

Course Outline

RSM 429 H1 S

Financial Statement Analysis and Valuation

Fall 2023

Lecture Meets: Monday 1-3pm, 3-5pm (Class Location: WO 35)

Instructor: Abdul Mohi Khizer
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Teaching Assistants:
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Make sure you use the above email addresses and NOT the Quercus system to contact me or the TAs. To schedule an appointment with the TAs or me, please send an e-mail in advance to let us know what you would like to discuss.

Course Scope and Mission

This course focuses on the fundamental analysis of four financial statements: the income statement; the balance sheet; statement of change in equity; and the cash flow statement. The financial analysis primarily involves the use of ratios to analyse a firm's performance against appropriate benchmarks. The prospective analysis involves the development of forecast financial statement information which can then be used to estimate a firm's value.

Course Prerequisites

Rotman Commerce: RSM219H and RSM222H. Based on prior experience, please brush up on your basic accounting before the course commences. You need to understand basic technical accounting to get anything out of this course.

Statement on Equity, Diversity and Inclusion

The University of Toronto is committed to equity, human rights and respect for diversity. All members of the learning environment in this course should strive to create an atmosphere of mutual respect where all members of our community can express themselves, engage with each other, and respect one another's differences. U of T does not condone discrimination or harassment against any persons or communities.

Suggested Readings (Not Compulsory)

Krishna G. Palepu, Paul M. Healy and Eric Peek, "Business Analysis and Valuation using Financial Statements: IFRS Edition. 3rd Edition".

Evaluation and Grades

Grades are a measure of the performance of a student in individual courses. Each student shall be judged on the basis of how well they have command of the course materials.

Work	% Weight	Due Date
Class Participation	15%	Ongoing
Homeworks (4 homeworks)	20%	Bi-weekly
Group Project	30%	TBD
Final Exam	35%	TBD

Group work:

Form groups of either 4 OR 5.

Choose a publicly traded firm that uses either IFRS or US/Canadian GAAP. Avoid any regulated industries as well as firms in financial services as there will be added complications for these analyses. One of the group members should email me with the details of group members as well as the firm chosen. As only 1 group may choose a given firm, it will be first come first served. If someone else has taken the firm you wish to analyze, you will have to choose some other firm.

Upon selecting your firm, try and obtain the most recent financial statements. You could use the web as most firms have a lot of information usually under investor relations on their web sites, or the financials are available on the EDGAR database (www.sec.gov) or the SEDAR database (www.sedar.com). IR websites may have the statements in useful formats such as excel. Any other public information available on the firm can also be used. The reference librarians in the library may be able to direct you to sources of information on industries and particular firms. In addition, make use of the internet and Lexis/Nexis. Finally, you will also want to look at those financial statements of the firm's major competitors.

Main Objective: Your group should take the role of investment advisor to a group of investors. Your ultimate objective is to advise whether they should buy the stock of the company. Of-course to arrive at your final conclusion you will need to address a number of issues, including but NOT limited to

1. Analyze the industry in which the firm operates in. Do a 5 forces analysis for instance or use any other framework you feel comfortable with. (Maximum 5 pages)
2. Analyze the strategy of the firm and compare it with other firms in that industry. (Maximum 5 pages)
3. Do a Risk and Profitability analysis of the firm using past data. Carry out time series analysis as well as cross-sectional analysis by comparing the firm to other firms in the industry.
 - Make sure to do a ROE decomposition as well as a ROA breakdown.
 - Make adjustments for items such as restructuring, discontinued items etc, to get a better measure of continuing operations.

4. Do an Accounting Analysis. Analyze the firm's accounting choices and compare with the others in the industry. Look for red flags. Also, analyze substantive accounting issues – such as leases, pensions, income taxes etc looking for accounting related problems.
5. Make assessments about what the future balance sheets, income statements and cash flow statements (forecasting).
6. Value the firm using the Abnormal Earnings Based Valuation. Also, value the firm using one other technique (DCF, Multiples – any other method you want to use)
7. Compare the valuation with actual stock price and try to provide plausible reasons for why the firm's actual stock price may be different from what you valued it at. Use this to make your recommendation

Please remember that while this is an “integrative” course, greater weight will be placed on the accounting aspects. Use the industry and strategic analysis as a way to set the stage and don't focus too much attention on them. Similarly, greater weight will be placed on abnormal earnings based valuation than other methods

Course Format and Expectations

Class Participation

Students are required to prepare thoroughly and make every effort to make contributions to the class discussion. The success of this class will depend on students' participation. Active participation will make the class more enjoyable and interesting. Participation in class is evaluated based on the quantity and quality of comments made during each week's class.

