Course Outline 2019
ACCTG 371: FINANCIAL STATEMENT ANALYSIS (15 POINTS)
Semester 1 (1193)

Course prescription
How is financial statement information used to evaluate a firm's performance, risk and value? An opportunity to examine this question and to gain experience in evaluating performance, assessing risk and estimating value.

Course advice
Prerequisite: FINANCE 251 or 261, and ACCTG 211 or 292

Goals of the course
- To analyse business strategies in order to understand the value they create.
- To pull apart the financial statements to get at the relevant information for valuation.
- To explain the relevance of cash flows, dividends, earnings, book value and growth, and to apply these measures to estimate the intrinsic value of a firm’s equity.
- To examine the determinants of a firm’s multiples.
- To combine and integrate the concepts, tools and techniques covered above to compile a valuation of a company.

Learning outcomes (LO)
By the end of the course, it is expected that students will be able to:

<table>
<thead>
<tr>
<th>#</th>
<th>Learning outcome</th>
<th>Graduate profile capability*</th>
</tr>
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<tbody>
<tr>
<td>LO1</td>
<td>Distinguish the business strategies adopted by different businesses to create value for their shareholders</td>
<td>1. Disciplinary knowledge and practice 2. Critical thinking</td>
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<tr>
<td>LO2</td>
<td>Demonstrate the role of financial statement numbers in assessing financial performance, which is used to prepare a forecast of future</td>
<td>1. Disciplinary knowledge and practice 2. Critical thinking 3. Solution seeking</td>
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<tr>
<td>#</td>
<td>Learning outcome</td>
<td>Graduate profile capability*</td>
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<tr>
<td></td>
<td>performance for the purpose of valuation</td>
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</tbody>
</table>
|    | **LO3** Apply financial models for predicting business failure and recognise the limitations of these models | 1. Disciplinary knowledge and practice  
2. Critical thinking  
3. Solution seeking |
|    | **LO4** Compare a firm’s financial performance to the expectation of Capital providers (shareholders and debtholders) to formulate the valuation impact | 1. Disciplinary knowledge and practice  
2. Critical thinking  
3. Solution seeking |
|    | **LO5** Develop, appraise, and combine assumptions to develop a model for forecasting free cash flows | 1. Disciplinary knowledge and practice  
2. Critical thinking  
3. Solution seeking |
|    | **LO6** Analyse and link the free cash flow and residual income valuation models so that students are facile in moving between these valuation models | 1. Disciplinary knowledge and practice  
3. Solution seeking |
|    | **LO7** Apply the free cash flow and residual income valuation models to business valuations | 1. Disciplinary knowledge and practice  
3. Solution seeking |
|    | **LO8** Formulate a framework for valuation using the multiples method and illustrate its relation to the free cash flow and residual income models for valuation | 1. Disciplinary knowledge and practice  
2. Critical thinking  
3. Solution seeking |

* See the graduate profile this course belongs to at the end of this course outline.

### Content outline

<table>
<thead>
<tr>
<th>Week</th>
<th>Topic</th>
<th>Relevant learning resources</th>
<th>Assessment due this period</th>
</tr>
</thead>
</table>
| 1 4th March | • Framework for analysis and valuation  
• Overview of financial statements | EMSZ Modules 1 & 2           |                             |
| 2 11th March | • Profitability analysis and interpretation  
• Workshop | EMSZ Module 3                |                             |
| 3 18th March | • Credit risk analysis and interpretation  
| | EMSZ Module 4 | | |
| 4 25th March | • Operating income  
| | EMSZ Module 5 | | |
| 5 1st April | • Operating assets  
• Workshop | EMSZ Modules 6 & 9           | Assignment 1 due 3rd April @ 4pm |
Learning and teaching

There is one lecture stream made up of four hours of lectures each week:
- Monday 4pm to 6pm, (Lib 109-B15); and
- Wednesday 4pm to 6pm, (Lib 109-B15).

The lectures are also recorded, but attendance at lectures is encouraged as this facilitates better learning. In particular, you should note that lecture recordings are not a substitute for attending lectures, but should be used as a resource to complement your learning.

Please note also that: (i) the posting of lecture recordings is not immediate, as it can take up to 24 hours or more for the lecture recording files to be compiled by the University and for us to receive these; and (ii) unexpected technical problems that are not within our control can occur from time to time and these might prevent a lecture from being recorded - indeed this has happened before, which is why you should try to always attend lectures.

