



# ACCG350

## Financial Statement Analysis

S2 Day 2015

*Dept of Accounting & Corporate Governance*

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#### **Disclaimer**

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## General Information

Unit convenor and teaching staff

Unit Convener

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E4A-213

Wednesdays, 11am - 1pm

Credit points

3

Prerequisites

39cp including (ACCG252 or ACCG253 or AFIN250 or AFIN252 or AFIN253)

Corequisites

Co-badged status

Unit description

This unit aims to equip students to undertake financial analysis and valuation of listed companies. Students are taught the steps in financial analysis: examining the state of the economy, the industry and the company on a descriptive level, analysing the company's accounting policies, evaluating its financial position using financial ratios and other analytical tools, forecasting the company's financial statements, and finally using a variety of techniques to value the company on the basis of the preceding steps so that an investment decision can be made. In this unit students develop graduate capabilities in a range of areas, including: analytical skills in information management and analysis; problem-solving skills in sourcing and identifying relevant information and interpreting output; and communication skills through the presentation of group reports. This unit is relevant for students interested in careers in areas such as investments, portfolio management, financial and business analysis, and auditing.

## Important Academic Dates

Information about important academic dates including deadlines for withdrawing from units are available at <https://www.mq.edu.au/study/calendar-of-dates>

## Learning Outcomes

On successful completion of this unit, you will be able to:

Application of the following fundamentals principles: basic relations in financial

accounting, spreadsheet usage, discounting, equity valuation, cost of capital and the Efficient Market Hypothesis.

Analyse the macroeconomic, industry and firm-specific factors that constitute the context in which financial statements are produced and interpreted.

Assess the extent to which the analyst can rely on financial statements, and related firm-initiated disclosures, for the purpose of financial statement analysis and valuation.

Interpret key ratios and indicators to enable evaluation of a listed company's profitability, efficiency, leverage and liquidity, using data in statutory format and re-cast financial statements.

Forecast the re-cast versions of the three principal financial statements, for each year up to the forecasting horizon, for listed companies. Students need to argue and substantiate their forecast assumptions and approach to estimating forecast parameters.

Perform equity- and asset-based valuations of a listed company. Most of the valuation approaches involve discounting forecasts of future expected flows. Students need to investigate the sensitivity of their valuations to changes in the key input parameters.

## Assessment Tasks

Name	Weighting	Due
<u>Assessed Coursework</u>	10%	Ongoing
<u>In- Class Tests</u>	10%	Weeks 4 and 11
<u>Major Assignment</u>	20%	Week 12
<u>Final Examination</u>	60%	Final Examination Period

### Assessed Coursework

Due: **Ongoing**

Weighting: **10%**

#### Tutorial Assignments

During the session, you will be set weekly tutorial assignments. **Four** of your weekly tutorial assignments will be collected for the purpose of assessing your ongoing effort in the unit.

Advance notice will NOT be given that a particular tutorial assignment is to be collected. You should note that it is only possible for you to submit your tutorial assignment in the tutorial in which you are enrolled and to which the tutorial assignment relates. For each of these **four** tutorial assignments, **2.5 marks** will be awarded for a satisfactory attempt. Where the student has made a moderate attempt of the tutorial questions, **1 mark** will be awarded. **0**

**marks** will be awarded for a non-satisfactory attempt or a non-submission. The tutorial assignments will be marked for effort, rather than correctness.

Students who do not obtain satisfactory grades for a weekly assignment may compensate via submission of a three to four page summary of the textbook chapter(s) and other relevant material, related to the topic. The summaries, like the tutorial assignments, will be marked for effort. Summaries may be submitted at any time during the session, prior to the start of Week 13. A student will not obtain credit for submitting more than one summary of the same topic. Receipt of four satisfactory grades for tutorial assignments and / or summaries will result in a student receiving full marks for this assessment item.

## Extensions

Not applicable.