Generative AI / ChatGP:

The use of generative artificial intelligence tools and apps is strictly prohibited in all course assignments unless explicitly stated otherwise by the instructor in this course. This includes ChatGPT and other AI writing and coding assistants. Use of generative AI in this course may be considered use of an unauthorized aid, which is a form of cheating.

Original:

Normally, students will be required to submit their course essays to the University's plagiarism detection tool for a review of textual similarity and detection of possible plagiarism. In doing so, students will allow their essays to be included as source documents in the tool's reference database, where they will be used solely for the purpose of detecting plagiarism. The terms that apply to the University's use of this tool are described on the Centre for Teaching Support & Innovation web site (<https://uoft.me/pdt-faq>).

Writing Assignments or Presentations

How well you communicate your ideas, in writing or orally, will be considered in the evaluation of the assignment. In your written assignments, you should aim for clarity, strong organization, concision, professionalism, and correct grammar. Your presentations should reflect strong planning and organization, clarity of speech, and an engaging demeanor. Sources, whether in written or presentation assignments, should always be correctly attributed.

Support is available through the RC Centre for Professional Skills (CPS) for students who would like help or feedback on their writing or speaking (presentations). CPS offers both individual and group appointments with trained writing instructors and presentation coaches who are familiar with the RC program and common types of business assignments. You can also access your college Writing Centres for help with written assignments.

You can [book an appointment with a writing or presentation coach](#) through the RC Centre for Professional Skills Writing Centre. For more information about writing centres, student supports, and study resources, see the [Writing and Presentation Coaching academic support page](#).

Weekly Schedule

Session	Date**	Topic
1	11 th Sep	Introduction Strategic Analysis
2	18 th Sep	Accounting Analysis
3	25 th Sep	Accounting Adjustments
4	2 nd Oct	Accounting Adjustments (Cont)
5	9 th Oct	Financial Analysis
6	16 th Oct	Forecasting
7	23 rd Oct	Valuation Theory
8	30 th Oct	Valuation Implementation
9	13 th Nov	Credit Analysis
10	20 th Nov	M&A
11	27 th Nov	M&A Wrap Up
12	4 th December	Group Project Presentations

* The schedule is subject to change.

** Please attend the section that you are officially registered in.

Please note that the last day you can drop this course without academic penalty is **November 6, 2023**

Policies and Procedures

Students who miss a test or assignment for reasons entirely beyond their control (e.g. illness) may request special consideration.

In such cases, students must:

1. Complete the Request for Special Consideration form: <https://uoft.me/RSMConsideration>

2. Provide documentation to support the request, eg. Absence Declaration from ACORN, medical note etc.

Please note: You must complete the *Request for Special Consideration* form **within 2 business days** of the missed midterm/test/ assignment due date.

Students who do not submit their requests and documentation within 2 days may be given a grade of 0 (zero) on the missed course deliverable.

Missed assignments/homework may be reweighted to other components by the discretion of the instructor.

Late Assignments

All assignments are due on the date and at the time specified in Quercus. Late submissions will normally be penalized by 20% if the assignment is not received on the specified date, at the specified time. A further penalty of 5% will be applied to each subsequent day.

Commitment to Accessibility

The University is committed to inclusivity and accessibility, and strives to provide support for, and facilitate the accommodation of, individuals with disabilities so that all may share the same level of access to opportunities and activities offered at the University.

If you require accommodations for a temporary or ongoing disability or health concern, or have any accessibility concerns about the course, the classroom or course materials, please [email Accessibility Services](#) or [visit the Accessibility Services website for more information](#) as soon as possible. Obtaining your accommodation letter may take up to several weeks, so get in touch with them as soon as possible. If you have general questions or concerns about the accessibility of this course, you are encouraged to reach out to your instructor, course coordinator, or Accessibility Services.

Academic Integrity

Academic Integrity is a fundamental value essential to the pursuit of learning and scholarship at the University of Toronto. Participating honestly, respectfully, responsibly and fairly in this academic community ensures that the U of T degree that you earn will continue to be valued and respected as a true signifier of a student's individual work and academic achievement. As a result, the University treats cases of academic misconduct very seriously.

[The University of Toronto's Code of Behaviour on Academic Matters](#) outlines the behaviours that constitute academic misconduct, the process for addressing academic offences and the penalties that may be imposed. You are expected to be familiar with the contents of this document. Potential offences include, but are not limited to:

In papers and assignments:

- Using someone else's ideas or words without appropriate acknowledgement.
- Submitting your own work in more than one course without the permission of the instructor.
- Making up sources or facts.
- Obtaining or providing unauthorized assistance on any assignment (this includes collaborating with others on assignments that are supposed to be completed individually).

