sup>1</sup> :

**OBJECTIVES** : The main objective of this course is to teach students how to use financial statements in decision making in a business setting and to use them for firm valuation. Firm governance and financial information divulgation are also covered in this course.

**CONTENT** : The three dimensions of financial analysis: analysis of business strategies, accounting analysis, business statement analysis. Accounting standards: a complex and constantly changing language used to communicate financial information to financial statements users. Accounting choice, hypothesis and estimations: impact on accounting analysis. Using financial information in financial services business: reading the information, interview preparation with firms and the credit allocation decisions.

Following the course, students should be able to:

- Recognize the theoretical concepts underlying accounting methods in their evolutive context
- Identify the most important effects of accounting practices on financial statements
- Calculate ratios with accounting figures to analyze liquidity, leverage and profitability
- Integrate ratio analysis in a global approach taking account of qualitative and quantitative factors
- Identify the limitations of financial analysis in connection with the complexity of operations and accounting practices involved

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<sup>1</sup> <http://services.uqo.ca/ConsultationBanqueProgrammes/DescriptionCours.aspx?CdInstProv=978005&SigCrs=MBA8714A>

# Methodology

## Pedagogical approach

The course involves several teaching methods addressing technical knowledge and helping students to improve abilities such as communication and judgment. Students attend classes and do preparatory readings and other work individually and in teams.

The different types of in-class activities are:

- Lectures relating to theory
- Exercises and case-study analyzes drawn from the business world
- Discussions
- Exam

Computer is used in several ways:

- A website is available, including a section entitled *InfosEng* for ongoing communication by the teacher to students (ex: homeworks; solution to problems discussed in class).
- Excel and PowerPoint are used in class (by the teacher).
- E-mail communication is recommended between classes.

## Importance of subject matters and readings

The subject matters are listed in the part entitled “Subject matters and readings” further below. These subjects can be tested in the *Exam* and applied in the *Assignment*. To evaluate the level of requirement for each subject, students refer to the *Course outline* and to indications provided in class by the teacher. Each student should balance the time devoted to readings according to his/her strengths and weaknesses, keeping in mind the importance of subjects to which they refer. The ability to apply accounting technical knowledge in various situations of financial analysis is important. Readings are suggested to assist students in learning and to complement and deepen understanding.

Readings are classified in two categories: important and optional.

- *Important readings* relate to subjects that can be tested directly in the *Exam* and applied in the *Assignment*.
- *Optional readings* provide additional insight on some subjects. These readings can be done by students who wish to deepen their understanding or see other approaches. Normally, it is not necessary to do them to pass and succeed in the course.

## Expectations from students

Students will communicate orally and by writing.

### Preparation before classes

Students should read through *important readings* prior to courses and note their questions to discuss them during class time. Students should also consult the section *Infos* of the website on a regular basis to keep in touch with ongoing instructions from the teacher.

### In class

Students should be prepared when attending classes and should participate to discussions. An attitude open for questioning is desirable and comments are welcome when done respectfully and as long as they contribute to improve the learning process.

### After classes

After a course, students should finalize their study and summarize the subjects covered in light of their needs and objectives of the course. They should also familiarize with real financial statements to develop judgment and ability in analyzing financial statements, particularly through the *Assignment*.

## Evaluation<sup>2</sup>

Evaluation is based on several elements verifying to what point students meet objectives of the course:

- Assignment, simulation and tests 50%
- Exam 50%
- Total 100%

### Written report, simulation and tests (50%)

The objective of the *written report* and related activities is to apply subjects covered in the course to a real case. It is done in team (the number of persons per team will be confirmed at the first course and will depend on the number of registered students). Each team plays the role of a consultant doing a financial analysis to assist a company requesting a bank loan. The borrowing date is assumed to be on **April 20, 2011** and the amount is **20% of the company's total assets** (according to its most current audited financial statements available in January 2011). Each team submits a *written report* and participates in a simulation. Following each simulation, tests are run and answered individually by all students about the loan request of each team. Here is the procedure:

