THE UNIVERSITY OF
NEW SOUTH WALES

Faculty of Commerce and Economics

School of Accounting

ACCT3610
FINANCIAL STATEMENT ANALYSIS

COURSE OUTLINE
SESSION 1, 2006

COURSE COORDINATOR: DR JEFF COULTON

1. COURSE CO-ORDINATOR

1.1 Contact details

Co-ordinator / Instructor	Dr Jeff Coulton
Location:	QUAD3901 (Quadrangle Building)
Phone:	9385 5811
Email:	j.coulton@unsw.edu.au

1.2 Communication and consultation

Consultation times:	Monday	4.00 – 5.00 pm
	Wednesday	1.00 – 3.00 pm

Other times by appointment

Please post questions about the technical content of the course (lecture and case material) to the course WebCT page. Please do not use "SMS-speak" in your emails to the course coordinator or in questions to the course coordinator in postings to WebCT. They will be ignored / deleted respectively!

2. INFORMATION ABOUT THE COURSE

2.1 Teaching times and Locations

Wednesday 3:00 – 6:00 pm
Electrical Engineering G24

2.2 Units of Credit

This course has a total of *6* units of credit.

2.3 Relationship of this course to other course offerings

Financial Statement Analysis (*FSA*) brings together areas of financial accounting, finance and strategic management. This course is offered by the School of Accounting and is generally taken as an elective in the Bachelor of Commerce degree. Given the interdisciplinary nature of the course, it is a very useful preparatory course for the CPA, CA and CFA programs. Also due to 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.

To complete the advance topics covered in the course, a certain level of prior knowledge in accounting and finance must be assumed. The following courses (or acceptable equivalents) are the minimum prerequisites and must be completed to enroll in the course:

• *ACCT2542 and FINS1613* (or equivalent)

2.4 Approach to learning and teaching

Consistent with the nature and 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 (outlined below).

3. COURSE AIMS AND OUTCOMES

3.1 Course Aims

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 and financial policy decisions.

3.2 Student Learning Outcomes

Content-based Learning Outcomes

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 valuation of entities;
5. Prepare and substantiate a valuation that incorporates the strategic, accounting and financing activities of a business entity.

Desired Skills-based Outcomes

As a result of satisfactorily completing this course, you should have the opportunity to:

6. Learn independently and to assume responsibility for the learning process;
7. Learn within teams (such skills as task assignment and management, conflict resolution and co-operation, consensus building, and leadership);
8. Conduct applied business research (including locating and critically interpreting and evaluating firm-specific financial information);
9. Apply FSA knowledge in specific organizational contexts;
10. Provide professional business presentations (both oral and written).

3.3 Teaching Strategies

Seminar Procedure:
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. Normally case studies will be discussed in the week following the related lecture. You should bring your prescribed textbook and a calculator to each class.

Seminar questions will be provided in class and posted on WebCT in the week *prior* to the related seminar. It is essential that, prior to a seminar, you read the relevant course materials and prepare written responses to assigned questions. Seminar questions often require additional research beyond the normal prescribed readings.

Self Study:
Self study is a key element of the learning design of this course. In most sessions readings and self study materials will be provided in class and/or posted on WebCT to facilitate deeper learning of core elements of the course. The aim of these self-study materials is to encourage you to assume responsibility in the learning process, and to broaden your understanding of the material covered in class. Please note that there are no readings sets required to be purchased at the start of the course. All additional reading material will be distributed in class. This ensures that readings are current and topically.

4. STUDENT RESPONSIBILITIES AND CONDUCT

4.1 Preparation for and Performance in Seminars

In preparation for each seminar, you will be expected to undertake the 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).

4.2 Workload

It is expected that you will spend at least *ten hours* per week studying this course. This time should be made up of reading, research, working on exercises and problems, and attending classes. In periods where you need to complete assignments or prepare for examinations, the workload may be greater. The cumulative nature of the material covered in the course necessitates regular commitment *each week* to complete the assigned work.

Over-commitment has been a cause of failure for many students. You should take the required workload into account when planning how to balance study with employment and other activities.

4.3 Attendance
Your regular and punctual attendance at lectures and seminars is expected in this course. University regulations indicate that if students attend less than eighty (80) per cent of scheduled classes they may be refused final assessment.

4.4 General Conduct and Behaviour
You are expected to conduct yourself with consideration and respect for the needs of your fellow students and teaching staff. Conduct which unduly disrupts or interferes with a class, such as ringing or talking on mobile phones, is not acceptable and students may be asked to leave the class. More information on student conduct is available at: www.my.unsw.edu.au

4.5 Keeping informed

You should keep abreast of all announcements made in seminars or on the course web site. Following each session lecture notes, summary solution points, spreadsheets and where practical, the additional reading material will be placed on the course website. If you miss a seminar, you should consult the website information prior to seeking information from the course instructor. Also, important announcements may be directly forwarded to your university e-mail address without a follow up paper copy. In all cases, you will be deemed to have received this information.

