

Course Outline 2017

ACCTG 371: FINANCIAL STATEMENT ANALYSIS (15 POINTS)

Semester 2 (1175)

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.

Programme and 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

By the end of this course it is expected that the student will be able to:

1. distinguish the business strategies adopted by different businesses to create value for their shareholders;
2. demonstrate the role of financial statement numbers in assessing financial performance, which is used to prepare a forecast of future performance for the purpose of valuation;
3. apply financial models for predicting business failure and recognise the limitations of these models.
4. compare a firm's financial performance to the expectation of Capital providers (shareholders and debtholders) to formulate the valuation impact;
5. develop, appraise, and combine assumptions to develop a model for forecasting free cash flows;
6. analyse and link the free cash flow and residual income valuation models so that students are facile in moving between these valuation models;
7. apply the free cash flow and residual income valuation models to business valuations; and
8. formulate a framework for valuation using the multiples method and illustrate its relation to the free cash flow and residual income models for valuation.

Content Outline

- Framework for analysis and valuation
- Overview of business activities and financial statements
- Profitability analysis and interpretation
- Credit risk analysis and interpretation
- Revenue recognition and operating income
- Asset recognition and operating assets
- Forecasting financial statements
- Cash-flow-based valuation
- Operating-income-based valuation
- Market-based valuation

Learning and Teaching

There is one lecture stream made up of 4 hours of lectures each week, where the fourth hour will sometimes be used as a workshop to illustrate examples.

The lectures are also recorded, but attendance at lectures is encouraged as this facilitates better learning.

Teaching Staff

Dr Lily Chen (course co-ordinator and lecturer):

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Dr Stephen Kean (lecturer):

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Brianna Wang (tutor and lecturer)

Office: Owen G. Glenn Building, Level 5, Room 579

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Terry Li (tutor)

Office: Owen G. Glenn Building, Level 5, Room 541

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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: Peter D. Easton, Mary Lea McAnally, Gregory A. Sommers, and Xiao-Jun Zhang, Financial Statement Analysis and Valuation 4th edition (Cambridge Business Publishers, 2015). This textbook can be purchased from the University Bookshop. We are currently investigating the option for students to purchase from Cambridge Business Publishers as an E-book for a 6 month access. This will be confirmed in due course.

PowerPoint slides, class examples, and other materials will be provided on Canvas.

Assessment

Three assignments (5% each)	15%	Learning outcomes 1 - 8
Mid-semester test	20%	Learning outcomes 1 - 3
Final examination	65%	Learning outcomes 1 - 8

Late assignments will not be accepted. This policy has two motivations. First, it mimics a work environment where results, not excuses, are rewarded. Second, it is not fair to those who manage their time and have their assignments handed in on time. Also, assignments cannot be accepted late on account of sickness, family circumstances, or any number of reasonable cases.

The final examination will address material discussed during the semester. Further information on the examination will be given to you during the semester.

Learning Outcome	Assignment 1	Assignment 2	Assignment 3	Mid-semester Test	Final Examination
1	X			X	X
2	X			X	X
3	X			X	X
4		X			X
5		X	X		X
6		X	X		X
7			X		X
8			X		X