On successful completion you will be able to:

- Analyse the macroeconomic, industry and firm-specific factors that constitute the context in which financial statements are produced and interpreted.
- Assess the extent to which the analyst can rely on financial statements, and related firm-initiated disclosures, for the purpose of financial statement analysis and valuation.
- Interpret key ratios and indicators to enable evaluation of a listed company's profitability, efficiency, leverage and liquidity, using data in statutory format and re-cast financial statements.
- Forecast the re-cast versions of the three principal financial statements, for each year up to the forecasting horizon, for listed companies. Students need to argue and substantiate their forecast assumptions and approach to estimating forecast parameters.
- Perform equity- and asset-based valuations of a listed company. Most of the valuation approaches involve discounting forecasts of future expected flows. Students need to investigate the sensitivity of their valuations to changes in the key input parameters.

## In- Class Tests

Due: **Weeks 4 and 11**

Weighting: **10%**

### Nature and Content of the Tests

In-class tests will be distributed in tutorial classes in Week 4 and 11 for the purpose of providing you with feedback on your progress in the unit. Each test is worth five percent of the total

assessment.

The test in Week 4 will be of 45 minutes' duration. The test will be revisionary, covering the four aforementioned topics from 200-level finance units. Past experience has shown that students tend to neglect revising 200-level finance. They tend to forget that this action should be an integral part of their study program, even though the material is assumed knowledge and hence not the focus of lectures and tutorials.

The second test will be of one-hour's duration. The test will be quantitative, requiring students to forecast financial statements for a hypothetical company, using data and assumptions provided. The purpose of the test is to help students become familiar with basic principles and approaches for forecasting. Prior experience suggest that students do forecasts and valuations poorly.

Questions in both tests are closed book, and answered under examination conditions. You will receive feedback from your tutor in the following weeks. Further details about the tests will be announced in due course on the unit iLearn website.

## Extensions

**You must sit for the tests in your assigned tutorial, unless prevented from doing so due to illness or misadventure. Students in this situation must apply for Disruption to Studies. If your application for Disruption to Studies is approved, you will be required to sit a supplementary in-class test.**

On successful completion you will be able to:

- Application of the following fundamentals principles: basic relations in financial accounting, spreadsheet usage, discounting, equity valuation, cost of capital and the Efficient Market Hypothesis.
- Forecast the re-cast versions of the three principal financial statements, for each year up to the forecasting horizon, for listed companies. Students need to argue and substantiate their forecast assumptions and approach to estimating forecast parameters.

## Major Assignment

Due: **Week 12**

Weighting: **20%**

The major assignment is a sell-side report for a listed Australian company. The assignment is to be completed in syndicate groups of three or four students. The students take the viewpoint of sell-side analysts. The markers of the major assignment take the viewpoint of shareholders

educated in accounting and finance but not necessarily intimately familiar with the company subject to analysis. Detailed information will be released on iLearn. There are two components to this assessment task: the presentations and the report.

### Presentations

During the tutorials in Weeks 8 and 9, students will deliver presentations of work-in-progress on their major assignments. The presentations are worth 5% of the total assignment. The presentations will be on the strategic and business analysis, accounting analysis and financial analysis. There are two principal purposes of the presentation. The first purpose is to enable students to obtain feedback, on their work to date, from the tutor and their fellow students. The second purpose is to discipline the students to work of the major assignment.

Each presentation should last for 12 – 15 minutes. All members of the group are required to contribute. After each presentation, there will be a short group discussion, to provide the presenters with feedback. It would be a practical impossibility to adequately cover all aspects of the aforementioned topics during the time allocated. Hence, each group should select up to four issues for which they would most like feedback. Their presentation should focus on these issues. Students are welcome to use visual aids.

Four presentations will be scheduled during each tutorial. Inevitably, it will not be possible for all students to do their presentations in the tutorials. Hence, special out-of-tutorial sessions will be arranged for the additional presentations. Students unable to deliver their presentations during the tutorial must make themselves available to attend one of the out-of-tutorial sessions.

The presentations will be marked out of 20. The marking criteria for the presentations are as follows: explanation of the issues for which the group would like feedback (10 marks), presentation and communication skills (4 marks), structure (4 marks) and timing (2 marks). Marking templates will be provided on iLearn.

*Extensions* Not applicable. No extensions will be granted.

