

School of Management

## MMBA 556 FINANCIAL STATEMENT ANALYSIS

Trimester 3, 2014

### COURSE OUTLINE

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#### COURSE COORDINATOR

**Don Trow** is the lecturer and course coordinator. Don is an Emeritus Professor of Accountancy, and in recent years has been a director of the New Zealand Stock Exchange, Ryman Healthcare Limited, Opus International Consultants Limited and the Northland Co-Operative Dairy Company Limited. After ten years with professional firms of accountants in Wellington, London and New York, Don was with the School of Accounting and Commercial Law from 1965 and was Professor of Accountancy from 1971.

The preferred contact method is via email.

Email: [don.trow@vuw.ac.nz](mailto:don.trow@vuw.ac.nz)

Room: Room 720, Rutherford House. Office hours, by appointment.

Phone: 463 5364 or cell phone 021 187 4930

#### COURSE ADMINISTRATOR

**Nicky McInnes**

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Room: RH1004, Rutherford House

Phone: 463 5367

#### Trimester Dates

The teaching period is from Monday 17 November 2014 to Monday 9 February 2015.

#### Withdrawal from Course:

Your fees will be refunded if you withdraw from this course on or before **28 November 2014**.

The standard last date for withdrawal from this course is **27 January 2015**. After that date, students forced to withdraw by circumstances beyond their control must apply for permission on an *'Application for Associate Dean's Permission to Withdraw Late'* including supporting documentation. The application form is available from either of the Faculty's Student Customer Service Desks.

#### Class Times and Room Numbers

The course will be delivered via weekly lectures. Classes will be on **Monday** evening from **5.40pm to 8.30pm** in **Room GBLT3** to be held on the following dates: **17 & 24 November; 1, 8 & 15 December 2014; 26 January; and 2 & 9 February 2015**.

## Course Delivery

There is no examination during the course or at the end of the course. Students should note the deadline dates for completion of the six assignments that will form a substantial part of the assessment for the course. **Attendance at class is essential, and it is expected that students will attend all classes. Should you be unable to attend a particular class, please contact Don Trow** by email before the time of the class. There will be no class on Anniversary Day, 19 January 2015.

## Expected Workload

An estimate of the average workload is:

24 hours engaged actively in the lecture class (8 x 3 hours)

84 hours preparing assignments (6 @ 14 hours)

42 hours completing other reading and preparation for classes

150 hours in total

**The prescription for this course is:**

*An overview of the analysis and evaluation of corporate performance, financial conditions and future prospects as set out in the corporate entities' published annual reports and financial statements.*

## Course Learning Objectives

**The main objective** is to understand how the analysis of financial statements and reports of a range of different organisations can be made, **to assess the strengths, weaknesses and future prospects** of the business. When weaknesses are identified, attention will be given to understanding the **steps that are appropriate to remedy each weakness**. Emphasis will also be placed on acquiring the **skills for making swift analysis** of information, knowing that in the business environment such analysis often needs to be made quickly and in an informal setting.

**Associated objectives**, that are important to achieving the main objective, will be to understand – how financial statements are constructed (and sometimes manipulated) – to understand the nature of acceptable accounting practice (and to identify “creative” accounting) – and to know how to explain the relationship between accounting information for a business and the market value of the equity instruments (or shares) for that business. [It is important to realise, that if you do not have an outline understanding of accepted accounting practice, you are not in a position to be able to make reliable analysis of the information in the financial statements.]

**Learning goals** to be emphasised will include development of critical thinking skills and the effective written and oral communication of findings. The use of information for analysis will also involve *inter alia*, an understanding and application of good quality ethical conduct, an understanding of the extent to which New Zealand accounting practice complies with international standards, and the enquiry required to gain assurance on the continuing viability (sustainability) of a particular business activity.

## Course Content

A detailed course programme, showing the topics for each class, and the due dates for assignments, is attached at the end of this Course Outline.

## Readings

The only required reading for the course is contained in **Student Notes** that will be made available at the beginning of the course, and at further intervals during the course programme.

A text that is easy to read, and may be helpful for reference, but not required reading, is: Mary Buffett & David Clark, *Warren Buffett and the Interpretation of Financial Statements*, Simon & Schuster 2008. More detailed texts, that may be helpful for reference, are:

Penman S, *Financial Statement Analysis and Security Valuation*, McGraw-Hill Irwin, New York, 3<sup>rd</sup> edition 2006.

Palepu KG & Healy PM, *Business Analysis and Valuation: Using Financial Statements; Text and cases*, Thomson/South-Western, 4<sup>th</sup> edition 2008.

## Assessment

**80% of the grade** will be determined from the marks awarded for the six assignments

**20% of the grade** will be determined from assessment of participation in the classroom, including occasional “snap tests” during the classroom sessions

Completed assignments will be discussed during the lecture class, and the assignment will be handed in for assessment at the end of the class.

