BUSN2036

Financial Statement Analysis

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.
<table>
<thead>
<tr>
<th>Research Interests</th>
<th>Mark Wilson is an Associate Professor in the Research School of Accounting at the ANU. His research interests include accounting, economic and business history, earnings quality, the response of markets and securities analysts to financial reporting information and transaction cost economics. He has published in leading journals, including Auditing: A Journal of Practice and Theory, Accounting and Business Research, Accounting and Finance, the Journal of Management Information Systems, the Journal of Business Ethics and Abacus.</th>
</tr>
</thead>
</table>
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| | +61 2 6125 0025 or 6125 7968  
| | Office Hours: Monday-Friday 9-5 pm |

**SEMESTER 1**

2017
COURSE OVERVIEW

Learning Outcomes

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

1. Describe and apply the basic techniques of financial statement analysis (FSA);
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. Explain 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.

Assessment Summary

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>27 March 11am</td>
<td>2,3,4,5</td>
<td>20%</td>
</tr>
<tr>
<td>Company Analysis Report</td>
<td>15 May 11am</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>
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<td></td>
<td></td>
<td></td>
<td>100%</td>
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</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.

In addition to the assessment tasks described above, students will have the opportunity to obtain feedback via the completion of online quizzes, which will be available on Wattle from Week 2. The quizzes do not contribute to your overall assessment mark.

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

Feedback

Staff Feedback

Students will be given feedback in the following forms in this course:

- Verbal (in tutorials and in consultation with teaching staff)
- Written (via comments appended to assessment items submitted online or to hard copies of the company analysis assignment, via email, via automated responses to online quiz questions)

Student Feedback

ANU is committed to the demonstration of educational excellence and regularly seeks feedback from students. One of the key formal ways students have to provide feedback is through Student Experience of Learning Support (SELS) surveys. The feedback given in these surveys is anonymous and provides the Colleges, University Education Committee and Academic Board with opportunities to recognise excellent teaching, and opportunities for improvement.

For more information on student surveys at ANU and reports on the feedback provided on ANU courses, go to:

http://unistats.anu.edu.au/surveys/selt/students/ and
http://unistats.anu.edu.au/surveys/selt/results/learning/

Policies

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 Rule before the commencement of their course.

Other key policies include:

- Student Assessment (Coursework) Policy
- Student Assessment (Coursework) Procedure
- Student Surveys and Evaluations
- Copyright (http://copyright.anu.edu.au/)
REQUIRED RESOURCES

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. DatAnalysis Premium can be accessed from any computer within the ANU network (or via reverse proxy login) at:


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).

Additional course costs

Students are expected to have access to the following resources for the duration of the semester:

- A copy of the prescribed book. The book can be purchased from the co-op bookshop, with a small number of copies also available for 2 hour loan in the reserve loan section of the Chifley Library.
- A non-programmable scientific calculator

Examination material or equipment

The final examination will be of ‘closed-book’ format. The only materials permitted (other than pens and pencils etc) are a non-programmable calculator.

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.
<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>20 February</td>
<td>Framework for Analysis &amp; Revision of Financial Reporting Essentials</td>
<td>Ch.1, Ch. 7</td>
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<tr>
<td></td>
<td></td>
<td>Valuation Theory and Concepts: Introduction to Discounted Cash Flow Approaches</td>
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<tr>
<td>2</td>
<td>27 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>
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<tr>
<td>3</td>
<td>6 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>4</td>
<td>13 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>5</td>
<td>20 March</td>
<td>Financial Analysis – I De-composing ROE to better understand sources of profitability</td>
<td>Ch. 4,5</td>
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<tr>
<td>6</td>
<td>27 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 27 March 11am</td>
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<td></td>
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<td><strong>Mid-Semester Break</strong></td>
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<tr>
<td>7</td>
<td>17 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>
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<tr>
<td>8</td>
<td>24 April</td>
<td>Valuation Implementation – Apply Forecasts from Topic 7 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>9</td>
<td>1 May</td>
<td>Using Prices to Infer Market Expectations of Growth; Evaluating Mergers and Acquisitions and IPOs</td>
<td>Ch. 10, Ch.11</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>8 May</td>
<td>Application of FSA to Equity Analysis; Accounting-related stock market ‘anomalies’</td>
<td>Ch. 9</td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>15 May</td>
<td>Using Financial Statement Data to Creditworthiness</td>
<td>Ch. 10</td>
<td>Company Analysis Report Due 15 May 11 am.</td>
</tr>
<tr>
<td>12</td>
<td>22 May</td>
<td>Review</td>
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**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.

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. Guideline solutions for practical (i.e. quantitative) tutorial and workshop solutions will be made available in the week following that in which the tutorial/workshop was completed. ‘Solutions’ for theoretical / definitional tutorial and workshop questions will not be provided.

**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.

**ASSESSMENT REQUIREMENTS**

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 the ANU Online website.

Students may choose not to submit assessment items through Turnitin. In this instance you will be required to submit, alongside the assessment item itself, copies of all references included in the assessment item.

**Assessment Tasks**

**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. This assignment is an individual assignment.

**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.

You are expected to commence work on your Company Analysis Report prior to the mid-term break.

**Assignment submission**

Assignments are submitted using Turnitin in the course Wattle site. You will be required to electronically sign a declaration as part of the submission of your assignment. Please keep a copy of the assignment for your records. You are also required to submit a hard-copy of your Company Analysis Assignment, and you may be asked to provide an electronic copy of supporting spreadsheets.
if the staff marking your assignment deem this necessary. Hard-copy assignments must include the cover sheet available here.

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.

Copies of the relevant ANU Policy and Procedures are available at:

https://policies.anu.edu.au/ppl/document/ANUP_004603, and

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.

RESUBMISSION OF ASSIGNMENTS

There is no provision for the resubmission of assignments.

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:

http://www.anu.edu.au/students/learning-development/academic-integrity

If you are in any doubt regarding referencing requirements, please ask the convenor for help before submitting your assignment. Your online quizzes may include questions designed to test your understanding of referencing requirements.

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 of your assessment items. 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 be either up or down.

Privacy Notice

The ANU has made a number of third party, online, databases available for students to use. Use of each online database is conditional on student end users first agreeing to the database licensor’s terms of service and/or privacy policy. Students should read these carefully.

In some cases student end users will be required to register an account with the database licensor and submit personal information, including their: first name; last name; ANU email address; and other information.

In cases where student end users are asked to submit ‘content’ to a database, such as an assignment or short answers, the database licensor may only use the student’s ‘content’ in accordance with the terms of service – including any (copyright) licence the student grants to the database licensor.

Any personal information or content a student submits may be stored by the licensor, potentially offshore, and will be used to process the database service in accordance with the licensors terms of service and/or privacy policy.

If any student chooses not to agree to the database licensor’s terms of service or privacy policy, the student will not be able to access and use the database. In these circumstances students should contact their lecturer to enquire about alternative arrangements that are available.

TUTORIAL / SEMINAR REGISTRATION

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

1. Log on to Wattle, 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.

SUPPORT FOR STUDENTS

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