



ACCG350 Financial Statement Analysis Unit Outline[†]

Division of Economic and Financial Studies

Semester 2, 2008

[†]ver: 1.0, July 2008

1 About This Unit

This 3 credit point unit aims to provide an analysis and valuation framework for users of financial statement information and which builds on the introductory financial management material covered in ACCG253.

This unit introduces the concepts affecting financial statements and valuation; measuring and forecasting earnings and cash flows and the various approaches for determining a valuation including discounted cash flow, earnings models and multiple based approaches. In addition to a theoretical discussion of various valuation methods and techniques this course will specifically examine valuation in practice.

Upon successful completion of this unit you will:

1. conduct financial analysis and discussion on company financial statements;
2. understand the various methods and issues associated with valuation; and
3. be able to apply the valuation tools in a practical setting.

2 Unit Pre-requisites

1. ACCG253 (P)

3 Teaching Staff

Mr Alex Proimos CFA, Office: E4A 512, Ph: 9850 9179, e-mail: aproimos@efs.mq.edu.au
Lecturer, Tutor, Lecturer in Charge and Unit Administrator

Dr Philip Sinnadurai, Office: E4A 334, Ph: 9850 7101, e-mail: psinnad@efs.mq.edu.au
Lecturer, Tutor

Mr Steven Wu, Office: E4A 652, Ph: 9850 7295, e-mail: hwu@efs.mq.edu.au
Lecturer

Mr Sterling Huang, Office: E4A 650, Ph: 9850 4853, e-mail: shuang@efs.mq.edu.au
Lecturer, Tutor

Lecturer	Weeks
Alex Proimos	1, 6-10, 13
Sterling Huang	4, 5
Philip Sinnadurai	2, 3
Steven Wu	11, 12

*Consultation hours of teaching staff can be found on ACCG350 BlackBoard site.

4 Classes

Students are required to attend one two hour lecture to be held on Tuesday 11 - 1 pm in E7BMASON each week and a one hour tutorial each week of semester.

Changes to tutorial classes can be made up until the end of lecture week three (3). All tutorial changes **must** be made via eStudent. Note that tutorial assignments will be collected in class therefore it is important that you attend your allocated tutorial.

5 Prescribed Texts

Business Analysis and Valuation by Krishna G. Palepu, Paul M. Healy, Victor L. Bernard and Erik Peek, 1st IFRS Edition - Text Only, Thomson, 2007. ISBN: 1844804933

Damodaran on Valuation by Aswath Damodaran, 2th Edition, John Wiley, 2006. ISBN: 0471751219.

6 Assessment

Your final grade will be determined by your performance during semester as follows:

Assessment Weightings for Final Grading	
Tutorial Questions	10%
Group Project Tutorial Assessment	10%
Group Project	25%
Final Exam	55%

TUTORIALS AND ASSIGNMENTS

1. Attendance at tutorials is compulsory. Tutorials are run to discuss problems with students who have **attempted** assigned tutorial questions beforehand. Tutorials are not a session for mindlessly copying down solutions but an opportunity for class participation. Solutions to tutorial questions will be made available on BlackBoard at the end of the week following the relevant tutorial.
2. You are strongly advised to attempt all assigned tutorial questions before the weekly tutorial class, and before consulting the solutions. It is very easy to be lulled into a false sense of security by simply reading questions and looking at the solutions.
3. Twice during the semester tutorial questions will be randomly collected / checked at the beginning of your tutorial. If for unforeseen circumstances you cannot attend your allocated tutorial for any week during semester then you **must** email your tutorial questions to your tutor prior to the date of your tutorial, remembering to include your full name, student number and tutorial day and time. Without a valid medical certificate each tutorial questions not received by the due date will receive zero (0). Tutorial questions will be marked out of five (5) on the basis of effort; where a non-attempt receives zero (0), average effort receives three (3) and above average effort receives five (5).
4. See Group Project for other assessments due during tutorials.

GROUP PROJECT Student are required to organise themselves into a group of four (4) and then select one (1) of the following two pairs of ASX

traded companies to research and subsequently determine a comparative investment recommendation between the two (2).