### Reports

Each group is required to submit a report of their sell-side analysis. The report for the major assignment is worth 15% of the total assessment. The reports are to be submitted, via BESS, in hard copy format. The report should canvass all stages of sell-side analysis covered during the semester: strategic and business analysis, accounting analysis, financial analysis, forecasts, valuations and recommendation. The report is to be approximately 20 – 25 double-lined spacing pages in length, excluding references and appendices. The reports will be marked out

of 100. Further details will be provided on iLearn.

*Extensions* Extensions will not be granted, without prior consultation with the Unit Convener.

### *Penalties*

- A report that exceeds 25 pages will be penalised.
- A deduction of 20% of the total assignment mark will be imposed each day for late submission. This penalty does not apply for cases in which an application for Disruption to Studies is made and approved. Students who do not submit the group assignment will be awarded a mark of 0.

On successful completion you will be able to:

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- Assess the extent to which the analyst can rely on financial statements, and related firm-initiated disclosures, for the purpose of financial statement analysis and valuation.
- Interpret key ratios and indicators to enable evaluation of a listed company's profitability, efficiency, leverage and liquidity, using data in statutory format and re-cast financial statements.
- Forecast the re-cast versions of the three principal financial statements, for each year up to the forecasting horizon, for listed companies. Students need to argue and substantiate their forecast assumptions and approach to estimating forecast parameters.
- Perform equity- and asset-based valuations of a listed company. Most of the valuation approaches involve discounting forecasts of future expected flows. Students need to investigate the sensitivity of their valuations to changes in the key input parameters.

## Final Examination

Due: **Final Examination Period**

Weighting: **60%**

You are expected to present yourself 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.

The Macquarie University examination policy details the principles and conduct of examinations at the University. The policy is available at: <http://www.mq.edu.au/policy/docs/examination/policy.html>. 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 Disruption to Studies. The University's policy on Disruption to Studies is available at [http://www.businessandconomics.mq.edu.au/current\\_students/undergraduate/how\\_do\\_i/disruption\\_to\\_studies](http://www.businessandconomics.mq.edu.au/current_students/undergraduate/how_do_i/disruption_to_studies)

If a Supplementary Examination is granted as a result of the Disruption to Studies process, the examination will be scheduled as per the Supplementary Examination timetable of the Faculty. Please note that the supplementary examination will be of the similar format as the final examination.

Examination conditions

- Closed book
- Non-programmable calculators with no text-retrieval capacity are permitted.
- No dictionaries permitted
- The duration of the examination will be three hours plus 10 minutes reading time

On successful completion you will be able to:

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- Forecast the re-cast versions of the three principal financial statements, for each year up to the forecasting horizon, for listed companies. Students need to argue and substantiate



their forecast assumptions and approach to estimating forecast parameters.

- Perform equity- and asset-based valuations of a listed company. Most of the valuation approaches involve discounting forecasts of future expected flows. Students need to investigate the sensitivity of their valuations to changes in the key input parameters.

## Delivery and Resources

### Classes

There are 3 hours of face-to-face teaching per week consisting of one 1.5 hour lecture and one 1.5 hour tutorial. It is a requirement that students attend both lectures and tutorials. The reason for this requirement is that the unit is demanding. In order to maximise the quality of learning experience, there is no substitute for attending classes.

The timetable for classes can be found on the University web site at: <http://www.timetables.mq.edu.au/>

Changes to lecture and tutorial times are managed by the on-line enrolment system. It is not necessary to contact members of staff about tutorial changes. On-line enrolment changes to tutorials will be shut down at the end of Week 3 so all changes must be made by then.

### Consultation Times

The consultation timetable will be posted on the unit iLearn webpage at the beginning of the session. The unit convener is available at other times by appointment. You are encouraged to seek help at a time that is convenient to you from a staff member teaching on this unit during their regular consultation hours. In special circumstances, an appointment may be made outside regular consultation hours. Staff will not conduct consultations by email or over the phone.

### Required Texts

**Palepu, Healy, and Peek, Business Analysis and Valuation, IFRS Edition, Text and Cases, 3rd Edition, Cengage Learning, 2013.**

The prescribed textbook can be purchased from the Macquarie University Co-op Bookshop. Copies are also available in the Macquarie University Library.

### Technology Used and Required

During lectures, the WWW and The Microsoft Office will be used to facilitate delivery. Students are expected to be proficient at locating publicly available information on the WWW. Proficiency

at using Microsoft Excel and Word is assumed.

