UNIVERSITY OF NEW SOUTH WALES
SCHOOL OF ACCOUNTING

ACCT5910 FINANCIAL STATEMENT ANALYSIS

COURSE OUTLINE

Second Session 2003

COURSE CO-ORDINATOR:	**Dr Gerry Gallery** *Contact Details:* QUAD 3096 (Quadrangle Building) Ph. 9385 5813 Email: g.gallery@unsw.edu.au *Consultation times:* Tuesday 4.30-6pm Wednesday 2.30-4pm Other times by appointment
SEMINAR DETAILS:	*Section 1:* Tuesday 6 – 9pm, QUAD 1027 (Quadrangle Building) *Section 2:* Wednesday 4pm – 7pm AS G02 (Applied Science Building)
COURSE REQUIREMENTS: *(Prerequisites)*	ACCT5901 Accounting - A User Perspective **and** FINS5511 Corporate Finance **or** FINS5513 Security Valuation & Portfolio Selection

DESCRIPTION

This course is about the analysis of financial information arising primarily from the financial reports of entities. Fundamental analysis techniques are examined in detail with particular emphasis on the application of these techniques in equity (share) valuation decisions.

The course comprises three related parts. Part one outlines the four basic steps in the fundamental analysis framework: business analysis, accounting analysis, financial analysis and prospective analysis. The next part combines these skills in addressing the question of valuation, while the final section of the course applies the skills in several different contexts, such as credit analysis, security analysis, mergers and acquisitions, initial public offerings and financial policy changes.

OBJECTIVES

On successful completion of the course you should be able to:

1. Understand the basic techniques of financial statement analysis (FSA);
2. Appreciate the linkage between strategic business analysis, accounting analysis and financial analysis;
3. Identify and utilise value relevant information contained within financial statements;
4. Recognise and explain the fundamental role of accounting numbers in the DCF valuation of entities;
5. Prepare and substantiate a valuation that incorporates the strategic, accounting and financing activities of a business entity.

Consistent with the objectives of the course, emphasis is placed on translating the tools of business analysis and valuation into context-specific settings. To achieve this aim, the course is relatively case and project intensive. This hands on approach is ideal in illustrating applications of fundamental analysis principles and is effective in facilitating the development of key analytically skills.

Given the applied nature of the course, it is of interest to those contemplating careers in investment banking (particularly in equity research), security analysis, funds management, financial planning, business consulting, corporate finance and public accounting. The course also has wide application in personal investment activities.

TEACHING ARRANGEMENTS

There will be one three-hour seminar each week. The seminar will involve a one to two hour lecture component and a workshop that either precedes or follows the lecture. The workshop may be used to discuss a case, review assigned problems or practice skills. You should bring your prescribed textbook and calculator to each class.

Please note that tegular class attendance is a formal course requirement, and attendance records will be maintained. As stipulated in the University and Faculty Handbooks, those who fail to observe this requirement may be precluded from undertaking the final assessment.

In preparation for each seminar, you will be expected to undertake prescribed readings, attempt cases/problem sets **prior** to attending classes and come to class suitably prepared. With this objective in mind, marks will be awarded for your attempt at completing the assignments and your class contribution (see below for details).

COURSE ASSESSMENT

Assessment items and the composition of the final grade is as follows:

1.	**Seminar Participation**	**5%**
2.	**Seminar Assignments**	**15%**
3.	**FSA Project - individual component** *Due 5 pm, Friday 19 September (Week 8)*	**10%**
	FSA Project - group component *Due 5 pm, Friday 17 October (Week 11)* *Group Presentations Week 12 or 13)*	**20%**
4.	**Final Examination** *(13 November)*	**50%**
		100%

Satisfactory performance in **all** components of the course is required to gain an overall passing grade. (Note that an examination mark of **less than 50%** is considered unsatisfactory performance.) Further details of assessment items are outlined below.

1. Seminar Participation (5%)

The amount of learning that takes place in this course critically depends on class interaction. To encourage effective interaction, a mark will be awarded for your participation in seminars at the conclusion of the last class. Assessment will be based on the **quality** of your contribution to class discussion. (Note that dominating class discussion, ignoring the views of other class members, or frequently raising irrelevant issues are not examples of good quality class participation.) To ensure that all class members have on opportunity to participate, you will be frequently asked to **lead** class discussion on assigned questions or related issues.

