EXAMPLE OF A SPA AND AN ASSIGNMENT

ACCY306 FINANCIAL STATEMENT ANALYSIS

Session Preparation Assignment (SPA) #2

HOW A FIRM ADDS VALUE

DUE: 11.00pm Sun 20 July (Week 3)

Estimated (max.) time required: 300 - 360 minutes (that is, 5 - 6 hours)

1. Read Student Notes: TKWAV, Chapter 2. Read Chapter 2 quickly, perhaps skimming some parts, looking for the meaning of the author. What is the author trying to say? While you do this note on your copy of Chapter 2 key concepts and questions (KCQs) that occur to you. Include a summary of your KCQs in your SPA#2. Also consider Q2-1 and Q2-5 from the Reading. Write down briefly your current opinions or thoughts about these questions, perhaps in a few bullet points. Include your short answers to Q2-1 and Q2-5 in you SPA#2.

   Please allow 180 - 220 minutes to complete Step 1.

2. Read Student Notes TKWAV, Appendix 1: “Firms Have Strategies”. Read this quickly, skimming and also jumping over parts that may be of less interest to you. While you do this note on your copy of Appendix 1 key concepts and questions (KCQs) that occur to you. What insights have you gained about how your firm might approach its strategy? Also, what insights have you gained about the strategies you have been using for your own learning at university? These insights might be useful to include later in your Learning Portfolio. Include some of your KCQs in your SPA#2.

   Please allow 60 - 80 minutes to complete Step 2.

3. Read Student Notes Reading 3: “Ryman Healthcare: Press Article”. What insights about Ryman Healthcare did you gain from the article about its 2008 financial results?

   Compare your comments to this question with your answer to item 3.3 in Step 3 in your SPA#1. Did you find it more useful to read a press article on Ryman Healthcare’s 2008 financial results (which was largely taken from a press release from Ryman Healthcare) or to read its 2008 Annual Report for yourself?

   If you are near completing your business degree, perhaps majoring in accounting, do you think you should be able to use a firm’s financial statements to engage with its economic and business realities for yourself?
Why or why not (in other words, state your reasons for your response)? Also, discuss this with other students in the course and include some of their responses (and their reasons for their responses) in your SPA#2. What range of opinions is there on this question? How much do you think you can learn in a course on financial statement analysis that might be able to help you actually analyse a firm’s financial statements for yourself? Do you think you will be able to complete an analysis of your firm by the end of this course? Why or why not?

Please allow 60 minutes to complete Step 3.

Your work on this assignment is to be your own work. This is not a group assignment. Refer to the section on plagiarism in the Course Outline.
Now we come to the ‘business end’ of your analysis of your firm. In this assignment you will forecast the key economic and business drivers of your firm, its key accounting drivers and its Abnormal OI. You will need to decide on an appropriate forecast horizon for your firm, for example it might be between three and five years. Provide reasons for your choice of forecast horizon. Also, outline your views of the future underlying your forecasts. How many visions of the future of your firm do you have?

Include your forecasts in your myFSA® spreadsheet, under the ‘Forecasts’ tab.

When you have completed your forecasts, incorporate them into a valuation of your firm. This will require you to calculate a continuing value for your firm. Include your valuation in your myFSA® spreadsheet under the ‘Valuation’ tab.

You might like to compare your valuation for your firm with its current and past share price. There are many websites that can give you share price histories. For example, go to [http://www.directbroking.co.nz/directtrade/static/home.aspx](http://www.directbroking.co.nz/directtrade/static/home.aspx). Type in your firm’s company code either for the NZX or the ASX under “Quick Quotes”. (Go to the NZ Stock Exchange website: [http://www.nzx.com/markets/all_securities](http://www.nzx.com/markets/all_securities) for codes of NZ firms; or to the Australian Securities Exchange website for codes of Australian listed firms: [http://www.asx.com.au/asx/research/CompanyListed.jsp](http://www.asx.com.au/asx/research/CompanyListed.jsp). You will see you can get the share price history of your firm for a few years. There are many other websites you can use to get past share price histories. Discuss with other students which websites they find useful.

Have a look at your firm’s current share prices, its share price in November 2007 (recent peak in share markets) and in March 2008 (recent trough in share markets). Some people feel ‘great’ if they have ended up valuing their firm at close to its current share price; and ‘worried’ if their value significantly diverges from the current share price. But share prices move around a lot. Ryman Healthcare was trading at up to about $2.75 in May 2007 and down at around $1.38 (that is about half of $2.75) just 10 months later in March 2008. Yet Ryman Healthcare grew its business strongly and ‘added value’ to its customers, suppliers, employees and equity investors during this period. So why did its share price halve over 10 months? Did Ryman Healthcare’s intrinsic value really ‘halve’ during this time?

Include any commentary you wish to include about your valuation in a Word file.

Submit your myFSA® spreadsheet along with a Word file that includes any comments or thoughts you wish to include about your forecasts and valuation. In particular, how confident are you with the results of your analysis? Would you make investment
decisions based on your analysis? Why or why not? You may wish to comment about how effective you have found the DAE approach to be in valuing your firm. At the end of your analysis, please recommend whether you think equity investors should BUY, SELL or HOLD their shares in your firm, after considering your valuation of the firm and its current share price.

You can write your comments in any form you wish. As a suggestion only, you could use the following headings: Background; Financial Highlights; Key Aspects of Forecasts; Valuation; Recommendation. Please feel free to write up your view of the value of your firm using whatever headings or formats you wish. I am interested in your considered opinions with supporting evidence. Please keep your comments reasonably brief. You can use bullet points where appropriate.

The end of the course is also a good time to reflect on your experience of learning in this course. Please include in your ASS#5 your brief comments on the following:

1. An overall summary of the common themes about your learning experiences in your responses to the critical incident questionnaires (CIQs), your SPAs and your Assignments. You may include examples of, or extracts from, these if you wish.

2. A description of your contributions to small group activities you were involved in. What role or roles did you tend to play in these groups? Were you an initiator who came up with good project ideas, a monitor who kept the group on track, a resource person who tracked down material related to group activities, a cheerleader who kept up others’ morale when energy began to flag, or a ‘free loader’ seeking to contribute as little as possible to others? Or maybe you played other roles. For each role you played and each contribution you made, please give as specific a description as you can of what you did. You may want to include copies of anything that helps me understand your contribution to your groups.

3. What did you find useful about the online support on Blackboard for your small group activities? What did you not find useful? What suggestions do you have for how online support for your small group activities could be improved in future?

4. A summary of your learning in this course. What can you do now, and what do you know now, that you couldn’t do and didn’t know when you first came into this course? If I asked you to be a co-teacher for part of this course next year, what topic, task, or activity would you volunteer to teach to a new student? And what happened to you in this course that makes you think you’d be a possible co-teacher? Also, what was your more important realisation concerning the subject matter of the course? Why did you judge this to be of particular importance to you? What was the most important skill you learned? Again, what was it that was so significant about this skill? What is the primary learning that you feel you need to undertake the next time you have the opportunity to study in this area?

5. A summary of what you think students who show up next year should know about how to survive and flourish in this course. Some themes you might consider writing about are: “What I know now about this course that I wish I’d known when I came in,” and “The three most important things you should make sure you do to keep your sanity in this course”. Feel free to discard these themes and just write about whatever comes into your head around the theme of survival.

Please allow 780 - 840 minutes for this assignment.