1. Transfield Services Limited (ASX:TSE) and United Group Limited (ASX:UGL)
2. Incitec Pivot Limited (ASX:IPL) and Orica (ASX:ORI)

The aim of this project is to apply the financial analysis and valuation framework covered within this course in a practical setting. It will require you to search for information via a number of sources, such as Annual Reports from the company websites and Australian Securities Exchange website, accounting and industry data from the Aspect Financial Database and Yahoo Finance. However, be warned that the accounting data available on Aspect and Yahoo is often highly error-prone so checking with the actual annual reports will be required. Primarily the project will have your group investigating and discussing the following:

1. Industry/Strategy Analysis (for example: discuss the competitive landscape, revenue drivers, factors for success...etc.);
2. Accounting Analysis (for example: areas of accounting flexibility, critical factors and reliability of information...etc.);
3. Financial Analysis (for example: past performance, sustainability of performance...etc.);
4. Prospective Analysis (for example: critical factors for success, prediction and valuation...etc.).

*In Week 7, we will discuss the components required in the preparation of an investment report and recommendation such as 'BUY' (undervalued), 'SELL' (overvalued) or 'HOLD' (fair value).

In conclusion of your analysis and discussion your group is required to present investment recommendations for the two companies. You are also required to do a direct comparison between the two companies. There is no obligation nor expectation to recommend either of the companies in a particular way. The decision should be solely based on the results of your group's investigation. Your project will be evaluated on the strength of the analysis, and support of

assumptions made with respect to the investment decision rather than on the final dollar valuation and associated recommendation. **Note that plagiarism of any stock analyst's report is NOT tolerated and severe penalties will apply.**

The report is not to exceed **3800 words**(words used in tables and diagrams are not counted); 1650 words per company and 500 words for the comparison of the two companies and the concluding investment decision. The report must be typed and professionally presented (i.e. tables and charts) and secured with plastic spiral binding. Students should consult with the Lecturer-in-Charge if further clarification is needed.

The project will be due at the end of Lecture Week 12 (Friday 4pm November 7th 2008). Late submissions will be **severely** penalised - 20% of the final mark will be deducted per calendar day. This assignment is to be handed in at the allocated mailbox at ERIC (E4B Building) with a word count, assigned group number, signed plagiarism statement, and the contribution weights section filled in. **With the submission of the hard copy of your assignment you must email aproimos@efs.mq.edu.au with a labelled copy (Group Number in the Title) of the spreadsheet you used to calculate the valuations for your assignment including all assumptions.** Lastly, to settle any disputes about unfair group participation please also attach a page with the names of your group members and brief outline of what each member contributed to the assignment.

To get you working on the assignment throughout the semester your Group will be required to submit sections of your project to your tutor. Only one copy of the assignment is required to be submitted per group. Submissions will only be accepted during your allocated tutorial time. In **week four (4)** you are required to submit at least two (2) pages of industry and strategic analysis for one of the companies your group has chosen. Additionally, in tutorial **week seven (7)** you are required to submit at least two (2) pages of accounting and financial analysis for one of the companies your group has chosen. Your analysis will be marked on an **effort** basis out of five (5) with late submissions receiving 50% of their original mark (thus late submissions can only achieve a maximum of 2.5 marks). Note that your analysis does not need to be 100% complete but serve as a draft section in the final project.

If for any reason you cannot attend your allocated tutorial for the due week of either of the (group or tutorial homework) assessments then you **must** email your assignment to your tutor prior to the date of your tutorial, remembering

to include your full name, student number and tutorial day and time.

FINAL EXAM

The final exam will be a three hour paper. All material covered during semester is examinable.

You must achieve a satisfactory level of performance in *both* the individual project and the final exam to pass the unit.

Non-programmable calculators may be used in the final exam. You are not permitted to use dictionaries in the final exam.

Note: Supplementary exams will **NOT** be granted under any circumstances should your course work be unsatisfactory i.e. less than 45%.

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.

<http://www.timetables.mq.edu.au/exam>

The only exception to not sitting an examination at the designated time is because of documented illness or unavoidable disruption. In these circumstances you may wish to consider applying for Special Consideration. Information about unavoidable disruption and the special consideration process is available at: **<http://www.reg.mq.edu.au/Forms/APSCon.pdf>**

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

No aids, other than a pen and pencil, may be brought into an exam unless specifically permitted by the Convenor. The following are expressly forbidden: mobile phones, calculators, computers, Ipods, PDAs, MP3s and any other electronic aid, and books.

7 Lecture Topics, Reading and Tutorial Assignments

IMPORTANT: If I become aware of any errors in the lecture notes, tutorial solutions or any other document I will correct the problem as soon as possible, post an update and flag the revision on the web page. I place a version number on all documents so you can easily ensure you have the latest version of all materials.