A drop-in help clinic will operate for ACCTG 371 from the week beginning 18th March. Details of the venue and times that you can get assistance in the clinic will be announced in class and posted on Canvas.

Teaching staff

- Dr Stephen Kean (lecturer and course co-ordinator) Room 567 (Owen G. Glenn Building), Ext. 82988
- Brianna Wang (tutor and lecturer) Room 579 (Owen G. Glenn Building), Ext. 85413
- Terry Li (tutor) Room 541 (Owen G. Glenn Building), Ext. 88936

Office hours for each member of the teaching staff will be announced in class and posted on Canvas. The course also has a dedicated email address if you wish to contact any member of the teaching staff by email. The dedicated email address is:
acctg371@auckland.ac.nz. All enquiries relating to this course, no matter whether they are of an administrative nature or are about the material taught (including assignment queries), can be directed to this email address. Please remember to give your name and AUID number when you correspond.

Learning resources

The textbook for this course is *Financial Statement Analysis and Valuation* 4th ed., by Peter D. Easton, Mary Lea McAnally, Gregory A. Sommers, and Xiao-Jun Zhang (Cambridge Business Publishers, 2015). This textbook can be purchased from the University Bookshop.

Note that the textbook can also be purchased from Cambridge Business Publishers as an E-book for a 6 month access at USD65 (which might be a cheaper option) via this website link: [https://mybusinesscourse.com/?code=5175-44950](https://mybusinesscourse.com/?code=5175-44950). As this is a special price, the publisher does not display custom pricing for eBooks on the main website. Students have to register a new account first. After creating the account, students will see the page to click on the Purchase Access for 6 months/ $65.00.

The library holds a large collection of financial statement analysis texts, which are useful to refer to. The library also has a subject librarian for accounting and finance who you can contact to discuss any of your library information needs.

Much of the coursework is posted on the Canvas Learning Management System, including the following:

- Powerpoint slides;
- Assignment questions and suggested solutions to these; and
- Other reference material, such as worked examples, extra note material, and additional readings.

Also, students are recommended to use the prescribed text book as their main study resource along with attending lectures. The lectures will follow closely the text book, which also has lots of questions/problems that students can use to practice their understanding of the material.

Assessment information

<table>
<thead>
<tr>
<th>Assessment task</th>
<th>Weight %</th>
<th>Group and/or individual</th>
<th>Submission</th>
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<tbody>
<tr>
<td>1. Assignment 1*</td>
<td>5</td>
<td>Individual</td>
<td>3rd April, 4pm</td>
</tr>
<tr>
<td>2. Mid-Semester Test</td>
<td>20</td>
<td>Individual</td>
<td>10th April, 4pm</td>
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<tr>
<td>3. Assignment 2*</td>
<td>5</td>
<td>Individual</td>
<td>15th May, 4pm</td>
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<tr>
<td>4. Assignment 3*</td>
<td>5</td>
<td>Individual</td>
<td>29th May, 4pm</td>
</tr>
<tr>
<td>5. Final Examination</td>
<td>65</td>
<td>Individual</td>
<td>Formal exam period</td>
</tr>
</tbody>
</table>

* Each assignment must be completed in accordance with the departmental guidelines and with the instructions laid down for the piece of work. You are reminded of the regulations regarding cheating and plagiarism (see later).
Assignments
Three assignments are set over the semester. Assignments must be posted into the appropriate boxes in the Student Resource Centre by the time indicated on the “Assignment Schedule”. Late assignments and incorrectly posted assignments will not be accepted for grading. Because of the size of some assignments or marking deadlines it may not be possible to mark all parts of every assignment or to give detailed comments on individual assignments. Solutions will be provided on Canvas and students should carefully work through these solutions and compare them with their marked assignments, highlighting any differences and noting how the answers are presented in particular. Cover sheets are provided in the Student Resource Centre. These must be attached to the front of each assignment. Note that it is important also that all students should keep a back-up copy of all work handed in for marking as returned work has been known to have gone missing from the assignment return boxes in the Student Resource Centre.

Pass requirements
Students must receive an overall mark of 50 or more to pass this course.