## Unit Web Page

Course material is available on the learning management system (iLearn).

The web page for this unit can be found at: <https://ilearn.mq.edu.au/> from where you need to login to iLearn.

## Unit Schedule

### Weekly schedule of topics and assessment tasks

Week	Commencing	Lecture Topic	Reading (from Palepu et al. (2013) unless otherwise advised)	Assessment Tasks	Tutorial Questions
1	27 July	Introduction for Business Analysis and Valuation	Chapter 1		No Tutorials in Week 1
2	3 August	Strategic and Business Analysis	Chapter 2		Questions 1.1, 1.4 and 1.5
3	10 August	Accounting Analysis	Chapters 3 and 4		Questions 2.10, 2.8, 2.7 and 2.4
4	17 August	Financial Analysis	Chapter 5	In-Class Test 1	Questions 3.3, 4.12, 4.1 and 4.11
5	24 August	Financial Analysis [CONT'D] Review of Cost of Capital	Chapter 5 and 8		Questions 5.1, 5.8 and 5.9. Problem 5.1
6	31 August	Forecasting	Chapter 6		Questions 5.3 and 5.6, Additional Questions
7	7 September	Forecasting [CONT'D]	Chapter 6		Additional Questions, Question 6.3
8	28 September	Valuation Theory and Concepts	Chapter 7	Group presentations	Journal readings. Reference as for journal article.

9	5 October	Valuation Implementation	Chapter 8	Group presentations (Contd.)	
10	12 October	Market-Based Ratios	Chapter 7		Questions 7.1, 7.10 Additional Questions
11	19 October	Equity Security Analysis	Chapter 9	In-Class Test 2	Additional Questions (market-based ratios)
12	26 October	Mergers and Acquisitions	Chapter 11	Group assignment due by 4pm Tuesday.	Questions 9.2, 9.5, 9.6, 9.8
13	1 November	Revision			Questions 11.4, 11.6, 11.7 and 11.8

## Learning and Teaching Activities

### Lectures

Each weekly lecture and the accompanying lecture notes provide a broad outline of the unit material for that week. The lecture notes are a guide to assist self-directed learning from other materials.

### Tutorials

Students are 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 readings are discussed. Tutorial exercises are not simulated exam questions. Rather, their principal purposes are as follows. Firstly, the tutorial questions are designed to prompt deeper understanding of the material. The second purpose is to give students ideas and suggestions for their major assignment.

### Major Assignment

The group assignment for this unit requires students to also apply theories and techniques to a current Australian company, in groups of three or four. Students will form groups within the first four weeks of the semester, and will work on the group assignment throughout the semester in those groups, facilitating their learning in a practical way. A unique feature of the unit is that much of the delivery (from the lectures, textbook, case studies and tutorials) is directed at the major assignment, in addition to the final examination. It would be impossible to effectively teach a unit on Financial Statement Analysis without a group assignment of this nature. Students are expected to remain abreast of the financial news and developments in the Australian corporate sector.

## Policies and Procedures

Macquarie University policies and procedures are accessible from [Policy Central](#). Students

should be aware of the following policies in particular with regard to Learning and Teaching:

Academic Honesty Policy [http://mq.edu.au/policy/docs/academic\\_honesty/policy.html](http://mq.edu.au/policy/docs/academic_honesty/policy.html)

Assessment Policy <http://mq.edu.au/policy/docs/assessment/policy.html>

Grading Policy <http://mq.edu.au/policy/docs/grading/policy.html>

Grade Appeal Policy <http://mq.edu.au/policy/docs/gradeappeal/policy.html>

Grievance Management Policy [http://mq.edu.au/policy/docs/grievance\\_management/policy.html](http://mq.edu.au/policy/docs/grievance_management/policy.html)

Disruption to Studies Policy [http://www.mq.edu.au/policy/docs/disruption\\_studies/policy.html](http://www.mq.edu.au/policy/docs/disruption_studies/policy.html) *The Disruption to Studies Policy is effective from March 3 2014 and replaces the Special Consideration Policy.*

In addition, a number of other policies can be found in the [Learning and Teaching Category](#) of Policy Central.