## Penalties

**The penalty for late submission of an assignment** will be 50% of the mark for that assignment. There will be no penalty for exceeding the page number limitation for an assignment (four pages) – but it would be appreciated if the size limitation is observed.

## Mandatory Course Requirements

**In addition to obtaining an overall course mark of 50% or better, students must submit six written assignments.** If you cannot complete an assignment, refer to [www.victoria.ac.nz/home/study/exams-and-assessments/aegrotat](http://www.victoria.ac.nz/home/study/exams-and-assessments/aegrotat)

**Attendance at class is essential, and students are expected to attend all classes.**

## **Class Representative**

A class representative will be elected in the first class and that person's name and contact details made available to VUWSA and the class. The class representative provides a communication channel to liaise with the course co-ordinator on behalf of students.

## **Communication of Additional Information**

Additional information concerning this course will be communicated to you in the classroom and/or by mailing to your email address.

## **Student feedback**

Student feedback on University courses may be found at

[www.cad.vuw.ac.nz/feedback/feedback\\_display.php](http://www.cad.vuw.ac.nz/feedback/feedback_display.php)

## **Link to general information**

For general information about course-related matters, go to

<http://www.victoria.ac.nz/vbs/studenthelp/general-course-information>

## **Note to Students**

Your assessed work may also be used for quality assurance purposes, such as to assess the level of achievement of learning objectives as required for accreditation and academic audit. The findings may be used to inform changes aimed at improving the quality of VBS programmes. All material used for such processes will be treated as confidential, and the outcome will not affect your grade for the course.

## MMBA556 MMAF536 - 2014/2015 – COURSE PROGRAMME

- Nov 17** How to read and understand financial statements. Introduction to analysis  
The relationship between accounting information and share prices  
Preparation for first assignment
- Nov 24** Discuss analysis of Hallenstein Glasson Holdings Ltd (Assignment 1)  
Preparation for second assignment
- Dec 1** Discuss analysis of further listed retailers (Assignment 2)  
Preparation for third assignment
- Dec 8** Discuss analysis of a Finance Company (Assignment 3)  
Preparation for fourth assignment  
The relationship of Gross Margin to sales. The Solvency Test.
- Dec 15** Discuss analysis of financial statements of NZ Banks (Assignment 4)  
The nature of acceptable accounting & detection of creative accounting  
Accounting for unusual circumstances. Preparation for fifth assignment
- Dec 22 to 25 Jan – Christmas/New Year – No classes**
- Jan 26** Discuss review of a Prospectus (Assignment 5)  
Preparation for sixth assignment
- Feb 2** Some interesting financial statements for analysis.
- Feb 9** Discuss analysis and comparison of two major companies (Assignment 6)

## ASSIGNMENTS – MAXIMUM LENGTH 4 PAGES

(more detailed requirements for each assignment will be provided in the classroom)

- 1 To be handed in at class 24<sup>th</sup> November** – Determine the strengths, weaknesses and prospects of Hallenstein Glasson Holdings Ltd. Is the share favourably priced?
- 2 To be handed in at class 1st December** – As for the first assignment, for two further retailers What advice do you have for these two companies, to make them more profitable?
- 3 To be handed in at class 8<sup>th</sup> December** – Review information for a Finance Company (to be provided). What are your conclusions and what unanswered questions do you have?
- 4 To be handed in at class 15<sup>th</sup> December** – Review the circumstances of major NZ banks (financial statements to be provided). Highlight the strengths and weaknesses of each bank.
- 5 To be handed in at class 26<sup>th</sup> January** – Review a prospectus (to be provided). Explain the merits of this company, and the risks to be faced. Is the subscription price at an attractive level?
- 6 To be handed in at class 9<sup>th</sup> February** – Which of 2 major companies (accounts provided) is the better performer and has better prospects. Which has the more favourable share price?

During the course, financial statements to be reviewed, as at the most recent balance date, will include:

Bank of New Zealand  
Fletcher Building  
Hallenstein Glasson  
Hansells  
Kiwibank  
Norfolk Industries  
Postie Plus  
Pumpkin Patch  
Nuplex  
TSB Bank  
The Warehouse  
Wellington International Airport  
Xero

Others to be reviewed, will be:

Bridgecorp to 30 June 2006  
Fallon Mining to 31 March 2003  
Feltex to 30 June 2005  
Hallenstein Brothers to 1 August 1986  
Lombard Finance to 31 March 2007  
Nathans Finance to 30 June 2006  
Tower to 30 September 2001  
Western Gulf Advisory to 31 Dec 2009

Prospectuses to be reviewed, will be:

Feltex, May 2004  
Moa Brewing, October 2012  
Meridian Energy, 2013  
Xero Live, May 2007

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