5. Learning Assessment

5.1 Formal Requirements

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

5.2 Assessment Details

The assessment items and composite marks will be calculated as follows:

Item	*Assessment Item*	*Week*	*Weight*	*Learning outcomes assessed*
1	Seminar participation	All	5%	1-4 & 6-9
2	Minor hand in cases	Any	15%	1-6 & 8-9
3	Major FSA project: report	11	25%	1-5 & 7-10
3b	Major FSA project: presentation	12	5%	10
4	Final Examination	14	50%	1-6 & 7-9
			100%	

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 *seminar attendance* (i.e. student is not absent and is <u>not late</u> or <u>does not leave early</u> 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).

In order to facilitate the administration of participation assessment, *students are required to provide your instructor with a recent, passport sized photograph (with your name and SID on the back) no later than week 3.*

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. Seminar assignments include *both* assigned cases *and project tasks* (see the Course Schedule below for details). You should attempt the case questions shown for the case and any other assigned questions distributed in the class.

The following assessment approach will be adopted:

(1) Assignments must be submitted via WebCT by 5:00pm Monday on each week that there is a class (from week 3 onwards). No email or hard copy submission of assignments will be accepted. At least four assignments will be selected *at random* to be assessed.

(2) At the end of the semester the *best 3* of the 4 collected assignments will be totalled to give a maximum mark out of 15.

(3) Submitted work *must* reflect your original contribution and not that of other students. *(See plagiarism information below.)*

(4) 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.

(5) 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. Upon successful completion of the project you will have acquired a working knowledge and practical skills in undertaking an equity valuation using 'leading-edge' financial statement analysis techniques. From past experience, the final report often provides excellent evidence of your analytical skills that can presented to prospective employers when applying for jobs.

To complete this project, you are required to:

(1) Form syndicates of either *3 or 4* members, select an industry and one company per member within the industry for analysis;

(2) Notify your group's selected industry and companies by *Week 3*;

(3) Progressively analyse the company using the strategic, accounting, financial, and prospective analysis tools identified in the course and submit your progressive analysis when randomly collected (together with any other assigned seminar case work);

(4) Prepare (on a group basis) an industry comparative analysis of the 3 (or 4) companies and conclude with an investment recommendation which must be fully substantiated and involve the application of the valuation techniques identified in the course. This would include a statement as to whether you recommend a buy, hold or sell for each company in your assignment based on current prices (as at Monday 15 May). Written reports must be submitted by *3 pm, Friday 19 May (Week 11);*

(5) Formally present the group's findings to the class in *Week 12 or 13*. All group members must participate.

An overall group mark (out of 30) will be awarded to each student for the group project (report (25) and presentation (5)) 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 provided in Week 2 and your progress will be regularly discussed throughout the course.

4. Final Examination/Assignment (50%)

The final examination will be a take-home assignment, and will be available to students at *6pm, Wednesday 7 June*. 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.

5.3 Special Consideration and Supplementary examinations

The School of Accounting follows the UNSW policy and process for Special Consideration (see https://my.unsw.edu.au/student/atoz/SpecialConsideration.html).

Specifically:

- Applications for special consideration (including supplementary examinations) *must go through UNSW Central administration* (within 3 working days of the assessment to which it refers) – applications will *not* be accepted by staff in the School of Accounting;
- Applying for special consideration does *not* automatically mean that you will be granted additional assessment or that you will be awarded an amended result;
- If you are making an application for special consideration (through UNSW Central Administration) please send details of your special consideration application to the Lecturer in Charge;
- Notification of supplementation exams will be sent via email by the Instructor.

Please do not contact to the School Office.

6. Academic Honesty and Plagiarism

The University regards plagiarism as a form of academic misconduct, and has very strict rules regarding plagiarism. For full information regarding policies, penalties and information to help you avoid plagiarism see:
http://www.lc.unsw.edu.au/plagiarism/index.html

Plagiarism is the presentation of the thoughts or work of another as one's own.* Examples include:

- direct duplication of the thoughts or work of another, including by copying work, or knowingly permitting it to be copied. This includes copying material, ideas or concepts from a book, article, report or other written document (whether published or unpublished), composition, artwork, design, drawing, circuitry, computer program or software, web site, Internet, other electronic resource, or another person's assignment without appropriate acknowledgement;
- paraphrasing another person's work with very minor changes keeping the meaning, form and/or progression of ideas of the original;
- piecing together sections of the work of others into a new whole;
- presenting an assessment item as independent work when it has been produced in whole or part in collusion with other people, for example, another student or a tutor; and,
- claiming credit for a proportion a work contributed to a group assessment item that is greater than that actually contributed.†

Submitting an assessment item that has already been submitted for academic credit elsewhere may also be considered plagiarism.

The inclusion of the thoughts or work of another with attribution appropriate to the academic discipline does *not* amount to plagiarism.

Students are reminded of their Rights and Responsibilities in respect of plagiarism, as set out in the University Undergraduate and Postgraduate Handbooks, and are encouraged to seek advice from academic staff whenever necessary to ensure they avoid plagiarism in all its forms.

