

# ACCG832 Business and Financial Analysis

2010 Semester 1

# **MACQUARIE UNIVERSITY**

# Faculty of Business and Economics ACCG832 Business and Financial Analysis Unit Outline

Year and Semester: 2010, Semester 1

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Students in this unit should read this unit outline carefully at the start of semester. It contains important information about the unit. If anything in it is unclear, please consult the unit convenor.

### **ABOUT THIS UNIT**

This unit equips students to undertake financial analysis, and to read and interpret an annual report, in order to make investment decisions about that organisation. Students will develop an understanding of the theoretical and practical relations between financial statement items and share markets. They will learn to apply the five steps of analysing an organisation: business and strategic analysis, accounting analysis, financial analysis, forecasting and valuation, from seminars and a case study of an Australian company.

# REQUIRED TEXTS AND/OR MATERIALS

Palepu, Healy, Bernard, Wright, Bradbury and Lee, <u>Business Analysis and Valuation</u>, 1st Asia-Pacific edition, Cengage Learning, 2010.

### **UNIT WEB PAGE**

The web page for this unit is at: <a href="http://online.mq.edu.au/public/ACCG832">http://online.mq.edu.au/public/ACCG832</a>

It contains all information provided in this unit outline, as well as copies of lecture notes and announcements and changes made during the semester. Please consult it regularly.

# LEARNING OBJECTIVES AND OUTCOMES

This unit will provide students with an understanding of the theories and practice of financial statement analysis, which will enable them to thoroughly analyse and to prepare a report on a firm's financial position and estimate its fundamental value from its annual report.

Students will 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 will develop generic skills in a range of areas, including

- o Critical analysis skills in information management and analysis
- o Problem solving skills in sourcing and identifying relevant information and interpreting output in a multi-disciplinary environment
- O Communication and negotiation skills through syndicate work and the presentation of progress reports and a research paper.

# **ASSUMED KNOWLEDGE**

Teaching is based on the assumption that students have successfully completed the equivalent of one year's study in financial accounting. In addition, they are assumed to have an understanding of the basic concepts of finance, including future and present value, the risk-return relationship, and cost of capital.

A useful reference for those who wish to refresh their knowledge of financial accounting and financial statements is Parker R.H., *Understanding Company Financial Statements*, 6<sup>th</sup> edition, Penguin Books, 2007. Copies are available for purchase at the Co-op Bookshop on campus.

### **TEACHING AND LEARNING STRATEGY**

The material in this unit is presented and discussed in the weekly seminars. Seminar sessions will generally be divided into two parts. The first part of the session will involve a consideration of the material from the readings set for that week's class. During the second part of the session, students will participate in syndicate presentations and will work in their syndicates to complete class discussion questions including case studies. A calculator, together with the textbook, should be brought to class each week.

Michael Hill Jeweller will be used as the continuing lecture example to which the theories and techniques presented in many of the lectures are applied.

The syndicate project for this unit requires students to also apply the theories and techniques to a current Australian company. Students will form syndicates in the first week of semester, and will work on the syndicate project throughout the semester in those syndicates, facilitating their learning in a practical way.

- Students need to be available at mutually convenient times to be effective syndicate members.
- The syndicate project requires the use of initiative and problem-solving skills to find information and work out solutions to problems that might be encountered. There is no one unique and correct solution to this task for a given company. Many approaches are valid and a variety of answers may be equally correct.
- Students may approach the unit convenor for assistance with approaches to take with this project, but not for answers to questions.

## RELATIONSHIP BETWEEN ASSESSMENT AND LEARNING OUTCOMES

The learning outcomes of this unit are primarily assessed by the closed-book final examination, which will be scheduled during the normal university examination period, viz. 9th to 25th June 2010. The final examination will include:

- questions on the process of financial statement analysis as demonstrated by the student's understanding of the various stages and processes undertaken for their syndicate project;
- questions on the discussion questions discussed in class; and
- questions on the assigned research papers.

Additional assessment tasks are designed to ensure that the learning process occurs over the whole semester. The various components of the assessment are as follows:

| Short Written Assignment    | 10%        |
|-----------------------------|------------|
| Research Paper Presentation | 10%        |
| Syndicate Project           | 30%        |
| Final Examination           | <u>50%</u> |
|                             | 100%       |

In order to pass this unit, a student must pass both the final examination and the unit overall.

# **Short Written Assignment:**

Students will submit a 800-1000 word typed assignment in the class on 15<sup>th</sup> March or earlier, on one of the following topics which will be allocated to them, answered in relation to Michael Hill International (MHI) or OrotonGroup Limited (ORL) in 2006:

- (a) Discuss the measures used by MHI/ORL to increase the credibility of its accounting communication in its 2006 annual report
- (b) Discuss MHI/ORL's communications to its external investors through its financial policies in 2006
- (c) Discuss MHI/ORL's use of voluntary disclosures in its 2006 annual report as a form of investor communication.