- 1) Each team chooses a company and gets its most current audited financial statements, including accompanying notes. Financial statements can be obtained from any source including the data base *Sedar* ([www.sedar.com](http://www.sedar.com)).
- 2) Each team submits the selected financial statements by email to the teacher for approval.
- 3) The teacher approves the selected financial statements or asks the team to choose another company.
- 4) Each team does a quick review of the environment and current news about the selected company and its industry.
- 5) Each team analyzes the three categories of financial ratios (liquidity, leverage, profitability) of the selected financial statements and prepares a report formatted as explained in Table A (maximum length of 11 pages plus appendices).
- 6) The *Report* has to be submitted before **March 12, 2011 at 4pm**. Each team submits:
  - i) A soft copy of the *written report* (by email)
  - ii) A hard copy of the *written report* (paper-copy at room B-2096, Lucien-Brault)
  - iii) A hard copy of the selected financial statements analyzed (paper-copy at room B-2096, Brault)
- 7) The teacher posts some excerpts of the *written reports* on the web as soon as possible.<sup>3</sup> Each student reads these excerpts in preparation for the discussions and tests explained at the next step.
- 8) The simulations take place at the last course before the *Exam*. Each simulation (one per team) is a roleplay of at least 15-minute long including or followed by discussions and a question period.<sup>4</sup> In each simulation, the teacher plays the role of a senior-manager of the company asking questions to the team about their *written report* and the loan request. The teams can prepare some files to use with the projector available in the classroom, if needed.<sup>5</sup> The questions can relate to any point of the *Report* or of the loan request, such as:
  - What is the situation regarding the liquidities of the company?
  - Do you consider that the company has a high (or low) leverage?
  - Is the company profitable?

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<sup>2</sup> See the key regulations and policies of UQO and of the Dept. of Administrative Sciences in Appendix at the end.

<sup>3</sup> If there is no problem, the excerpts should be available on the web no later than March 15, 2011. The teacher will send an email to all ([NOM@uqo.ca](mailto:NOM@uqo.ca)) when it is ready.

<sup>4</sup> It is the teacher who decides the duration of simulations, considering the number of teams and the usefulness of discussions for the whole group.

<sup>5</sup> Since it is the teacher who asks questions and who decides of the time allotted, it is not guaranteed that all files prepared in advance will be actually used in the simulation.

- Explain how you have established the pro forma profit (or loss) for the next year in your *written report* and reconcile with the profit of the last audited income statement.
- What are the limitations of your analyses?

9) After each simulation, there is a short test to be answered individually by all students about the loan request of the related company (so there are several tests: one per simulation). The questions ask to highlight some key-points about the loan request and the conclusion by the banker as to accept or refuse the loan.

The *written report* and the participation of each team in the simulation account for 35% to 40%. The tests answered individually account for 10% to 15%. For a total of 50%. The evaluation of the *written report* considers the fact that it is done during the learning process, before all concepts and techniques have been covered. It is thus preferable to make reasonable attempts in trying to apply the subject matters rather than omit significant aspects in fear of making errors. Evaluation criteria of the *written report* and simulation are as follows:

- Reasonable effort, autonomy, instructions followed, professionalism (including references when applicable, such as the use of a data base or of another company's financial statements for comparative purposes)
- Relevance of analysis (choosing ratios and qualitative arguments adapted to the situation)
- Logic and accuracy of calculations
- Consistency of qualitative analysis and conclusions in relation to quantitative analysis
- Conciseness (emphasizing essential points by providing sufficient justifications without overloading; avoid to unduly overload information in appendices)
- Audit trail (providing sources of calculations so that a reader of the *Report* can check them easily and corroborate to applicable figures in financial statements; referring in the body of the *Report* to every appendix so that a reader can understand its usefulness and contribution before even reading it)

Some examples of *written reports* (excluding appendices) by former students of 2002, 2006 and 2010 are provided in the website (one in English and three in French). These relatively well done *reports* can help to figure out the type of analysis expected from students, but they are provided as an indication only and do not constitute a recipe to reproduce or recopy, because:

- the content and criteria have changed since 2002, notably the role of students and the length of the *written reports* (restricted to 6 pages in 2002)
- these examples are posted as submitted by students and contain some weaknesses (take note that the 2010 example is accompanied by two-page feedback from the teacher)

	<b>Table A - Format of the <i>report</i> Content</b>	<b>Maximum length</b>
1)	<u>Introduction</u> - Objective of the <i>report</i> - Description of industry - SWOT analysis (discussion of the main strengths and weaknesses of the company; opportunities and threats) - Other items if considered important	2 pages
2)	<u>Liquidity analysis</u> - Relevant ratios (*) - Qualitative discussion - Conclusion specific to liquidity	2 pages
3)	<u>Leverage analysis</u> - Relevant ratios (*) - Qualitative discussion	2 pages

