

ACCT7101 Accounting – Individual Assignment

Financial Report Analysis and Business Decision Making

Due Date for Submission: **1 pm Friday 27th September 2019**

(Weight: 20% of Final Grade – Total 40 marks)

Aims of this assignment

This assignment aims to develop your

- a) ability to understand and analyse financial reports,
- b) skills and knowledge to compare financial information of two listed companies, and
- c) capacity to evaluate financial information and synthesise financial and non-financial information to make business decisions.

This assignment is to be completed on an individual basis.

Your submitted assignment must be entirely your own work. You may seek guidance from lecturers, tutors or fellow students to clarify concepts or the application of concepts to the financial statements in general. In addition, please look at the "Frequently Asked Questions (FAQs)" document uploaded on Blackboard, which may have the clarifications you need. Advice that is clearly associated with the assignment tasks cannot be sought or provided.

Plagiarism is the submission of work or ideas which are not your own but for which academic credit is claimed. It is important that you review the University's policy on plagiarism. The originality of your assignment will be assessed by the Turn-it-in system. Information from the course profile relating to plagiarism is reproduced below.

Plagiarism

The University has adopted the following definition of plagiarism:

Plagiarism is the act of misrepresenting as one's own original work the ideas, interpretations, words or creative works of another. These include published and unpublished documents, designs, music, sounds, images, photographs, computer codes and ideas gained through working in a group. These ideas, interpretations, words or works may be found in print and/or electronic media.

Students are encouraged to read the UQ Student Integrity and Misconduct policy (<http://ppl.app.uq.edu.au/content/3.60.04-student-integrity-and-misconduct>) which makes a comprehensive statement about the University's approach to plagiarism, including the approved use of plagiarism detection software, the consequences of plagiarism and the principles associated with preventing plagiarism.

Assignment overview

You have been randomly assigned two ASX listed companies that operate in the same industry (Company A and Company B). See the file “Companies allocated to students” under the Assessment tab on Blackboard to find your companies.

Obtain each of your company’s annual reports for the 2016, 2017, and 2018 financial years from the company’s website or www.asx.com.au. The annual reports contain the chairperson’s report, directors’ report and financial statements (Statement of Financial Position, Statement of Profit or Loss, Statement of Changes in Equity, Statement of Cash Flows and Notes to the Financial Statements). The financial statements include comparative figures from the prior year, therefore, you will have data for three financial years: 2016, 2017 and 2018.

Research the financial press and other sources of available information to familiarise yourself with the industry in which your allocated companies operate and with company specific factors that may have or will affect either company’s performance.

Two business scenarios are described below. Scenario 1 relates to Company A only and Scenario 2 involves Company A and Company B. Knowledge of the industry, company specific context and their financial data will be important inputs that inform the decision that you recommend in relation to each scenario.

Scenario 1

Company A has submitted an application to the Brisbane Bank for a loan. The amount of the loan is equal to 40% of total shareholders’ equity at the end of the 2018 financial year. The purpose of the loan is to fund expansion of Company A’s operating capacity. The loan term sought is 10 years and the loan would be secured against company property.

Assume you are a branch lending officer of Brisbane Bank who assesses loan applications. The lending officer must make a recommendation to the head office lending manager advising whether the loan application from Company A should be accepted or rejected.

Scenario 2

Both Company A and Company B have offered Capital Investments Limited, a listed investment company (LIC), a private placement of ordinary shares. The amount of share offer is equal to 30% of total shareholders’ equity of each company at the end of the 2018 financial year. Capital Investments Ltd can afford either of the two private placements. The purpose of an increase in equity for each company is to raise funds to finance an expansion of operating capacity.

Assume you are an investment manager at Capital Investments Ltd who evaluates private equity placements. Capital Investments has limited funds available for investing decisions. The manager must make a recommendation to the board of directors advising whether to accept Company A’s offer to sell to Capital Investments a new issue of ordinary shares and reject Company B’s offer, or accept Company B’s offer to sell to Capital Investments a new issue of ordinary shares and reject Company A’s offer or alternatively reject both offers.

Assignment tasks

Before commencing work on the tasks below, refer to the marking rubric for the criteria and standards that will be applied in the assessment of your assignment. See Blackboard.

1. Company background research (8 marks)

Review Company A's and Company B's annual reports, articles in the financial press and other sources of information. Write a short response to each item below to build background knowledge of each company and their industry.

- a) Describe the operating activities of each company noting similarities and differences between Company A and Company B.
- b) Identify two economy wide factors and two industry factors that could impact on the financial performance and position of two companies and two specific factors which could impact on the financial performance and position of company A and B, respectively. (In total, you should identify and analyse, at least, eight factors.)