Late submissions will have 10% of the mark deducted per day.

# **Research Paper Presentation**

Each syndicate will be required to make a presentation to the class on an assigned research paper. The purpose of this task is to enable students to improve their ability to read research papers and to gain some familiarity with current research relevant to business analysis and valuation.

Each syndicate will give a 20-minute presentation to the class. The presentation is intended to give the class an appreciation of the issues(s) addressed in the paper and why the issues are relevant to ACCG832, how those issues were investigated, the principal findings, and implications for ACCG832. Presentations will commence on 8th March. Syndicates will be randomly assigned by the unit convenor to classes for their presentation, and papers will be allocated to syndicates two weeks prior to their presentation. Papers will be available on the unit's Blackboard page.

At the commencement of the presentation, the syndicate is to submit to the unit convenor a summary of the paper (maximum 4 single-spaced A4 pages), and a one page outline of their presentation for each student in the class. A mark (out of 10) will be awarded to the syndicate based on the clarity and professionalism of the presentation. All students should bring to class copies of papers being presented. Research papers are examinable.

# **Syndicate Project**

"In syndicates of three or four students, evaluate and report on the most recent annual report of an Australian company (chosen from the list below), as if you were security analysts making a recommendation on whether or not your clients should invest in it."

The report is to be handed in to the unit convenor in class on Monday 31<sup>st</sup> May. It is to be approximately 15 – 20 pages in length and to include the following sections:

# 1. Business and Strategic Analysis, including

- an analysis of the economy, the industry, and the company's place in the industry;
- the company's competitive and corporate strategy;
- the company's and the industry's growth potential;
- and the implications of all of these for its future profitability.

# 2. Accounting Analysis, including

- an analysis of the company's accounting policies that are likely to affect the interpretation of its financial reports,
- and a comparison to those of a competitor in the same industry.

# 3. Financial Analysis, including

- the presentation and interpretation of relevant ratios for the company and a competitor (<u>not</u> from the list of companies below),
- a time series analysis of these for both companies over the past three years,
- and an analysis of the company's overall financial position.
- 4. Prospective Analysis, including
- forecasts for all financial statements in full for the company for one financial year,
- reasons for major items,
- and valuation of the company using two different methods.
- 5. **Recommendation** for the clients, drawing on the whole analysis of the company.

The **cover sheet** must include the following information:

- Student names and student numbers
- Company name
- Number of pages
- Signed plagiarism statement
- Description and weighting of contributions by each syndicate member
- Signatures of all syndicate members

The report should be word-processed and professionally presented, and secured with plastic spiral binding.

All assumptions should be clearly stated and supported if possible. All references should be provided. Commercial data services may be used to source annual report and other information, but students should also consult the company's annual report for complete and more accurate information. Note that plagiarism from commercial analysts' reports can be easily identified and will result in zero marks for this project.

Students should consult with the unit convenor if further clarification is needed. Late submissions will have 10% of the mark deducted per day.

Assessment and marking of this project will be:

- 5% for a short presentation on section 1 of the project in class on 29<sup>th</sup> March (week 6). All syndicate members are required to speak. Peer assessment will be an input into this mark.
- 5% for a short presentation on sections 2 and 3 of the project in class on 10<sup>th</sup> May (week 10). All syndicate members are required to speak. Peer assessment will be an input into this mark.
- 20% for the final report, to be submitted on 31st May (week 13), on the basis of its accuracy, comprehensiveness, cohesiveness, and overall quality.

• Questions in the final examination based on the syndicate project (including for example, reasons why certain methods or data have been chosen, assumptions behind calculations).

# LIST OF AUSTRALIAN COMPANIES TO USE FOR SYNDICATE PROJECT

Name Industry Web Address

Brambles Transportation (brambles.com)

Buderim Ginger Food, Beverage and Tobacco (buderimginger.com.au)

Caltex Energy (caltex.com.au)

Fantastic Furniture Furniture Retail (fantasticfurniture.com.au)

Orica Materials (orica.com)

Prime Media Media (primemedia.com.au)
Stockland Real Estate (stockland.com.au)
Tabcorp Gambling & Entertainment (tabcorp.com.au)

# **Final Examination:**

There will be a three hour final examination. Non-programmable calculators will be allowed in the examination. No translation dictionaries will be allowed in the final examination for this unit. Students must attend this examination, unless clearly prevented from doing so by illness or misadventure.