Where appropriate each lecturer will refer to Cochlear Limited (ASX: COH) as a practical example

***Note: Any readings during the semester that are not from the prescribed textbooks will be available via the unit page on BlackBoard*

Week 1: A Framework for Business Analysis and Valuation Using Financial Statements; and Strategy Analysis (*Week beginning August 4, 2008*)

Reading: Business Analysis and Valuation IFRS Edition: Chapter 1 and 2

Tutorial Questions due Week 2: Business Analysis and Valuation IFRS Edition: Chapter 1: Q1, Q2, Q4; Chapter 2: Q2, Q8, Q9

Week 2: Overview of Accounting Analysis, Governance and Transparency (*Week beginning August 11, 2008*)

Reading: Business Analysis and Valuation IFRS Edition: Chapter 3 and 13; Damodaran on Valuation: Chapter 16

Tutorial Questions due Week 3: Business Analysis and Valuation IFRS Edition: Chapter 3: Q1, Q2, Q5; Q7 Chapter 13: Q3, Q6

Week 3: Implementing Accounting Analysis (*Week beginning August 18, 2008*)

Reading: Business Analysis and Valuation IFRS Edition: Chapter 4
Damodaran on Valuation: Chapter 3

Tutorial Questions due Week 4: Business Analysis and Valuation IFRS Edition: Chapter 4: Q3, Q4, Q5, Q6, Q7, Q8

Week 4: Financial Analysis (*Week beginning August 25, 2008*)

Reading: Business Analysis and Valuation IFRS Edition: Chapter 5

Tutorial Questions due Week 5: Business Analysis and Valuation IFRS Edition: Chapter 5: Q1, Q2, Q3, Q5, Q6, Q8, Q9,

Week 5: Estimating Discount Rates (*Week beginning September 1, 2008*)

Reading: Damodaran on Valuation: Chapter 2

*Tutorial Questions due Week 6: Applied Corporate Finance, 2nd Edition: A User's Manual by Aswath Damodaran, Chapter 4: Q1, Q4, Q5a-d, Q8a-b, Q12a-d *Available on BlackBoard*

Week 6: Prospective Analysis and Forecasting (*Week beginning September 8, 2008*)

Reading: Business Analysis and Valuation IFRS Edition: Chapter 6
Damodaran on Valuation: Chapter 4;

Tutorial Questions due Week 7: Business Analysis and Valuation IFRS Edition: Chapter 6: Q1, Q3, Q4, Q5, Q6, Q7

Week 7: Equity Security Analysis and Writing a Research Report (*Week beginning September 15, 2008*)

Reading: Business Analysis and Valuation IFRS Edition: Chapter 9
Equity Asset Valuation: Chapter 1

Tutorial Questions due Week 8: Business Analysis and Valuation IFRS Edition: Chapter 9: Q2, Q3, Q4, Q5, Q6, Q10

Mid-Semester Break (*September 20 - October 5, 2008*)

Week 8: Equity Discounted Cash Flow Models: Part 1 - Dividend Discount Model Valuation (*Week beginning October 6, 2008*)

Reading: Equity Asset Valuation: Chapter 2;
Damodaran on Valuation: Chapter 5

*Tutorial Questions due Week 9: Equity Asset Valuation: Chapter 2: Q4, Q5, Q6, Q7, Q10, Q14, Q18 *Available on BlackBoard*

Week 9: Equity Discounted Cash Flow Models: Part 2 - Free Cash Flow to Equity Valuation (*Week beginning October 13, 2008*)

Reading: Equity Asset Valuation: Chapter 3;
Damodaran on Valuation: Chapter 5

*Tutorial Questions due Week 10: Applied Corporate Finance, 2nd Edition: A User's Manual by Aswath Damodaran, Chapter 12: Q1, Q2, Q4, Q9, Q10 *Available on BlackBoard*

Week 10: Free Cash Flow to Firm Valuation (*Week beginning October 20, 2008*)

Reading: Equity Asset Valuation: Chapter 3
Damodaran on Valuation: Chapter 6

*Tutorial Questions due Week 11: Equity Asset Valuation: Chapter 3: Q4, Q5, Q9, Q10, Q11, Q14 *Available on BlackBoard*

Week 11: Corporate Financing Policies (*Week beginning October 27, 2008*)

Reading: Business Analysis and Valuation IFRS Edition: Chapter 12

Tutorial Questions due Week 12: Business Analysis and Valuation IFRS Edition: Chapter 12: Q2, Q3, Q4, Q5, Q6, Q7, Q9

Week 12: Earnings and Value Multiples (*Week beginning November 3, 2008*)

Reading: Damodaran on Valuation: Chapter 7, 8 and 9

Tutorial Questions due Week 13: Applied Corporate Finance, 2nd Edition: A User's Manual by Aswath Damodaran, Chapter 12: Q14, Q15a-c, Q16, Q19, Q20

Week 13: Value Enhancement and Review (*Week beginning November 10, 2008*)

Reading: Damodaran on Valuation: Chapter 18
Investment Valuation, 2nd Edition by Aswath Damodaran, Chapter 31 *Available on BlackBoard

LECTURE NOTES: will be available on the web, prior to the lecture - usually the week before the lecture. Log in to the unit web page on BlackBoard from: <http://learn.mq.edu.au> and check the page regularly for updates.

