

ACCG832 BUSINESS AND FINANCIAL ANALYSIS

FIRST SEMESTER, 2008

1. COURSE COORDINATOR

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Consultation times: Monday 5 pm to 6 pm

Tuesday 1 pm to 2 pm

Consultation at other times is by appointment

Students are encouraged to email their questions to the Course Coordinator. Emails should clearly state "ACCG832" and nothing else in the subject line. This is important as emails whose source cannot be identified are deleted without being opened.

2. UNIT DESCRIPTION

This is an advanced unit which draws upon your prior studies in financial accounting and finance. A principal focus of the unit is the analysis of financial information - particularly firms' financial statements - as a basis for making decisions to invest in businesses. The primary focus is on equity (share) valuation and the methods of fundamental analysis. The unit does not "assume market efficiency." Rather, it develops techniques for challenging traded prices in order to assess whether investments are appropriately priced. It adopts the philosophy that one of the risks in investing is the risk of paying too much. Topics include models of shareholder value, a comparison of accrual accounting and discounted cash flow approaches to valuation, the analysis of profitability, growth and valuation generation in a firm, diagnosing accounting quality, forecasting earnings and cash flows, pro-forma analysis for strategy and planning, and the determination of price/earnings (P/E) and market-to-book (P/B) ratios.

The unit adopts a perspective of designing techniques to be used in an (independent) equity research department or firm. Accordingly, the material is pertinent to the security analyst - particularly the equity analyst - who must issue a buy, hold or sell recommendations on stocks. The course is of interest to those contemplating careers in investment banking (particularly in equity research), security analysis, consulting, public accounting, and corporate finance.

3. LEARNING OUTCOMES

This unit seeks to provide students with an understanding of the theory and practice of business analysis and valuation, enabling them to thoroughly analyse a firm and to prepare an estimate of its intrinsic value.

Students should develop an appreciation of the flow of financial accounting and other information to the equity market and the way this information is used for valuation. They should also develop an understanding of factors intended to ensure the quality of financial and other disclosures by corporations.

They should develop generic skills in a range of areas, including:

- Analytical skills in information management, analysis and interpretation in a multi-disciplinary environment.
- Communication and negotiation skills through group work and presentation of the findings from the analysis and valuation of a listed Australian company.

By the end of the unit students should have answers to the following questions:

- How are fundamental values (or "intrinsic values") estimated?
- How are business strategies analyzed in order to understand the value they create?
- What business activities determine value?
- How is "value created for shareholders" identified?
- How does one pull apart the financial statements to get at the relevant information for valuing equities?

- What is the relevance of cash-flows? Of dividends? Of earnings? Of book values?
- How does ratio analysis help in valuation?
- How does profitability tie into valuation?
- What is growth? How does one analyze growth? How does one value a growth firm?
- How does one analyze the quality of financial reports?
- How does one deal with the accounting methods used in financial statements?
- How is financial analysis developed for strategy and planning?
- What determines a firm's P/E ratio? How does one calculate what the P/E should be?
- What determines a firm's market-to-book (P/B) ratio? How does one calculate what the P/B should be?

4. ASSUMED KNOWLEDGE

It is presumed that students have completed sufficient studies in financial accounting to:

1. Have mastered the recording of transactions, including adjusting and closing entries;
2. Understand the different approaches in accounting for inventory, receivables and long-lived assets;
3. Be familiar with basic accounting for company transactions, including share and debt issues, dividend payments, and the creation of reserves;
4. Know the various components of shareholders' equity and the major classes of debt instruments;
5. Understand the distinction between finance and operating leases and the accounting implications of this dichotomy.

In addition, students must have a reasonable grasp of basic concepts in finance including: the concepts of future and present value; discounting; the risk-return relationship; beta; weighted average cost of capital; net present value (NPV); capital structure and leverage.

Experience has shown that students who do not have the required background knowledge in financial accounting and finance struggle to obtain a pass in this unit.

A useful (and relatively inexpensive) reference for those who wish to refresh their knowledge of financial accounting and financial statements is Parker, R.H., *Understanding Company Financial Statements*, 6th edition, (Penguin Books, 2007).

5. TEXTBOOKS

The prescribed textbooks for this unit are:

- Penman, S.H., *Financial Statement Analysis and Security Valuation*, 3rd Edition, (McGraw-Hill Irwin, 2007)
- Palepu, Healy, Bernard & Peek., *Business Analysis and Valuation*, IFRS Edition, (Thomson Learning, 2007). You require the "Text Only" edition of this text.

These texts are available from the Coop Bookshop on campus.