2. Financial ratio analysis (8 marks)

Calculate financial statement ratios for the 2018, 2017 and 2016 years for Company A and Company B. Use the Excel template provided on Blackboard under the Assessment tab to present the analysis in a table. Obtain data for the ratios from the financial statements and notes to the accounts. You may add to this template (calculate additional ratios). See further instruction in the template.

3. Lending decision (12 marks)

Write a business memorandum to the Brisbane Bank head office loan manager from the branch bank lending officer in Scenario 1. The memorandum must address the following points below.

- a) Evaluate and discuss your assessment of the ability of Company A to repay the loan and interest. Make a recommendation to **accept or reject the 10-years term loan** application from Company A and justify your recommendation. Use knowledge that you have acquired in your company research from Q1 and refer to relevant ratios calculated in Q2.
- b) Briefly discuss Company A's **net cash flows from operating, investing and financing activities** and the trends evident over the last three years. Explain how this analysis is consistent with your accept or reject recommendation.
- c) The use of estimates, cost, alternative accounting methods, the presence of atypical data, and diversification of firms have been cited as factors that limit the usefulness of financial statement analysis. In your recommendation, please discuss the limitation of your financial statement analysis. Identify ratios and explain how one or more of the limiting factors can

affect the usefulness of that ratio with reference to literature (accounting texts **excluding Carlon *et al.*** or journal articles).

4. Investment decision

(12 marks)

Write a business memorandum to Capital Investments Limited's board of directors from the investment manager in Scenario 2. The memorandum must address the points below.

a) Use the most relevant financial ratios to analyse and compare trends in profitability and risk of Company A and Company B for the 2018, 2017 and 2016 years. Discuss your assessment of relative profitability and risk of both companies.

b) Recommend whether Capital Investments should invest in Company A or Company B or alternatively reject both offers. Justify the recommendation based on the evaluation of risk and profitability of each company and other relevant background information obtained from the annual reports and other sources. Use knowledge that you have acquired in your company research from Q1 and refer to the relevant ratios calculated in Q2.

c) Explain with reference to literature (accounting texts **other than Carlon *et al.*** or journal articles) the meaning of the price earnings (PER) ratio and EPS. Describe three year trends in these ratios for Company A and B and discuss their relevance to the investment decision.

Assignment administration

Format

Submit your work as a single PDF document. Include your student number and name as a header to the document.

Your written responses to Assignment tasks 1, 3 & 4 are limited to a maximum of 4 pages (Times Roman 12 point type, 1.5 line spacing and minimum, 2 cm on each margin). Any submitted text exceeding this limit will not be assessed.

Attach the Excel table of financial ratios for Assignment Task 2 as the 5th & 6th pages of the document (excluded from page limit).

Attach a Reference List as the 7th page of the document. All sources used must be referenced using a consistent academic reference style (e.g. Harvard Style of referencing). See Blackboard for information on the UQBS preferred format (Writing Guide). To reference from an annual report use the ASX Code of the company, year of the annual report and page number, e.g. COL 2018, p23).

Submission

Submit your assignment before or on the due date. Follow the instructions below.

a) Submit the assignment electronically as a PDF to the Turn-it-in link in the course Blackboard, under the “Assessment” tab, then under “ACCT7101 Turn-it-in Assignment Submission Folder”. Follow the submission instructions. **The title** of your assignment in the “Turn-it-in Submission Page” must be the **ASX code of your assigned Company A**. Do not add anything else in the title. For example, Coles Group Ltd title would be: **COL**.

b) The assignment can be submitted once only. Once submitted your assignment cannot be modified and re-submitted. However, before submitting the assignment you can test it for text matching through a draft submission in the “Draft Turn-it-in Assignment - To Test Originality” folder.

Late submission

An assignment submitted after the due date and time for which no extension has been granted prior to the due date will incur a late submission penalty. The penalty is applied at the rate of 5% of the total available marks for the assignment (i.e. 2 marks out of 40 marks) for each calendar day or part thereof that the assignment remains overdue.

Extension of due date

Requests for granting an extension to the due dates must be made in writing and signed (not via email) to the Course Coordinator at least 24 hours prior to the submission date. The request must contain documentation satisfactorily supporting the request. If an extension is approved, the new agreed date for submission will be noted on the application together with the Course Coordinator’s and the student’s signatures and a copy returned to the student.

Assessment criteria

The criteria and standards that will be applied in the assessment of this assignment are available on Blackboard (under the “Assessment” tab). Review the rubric before you commence work to ensure you understand the requirements of the assessment and how it will be assessed.

Feedback on the assessment of your assignment will be available via Turn-it-in.