## Student Code of Conduct

Macquarie University students have a responsibility to be familiar with the Student Code of Conduct: [https://students.mq.edu.au/support/student\\_conduct/](https://students.mq.edu.au/support/student_conduct/)

## Results

Results shown in *iLearn*, or released directly by your Unit Convenor, are not confirmed as they are subject to final approval by the University. Once approved, final results will be sent to your student email address and will be made available in [eStudent](#). For more information visit [ask.mq.edu.au](http://ask.mq.edu.au).

## Student Support

Macquarie University provides a range of support services for students. For details, visit <http://students.mq.edu.au/support/>

## Learning Skills

Learning Skills ([mq.edu.au/learningskills](http://mq.edu.au/learningskills)) provides academic writing resources and study strategies to improve your marks and take control of your study.

- [Workshops](#)
- [StudyWise](#)
- [Academic Integrity Module for Students](#)
- [Ask a Learning Adviser](#)

## Student Services and Support

Students with a disability are encouraged to contact the [Disability Service](#) who can provide appropriate help with any issues that arise during their studies.

## Student Enquiries

For all student enquiries, visit Student Connect at [ask.mq.edu.au](http://ask.mq.edu.au)

## IT Help

For help with University computer systems and technology, visit <http://informatics.mq.edu.au/help/>.

When using the University's IT, you must adhere to the [Acceptable Use Policy](#). The policy applies to all who connect to the MQ network including students.

## Graduate Capabilities

### Discipline Specific Knowledge and Skills

Our graduates will take with them the intellectual development, depth and breadth of knowledge, scholarly understanding, and specific subject content in their chosen fields to make them competent and confident in their subject or profession. They will be able to demonstrate, where relevant, professional technical competence and meet professional standards. They will be able to articulate the structure of knowledge of their discipline, be able to adapt discipline-specific knowledge to novel situations, and be able to contribute from their discipline to inter-disciplinary solutions to problems.

This graduate capability is supported by:

### Learning outcomes

- Application of the following fundamentals principles: basic relations in financial accounting, spreadsheet usage, discounting, equity valuation, cost of capital and the Efficient Market Hypothesis.
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- Forecast the re-cast versions of the three principal financial statements, for each year up to the forecasting horizon, for listed companies. Students need to argue and substantiate their forecast assumptions and approach to estimating forecast parameters.
- Perform equity- and asset-based valuations of a listed company. Most of the valuation approaches involve discounting forecasts of future expected flows. Students need to investigate the sensitivity of their valuations to changes in the key input parameters.

### Assessment tasks

- Assessed Coursework

- In- Class Tests
- Major Assignment
- Final Examination

## Critical, Analytical and Integrative Thinking

We want our graduates to be capable of reasoning, questioning and analysing, and to integrate and synthesise learning and knowledge from a range of sources and environments; to be able to critique constraints, assumptions and limitations; to be able to think independently and systemically in relation to scholarly activity, in the workplace, and in the world. We want them to have a level of scientific and information technology literacy.

This graduate capability is supported by:

### Learning outcomes

- Application of the following fundamentals principles: basic relations in financial accounting, spreadsheet usage, discounting, equity valuation, cost of capital and the Efficient Market Hypothesis.
- Analyse the macroeconomic, industry and firm-specific factors that constitute the context in which financial statements are produced and interpreted.
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### Assessment tasks

- Assessed Coursework
- In- Class Tests
- Major Assignment
- Final Examination

## Problem Solving and Research Capability

Our graduates should be capable of researching; of analysing, and interpreting and assessing

data and information in various forms; of drawing connections across fields of knowledge; and they should be able to relate their knowledge to complex situations at work or in the world, in order to diagnose and solve problems. We want them to have the confidence to take the initiative in doing so, within an awareness of their own limitations.

This graduate capability is supported by:

## **Learning outcomes**

- Application of the following fundamentals principles: basic relations in financial accounting, spreadsheet usage, discounting, equity valuation, cost of capital and the Efficient Market Hypothesis.
- Analyse the macroeconomic, industry and firm-specific factors that constitute the context in which financial statements are produced and interpreted.
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## **Assessment tasks**

- Assessed Coursework
- In- Class Tests
- Major Assignment
- Final Examination

## **Effective Communication**

We want to develop in our students the ability to communicate and convey their views in forms effective with different audiences. We want our graduates to take with them the capability to read, listen, question, gather and evaluate information resources in a variety of formats, assess, write clearly, speak effectively, and to use visual communication and communication technologies as appropriate.

