PMB560 Financial Accounting

KAIST College of business
Summer 2015

Professor Ingoo Han (S306, phone: 3613, 010-5255-3786)
TA : Hyun-Woo Choi (S307, phone: 3685, 010-8516-1080)

Class Hour: 7:00-10:00 pm Tu & Th

Office Hour: You are always welcome to visit, e-mail, and phone professor and TA.

1. Course Objective and Outline

This course is one of core courses for MBA students. This course introduces the basic concepts and principles of financial accounting and enables students to utilize accounting information for decision making from the perspective of users while other accounting courses deal with technical aspects of accounting process from the perspective of accountants. This course focuses on financial accounting while broad accounting issues in managerial accounting, auditing and taxes will be also covered. The main topics covered in this course are as follows.

1) Basic concepts and theoretical framework of financial accounting
2) Accounting process
3) Principles of financial statements
4) Financial statement analysis and valuation
5) Managerial decision making based on accounting information
6) IFRS(International Financial Reporting Standards)

2. Preparation of Classes and Assignments

Students are required to read assigned chapters and should be ready for the discussion of assignments. Students are also to turn in the assigned homework by the

due date which is usually the first class of next week unless specified otherwise. Students may be asked to present the assigned problems or cases in the class. Assignments are not graded by the correctness of answers but checked for the quality and completeness.

3. Textbook and Reading Materials

1) Textbook:Weil, Schipper & Francis, Financial Accounting, 14th Edition, South-Western Cengage Learning, 2014
2) Supplementary: 이효익, 최관, 백원선, IFRS회계원리, 신영사, 2015
3) Economic newspapers and journals

4. Useful Web Sites

http://www.kasb.or.kr (한국회계연구원)
http://www.kicpa.or.kr (한국공인회계사회)
http://www.kse.or.kr (증권거래소)
http://dart.fss.or.kr (금융감독원)
http://accounting.rutgers.edu/raw/fasb/ (미국 FASB)
http://www.sec.gov/cgi-bin/srch-edgar (미국 SEC archives)
http://www.iasb.org/ (국제회계표준기구)

5. Group Project

A group of four students will perform a case study with a focus on financial analysis. Students select a target from the listed companies in Korea and other countries. The issues to be covered by the case study are, not limited to, as the followings:

1) Outline of the target company
2) Industry analysis
3) Financial statement analysis
4) Valuation
5) Strategic implications for management and investors

You are encouraged to visit the target company and/or meet with the staffs and/or analysts of the target company.

The report should use quotations and references for information and knowledge sources like academic research. When the final term project is turned in, the activity log summarizing the group's activity toward the project should be accompanied. The activity log should describe the role of each member, meetings, data collection, interviews, analysis, writing, etc. so that the professor can understand how each member of group has contributed to the project and how the project has proceeded. Every member of the group should present the project or group assignment in turn.

<Schedule>

- 6/4 Formation of Group
- 6/9 Turn in the Proposal of Term Project
- 7/7 Present and turn in the project

6. Evaluation

- Mid-term exam 25%
- Final exam 25%
- Group Project 30%
- Assignments 10%
- Class participation 10%

7. Course Schedule

6/2(Tu) Market for Lemon and Overview of Financial Accounting Ch. 1

Discussion:

1. 회계정보는 가치평가에 어느 정도 유용한가?
2. 회계정보의 공시는 주가에 어떤 영향을 미치는가? Good News vs. Bad News
3. Earnings shock의 의미와 주가에 대한 영향은? Earnings surprise는?
4. 2013년 노벨경제학상은 Market Efficiency의 개념을 만든 Fama교수와 Irrational Exuberance, Animal Spirit을 저술한 Shiller교수가 공동 수상하였다. 시장은 효율적이라는 Fama교수와 인간은 비합리적이며 시장에 bubble이 존재하며 비효율적이라고 주장하는 Shiller교수 중 누구의 의견에 더 공감하는가?

기아차 환율역풍에 영업익 19% 후진, 매일경제, 2015/1/24
http://news.mk.co.kr/newsRead.php?year=2015&no=76416

6/4(Th)-1 Accounting Process: Preparation of Balance Sheet Ch. 2

6/4(Th)-2 Accounting Process: Preparation of Income Statement Ch 3

Formation of Group

Discussion :
Why did Enron, a giant company in the USA, commit accounting fraud? Why did Arthur Andersen, one of then-Big 5 accounting firms, bypass the accounting fraud of Enron as auditor? What were the consequences to Enron and Arthur Andersen?

