ACCG350

Financial Statement Analysis

S1 Evening 2016

Dept of Accounting & Corporate Governance

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General Information

Unit convenor and teaching staff
Philip Sinnadurai
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Credit points
3

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

Corequisites

Co-badged status

Unit description
The unit aims to equip students to undertake financial analysis and the valuation of listed companies. Students are taught the following steps in financial analysis and valuation: (i) evaluating the state of the economy, the industry and a company, (ii) analysing the company's accounting policies, evaluating its financial position using financial ratios and other analytical tools, (iii) forecasting the company's financial statements, and (iv) using a variety of techniques to value the company so that an investment decision can be made. Students will 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.

Important Academic Dates
Information about important academic dates including deadlines for withdrawing from units are available at https://students.mq.edu.au/important-dates

Learning Outcomes

1. Application of the following fundamentals principles: basic relations in financial accounting, spreadsheet usage, discounting, equity valuation, cost of capital and the Efficient Market Hypothesis.
2. Analyse the macroeconomic, industry and firm-specific factors that constitute the context in which financial statements are produced and interpreted.
3. 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 indices, to evaluate a company's profitability, efficiency, leverage and liquidity.

4. 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.

5. 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

<table>
<thead>
<tr>
<th>Name</th>
<th>Weighting</th>
<th>Due</th>
</tr>
</thead>
<tbody>
<tr>
<td>Summaries and Tute Assignments</td>
<td>10%</td>
<td>Ongoing</td>
</tr>
<tr>
<td>In-Class Tests</td>
<td>10%</td>
<td>Weeks 4 and 11</td>
</tr>
<tr>
<td>Major Assignment</td>
<td>20%</td>
<td>Weeks 8 / 9 and 13</td>
</tr>
<tr>
<td>Final Examination</td>
<td>60%</td>
<td>Final Examination Period</td>
</tr>
</tbody>
</table>

Summaries and Tute Assignments

Due: **Ongoing**

Weighting: **10%**

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.
This Assessment Task relates to the following Learning Outcomes:

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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.

This Assessment Task relates to the following 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.
- 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:** Weeks 8 / 9 and 13  
**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.

This Assessment Task relates to the following 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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• 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.students.mq.edu.au/student_admin/manage_your_study_program/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.

This Assessment Task relates to the following Learning Outcomes:

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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/](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

The prescribed textbook can be purchased from the Macquarie University Co-op Bookshop.

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

<table>
<thead>
<tr>
<th>Week</th>
<th>Commencing</th>
<th>Lecture Topic</th>
<th>Reading (from Palepu et al. (2015) unless otherwise advised)</th>
<th>Assessment Tasks</th>
<th>Tutorial Questions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>29 February</td>
<td>Introduction for Business Analysis and Valuation</td>
<td>Chapter 1</td>
<td></td>
<td>No Tutorials in Week 1</td>
</tr>
<tr>
<td></td>
<td>Date</td>
<td>Topic</td>
<td>Chapters/Sections</td>
<td>Additional Notes</td>
<td></td>
</tr>
<tr>
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<td></td>
</tr>
<tr>
<td>2</td>
<td>7 March</td>
<td>Strategic and Business Analysis</td>
<td>Chapter 2</td>
<td>Questions 1.1, 1.2 and 1.5</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>14 March</td>
<td>Accounting Analysis</td>
<td>Chapters 3 and 4</td>
<td>Questions 2.13, 2.11, 2.10 and 2.8</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>21 March</td>
<td>Financial Analysis</td>
<td>Chapter 5</td>
<td>In-Class Test 1</td>
<td>Questions 3.6, 4.4, and additional questions</td>
</tr>
<tr>
<td>5</td>
<td>28 March</td>
<td>Financial Analysis [CONT'D]</td>
<td>Chapter 5</td>
<td></td>
<td>Questions 5.1, 5.10, 5.11 and 5.5</td>
</tr>
<tr>
<td>6</td>
<td>4 April</td>
<td>Forecasting</td>
<td>Chapter 6</td>
<td></td>
<td>Questions 5.3 and 5.6, Additional Questions</td>
</tr>
<tr>
<td>7</td>
<td>25 April</td>
<td>Forecasting [CONT'D]</td>
<td>Chapter 6</td>
<td></td>
<td>Additional Questions, Question 6.6</td>
</tr>
<tr>
<td>8</td>
<td>2 May</td>
<td>Valuation Theory and Concepts</td>
<td>Chapter 7</td>
<td>Group presentations</td>
<td>Journal readings. Reference as for journal article.</td>
</tr>
<tr>
<td>9</td>
<td>9 May</td>
<td>Valuation Implementation</td>
<td>Chapter 8</td>
<td>Group presentations (Contd.)</td>
<td></td>
</tr>
</tbody>
</table>
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:


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.

**Student Support**

Macquarie University provides a range of support services for students. For details, visit [http://students.mq.edu.au/support/](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**
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

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Assessment tasks

• Summaries and Tute Assignments
• In-Class Tests
• Major Assignment

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

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Assessment tasks

• Summaries and Tute Assignments
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.
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Assessment tasks

- Summaries and Tute Assignments
- In-Class Tests
- Major Assignment

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.

- 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.
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**Assessment tasks**

- Summaries and Tute Assignments
- In-Class Tests
- Major Assignment

**Changes from Previous Offering**

There are no principal changes to unit assessment from the previous offering

**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.