	<b>Table A - Format of the <i>report</i> Content</b>	<b>Maximum length</b>
	- Conclusion specific to leverage	
4)	<u>Profitability analysis</u> - Relevant ratios (*) - Qualitative discussion - Conclusion specific to profitability	2 pages
5)	<u>Pro forma income statement</u> - Preparation of a projected income statement for the coming year - Based on explicit assumptions indicated at the bottom of the same page, including the assumption that the loan is accepted (use an appendix only for technical details if necessary)	1 page
6)	<u>Limitations</u> - Explanations of limitations and margins of error inherent to the analysis (*)	1 page
7)	<u>Conclusion</u> - Discussion integrating results of the above analyses in relation to the loan request	1 page
8)	<u>Appendices</u> - Detailed calculations when needed - Additional informations that are essential to support the content of the <i>report</i> - Take note that all major elements of the analysis must be reported within the <i>report</i> itself and not only in the appendices	Judgment
	Total	11 pages + appendices
<p>(*) One limitation of the <i>written report</i> and simulation is the fact that the quantitative analysis of the chosen company is restricted to the specific financial statements selected. Therefore ratios are calculated only for the years available in these financial statements: usually two years (current and previous); sometimes three years.</p>		

### Exam (50%)

The Exam covers all subject matters and is evaluated in relation to the objectives of the course. It is four-hour long and takes place at the last course. No documentation is allowed during the Exam.

An example of Exam is provided in the website. It can help to see examples of questions but students should keep in mind that it was run in 2002. It includes the following documents:

- Questionnaire
- Summary of students' results and feedback from teacher
- Example of solution written by a student

### Final grading

Final grading is based on the following table:

Final grade	Result
A+	92-100 %
A	88-91 %
A-	84-87 %
B+	80-83 %
B	76-79 %

B-	72-75 %
C+	68-71 %
C	64-67 %
E	0-63 %

## References

The basic textbook is *Understanding Financial Statement* from Fraser and Ormiston (2010, 9th edition, hereafter FO-2010). It is available at the Coop of Université du Québec en Outaouais. Suggested readings refer to chapters in FO-2010 and various documents often available from the course website.

The references are listed in the following table. The right-hand side columns mean:

- Coop: Coop of Université du Québec en Outaouais located at the ground-level of Pavillon Brault
- Library: library of UQO located at Pavillon Brault (in some cases "à la réserve" under the name of professor Michel Blanchette)
- Web: course website ([w3.uqo.ca/michel.blanchette/8714menu.htm](http://w3.uqo.ca/michel.blanchette/8714menu.htm))

		Coop	Library	Web
<b>Website</b>				
1	Blanchette. <i>Website of the course MBA8714A Winter 2011</i> , <a href="http://w3.uqo.ca/michel.blanchette/8714menu.htm">w3.uqo.ca/michel.blanchette/8714menu.htm</a> .			✓
<b>Plan de cours</b>				
2	Blanchette. <i>Course outline MBA8714A Winter 2011</i> , Université du Québec en Outaouais.			✓
<b>Basic textbook</b>				
3	Fraser, Ormiston. <i>Understanding Financial Statements</i> , ninth edition, Prentice Hall, 2010 (HF 5681 B2 F73 2010).	✓ ordered Dec. 2 at the Coop	✓	
<b>Other important references</b>				
4	Blanchette. <i>Example of Exam</i> , Winter 2002, including: <ul style="list-style-type: none"> <li>- <i>Questionnaire and appendix</i></li> <li>- <i>Results and feedback</i></li> <li>- <i>Example of solution written by a student</i></li> </ul>			✓ ✓ ✓
5	Blanchette. "IFRS in Canada : evolution or revolution?", <i>CMA Management</i> , May 2007.			✓
6	Blanchette. "New standards on accounting for financial instruments : a primer", <i>CMA Management</i> , June 2006.			✓
7	Blanchette, Livermore. "The Derivative Debate", <i>CAMagazine</i> , October 2001, pp.40-42.			✓
8	Examples of <i>written reports</i> from former students: <ul style="list-style-type: none"> <li>- (French) Néji, Khalil, Baxter, Belallia, <i>Rapport 2010</i></li> <li>- (French) Gauthier, Huot, Lallemand, Morin, <i>Rapport 2006</i></li> <li>- (English) N'Sanda, Behnass, <i>Report 2002</i></li> </ul>			✓ ✓ ✓
11	Grimm. "Reporting Value in the New Economy - Should traditional GAAP be abandoned?", <i>CMA Management</i> , July 2001.			✓
12	Sedar (data base containing financial statements). Website <a href="http://www.sedar.com">www.sedar.com</a> .			✓