The following approach will be used as a guideline to assign a maximum of 5 marks:

1 mark for frequent and punctual *tutorial attendance* (i.e. student is not absent and is not late for more than two classes);
1-2 marks for *passive* participation in class (i.e. student responds constructively to questions when specifically requested);
1-2 marks for *active* participation (i.e. student contributes constructively to class discussion without being specifically requested).

2. Seminar Assignments (15%)

The seminar assignments are aimed at progressively building your knowledge and understanding of FSA issues as they are examined throughout the session. The following approach will be adopted:

- Assignments will be collected **4 times** on a random basis between Weeks 2 and 13 inclusive.
- At the end of the semester the **best 3** assignments will be totalled to give a maximum mark out of 15.
- If you are absent on the day that the assignments are collected you will receive no marks for that assignment unless it is received in **advance** of your scheduled class.
- Submitted work **must** reflect your original contribution and not that of other students. *(See plagiarism information below.)*
- Assignments will not be marked for accuracy nor will inaccurate answers be corrected. It is your responsibility to note and clarify any corrections during the seminar.
- Assessment will be based on the **quality** of the attempt at answering each prescribed question. The following criteria will serve as a guide for assignment assessment:

Attempt Type	Typical Description	Mark
Excellent	A comprehensive attempt at 100% of the assigned questions	**5**
Good	A comprehensive attempt at more than 75% but less than 100% of the assigned questions	**4**
Fair	A reasonable attempt at more than 50% but less than 75% of the assigned questions	**3**
Poor	A reasonable attempt at more than 25% but less than 50% of the assigned questions, or a partial attempt at the majority of questions	**2**
Very Poor	A minimal attempt at completing some questions	**1**
No Attempt	No assignment submitted	**0**

3. Financial Statement Analysis Project (30%)

The FSA project is aimed at developing your understanding of, and practical skills in financial statement analysis and valuation. It is also designed to enhance teamwork, and analytical and communication skills.

To complete this project, you are required to form syndicates of either **3 or 4** members. Each syndicate must select a different industry and obtain approval from the course coordinator. Each syndicate member must select a company within the approved industry and analyse the company's financial reports using the strategic, accounting and financial analysis tools identified in the course. A report is due by **5 pm, Friday 19 September (Week 8).** This individual component will be awarded a mark out of 10.

The group must then complete industry comparative analyses of the 3 (or 4) companies and conclude with an investment recommendation. The investment recommendation must be fully substantiated and involve the application of the valuation techniques identified in the course. Written reports must be submitted by **5 pm, Friday 17 October (Week 11).**

Additionally, each group is required to formally present the group's findings to the class in **Week 12 or 13**.

An overall group mark (out of 20) will be awarded to each student for the group component but the course coordinator reserves the right to provide a reduced mark where a student has provided a sub-standard contribution to group activities. Further details on the nature and requirements of the project will be discussed early in the course.

4. Final Examination (50%)

The final examination will be a take-home examination, and will be available to students at **5pm, Thursday 13 November** for return by **5pm, Tuesday 18 November**. All material covered in the course is examinable and the exam content will be similar in spirit to the problems and cases assigned during the semester. Please note that you **must pass** the final examination to pass the course.

PRESCRIBED TEXTBOOK & SUPPLEMENTARY MATERIAL

Palepu, K. G., P. M. Healy, and V. L. Bernard, *Business Analysis and Valuation Using Financial Statements*, 2nd ed., South-Western College Publishing, 2000.

Additional readings will be handed out in seminars throughout the course. You should also regularly check the course web page on WebCT.

OTHER USEFUL REFERENCES

Foster, G. *Financial Statement Analysis*, Prentice Hall, Englewood Cliffs, New Jersey, 1986.

Lonergan, W. *The Valuation of Businesses, Shares and other Equity,* 2nd ed., Longman, 1994.

Penman, S.H., *Financial Statement Analysis and Security Valuation,* McGraw Hill, 2001.

Stickney, C.P. and P.R. Brown, *Finaicial Reporting and Security analysis: A Strategic Perspective*, 4th ed., Dryden, 1999.

White G.I., A.C. Sondhi and D. Fried, *The Analysis and Use of Financial Statements*, John Wiley & Sons, Inc., 3rd ed., 2003.

Wild, J.J., L.A., Bernstein, and K.R. Subramanyan, *Financial Statement Analysis,* 7th ed., McGraw Hill, 2001.

Accounting Standards:

CPA Australia and The Institute of Chartered Accountants in Australia, Accounting and Auditing Handbook *(latest edition).*

The AASB Accounting Standards can also be downloaded from the AASB web-site (www.aasb.com.au) together with information on the convergence of AASB /IFRS standards.