This graduate capability is supported by:

## Learning outcomes

- Analyse the macroeconomic, industry and firm-specific factors that constitute the context in which financial statements are produced and interpreted.
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- Interpret key ratios and indicators to enable evaluation of a listed company's profitability, efficiency, leverage and liquidity, using data in statutory format and re-cast financial statements.
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## Assessment tasks

- Assessed Coursework
- In- Class Tests
- Major Assignment
- Final Examination

## Changes from Previous Offering

The following changes to unit assessment have been made from the previous offering:

### Assessed Coursework

This component is still worth 10%. However:

- There is no assessment of participation during S2, 2015.
- Four weekly assignments will still be collected, at random during the session. However, unlike S1, 2015:
  - This component is worth 10%, rather than eight percent.
  - During S2, 2015, students have the opportunity to compensate for lack of satisfactory weekly assignments, via submission of summaries of the textbook chapters.

### In-Class Tests

This component is still worth 10%. However:



- During S2, 2015, there are two in-class tests, rather than one.
- The timing of the tests has changed.
- The content of the tests has changed.

### Major Assignment

The nature of this task is essentially unchanged. However, the following changes have been made to the assessment:

- This item is worth 20%, rather than 30%.
- There is no longer a requirement to submit an individual report.

### Final Examination

This component is now worth 60%, rather than 50%.

## **Advice on How to Study**

In order to achieve the learning outcomes and pass the unit, students are advised to study as follows. The total time commitment for the unit is approximately 150 hours. Students should allocate six to nine hours to self-study per week (i.e., excluding time spent in lectures and tutorials). They are encouraged to divide this time into three roughly equal blocks:

1. Active revision from 200-level finance units, particularly the aforementioned topics.  
Students should obtain and re-work examples from their 200-level textbooks. Each student should be his / her own judge as to how many examples to work through, before an adequate grasp of content is attained. In preparing for the topic of forecasting financial statements, students are similarly advised to actively revise 100-level financial accounting.
2. Re-working materials provided in lectures Throughout the semester, students will be provided with spreadsheet and Word documents, illustrating the steps of the sell-side analysis for the company that will be analysed as an ongoing lecture example. Students should save the original versions of these documents, and then use the "Save As" function to save another copy. They should re-work the analyses conducted in lectures, making notes of steps that they would have performed differently. They should then conduct a trial analysis of the same steps, for their major assignment companies.
3. Preparation for the tutorial This block should be sub-divided into two components, to be completed prior to the tutorial:
  - Actively read the prescribed textbook chapter(s). In order to adequately read the materials, students are advised to produce their own three- to four-page

summary of the reading for each week.

- Attempt the tutorial exercises, using the theory developed, as summarised in the previous step.

These activities encompass preparation for all of the assessment tasks of the unit. Students will need to spend extra time on the major assignment, especially during the intra-semester recess.

## Prize

The student with the most meritorious performance in ACCG350 Financial Statement Analysis (during Session Two, 2015) will receive the Macquarie University Accounting and Corporate Governance Prize for the unit. This prize does not contain a monetary award. The prize-winner will receive a certificate. Further details of prizes awarded by the Faculty are located at the following URL: [http://www.businessandconomics.mq.edu.au/undergraduate\\_degrees/prizes\\_scholarships](http://www.businessandconomics.mq.edu.au/undergraduate_degrees/prizes_scholarships)

## Research and Practice

- The content of this unit has been developed, after consideration of the extant journal literature in the field of capital markets research in financial accounting.
- Full-time academic staff will utilise their knowledge of the journal literature, and skills gained from engagement in the research process, in their delivery of the unit.

## Changes since First Published

Date	Description
29/07/2015	There was an inconsistency in the previous version of the guide, due to a typo. Some sections stated that the report for the major assignment is due in Week 12, others stated Week 13. The report is actually due in Week 12. The unit guide has been altered accordingly,