		Coop	Library	Web
13	Stewart, McLaughlin. "The dirt on dot.cons", <i>CAMagazine</i> , June 2001.			✓
<b>Optional references</b>				
14	Blanchette, Bounenni. <i>Readings in FIN8502 : A Study Guide</i> , 2006.			✓
15	Blanchette, Bounenni. <i>Glossaire pour accompagner le cours FIN8502</i> , 2004.			✓
17	Canadian Institute of Chartered Accountants. <i>CICA Handbook</i> .		✓	
18	Damodaran online (website with finance material provided by a professor from <i>Stern School of Business, New York University</i> ). Website <a href="http://pages.stern.nyu.edu/~adamodar/">http://pages.stern.nyu.edu/~adamodar/</a> .			✓
19	International Accounting Standards Board (IASB). Website <a href="http://www.iasb.org">www.iasb.org</a> .			✓
20	Laroche, Martel, Turbide (LMT). <i>Le gestionnaire et les états financiers – Normes internationales (IFRS)</i> , sixth edition, ERPI, 2009 (HF 5681 B2 M37 2009).	✓ on request	✓	
21	Laroche, Martel, Turbide. Informations complémentaires au volume <i>Le gestionnaire et les états financiers</i> , referred from <i>Avant-propos</i> of Laroche, Martel, Turbide (2009).			✓
21	PricewaterhouseCoopers. <i>International Financial Reporting Standards – A Pocket Guide</i> , 2010 ( <a href="http://www.pwc.com">www.pwc.com</a> ).			✓
22	Wild, Subramanyam. <i>Financial Statement Analysis</i> , tenth edition, McGraw-Hill, 2009. or Wild, Subramanyam, Halsey. <i>Financial Statement Analysis</i> , ninth edition, McGraw-Hill, 2007.		✓	

## Subject matters and readings

"Financial analysis is the use of financial statements to analyze a company's financial position and performance, and to assess future financial performance" (Wild, Subramanyam, Halsey, 2007, p. 12).

Subject matters are classified into four parts:

- 1) Introduction to financial analysis and foundations of accounting information
- 2) Selected accounting practices
- 3) Financial analysis deepening
- 4) Application to the business world and in the international context

## **Part 1 – Introduction to financial analysis and foundations of accounting information**

In Part 1, we introduce the subject matters by explaining the importance to know the foundations of accounting information before analyzing it. Financial statements are presented along with their main components, highlighting underlying principles and users' needs. Limitations of accounting information and the resulting margin of error affecting financial analysis are discussed. The three categories of financial analysis are introduced (liquidity, leverage, profitability) and basic ratios are presented. A case-study involving research and development (R&D) is used to show an example of how accounting methods can influence financial results.

Financial statements are:

- Balance sheet
- Income statement
- Statement of comprehensive income
- Cash flow statement
- Statement of shareholders' equity
- Remark: accompanying notes are regarded as being an integral part of financial statements

Important readings

- FO-2010: chapter 1; chapter 5 pp.159, 168-9, 171.
- Grimm. "Reporting Value in the New Economy - Should traditional GAAP be abandoned?", *CMA Management*, July 2001.
- Stewart, McLaughlin. "The dirt on dot.cons", *CAmagazine*, June 2001.

Optional readings

- LMT: chapter 1; chapter 2 pp.26-41; chapter 3 pp.132-145.

## Part 2 - Selected accounting practices

In Part 2, we study a number of accounting practices in light of their impact on financial statements and financial analysis. It is important to remember that the objective of Part 2 is about utilisation of financial statements, not preparation. Students do not need to carry out all calculations required by the accounting process. For example, with the subject of lease accounting, it will be sufficient for students to identify the possible accounting methods (capitalization or not) and understand that they can influence assets and liabilities on the balance sheet (fixed assets, discounted liabilities), expenses in the income statement (lease expense, amortization, interest expense), and cash flows of the cash flow statement (operating, investing, financing), as opposed to perform the complex accounting adjustments involved.

