



ACCG350 FINANCIAL STATEMENT ANALYSIS FIRST SEMESTER, 2010 UNIT OUTLINE

Semester and Year: First Semester, 2010

Unit convenor: Brian Millanta

Prerequisites: ACCG252 (P) or ACCG253 (P)

Students should read this unit outline carefully at the start of semester as it contains important information about the unit. If anything in it is unclear to you, you should seek clarification from the unit convenor.

ABOUT THIS UNIT

This unit aims to equip students with the ability to analyse and interpret a company's financial reports. It also aims to provide them with an understanding of a number of approaches to valuing a company's equity securities. In addition, students should develop an understanding of the theoretical and practical relations between the content of financial statements and securities markets. Students will learn to apply the following five steps in analysing an organisation: business and strategic analysis, accounting analysis, financial analysis, forecasting and valuation. Through tutorial exercises and a major assignment involving the analysis of an Australian listed company, students will have the opportunity to apply the techniques discussed in the unit.

ACCG350 is a 3 credit point unit. The workload in this unit demands that you should devote a minimum of 8 hours of study time per week to the unit.

This unit is relevant for students undertaking accounting and/or finance degrees, and for students interested in careers in areas such as investments, portfolio management, financial and business analysis, and auditing. The content of this unit draws on several discipline areas that students have studied in their programs: economics, statistics, accounting, finance, marketing and business. In particular, it relies on the pre-requisite sequence of ACCG101 Accounting 1B and ACCG253 Financial Management.

The Macquarie University Accounting and Finance Prize for ACCG350, worth \$100, will be awarded to the student with the best performance in this unit.

LEARNING OBJECTIVES AND OUTCOMES

This unit will provide students with an understanding of the theories and practice of financial statement analysis. This 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

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

The learning outcomes of this unit are primarily assessed by the major assignment and by the final examination which 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 major assignment;
- Questions on the case studies discussed in tutorials;
- Questions on other topics from the lectures and textbook readings.

Additional assessment tasks are designed to ensure that the learning process occurs over the whole semester.

REQUIRED TEXTS

Palepu and Healy, *Business Analysis and Valuation*, 4th edition, Thomson, 2008

Wright, S., 2006, *ACCG350 Financial Statement Analysis - A Custom Publication*, McGraw-Hill.

TEACHING STAFF

Convenor: Brian Millanta
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At the beginning of semester a consultation timetable, and the names and contact details of tutors, will be posted on Blackboard.

CLASSES

There is one lecture, Thursday 6-8pm in C5CT2. Details of tutorial classes can be found on the unit website. Students are expected to attend the tutorial in which they are enrolled.

The timetable for classes can be found on the University website at:

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

Tutorial classes can only be changed during the first two weeks of semester, by emailing the unit convenor with a request for a change, including two alternative times, in order of preference. Changes will be confirmed (or refused if there is insufficient space at the requested time) by return email. No tutorial changes will be approved after the end of the second week of semester.

ADVICE OF ABSENCE

If you suffer from an unavoidable disruption or misadventure during teaching weeks and this causes you to miss classes (lectures, tutorials, or due dates for assignments), then you need to submit an advice of absence form. Details regarding this form are available at the student support services website:

http://www.mq.edu.au/policy/docs/special_consideration/policy.html

LECTURE AND TUTORIAL ETIQUETTE

You are expected to arrive at lectures and tutorials on time (by 5 minutes past the first hour), and not to depart until the session ends. If you have a recurring problem that results in you being late, or forces you to leave early, please discuss this with your lecturer and/or tutor.

Mobile phones should be turned off during lectures and tutorials, and not simply set to 'silent'.

TEACHING AND LEARNING STRATEGY

Each weekly lecture provides a broad outline of the topic for that week. However, students should understand and appreciate that the lectures do not encapsulate all of the material that students are expected to master. Material in the prescribed readings may not be covered in lectures but will still be examinable. In addition, lectures will deal with material that is not covered in the prescribed readings. Each week, prior to

and in preparation for their tutorial, students should read and summarise the relevant textbook and case study materials.

During the semester lecture examples will be drawn from the Annual Report for David Jones Limited for the year ended 25 July 2009. Students are encouraged to download and print out a copy of the 2009 Annual Report from the David Jones web site: http://www.davidjones.com.au/corp/for_investors.jsp. The report should be brought to lectures.