The University Examination Period in first semester 2010 is from 9<sup>th</sup> June to 25<sup>th</sup> June inclusive. Students are expected to present themselves for examination at the time and place designated in the University Examination Timetable. The timetable will be available in draft form approximately eight weeks before the commencement of the examinations and in final form approximately four weeks before the commencement of the examinations, at <a href="http://www.timetables.mq.edu.au/exam">http://www.timetables.mq.edu.au/exam</a>

The only exception to not sitting an examination at the designated time is because of documented illness or unavoidable disruption. In these circumstances a student may wish to consider applying for Special Consideration. Information about unavoidable disruption and the special consideration process is available at <a href="http://www.student.mq.edu.au/ses/Special%20Consideration.html">http://www.student.mq.edu.au/ses/Special%20Consideration.html</a>

If a Supplementary Examination is granted as a result of the Special Consideration process the examination will be scheduled as soon as possible after the conclusion of the official examination period.

Students are advised that it is Macquarie University policy not to set early examinations for individuals or groups of students. All students are expected to ensure that they are available until the end of the teaching semester, that is, the final day of the official examination period.

### **PLAGIARISM**

The University defines plagiarism in its rules: "Plagiarism involves using the work of another person and presenting it as one's own." Plagiarism is a serious breach of the University's rules and carries significant penalties. Students must read the University's practices and procedures on plagiarism. These can be found in the *Handbook of Undergraduate Studies* or on the web at: <a href="http://www.student.mq.edu.au/plagiarism">http://www.student.mq.edu.au/plagiarism</a>

The policies and procedures explain what plagiarism is, how to avoid it, the procedures that will be taken in cases of suspected plagiarism, and the penalties if a student is found guilty. Penalties may include a deduction of marks, failure in the unit, and/or referral to the University Discipline Committee.

# **UNIVERSITY POLICY ON GRADING**

Academic Senate has a set of guidelines on the distribution of grades across the range from fail to high distinction. The final result will include one of these grades plus a standardised numerical grade (SNG).

It is unlikely that the raw mark for a unit (i.e., the total of the marks for each assessment item) will be the same as the SNG. 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.

# STUDENT SUPPORT SERVICES

Macquarie University provides a range of Academic Student Support Services. Details of these services can accessed at http://www.student.mq.edu.au.

The Faculty of Business and Economics operates the Business and Economics Student Services (BESS), which provides useful resources for students, as well as an assignment collection facility. Further information on BESS is available at <a href="http://www.businessandeconomics.mq.edu.au/for/new\_and\_current\_students/undergraduate\_current\_students/bess">http://www.businessandeconomics.mq.edu.au/for/new\_and\_current\_students/undergraduate\_current\_students/bess</a>

# ACCG832 2010 CLASS SCHEDULE

| WEEK         SEMINAR DATE         TOPIC         TEXTBOOK         PA           1         22/2         Introduction Management Communication and Corporate Governance         Chapters 1 & 12         Formation of synch | ndicates                   |  |
|--|----------------------------|--|
| 1 22/2 Introduction Chapters 1 & 12 Formation of sync<br>Management Communication and<br>Corporate Governance  | ndicates                   |  |
| Management Communication and Corporate Governance  | ndicates                   |  |
| Corporate Governance   |                            |  |
|  |                            |  |
| 2 1/3 Strategic Analysis Chapter 2 Finalisation of syr   |                            |  |
|  |                            |  |
| Questions for disc   | Cussion                    |  |
| 3 8/3 Overview of Accounting Analysis Chapter 3 Research paper pr  | resentations by syndicates |  |
| Questions for disc   |                            |  |
| 4 15/3 Implementing Accounting Analysis Chapter 4 Questions for disc   | cussion                    |  |
| Short written assignment due   |                            |  |
| 5 22/3 Financial Analysis Chapter 5 Research paper pr  | resentations by syndicates |  |
| Questions for disc   |                            |  |
| 6 29/3 Cash Flow Analysis Chapter 5 First presentation of  | f syndicate project        |  |
| Review of Cost of Capital  | , ,                        |  |
| Mid Semester Break   |                            |  |
| 7 19/4 Forecasting Chapter 6 Research paper pr   | resentations by syndicates |  |
|  | er Isn't Always Better     |  |
| 8 26/4 Valuation Theory and Concepts Chapter 7 Research paper pr   | resentations by syndicates |  |
|  | ng the Numbers Game        |  |
| 9 3/5 Valuation Implementation Part I Chapter 8 Research paper pr  | resentations by syndicates |  |
| Case Study: The E  |                            |  |
|  | of syndicate project       |  |
|  | , ,                        |  |
| 11 17/5 Valuation Ratios Chapter 7 Research paper pr   | resentations by syndicates |  |
|  | y Mountain Advanced Genome |  |
| 12 24/5 Mergers and Acquisitions Chapter 11 Research paper pr  | resentations by syndicates |  |
| Case Study: How  |                            |  |
| 13 31/5 Revision Questions for disc  |                            |  |
| Syndicate Project Due  |                            |  |