The selected accounting practices are as follows:

- Basic items
  - ... Revenues
  - ... Accounts receivable and bad debts
  - ... Inventory
  - ... Long-lived assets (fixed assets and intangibles including research and development)
  - ... Financial instruments
  - ... Liabilities
- Specialised topics
  - ... Leases (lease accounting)
  - ... Pension and postretirement benefits
  - ... Stock-based compensation
  - ... Earnings per share
  - ... Accounting changes
  - ... Income tax
  - ... Corporate investments and consolidation, including merger and acquisitions
  - ... Derivatives and hedging
- Other
  - ... Interim reporting, segmented information, contingencies, commitments, related party transactions, subsequent events

Important readings

- FO-2010 : chapter 1; chapter 2; chapter 3; chapter 4; chapter 5 pp.148-170.
- Blanchette. "New standards on accounting for financial instruments : a primer", *CMA Management*, June 2006.

Optional readings

- IASB website: Technical Summaries<sup>6</sup>
- LMT: chapter 2; chapter 3 pp.145-151; chapter 4; appendice
- PricewaterhouseCoopers. *International Financial Reporting Standards – A Pocket Guide*, 2009

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<sup>6</sup> The IASB website ([www.iasb.org](http://www.iasb.org)) contains excellent short summaries of IFRSs: click on “IFRS”, “Standards and interpretations”, “IFRS technical summaries” and “IFRS and IAS summaries”.

### **Part 3 - Financial Analysis deepening**

In Part 3, we study the qualitative and quantitative factors of financial analysis. We consider both viewpoints of creditors and investors. Ratio calculations and limitations are classified in three categories:

- Liquidity
- Leverage
- Profitability

Qualitative factors include analysis of the environment, seasonality and trends.

Important readings

- FO-2010: chapter 5; chapter 6.

Optional readings

- LMT: chapter 5.
- Damodaran online.
- Wild, Subramanyan (2009)

### **Part 4 - Application to the business world and in the international context**

In Part 4, we apply the techniques learned to real cases drawn from the business world. For this purpose, written assignments are presented and discussed. We conclude by looking at the evolution of financial reporting in the international context.

Important readings

- Blanchette. "IFRS in Canada : evolution or revolution?", *CMA Management*, May 2007.
- Blanchette, Livermore. "The Derivative Debate", *CAMagazine*, October 2001, pp.40-42.

Optional readings

- LMT : chapter 3.
- Damodaran online.
- Wild, Subramanyan (2009).

*Bon cours !*

*Michel Blanchette, FCMA, CA  
Professor at UQO*

## APPENDIX

### **Key regulations and policies of UQO and of the Dept. of Administrative Sciences**

#### **Policy regarding the quality of writing**

The policy adopted by the Department of Administrative Sciences stipulates that an instructor may allocate as much as 10% of the grade for each assignment or exam to the quality of writing, and that this percentage must be shown in the course syllabus.

#### **Policy regarding make-up examinations and late assignments**

The student who, for **major** reasons beyond his/her control, is unable to take an examination as scheduled on time, should take the following steps:

- Advise the Director of the Department des sciences administratives as soon as possible, and make necessary arrangements, if possible.
- Submit all supporting proof (e.g. note signed by a physician or any other signed document attesting the absence).

#### **Policy regarding custody of examinations and written assignments**

All examinations and written assignments will remain in the custody of the instructor for the duration of the term. Moreover, the instructor will keep the students work during the period allotted by the Registrar for grade appeal. After that time, the assignment may be returned to the students, as per prior agreement with the instructor. Assignments not picked-up by students after that period will be destroyed.

Please note that copies of exams will remain the property of the University. They will not be returned to the students, and will be archived as stipulated in the University calendar.

### **REGULATIONS ON PLAGIARISM AND FRAUD**

#### **UQO regulations specify that the following actions are considered as plagiarism and/or fraud:**

- a) Copying or attempting to copy in any way in the course of an examination or on a assignment.
- b) Attempting to find out beforehand the questions or solutions related to an examination or a assignment.
- c) Submitting, in an assignment, the same written text to different professors, without the prior written consent of the professor(s) involved.
- d) Reproducing either an important part of an author's text without proper references, or an important part of another student's text.
- e) Falsifying or attempting to falsify academic documents (school record, registration cards, grade sheets, etc.).
- f) Being involved in an impersonation during an examination or using or attempting to use the knowledge of another person.
- g) Owning, using or attempting to use any unauthorized document or material during an examination.
- h) Colluding with someone to commit any of the aforementioned acts.

*Students who commit or attempt to commit any act of plagiarism or fraud may be subject, among other penalties, to the following sanctions:*

- *Failure grades in the courses involved*
- *Suspension from UQO for periods ranging from one term to five years.*