The Learning Centre website is the central University online resource for staff and student information on plagiarism and academic honesty. It can be located at:

www.lc.unsw.edu.au/plagiarism

The Learning Centre also provides substantial educational written materials, workshops, and tutorials to aid students, for example, in:

- correct referencing practices;
- paraphrasing, summarising, essay writing, and time management;
- appropriate use of, and attribution for, a range of materials including text, images, formulae and concepts.

Individual assistance is available on request from The Learning Centre.

Students are also reminded that careful time management is an important part of study and one of the identified causes of plagiarism is poor time management. Students should allow sufficient time for research, drafting, and the proper referencing of sources in preparing all assessment items.

* Based on that proposed to the University of Newcastle by the St James Ethics Centre. Used with kind permission from the University of Newcastle
† Adapted with kind permission from the University of Melbourne.

7. Student Resources

7.1 Course Resources

Prescribed Text: Palepu, K. G., P. M. Healy, and V. L. Bernard, Business Analysis and Valuation Using Financial Statements: Text and Cases, 3rd ed., South-Western, 2004. Students should ensure that their copy of the text also includes the related financial analysis and valuation software disk, which will be needed during the course.

Course Website

A course website will be maintained within the University's WebCT environment. Your are required to have a Unipass and Unipin *and be enrolled in the course* to access this website. The WebCT site is where you will submit your weekly assignments. It is also where announcements, copies of lecture outlines, seminar questions, and other material will be posted. The WebCT page is at http://vista.elearning.unsw.edu.au

7.2 Other Resources, Support and Information

The University and the Faculty provide a wide range of support services for students, including:

- *Learning and study support*
    - FCE Education Development Unit (http://education.fce.unsw.edu.au)
    - UNSW Learning Centre (http://www.lc.unsw.edu.au)
    - EdTec – WebCT information (http://www.edtec.unsw.edu.au)
- *Counselling support* - http://www.counselling.unsw.edu.au
- *Library training and support services* - http://info.library.unsw.edu.au
- *Disability Support Services* – Those students who have a disability that requires some adjustment in their teaching or learning environment are encouraged to discuss their study needs with the Course Coordinator or the Equity Officer (http://www.equity.unsw.edu.au/disabil.html). Early notification is essential to enable any necessary adjustments to be made.

In addition, it is important that all students are familiar with University policies and procedures in relation to such issues as:

- *Examination procedures* and advice concerning illness or misadventure https://my.unsw.edu.au/student/academiclife/assessment/examinations/examinationrules.html
- *Occupational Health and Safety* policies and student responsibilities; http://www.riskman.unsw.edu.au/ohs/Policies%20&%20Procedures/UNSW%20OHS%20Accountability.pdf

8. Continual Course Improvement

Each year feedback is sought from students and other stakeholders about the courses offered in the School and continual improvements are made based on this feedback. UNSW's Course and Teaching Evaluation and Improvement (CATEI) Process (http://www.ltu.unsw.edu.au/ref4-5-1_catei_process.cfm) is one of the ways in which student evaluative feedback is gathered. Significant changes to courses and programs within the School are communicated to subsequent cohorts of students.

9. *COURSE SCHEDULE*

Wk	*Date*	*Topic*	*Reading**	*Case study*	*Project task*
1	1 Mar	*Introduction* Overview/Strategic Analysis	PHB Chpts 1, 2	*No case assigned*	Form group
2	8 Mar	*Management communication & corporate governance*	PHB 13	*America Online, Inc.*	Select companies
3	15 Mar	*Accounting Analysis* Introduction	PHB 3	Computer Associates *(p 13-23)*	Strategic analysis (*submit groups)*
4	22 Mar	*Accounting analysis* Implementation	PHB 4	Pre-Paid Legal *(p. 4-46)*	Accounting analysis
5	29 Mar	*Financial analysis* Ratio analysis	PHB 5	Boston Chicken *(part 4, p. 55)*	Financial analysis
6	5 Apr	*Prospective analysis* Forecasting	PHB 6	Home Depot *(p. 5-44)*	Prospective analysis (forecasting)
7	12 Apr	*Prospective analysis* Valuation theory/concepts	PHB 7	Krispy Kreme *(p. 6-17)*	Prospective analysis (valuation)
	14-23 Apr	*Mid-session break*			
8	26 Apr	*Prospective analysis* Valuation implementation	PHB 8		Prospective analysis (valuation)
9	3 May	*Equity security analysis*	PHB 9	Home Depot in the New Millen.*(p. 8-19)*	Prospective analysis (valuation)
10	10 May	*Credit analysis*	PHB 10	UPS *(p. 9-17)*	Finalise individual coy. analysis
11	17 May	*Mergers and acquisitions*	PHB 11	Amazon.com *(p. 10-18)*	*Group report due 3pm 19 May*
12	24 May	*Financial policy analysis*	PHB 12	To be announced	
13	31 May	*Course review/ project presentations*	PHB 13	Murray-Ohio *(pg. 221)*	Presentations
14	7 Jun	*Project presentations/ collect final exam 6pm*			Presentations

*PHB: Palepu, K. G., P. M. Healy, and V. L. Bernard, Business Analysis and Valuation Using Financial Statements: Text and Cases, 3rd 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.