Students with a strong pass should consider further studies in financial accounting and/or finance, for example, at the postgraduate level (Honours, PGDipCom, and Masters). If you have not finished your degree, you should consider taking courses like ACCTG 311 (Financial Accounting) and ACCTG 312 (Auditing) for financial accounting majors, and FINANCE 351 (Advanced Financial Management), FINANCE 361 (Modern Investment Theory and Management), and FINANCE 362 (Risk Management) for finance majors. Expertise in financial statement analysis will add value to these courses.

Description of assessment tasks

<table>
<thead>
<tr>
<th>Assessment task</th>
<th>Learning outcome to be assessed</th>
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<tbody>
<tr>
<td>Assignment 1 will be distributed in week 2. It is due in week 5.</td>
<td>1-3</td>
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<tr>
<td><strong>Mid-semester test.</strong> The mid-semester test has been tentatively scheduled for 10th April in the lecture time (hence, there should be no reasons or clashes for missing the test). When details about the test have been finalised, these will be announced in lectures and on Canvas.</td>
<td>1-3</td>
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<tr>
<td>Assignment 2 will be distributed in week 6. It is due in week 9.</td>
<td>4-6</td>
</tr>
<tr>
<td>Assignment 3 will be distributed in week 9. It is due in week 11.</td>
<td>5-8</td>
</tr>
<tr>
<td><strong>Final Exam.</strong> The exam is 2 hours long (plus 10 minutes reading time) and closed book. You should verify the date of the final examination on Student Services Online. Material examined in the mid-semester test may be examinable again in the final examination. The final examination is likely to be approximately 70% numerical and 30% narrative. That is, around 30% of the examination questions will require you to present written answers. Note also that ACCTG 371 is a closed book exam and no book material can be brought into the final examination. Calculators are permitted.</td>
<td>1-8</td>
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Inclusive learning
Students are urged to discuss privately any impairment-related requirements face-to-face and/or in written form with the courses convenor/lecturer and/or tutor.

**Academic integrity**
The University of Auckland will not tolerate cheating, or assisting others to cheat, and views cheating in coursework as a serious academic offence. The work that a student submits for grading must be the student’s own work, reflecting his or her learning. Where work from other sources is used, it must be properly acknowledged and referenced. This requirement also applies to sources on the worldwide web. A student’s assessed work may be reviewed against electronic source material using computerised detection to provide an electronic version of their work for computerised review.

**Student feedback**
Constructive feedback about the course is welcome, and where appropriate, will be used to improve the course. You may also be asked (i) to complete evaluation surveys (course/teaching/tutoring) at the end of the course, and/or (ii) formative mid-course evaluation/fast feedback surveys, which are also used to make improvements to the design and delivery of the course.

**In the event of an unexpected disruption**
We undertake to maintain the continuity and standard of teaching and learning in all your courses throughout the year. If there are unexpected disruptions, the University has contingency plans to ensure that access to your course continues and your assessment is fair, and not compromised. Some adjustments may need to be made in emergencies. In the event of a disruption, the University and your course coordinators will make every effort to provide you with up to date information via Canvas and the University website.

**Graduate profile for Bachelor of Commerce**
The following six themes represent the capabilities that the Business School seeks to foster in all of its graduates. The development of these capabilities does not come all at once, but rather is expected to build from year to year. Each course is not expected to contribute to all capabilities, but each course will have its own goals and learning outcomes that relate to the overall development of this profile.

<table>
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<tr>
<th>Graduate Profile</th>
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<tbody>
<tr>
<td><strong>Disciplinary knowledge and practice</strong></td>
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<tr>
<td>Graduates will be able to demonstrate and apply a breadth of knowledge across disciplines, as well as specialist knowledge within one or more of them, while recognising the relevancy of this knowledge within a global context.</td>
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<tr>
<td><strong>Critical thinking</strong></td>
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<tr>
<td>Graduates will be able to analyse and critique theory and practice to develop well-reasoned arguments.</td>
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Graduate Profile

**Solution seeking**
Graduates will be able to identify and frame problems using analytical skills to create and evaluate innovative solutions.

**Communication and engagement**
Graduates will be able to collaborate and communicate effectively in diverse contexts using multiple formats.

**Independence and integrity**
Graduates will be able to respond professionally and ethically, demonstrating a capacity for independent thought and learning.

**Social and environmental responsibility**
Graduates will recognise the significance of the principles underpinning the Treaty of Waitangi and consider their obligations in relation to sustainability, whilst displaying constructive approaches to diversity.

Note that if you are enrolled in a conjoint degree, you should also engage with the Graduate Profile for your other degree programme.