International business and the integration of capital markets around the globe have spurred a growing interest among financial managers and investors in the fortunes of international business enterprises. For the most part, financial information about these entities is contained in published financial statements. The problem is that readers removed from the local scene must often read and interpret financial accounts that have been prepared in an environmental context that is different from their own. 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. We will examine differences in measurement practices that exist internationally, the reasons for these differences, their resultant financial statement effects and methods that analysts and financial managers can use to deal with such differences. We will also examine some of the institutional structures that are evolving to deal with the issue of international accounting diversity.

Method of Instruction

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

Grading Policy

Your course grade will reflect the following emphases:

- Class assignments and participation: 20%
- Mid-term examination: 40%
- Group project and research paper: 40%

Required Reference:

International Accounting and Statement Analysis
Topical Outline

January 20 T 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: CFM, Ch. 1.

22 Th Accounting Diversity—continued
Prepare: Q1.12, E1.6, E1.12.

27 T 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: CFM, Ch. 2.

29 Th Developmental Patterns—continued
Prepare: Case: “Sandvik,” (class handout)

February 3 T Comparative Accounting I
What are some distinctive reporting practices in Europe?
Read: CFM, Ch. 3.
Prepare: Case—“Continental A.G.” (Class handout)

5 Th Comparative Accounting II
What are some of the major reporting issues in emerging markets?
Accounting for changing prices—general price changes.
Read: CFM, Ch. 4(pp. 134-137), Ch. 7(pp. 252-271).
Prepare: E4.7, class handout.

10 T Comparative Accounting II—continued
Accounting for price changes—specific prices.
Prepare: E7.1, E7.8.


17 T Accounting for Foreign Exchange Rate Changes
Nature and purpose of foreign currency translation. Transaction
versus translation gains and losses. Various translation methods
used by MNC’s.
Read: CFM, Ch. 6.

19 Th FX Accounting—continued
Prepare: E6.6, E6.7, E6.9, E6.3.

24 T Case Analysis: "Regents Corporation," (pp. 247-249).

26 Th FX Accounting and Statement Analysis
Prepare: Case—“Foreign Operations Disclosures: A Tangled Affair,”
(pp. 431-432).

March 2 T 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: CFM, Ch. 9, pp. 368-372.
4  Th  Inflation and Foreign Currency Translation
Another international reporting conundrum arises because exchange
rates used to translate foreign currency balances are themselves
impacted by changing prices. This can often lead to the "double-
dipping" effect.
Read: CFM, Ch. 7 (pp. 271-274, Appendix 7-2).
Prepare: E7.11, E7.12.

9-11  Mid-term Examinations
15-19  Spring Break

23  T  International Accounting Harmonization
Read: CFM, Ch. 8.

25  Th  Accounting Harmonization-continued
Prepare: Case 8-1 "Shanghai Tyre and Rubber Company," (pp. 341-
342).

30  International Statement Analysis
Read: CFM, Ch. 9 (pp. 344-351, 352-368, 372-377.
Prepare: E9.6, E9.7.

April
1  Th  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

6  T  International Auditing Issues - continued

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

13  T  Managerial Planning and Control
What is financial control? What are features of a good multinational
control system?
Read: CFM, Ch. 10 (pp. 400-425).
Prepare: Case 10-2 (pp. 432-434)

15  Th  International Taxation (Guest Speaker)
Read: CFM, Ch. 12 (pp. 472-491).

20  Th  International Taxation-continued
Prepare: E12.3 and E12.11

22  Th  Group Presentations
27  T  Group Presentations
29  Th  Group Presentations
International Statement Analysis Paper Due

May
5-12  Final Examinations
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 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