In addition, students should download and print out a copy of the 2007 Annual Report for David Jones Limited. This is available at www.davidjones.com.au

The texts and David Jones Annual Report should be brought to each week's class, together with a calculator.

6. FINAL EXAMINATION

The *final examination* will be held in class on **2 June 2008**. The examination will be Closed Book. All prescribed readings will be examinable, regardless of whether or not a particular reading has been discussed in the seminars.

In the final examination students may use a self-powered calculator, provided that it does not have an alphabetical keyboard which allows text storage. The use of translation dictionaries will **NOT** be permitted.

7. UNIT ASSESSMENT

To obtain a pass in this unit a student must:

1. Accumulate marks ≥ 50 in the unit; **AND**

2. Achieve $\geq 40\%$ in the final examination.

Allocation of marks to particular assessment tasks is as follows:

	Marks
Syndicate Project	25
Final examination	75
TOTAL MARKS AVAILABLE	100

Assessment in this unit is subject to the University's rules and information to students set out in the 2007 Calendar. Academic Senate has a set of guidelines on the distribution of grades across the range from fail to high distinction. Your final result will include one of these grades plus a standardised numerical grade (SNG). On occasion your raw mark for a unit (i.e., the total of your marks for each assessment item) may not be the same as the SNG which you receive. Under the Senate guidelines, results may be scaled to ensure that there is a degree of comparability across the university, so that units with the same past performances of their students should achieve similar results. The process of scaling does not change the order of marks among students. A student who receives a higher raw mark than another will also receive a higher final scaled mark.

8. SYNDICATE PROJECT

Each student will be assigned to a syndicate. Syndicate membership will be finalised by ***10 March 2008***. Each syndicate will appoint a Syndicate Leader.

During the semester, each syndicate will be required to undertake a detailed analysis and valuation of a major Australian listed company.

The results of each syndicate's analysis will be presented to the class on ***26 May 2008***. The presentation is a major component of the syndicate project and both content and clarity of presentation will be assessed.

At the commencement of the seminar on **26 May 2008** each syndicate must submit a hardcopy report, not exceeding 25 pages (font size 12, single spaced, MSWORD) and a CD containing an electronic copy of the syndicate's report, presentation and copies of spreadsheets used in the report (POWERPOINT/MSWORD/Excel only). The report should contain a correctly formatted bibliography and the text of the report should acknowledge (using the Harvard referencing system) all significant sources relied upon. The electronic copy of the syndicate report will be analysed by anti-plagiarism software and plagiarism will be severely punished. The 25 pages does not include the bibliography or spreadsheet attachments. Any significant articles or reports used by the syndicate should be included on the CD. Syndicate members should retain copies of the submitted report & CD as submitted copies will NOT be returned.

The presentation will be an opportunity for the syndicate to inform the class of its findings with respect to a range of matters relating to its company. Further details of the project will be provided separately. Marks for the project will be split between the presentation (12 marks) and the report (13 marks). Marks for the presentation and report will be awarded for depth and correctness of the analysis and the professionalism and clarity of presentation.

Allocation of work within a syndicate is principally a matter for the syndicate. Subject to the exception noted below, all members of a syndicate will receive the same mark for the project. This is predicated on the assumption that all syndicate members successfully complete tasks assigned to them by the dates agreed by the syndicate. Where a syndicate member, without justifiable excuse, regularly fails to meet deadlines reasonably imposed by the syndicate, the other syndicate members should bring this failure to the attention of the Course Coordinator without delay. If, following investigation, it is felt that the syndicate member has acted inappropriately, that student's mark may be reduced by a percentage deemed appropriate by the Course Coordinator.

Syndicate Leaders will be advised via email by **16 June 2008** of their syndicate's final mark for the project. It is the responsibility of Syndicate Leaders to convey the syndicate's mark to other members of the syndicate.

9. GENERAL MATTERS

Please note:

- Recording of seminar sessions is **NOT** permitted.
- Mobile phones must be switched off at the start of each session, not merely switched to 'Silent'.

Where a student disrupts a seminar (e.g. by persistently conducting private conversations with other students, by having a mobile phone that rings, or by talking on a mobile phone during the seminar), that student will be required to leave the class.

10. TOPICS AND READINGS FROM TEXT:

In addition to readings from the prescribed textbooks, there will be a number of additional readings assigned throughout the semester. Assigned readings constitute an essential part of the unit's content, and students will be assumed to have read and absorbed this material, regardless of whether or not it is specifically addressed during the seminars. Questions in the final exam may be based on material covered in the readings but not specifically raised in the seminars.