Financial Statement Analysis

Course Description

This is an intermediate course which examines the analysis of financial information presented in firms’ financial reports and other related sources. The course comprises three related sections: fundamental analysis; valuation; and, the application of fundamental analysis and valuation techniques to a variety of specific decisions. Fundamental analysis involves answering questions such as: How is the firm performing? How might the firm perform in the future? What risks does the firm face? In addressing these issues particular attention is paid to the impact of financial reporting choices on the relation between reported earnings and firms’ underlying economic performance. Valuation describes the methods by which our expectations of firms’ future performance may be converted to a present day value of the firm’s assets, and the various financial claims on those assets. The final section of the course provides an introductory coverage to issues such as equity security analysis and credit analysis, with a strong emphasis on the use of financial statement data for these purposes.
COURSE OVERVIEW

Course Learning Outcomes

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

1. Describe and apply the basic techniques of financial statement analysis;
2. Explain the relationship 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 and the key financial claims on these entities assets (equity and debt securities);
5. Understand the impact of financial reporting choices on the usefulness of reported earnings to predict future performance;
6. Prepare a written analysis of a listed company, which incorporates and synthesises the strategic, accounting and financing techniques covered in the course;
7. Conduct applied business research (including locating, critically interpreting and evaluating firm-specific financial information);
8. Work effectively in a team environment.

Research-Led Teaching

The overall syllabus, and specific teaching materials draw directly on several of the convenor’s research specialisations, particularly the associations between financial reporting decisions, security analyst reports and the valuation of listed companies.

Technology, Software, Equipment

You will be required to use MS-Word and MS-Excel in completing the requirements of this course. You will also need to use some of the ANU’s electronic library resources, including Morningstar DatAnalysis Premium, to obtain current and historical financial statement data:


You are strongly advised to make yourself familiar with the DatAnalysis Premium website as early in the course as possible. The ANU Library also hosts a number of search engines with which you may identify literature relevant to your written assignment (see below).

Staff Feedback

Students will be given feedback in various ways in this course, including verbal or written feedback on the return of assessment tasks, during class discussion, or during consultation with lecturers and tutors.

Student Feedback

All CBE courses are evaluated using Student Experience of Learning and Teaching (SELT) surveys, administered by Planning and Statistical Services at the ANU. These surveys are offered online, and students will be notified via email to their ANU address when surveys are available in each course. Feedback is used for course development so please take the time to respond thoughtfully. Course feedback is anonymous and provides the Colleges, University Education Committee and Academic Board with opportunities to recognise excellent teaching and to improve courses across the university. For more information on student surveys at ANU

**Examination material or equipment**

Details regarding materials and equipment that is permitted in an examination room can be found on the ANU website:

[http://www.anu.edu.au/students/program-administration/assessments-exams/examination-conduct](http://www.anu.edu.au/students/program-administration/assessments-exams/examination-conduct)

Information regarding permitted examination materials for the course will be available on the examination timetable website when the examination timetable is released:


**Course Delivery**

There will be one 2-hour lecture/workshop per week, and one 1-hour tutorial per week. The lecture/workshop will typically include both a lecture component and time devoted to the discussion of a prescribed ‘tutorial-style’ question (usually a core practical question). The 1-hour tutorial will examine both theoretical and practical aspects of the syllabus. Questions for discussion in class will be available on the course website at least one week prior to the relevant class.

**Workload**

You should be prepared to devote an average of 6 hours per week (including the non-teaching weeks) of private study in relation to this course, in addition to the 3 class hours per teaching week.
### COURSE SCHEDULE