OTHER MATTERS

Plagiarism and Academic Misconduct

You should be familiar with the following important information regarding plagiarism available on the Faculty's website at
www.fce.unsw.edu.au/current_students/responsibilities.shtml#misconduct

> "Plagiarism entails taking and using as one's own, the thoughts or writings of another without acknowledgement including:
>
> (a) where paragraphs, sentences, a single sentence or significant part of a sentence which are copied directly, are not enclosed in quotation marks and appropriately footnoted;
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> (b) where direct quotations are not used, but ideas or arguments are paraphrased or summarised, and the source of the material is not acknowledged either by footnoting or other reference within the text of the paper; and
>
> (c) where an idea, which appears elsewhere in print, film or electronic medium, is used or developed without reference being made to the author or the source of the idea."

Also

> "Plagiarism involves using the work of another person and presenting it as one's own. Acts of plagiarism include copying parts of a document or audiovisual, or computer based material without acknowledging and providing the source for each quotation or piece of borrowed material. Similarly, using or extracting another person's concepts, experimental results or conclusions, summarising another person's work or, where there is collaborative preparatory work, submitting substantially the same final version of any material as another student constitutes plagiarism. Moreover, encouraging or assisting another person to commit plagiarism is a form of improper collusion and may attract the same penalties."

Plagiarism is a serious form of academic misconduct and involves severe penalties. In serious cases, student may be temporarily or permanently excluded from the University. Relevant material about academic misconduct has been placed under the tab for "Current students" at:
www.fce.unsw.edu.au/current_students/responsibilities.shtml
It is your responsibility to familiarise yourself with this material and the penalties.

Supplementary Examinations And Special Consideration

Students who believe that their performance in this subject, either during session or in an examination, has been adversely affected by sickness, misadventure or other circumstances beyond their control may apply for special consideration for affected assessments. Such applications should be submitted to the Registrar and Deputy Principal (at the student centre) as soon as practicable after the occurrence and in any event, **not later than seven days** after the final examination in this course.

SEMINAR SCHEDULE

Wk.	Seminar Dates	Topic	Prescribed Reading*	Assigned Case
1	*29/30 July*	**Introduction to the course** - Overview/ Strategic Analysis	PHB Ch.1, 2	AOL *(2-22)*
2	*5/6 July*	**Management Communication & Corporate Governance**	PHB Ch. 17	Sensomatic *(17-15)*
3	*12/13 August*	**Accounting Analysis:** - Overview	PHB Ch 3	Harnischfeger *(3-19)*
4	*19/20 August*	**Accounting Analysis** - Financial Position	PHB Ch. 4,5 & 8	Boston Chicken *(4-20)*
5	*26/27 August*	**Accounting Analysis:** - Financial Performance	PHB Ch. 6,7	Oracle Systems Legal *(6-17)*
6	*2/3 September*	**Financial Analysis** - Ratio Analysis	PHB Ch.9	Home Depot *(9-32)*
7	*9/10 September*	**Prospective Analysis** - Forecasting/DCF Valuation	PHB Ch. 10,11	The Gap *(12-24)*
8	*16/17 September*	**Accounting-Based Valuation** - Overview *Project (Individual) due 5pm,19 Sep.*	PHB Ch. 11	The Gap *(12-24)*
9	*23/24 September*	**Accounting-Based Valuation** **-** Implementation.	PHB Ch. 12	The Gap *(12-24)*
	27 Sep. – 6 October	**Mid-Session Recess**		
10	*7/8 October*	**Equity Security Analysis**	PHB Ch. 13	Arch *(13-19)*
11	*14/15 October*	**Credit Analysis** *Project (Group) due 5pm, 17 Oct.*	PHB Ch. 14	Adelphia *(14-19)*
12	*21/22 October*	**Mergers & Acquisitions and IPO Analysis**	PHB Ch. 15	UpJohn *(15-22)* ***Presentations***
13	*28/29 October*	**Financial Policy Analysis**	PHB Ch. 16	CUC *(16-19)* ***Presentations***
14	*4/5 October*	**Course Review**		

PHB: Palepu, K. G., P. M. Healy, and V. L. Bernard, *Business Analysis and Valuation Using Financial Statements, 2n ed.*

***Please note that additional readings, exercises, problems and cases may be assigned during the course. It is <u>your</u> responsibility to ensure that you are up to date with the requirements prior to attending each seminar.**