Students are also required to attempt the tutorial assignment in advance of each week's tutorial. The tutorials are forums for small-group learning, in which material and concepts from the lectures, textbook and case studies are canvassed and amplified.

ASSESSMENT

The total marks for ACCG350 will be calculated as follows:

Tutorial Attendance and Participation	10%
Tutorial Homework	5%
Assignment 1 (Due 18 th March 2010)	10%
Assignment 2 (Due 3 rd June 2010)	20%
Final Examination	55%

NOTE that in order to pass this unit, a student must pass **BOTH** the final examination and the unit overall.

Tutorial Attendance and Participation:

Tutorial attendance is an essential part of the learning experience, and tutorial attendance will be recorded by your tutor. Student participation is also an essential feature of a successful tutorial and your tutor will consider your participation over the semester when finalising your mark. Your final mark will reflect both your attendance and participation in tutorials throughout the semester.

Final Examination:

There will be a three hour (closed book) 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 8 June to 25 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 at: <http://www.timetables.mq.edu.au/exam> 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.

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:

http://www.efs.mq.edu.au/current/ug/admin_central/special_consideration

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.

Important information on APPEALS and EXAM SCRIPT VIEWING at the end of semester is available at:

http://www.efs.mq.edu.au/current/ug/admin_central/grade_appeals

Tutorial Homework

During the semester your tutor will collect 5 tutorial assignments. The tutorials will be chosen by your tutor and will be collected without advance notice to you. The collected assignments will be used to assess whether or not you are putting sufficient effort into preparing for tutorials. This part of the assessment is worth 5%. The collected assignments will not be marked for correctness. Rather they will be graded for effort. They will be graded as either "S" (satisfactory), or "U" (unsatisfactory). An assignment will be graded as satisfactory if, in the opinion of the tutor, it shows a genuine attempt to fully answer all questions in that tutorial. An assignment graded as "S" will gain 1 mark for the student whilst an assignment graded "U" will gain no mark.

Assignment 1

Students are to submit a typed assignment (A4, single-spaced, left-hand margin of 4 cm on each page) on the following topic:

The Australian Securities Exchange (ASX) Listing Rules and Corporate Governance Principles and Recommendations [accessible at the ASX web site] mandate the establishment of an audit committee by the top 300 companies listed in the S&P All Ordinaries Index.

1. What functions are audit committees intended to fulfil and how effective are they likely to be in fulfilling those functions?
2. For each of the following questions put to a company's senior management, explain why the audit committee (and investors) might be interested in management's answers:
 - a. What financial reporting areas involved subjective judgments and estimates?
 - b. How do the company's accounting practices compare to those of others in the industry?
 - c. Are the financial statements and underlying accounting methods consistent with those used last year?
 - d. Have outside parties voiced concern about the company's accounting practices?

The assignment should not exceed 800 words.

It should be accompanied by a cover sheet containing the following information:

- Student name and student number;
- Tutorial time and location;
- Number of pages and word count;
- Signed plagiarism statement.

Each page of your assignment should display your student number in the top right hand corner.

The assignment is due on **18 March 2010** and must be submitted by 5 p.m. You should submit your assignment to Business and Economics Student Services (BESS), Ground Floor, E4B. **You must not submit the assignment to your tutor.** Late submissions will have 10% of the available mark deducted per day (or part thereof) that they are late.

Assignment 2

No later than the tutorial in the week commencing 8 March 2010, students are to organise themselves into groups of three or four students from within the same tutorial. The group's task is then to choose a company from the list below, and to work as a group to complete assignment 2.

In undertaking the work for the assignment, each group should regard itself as being employed by a firm of financial advisors which has been engaged by a wealthy client. The client has requested the firm's advice regarding the appropriateness of the selected company's shares for inclusion in an investment portfolio. The client wishes to invest \$5 million in the company's shares. The size of the investment will not, of itself, impact upon the company's share price. The group is to prepare a report which is to be submitted to Business and Economics Student Services (BESS), Ground Floor, E4B no

later than **5 p.m. on 3 June 2010**. You must not submit the assignment to your tutor.