<table>
<thead>
<tr>
<th>Teaching Week</th>
<th>Week Beginning</th>
<th>Topic(s)</th>
<th>Text</th>
<th>Key Due Dates</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>15 February</td>
<td>Framework for Analysis &amp; Revision of Financial Reporting Essentials</td>
<td>Ch.1</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>22 February</td>
<td>Valuation Theory and Concepts: Introduction to Discounted Cash Flow Approaches</td>
<td>Ch. 7</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>29 February</td>
<td>Strategy Analysis: How strong are the competitive forces affecting a firm’s future profit and position?</td>
<td>Ch.2</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>7 March</td>
<td>Introduction to Accounting Analysis: Revision of Basics; Impact of Accounting Discretion on Reporting Quality</td>
<td>Ch. 3, 12</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>14 March</td>
<td>Implementing Accounting Analysis : Re-Casting Financial Statements (lecture slides provided, no ‘live’ lecture) Adjusting Financial Statements</td>
<td>Ch. 4,5</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>21 March</td>
<td>Financial Analysis – I De-composing ROE to better understand sources of profitability</td>
<td>Ch. 4,5</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>28 March</td>
<td>Financial Analysis – II Analysis of Asset Management and Leverage; Cash Flow Analysis</td>
<td>Ch. 5, Ch.9</td>
<td>Written Assignment Due 29 March 10am.</td>
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<tr>
<td></td>
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<td><strong>Mid-Semester Break</strong></td>
<td></td>
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<tr>
<td>8</td>
<td>18 April</td>
<td>Forecasting Future Performance and Position: Use what we have learned in the topics above to predict future sales, profits, assets, and financing requirements.</td>
<td>Ch. 6</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>25 April</td>
<td>Valuation Implementation – Apply Forecasts from Topic 8 to value the firm using a) Discounted Free Cash Flows, b) Discounted Abnormal Earnings, c) Discounted Abnormal ROE.</td>
<td>Ch. 8</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>2 May</td>
<td>Using Prices to Infer Market Expectations of Growth; Evaluating Mergers and Acquisitions and IPOs (Time Set Aside in Lecture to Discuss Assignment Problems)</td>
<td>Ch. 10</td>
<td>Ch.11</td>
</tr>
<tr>
<td>11</td>
<td>9 May</td>
<td>Application of FSA to Equity Analysis; Accounting-related stock market ‘anomalies’</td>
<td>Ch. 9</td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>16 May</td>
<td>Using Financial Statement Data to Creditworthiness</td>
<td>Ch. 10</td>
<td>Company Analysis Report Due 16 May 10 am.</td>
</tr>
<tr>
<td>13</td>
<td>23 May</td>
<td>Review</td>
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</table>

*Schedule of Topics is subject to minor adjustment during the course.*
COURSE ASSESSMENT

Assessment Summary

Academic Honesty and Integrity

It is the responsibility of each individual student to ensure that:

a. you are familiar with ANU policy for academic integrity
b. work submitted for assessment is original
c. appropriate acknowledgement and citation is given to the work of others
d. you declare your understanding of, and compliance with, the principle of academic integrity by completing the appropriate cover sheet when submitting assessment items

For information on academic honesty and integrity please refer to http://academichonesty.anu.edu.au/

The proposed assessment components are:

<table>
<thead>
<tr>
<th>Task</th>
<th>Due Date</th>
<th>Learning Outcomes Assessed</th>
<th>Weighting(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Written Assignment</td>
<td>29 March 10am</td>
<td>2,3,4,5</td>
<td>20%</td>
</tr>
<tr>
<td>Company Analysis Report</td>
<td>16 May 10am</td>
<td>All</td>
<td>30%</td>
</tr>
<tr>
<td>Final Exam</td>
<td></td>
<td>1,2,3,4,5,6,7</td>
<td>50%</td>
</tr>
</tbody>
</table>

To be guaranteed a pass (or better) grade in this subject you must:

- achieve a mark equal to or exceeding 50% of the total marks available for assessment
- achieve a mark equal to or exceeding 40% of the total marks available in the final exam
- complete each item of assessment to the satisfaction of the course convenor.

Students should also be aware that misconduct (e.g. plagiarism) in any item of assessment could lead to an automatic fail for the course.

Written Assignment

Your written assignment requires you to write an original essay or report on a topic (to be provided in Week 1) relevant to this course’s objectives.

Company Analysis Report

This is a group assignment. Details of the Company Analysis Report, including the maximum group size allowed, will be available on the course website before the end of Week 2. This comprehensive assignment will require you to analyse and evaluate the financial statements of a listed Australian firm, and in doing so to demonstrate an understanding of topics key to this course, including: business strategy, accounting analysis, corporate governance, and the basics of equity valuation.
Assignment Submission

Assignments are submitted using the course Wattle site. Submitted assignments must include the cover sheet provided on Wattle. Please keep a copy of the assignment for your records.