On test and exams:

- Using or possessing any unauthorized aid, including a cell phone.
- Looking at someone else's answers
- Misrepresenting your identity.
- Submitting an altered test for re-grading.

Misrepresentation:

- Falsifying institutional documents or grades.
- Falsifying or altering any documentation required by the University, including (but not limited to) medical notes.

All suspected cases of academic dishonesty will be investigated by the following procedures outlined in the *Code of Behaviour on Academic Matters*. If you have any question about what is or is not permitted in the course, please do not hesitate to contact the course instructor. If you have any questions about appropriate research and citation methods, you are expected to seek out additional information from the instructor or other U of T resources such as College Writing Centres or the Academic Success Centre.

Email

At times, the course instructor may decide to communicate important course information by email. As such, all U of T students are required to have a valid UTmail+ email address. You are responsible for ensuring that your UTmail+ email address is set up and properly entered on ACORN. For more information visit help.ic.utoronto.ca/category/3/utmail.html.

Forwarding your utoronto.ca email to a Gmail or other type of email account is not advisable. In some cases, messages from utoronto.ca addresses sent to Gmail accounts are filtered as junk mail, which means that important messages from your course instructor may end up in your spam or junk mail folder.

Quercus and the Course Page

The online course page for this course is accessed through Quercus. To access the course page, go to q.utoronto.ca and log in using your UTORid and password. Once you have logged in, you will be at the Quercus Dashboard. On this page you will see all of the courses you are presently enrolled in. If you don't see the course listed here but you are properly registered for the course in ACORN, wait 48 hours.

Recording Lectures

Lectures and course materials prepared by the instructor are considered by the University to be an instructor's intellectual property covered by the Canadian Copyright Act. Students wishing to record a lecture or other course material in any way are required to ask the instructor's explicit permission, and may not do so unless permission is granted. Students who have been previously granted permission to record lectures as an accommodation for a disability are excepted. This includes tape recording, filming, photographing PowerPoint slides, Quercus materials, etc.

If permission for recording is granted by the instructor (or via Accessibility Services), it is intended for the individual student's own study purposes and does not include permission to "publish" them in any way. It is forbidden for a student to publish an instructor's notes to a website or sell them in any other form without formal permission.

FIPPA Language

Notice of video recording and sharing (Download permissible; re-use prohibited)

This course, including your participation, will be recorded on video and will be available to students in the course for viewing remotely and after each session.

Course videos and materials belong to your instructor, the University, and/or other source depending on the specific facts of each situation, and are protected by copyright. In this course, you are permitted to download session videos and materials for your own academic use, but you should not copy, share, or use them for any other purpose without the explicit permission of the instructor.

For questions about recording and use of videos in which you appear please contact your instructor.

Other Useful Links

- [Become a volunteer note taker](#)
- [Accessibility Services Note Taking Support](#)
- [Credit / No-Credit in RSM courses](#)
- [Rotman Commerce Academic Support](#)

URL links for print

- Request for Special Consideration Form: <https://rotmancommerce.utoronto.ca/current-students/forms-requests-and-appeals/forms/>
- ACORN: <http://www.acorn.utoronto.ca/>
- Email Accessibility Services: accessibility.services@utoronto.ca
- Accessibility Services website: <http://studentlife.utoronto.ca/as>
- University's Plagiarism Detection Tool FAQ: <https://uoft.me/pdt-faq>
- The University of Toronto's Code of Behaviour on Academic Matters: <http://www.governingcouncil.utoronto.ca/policies/behaveac.htm>
- Information Commons Help Desk: <http://help.ic.utoronto.ca/category/3/utmail.html>
- Become a volunteer note taker: <https://studentlife.utoronto.ca/program/volunteer-note-taking/>
- Accessibility Services Note Taking Support: <https://studentlife.utoronto.ca/service/note-taking-support/>
- Credit / No-Credit in RSM courses: <https://rotmancommerce.utoronto.ca/current-students/degree-requirements/credit-no-credit-option/>
- Rotman Commerce Academic Support: <https://rotmancommerce.utoronto.ca/current-students/academic-support/>
- Book an appointment with a writing or presentation coach: <http://uoft.me/writingcentres>
- Writing and Presentation Coaching academic support page: <https://rotmancommerce.utoronto.ca/current-students/academic-support/writing-and-presentation-coaching/>
- Centre for Professional Skills Teamwork Resources page: <https://rotmancommerce.utoronto.ca/teamwork-resources>
- Book an appointment with a Teamwork Mentor: <http://uoft.me/writingcentres>