The lecture notes define the unit content; the textbooks should be viewed as a supplement to the lecture notes. As a general rule, if the textbook covers material that is not mentioned in the lectures, it will only be examinable if it is covered in one of the assigned tutorial questions.

ABOUT READINGS AND HOMEWORK: Always check the lecture notes for additional reading or additional tutorial questions. The reading guide provided above is approximate: there may be material in some of the chapters that are not covered in the unit, or there may be material in lectures not covered in the book.

8 Regarding Plagiarism

Please acquaint yourself with the University rules on plagiarism at <http://www.student.mq.edu.au/plagiarism/>

Please be aware that you can expect a zero tolerance approach to plagiarism or any other form of cheating in this unit. If you're caught, you will receive zero marks for your efforts and the matter will be pursued in accordance with University procedures.

9 Regarding Special Consideration

Students requesting special consideration should acquaint themselves with Bachelor Degree Rule 8 by reading the 2008 Handbook of Undergraduate Studies or visiting the website at <http://www.cal.mq.edu.au/>

Note that applications for special consideration must be accompanied by the appropriate supporting documentation - including a Professional Authority form if you're ill.

Please refer to <http://www.reg.mq.edu.au/Forms/APScons.pdf> for details of the requirements and the requisite forms.

10 University Policy on Grading

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.

It is important that you realise that the policy does not require that a minimum number of students are to be failed in any unit. In fact it does something like the opposite, in requiring examiners to explain their actions if more than 20% of students fail in a unit. 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.

11 Grade Reviews and Exam Script Viewing

If you believe that an error has occurred that has affected your final grade (and you have evidence to support this) you may:

- view your exam script (deadline to register on the web is 10:00am 22 December; for viewing 23, 24 December 2008; 5 January 2009); and
- if necessary lodge a Grade Review application (in person or by proxy) with the Division by 12:30pm on 5 January 2009

for further information on these two processes please refer to http://www.efs.mq.edu.au/current/ug/admin_central/grade_appeals

12 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/>

13 Classroom Etiquette

Students are expected to arrive on time, certainly before five minutes past the hour, and not to leave until the class ends. If you have a recurring problem that makes you late, or forces you to leave early, have the courtesy to discuss this with your lecturer/tutor.

Students are expected to be quiet during lectures unless, of course, class participation is required.

14 Marking Guide for the Financial Statement Analysis Major Project

This marking guide illustrates how your group project will be assessed. It should assist you in understanding the criteria that will be examined. Each assignment will be given a mark out of 100, however, individual marks may be scaled for unequal group contribution.

- Clear and structured reporting and balance between too-much detail/brevity
- Demonstrates an understanding of the business model and associated economic factors affecting the company current and prospective.
- Analysis of competitive strategy current and prospective
- Identified and implemented appropriate accounting adjustments
- Convincing discussion of financial and accounting position
- Relevant selection of variables and methods for the valuations
- Appropriateness and support of forecast/valuation assumptions
- Strength of the argument for the investment recommendation
- Ability to apply what has been learnt in the course in a practical setting
- Referencing of resources (and avoiding plagiarism)

TOTAL -----

15 Expectation for the Industry and Strategic Analysis

- Analysis and discussion of the economic factors that affect your company
- SWOT (Strengths, Weaknesses, Opportunities and Threats) and Porter's Five Forces Analysis

- Referencing of all resources
- Clear and focused presentation of ideas i.e. tables and graphics

There is NO set formula for putting together your report and the same rule applies to the final product due at the end of the semester. Note the I expect that you make changes to the Draft copy of the Industry and Strategic Analysis that you hand early in the semester.

16 Expectation for the Accounting and Financial Analysis

- Collection of annual report data for the past 5 years
- Identification of and necessary accounting adjustments
- Review of the company's performance in recent history with reference to its financial ratios - for example:
 - Return of Equity
 - Return on Assets
 - Financial Leverage
 - Net and Gross Profit Margin
 - Asset Turnover
 - Current and Quick Ratio
 - Interest Coverage
 - Sustainable Growth
 - Cash Conversion Cycle
- Discussion of key industry or economic issues that may affect the company going forward.