The ANU is using Turnitin to enhance student citation and referencing techniques, and to assess assignment submissions as a component of the University's approach to managing Academic Integrity. For additional information regarding Turnitin please visit ANU Online.

Please note that Turnitin is not the only mechanism used to detect cases of possible plagiarism.

Extensions and Penalties

All applications for extension must be made in writing (email is preferred) to the course convenor, and will only be granted for reasons consistent with the University’s Policy and Procedures regarding Student Assessment (Coursework) (see URL below).

Late assignments will attract a penalty equal to 5% of the marks available for assessment for each day (or part thereof) that the assignment is late. The ANU’s Policy on Student Assessment (Coursework) requires that, in the absence of a student being granted an extension, no item of assessment will be accepted if 10 or more days have expired since the due date.


Returning Assignments

Assignments will be returned to students either in tutorials, via email (to the student’s ANU account) or via the course Wattle site.

Examinations

Final Exam

You final examination will be held during the official examination period. All topics are examinable. Further details will be available prior to the end of the teaching period.

Scaling

Your final mark for the course will be based on the raw marks allocated for each assignment or examination. However, your final mark may not be the same number as produced by that formula, as marks may be scaled. Any scaling applied will preserve the rank order of raw marks (i.e. if your raw mark exceeds that of another student, then your scaled mark will exceed the scaled mark of that student), and may either increase or decrease the final mark.

Referencing Requirements

Both your Written Assignment and Company Analysis Report must reference the use of all material and ideas that are not the candidate’s own, using the Harvard (‘author date’ or ‘in text’) referencing system. The Harvard system, and referencing requirement more broadly, are described here:
If you are in any doubt regarding referencing requirements, please ask the convenor for help before submitting your assignment.

READING LISTS


Additional materials, including analyst reports, book chapters and journal articles will be made available via the course website.

Details of prescribed tutorial questions and cases and other required readings will be made available on the course website at least one week in advance of the first tutorial in which those materials will be considered.

TUTORIAL AND/OR SEMINAR REGISTRATION

Tutorial and/or Seminar signup for this course will be done via the Wattle website. Detailed information about signup times will be provided on Wattle or during your first lecture. When tutorials are available for enrolment, follow these steps:

1. Log on to [Wattle](https://wattle.anu.edu.au), and go to the course site.

2. Click on the link “Tutorial signup here”

3. On the right of the screen, click on the tab “Become Member of ……” for the tutorial class you wish to enter.

4. Confirm your choice

If you need to change your enrolment, you will be able to do so by clicking on the tab “Leave group…” and then re-enrol in another group. You will not be able to enrol in groups that have reached their maximum number. Please note that enrolment in ISIS must be finalised for you to have access to Wattle.

Communication and Announcements

If necessary, the lecturers and tutors for this course will contact students on their official ANU student email address. Information about your enrolment and fees from the Registrar and Student Services' office will also be sent to this email address. Announcements made in lectures are deemed to have been received by all students.

This course uses the ANU’s Wattle system for delivery of all on-line course materials. Students are expected to check the course Wattle site at least weekly. Copies of lecture slides will be made available on the course website, normally in advance of the lecture date. Solutions to some quantitative tutorial or practice questions will also be made available on the course website.

Course URLs

More information about this course may be found on:
• Programs and Courses (http://programsandcourses.anu.edu.au/2016/course/BUSN7036)

• the College of Business and Economics website (https://www.cbe.anu.edu.au/students/student-information/college-courses/) and

• Wattle (https://wattle.anu.edu.au), the University’s online learning environment. Log on to Wattle using your student number and your ISIS password.

POLICIES

The University offers a number of support services for students. Information on these is available online from http://www.anu.edu.au/students/get-involved

ANU has educational policies, procedures and guidelines, which are designed to ensure that staff and students are aware of the University’s academic standards, and implement them. You can find the University’s education policies and an explanatory glossary at: http://policies.anu.edu.au/

Students are expected to have read the Academic Misconduct Rules 2014 before the commencement of their course.

Other key policies include:

- Copyright (http://copyright.anu.edu.au/)