Assignment 1 : Solve Problem 2.4 (p. 56), Solutions (pp. 60~62)

6/9(Tu) Principle of Balance Sheet Ch. 4

Turn in the Proposal of Group Project

6/11(Th) Analysis of Balance Sheet Ch. 4

Group Assignment 1:

1) Prepare the Common-Size Balance Sheet of the target company for the recent two years. Discuss the changes in financial status for two years.
2) Choose one company comparable with your target company. Compare the target company with the comparable one on the compositions of assets and financing for the most recent year.
3) Calculate the PBR(Price-Book Ratio) of the target company. Is it higher or lower than the Korean average(roughly 1)? Discuss why?

6/16(Tu) Principle of Income Statements Ch. 5

6/18(Th) Analysis of Income Statements Ch. 5

Group Assignment 2:

1) Prepare the Common-Size Income Statements of the target company for the recent two years. Discuss the changes in financial performance for two years.
2) Choose one company comparable with your target company. Compare the target company with the comparable one on the performance for the most recent year.
3) Calculate the PER(Price-Earnings Ratio) of the target company. Is it higher or lower than the Korean average(roughly 10)? Discuss why?

6/23(Tu) Statement of Cash Flows Ch. 6

Group Assignment 3:

1) Interpret the Cash Flows from Operating, Investing and Financing activities of the target company for the recent two years.
2) Choose one company comparable with your target company. Compare the target company with the comparable one on the pattern of cash flows for the most recent year.

6/25(Th) Mid-term Exam

6/30(Tu) Financial Statement Analysis Ch. 7

Group Assignment 4: Group Project (Due: 7/7)

1) Analyze the profitability and risk of the target company for the recent two years by

using financial ratios.

2) Disaggregate the ROCE into three components of profit margin, turnover and leverage and interpret them for the recent two years

3) Project the EPS of the target company for 2015 and value the target company by using earnings multiples. Recommend Buy or Sell.

7/2(Th) Valuation

7/7(Tu) Presentation of Term Project

Discussion: Critique on Analyst Reports

7/9(Th) Revenue Recognition and Receivables Ch. 8

Discussion :

1. 2013년 건설회사들이 1분기 실적을 발표하면서 어닝쇼크를 기록한 이유는?

2. 일반적으로 한 기업이 earning shock를 기록하면 동종산업의 경쟁기업들의 대응전략은? 경쟁기업의 주가에 미치는 긍정적 vs. 부정적 측면은?

매일경제 2013/4/12 GS 건설 5 천억 영업손실에 건설주 급락

http://news.mk.co.kr/newsRead.php?year=2013&no=279234

Group Assignment 5:

Review the notes related to Revenue, Receivables, Allowance for Uncollectables, Bad Debt Expenses, etc.

1) What accounting policies and issues does the target company have regarding revenue recognition, receivables and related accounts?

2) Analyze the relationship among revenues, receivables, allowance for uncollectables, and bad debt expenses for the recent two years.

3) Choose one company comparable with your target company. Compare the target company with the comparable one on the related accounting policies and issues for the most recent year.

7/14(Tu)-1 Working Capital Ch. 9

7/14(Tu)-2 Long-Lived Tangibles and Intangible Assets Ch. 10

Discussion:

1) SK에너지, GS칼텍스 등 정유회사는 재고자산평가에서 2010년도 까지 어떠한 평가방법을 사용해 왔는가? Why?
2) 2011년부터 IFRS를 적용하기 시작했는데 유가 상승기에 재고자산 평가방법의 변경이 정유회사의 손익계산서 및 대차대조표에 미치는 영향을 분석하라. 세금, 주가에 미치는 영향은?
3) 유가가 하락하는 2014년에 미치는 영향은?

7/16(Th)-1 Notes, Bond, and Leases Ch. 11

7/16(Th)-2 Off-Balance-Sheet Financing, Retirement Benefits, and Taxes Ch. 12

Group Assignment 6:

Review the notes related to Lease, Off-Balance-Sheet Financing, Pension and Income Taxes

1) What accounting policies and issues does the target company have regarding Lease, Off-Balance-Sheet Financing, Pension and Income Taxes?
2) Calculate the effective tax rate for the recent two years.
3) Choose one company comparable with your target company. Compare the target company with the comparable one on the related accounting policies and issues for the most recent year.

7/21(Tu)-1 Marketable Securities and Derivatives Ch. 13

7/21(Th)-2 Investments in Common Stock Ch. 14

Group Assignment 7:

Review the notes related to Marketable Securities and Derivatives.

1) What accounting policies and issues does the target company have regarding Marketable Securities and Derivatives?
2) Is the disclosure on derivative in the footnote appropriate?

3) Choose one company comparable with your target company. Compare the target company with the comparable one on the related accounting policies and issues for the most recent year.

7/23(Th) Final Exam