Your group report, which should not exceed 20 pages in length (excluding bibliography, appendix of ratios, and cover page), is to include the following sections:

1. An analysis of the competitive conditions faced by the company in its principal industry of operation and an analysis of the likely impact of changes in major economic variables on the company's short (next 12 months) to medium-term (next 5 years) financial performance;
2. A financial analysis of the company for the most recent 4 years for which annual reports have been published by the company. Your analysis should start with an analysis of Return on Equity (ROE) in each year, and then a disaggregation of ROE into its various components. Your analysis should include a drill-down analysis which assesses operating management, investment management, and financial leverage, and also includes a cash flow analysis.
 - Note that this task is not intended as a mere exercise in ratio calculation. Your analysis should attempt to explain and interpret significant trends or changes that you uncover through your calculations.
 - To this end, your report should be confined to analysis and interpretation of the ratios you have calculated. The actual ratios for each year, along with a definition of each ratio can be confined to an appendix to the report: the appendix will not count towards your 20-page limit.
3. A set of a pro-forma financial statements (i.e. income statement, balance sheet, and cash flow statement) for the next year for which the company has not published an annual report.
 - Your report should clearly explain the MAJOR assumptions that you have made in preparing the forecasted statements.
 - Your pro forma statements should, where possible, incorporate the latest information about the company, its industry, and general economic conditions and should not be the result of naïve extrapolation of past trends.
4. Per-share valuations of the company's ordinary shares, using two of the valuation methods considered in ACCG350.
 - Your report should make clear the major assumptions you have made in arriving at your valuations (e.g. those required to calculate terminal value, cost of capital, etc.)
 - For the purpose of calculating a per-share value, you should use the number of issued shares disclosed by the company in its last published financial report.
5. A recommendation to the client. For the purpose of making a recommendation based on your calculation of intrinsic value, you should take as the market value

of the company's shares the closing share price on Thursday 27 May 2010 (available in newspapers published on Friday 28 May or from the ASX web site).

List of Companies for Assignment 2:

Your group is to select one of the following companies:

Brambles Ltd	www.brambles.com/
Caltex Australia Ltd	www.caltex.com.au/
Domino's Pizza Enterprises Ltd	www.dominos.com.au
Fantastic Holdings Ltd	www.fantasticfurniture.com.au
JB Hi-Fi Ltd	www.jbhifi.com.au/corporate/
Seven Network Ltd	www.sevencorporate.com.au/
Sonic Healthcare Ltd	www.sonichealthcare.com/
Virgin Blue Holdings Ltd	www.virginblue.com.au/
Webjet Ltd	www.webjet.com.au/

Points to note about the group report:

- A. The report must be clearly divided into five sections, with one section devoted to each of the five tasks specified above.
- B. The report must be word-processed (font size 12, single spaced, MSWORD) and securely stapled. You must leave a left-hand margin of 4 centimetres on each page.
- C. The report must have a cover sheet containing the following:
 - Student names and student numbers of group members;
 - Name of the company selected;
 - Number of pages in the report;
 - Signed plagiarism statement, signed by all group members;
 - Description of the work performed and estimate of the percentage contribution of each group member to completion of the assignment.
- D. The report should employ the Harvard (Name-Date) referencing system and must contain a properly formatted bibliography which cites all sources drawn upon in preparing the presentations and report. Information regarding the Harvard style of referencing, may be obtained from the Macquarie University Library web address: <http://www.lib.mq.edu.au/readyref/cites.html>
- E. It is expected that all members of the group will make an (approximately) equal contribution to the analysis for and preparation of the report. Where this is the case (as indicated on the report cover sheet), each member of the group will be awarded the same mark for the assignment. Where it is apparent from the information provided on the cover sheet that group members have not contributed (approximately) equally in completing the assignment, an allocation

of marks will be made based on the assessed contribution of individual members of the group.

- F. The mark awarded for the assignment will be determined based on an assessment of the report's accuracy, comprehensiveness, cohesiveness, professionalism and overall quality.

Commercial data services may be used to source annual report and other information, provided that they are correctly acknowledged. However, students should also consult the company's annual report for complete and more accurate information as the information from commercial data services frequently reclassifies information in the financial statements. Note that plagiarism from commercial analysts' reports can be easily identified and will result in zero marks for this assignment.

Students should consult with the unit convenor if further clarification is needed. Late submissions will have 10% of the available marks deducted per day (or part thereof).