



# ACCG350 Financial Statement Analysis Unit Outline<sup>†</sup>

Division of Economic and Financial Studies

Semester 1, 2008

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<sup>†</sup>ver: 1.0, December 2007

# 1 Brief Description and Objectives

This unit aims to provide an analysis and valuation framework for users of financial statement information.

This unit introduces the concepts surrounding 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 theoretical discussion of the various valuation methods and techniques this course looks specifically at valuation in practice.

Upon successful completion of this unit you will:

1. understand the various methods and issues associated with valuation;
2. be able to apply the valuation tools in a practical setting.

# 2 Unit Pre-requisites

1. ACCG253 (P)

# 3 Lecturer in Charge and Unit Administrator

Mr Alex Proimos CFA, Office: E4A 512, Ph: 9850 9179, e-mail: aproimos@efs.mq.edu.au

# 4 Lecturers

Mr Alex Proimos

Professor Neil Fargher

Dr Philip Sinnaduri

Ms Charlene Chen

Mr Steven Wu

## 5 Classes

1 x 2 hour lecture and 1 x 1 hour tutorial per week

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 your tutorial therefore it is important that you attend your allocated tutorial.

## 6 Prescribed Texts

**Investment Valuation** by Aswath Damodaran, 2th Edition, John Wiley, 2002. ISBN 0-471-41490-5.

## 7 Assessment

Your final grade will be determined by your performance in the mid-semester test and final exam 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 (previously WebCT) at the end of the week following the relevant lecture.
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 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 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 pairs of ASX traded companies to research and subsequently determine a comparative investment recommendation between the two (2).

1. Boral (BLD) and James Hardie Industries (JHX) - Construction Materials
2. ResMed (RMD) and Cochlear (COH) - Healthcare Equipment & Services
3. Lion Nathan (LNN) and Fosters (FGL) - Food Beverage & Tobacco

The aim of this project is to apply the valuation framework covered within this course in a practical setting. As part of the project you are suggested to investigate and discuss the following:

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

\*A handout will be made available on BlackBoard (previously WebCT) outlining the components required when preparing an investment recommendation - 'BUY' (undervalued), 'SELL' (overvalued) or 'HOLD' (fair value).

Following the reporting of various stages of analysis, each group is required to discuss and present their investment recommendation on the assumption that their decision is mutually exclusive, meaning that investment in only one (1) of the two (2) companies is possible. Note that 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. The project will be evaluated on the strength of the analysis and motivation behind the assumptions made and the decision rather than on the final valuation and associated recommendation. Note that plagiarism of any stock analyst's report is **NOT** acceptable.

Logistically, it may be practical for two (2) members of the group to work on one (1) company and then combine their findings for the later recommendations. The report should be approximately 3500 words; 1500 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 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 5pm May 30th 2008). Late submissions will be **severely** penalised - 20% of the final mark

will be deducted per calendar day.

Throughout the semester you will be required to submit sections of your project to your tutor. Submission will only be accepted during your allocated tutorial time. In tutorial week three (3) you are required to submit at least two (2) pages of industry and strategic analysis for one at least one of the companies your group has chosen. Additionally, in tutorial week six (6) you are required to submit at least two (2) pages of accounting and financial analysis for at least 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.

If for any reason you cannot attend your allocated tutorial for the due week of either of the 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 both the mid-semester test and final exam. You are not permitted to use dictionaries in either the test or final exam.

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

## 8 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.*

### **Week 1: Introduction to Valuation** (*Week beginning February 25, 2008*)

*Reading:* Chapter 1, 2 and 6.

*Tutorial Questions due Week 2: Ch 1: Q1, Q2, Ch 2: Q1 - Q4*

### **Week 2: Understanding Financial Statements** (*Week beginning March 3, 2008*)

*Reading:* Chapter 3 and 8.

*Tutorial Questions due Week 3:*

### **Week 3: Earnings and Cash Flows** (*Week beginning March 10, 2008*)

*Reading:* Chapter 9 and 10.

*Tutorial Questions due Week 4:*

### **Week 4: Basics of the Risk Premium** (*Week beginning March 17, 2008*)

*Reading:* Chapter 4 and 7.

*Tutorial Questions due Week 5:*

### **Week 5: Estimating Risk and Financing** (*Week beginning March 24, 2008*)

*Reading:* Chapter 8.

*Tutorial Questions due Week 6:*

**Week 6: Growth and the Terminal Value** (*Week beginning March 31, 2008*)

*Reading:* Chapter 11 and 12.

*Tutorial Questions due Week 7:*

**Week 7: Free Cash Flow, Equity and Dividend Discount Models** (*Week beginning April 7, 2008*)

*Reading:* Chapter 13 and 14.

*Tutorial Questions due Week 8:*

**Mid-Semester Break** (*April 14-April 28, 2008*)

**Week 8: Relative Value and Earnings Multiples** (*Week beginning April 28, 2008*)

*Reading:* Chapter 18 and 19.

*Tutorial Questions due Week 9:*

**Week 9: Book Value, Revenue and Sector-Specific Multiples** (*Week beginning May 5, 2008*)

*Reading:* Chapter 19 and 20.

*Tutorial Questions due Week 10:*

**Week 10: Valuing Firms with Negative Earnings** (*Week beginning May 12, 2008*)

*Reading:* Chapter 22.

*Tutorial Questions due Week 11:*

**Week 11: Valuing Young and Start-Up Firms** (*Week beginning May 19, 2008*)

*Reading:* Chapter 23.

*Tutorial Questions due Week 12:*

**Week 12: Value Enhancement** (*Week beginning May 26, 2008*)

*Reading:* Chapter 31 and 32.

*Tutorial Questions due Week 13:*

**Week 13: Revision** (*Week beginning June 2, 2008*)

*Reading:* To Be Determined

**ABOUT LECTURES:** The weekly lecture is on ??? ?-?pm in ?, building ?. Attendance at lectures is not compulsory, but highly recommended.

**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 WebCT from: <http://online.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.

## 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 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.

## 11 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.

## **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/>