ASSIGNMENT 2 – Critical Use of Accounting Information ACC/ACF5903 SEMESTER 2, 2020

This task accounts for 25% of the final mark for ACC/ACF5903 (provided the final exam is passed). You can choose your preferred pair of companies to analyze, following the assignment requirement (see below table).

Aims:

This assignment aims for allowing you to demonstrate that you can (1) download and analyze the annual report for listed companies, 2) how to use accounting information when making a judgment related to company performance, (3) identify limitations of accounting information, (4) beyond the disclosed public financial information, identify and understand the fundamental antecedents of financial reporting quality (e.g., from macro events to tone at the top), and (5) organize your thoughts in a coherent and presentable way.

Due day and submission requirement:

Due day/ time is 5pm Monday 19 Oct (Melbourne time)

If you are a student registered with Disability Support Services and require approved forms of support to complete this assignment, you must notify the Chief Examiner prior to two weeks before the due day. 10% penalty per 24 hours period is applied for late submission. No assignments will be accepted once they are five or more days later. Please be assured you submit your assignment successfully as we won't accept the draft (i.e., click on submit button for confirmation).

Word limit:

- 1,500 words (not including data presented in tables or tables of content).
- However, a good assignment is one that makes a well-informed evaluation and communicates it succinctly. For example, a 500-word evaluation will score a better mark than a 1,500-word evaluation that does not provide additional substance and clarity.

Preparation:

    a) To access the financial report, you could either download through company's website or access the Morningstar database at http://datanalysis.morningstar.com.au.ezproxy.lib.monash.edu.au/af/dathome?xtm-licensee=datpremium

    b) Download the Financial Data for the two companies you selected for the lastest three (3) years

    c) Download Annual Reports for the latest three years for the pair you selected.

Requirements and Marking guide:

You **must** opt for one of the following pairs as your research subject, and you **must** follow the six (6) requirements (in the next page) *in sequence* to prepare your writing:

- **Pair 1- Health care industry:** Fisher & Paykel Ltd. (*ASX: FPH*) and CSL Ltd. (*ASX: CSL*)

- **Pair 2- Health care industry:** Ramsay Healthcare Ltd. (*ASX: RHC*) and Sonic Healthcare Ltd. (*ASX:SHL*)

- **Pair 3- Technology:** Afterpay Ltd. (*ASX: APT*) and EML Payment Ltd. (*ASX: EML*)

- **Pair 4- Technology:** Nearmap Ltd. (*ASX: NEA*) and Megaport Ltd. (*ASX: MP1*)

- **Pair 5- Technology:** NEXTDC (*ASX: NXT*) and Hansen Technologies Ltd. (*ASX:HSN*)

- **Pair 6-Wine:** Australian Vintage Ltd. (*ASX:AVG*) and Gage Roads Brewing Co. (*ASX:GRB*)

- **Pair 7- Materials:** Jupiter Mines Ltd. (*ASX:JMS*) and OZ Minerals Ltd. (*ASX:OZL*)

Q'n	Pts	Requirements	Requirement illustrations:	Tips/ Testing purposes
(a)	5	Formatting of assignment 2	1. Front page (not necessarily Monash cover sheet) shall indicate your selected pair – industry and company name /code. 2. Please include tables of content. 3. Please include the number of words in your assignment 4. Please choose "Times New Roman" as your text font, with font size 11 and 1.5 line spacing in your content.	You shall refer to the weight of each question to prepare your writing.
(b)	5	Readability	1. The English writing shall have a clear progression to cover bullet points related to assignment requirements, and the content shall be readable.	-
(c)	40	Compare and contrast how the two companies use resources to generate wealth; discuss the financial performance of the pair companies assigned to you.	1. Identify the main similarities and main differences in companies' operations and how to use resources to generate wealth (15 marks). 2. Justify which ROA formula you used in your assignment, then analyze the ROA ratio trends and identify the closely related accounting items that explain the trend (items such as types of revenue, expenses, and assets etc.) (20 marks). 3. Provide a performance ranking of the pair you analyzed (5 marks).	Purpose: test the theme of this unit, thus, the critical use of ratio analysis FRQ *internal* driver: managerial discretion use of accounting treatments
(d)	30	Further analysis of financial performance.	1. What would *other* financial ratios (or financial data) be helpful to comprehend your performance comparison of the pair? (15 marks) 2. Find out the related real-world events (e.g., macro-economic factors/ shocks/ industrial-wide events) which might help you explain the ROA performance of two companies, and indicate /highlight the source of your real-world events. (15 marks)	Purpose: acknowledge the limitation of the singular use of ROA profitability analysis FRQ *external* driver: institutional environnent D-HD requires extensive reading and searching for relevant real-events.
(e)	15	Understand the antecedents of financial reporting quality	1. Find out the relevant perspective(s) of two companies' corporate governance or the quality of the management team that contributes to the explanation of overall financial/firm performance (15 marks)	Chapter 4,5 might be helpful. Unique angles are encouraged. More than one angle to justify relevance.
(f)	5	Recommend one more company within the same industry in the portfolio	1. Select *one* more company (can be domestic or overseas, can be a private firm or public firm) that is closely comparable to your pair within the same industry, other than the companies already appeared in the assignment. You need to indicate the i) name of the company you additionally selected, ii) listed country, iii) three (3) convincingly brief points why you think it is comparable to the existing pair. (5 marks)	Purpose: selecting a similar pool of companies is the first critical step to conduct qualified financial analysis jobs in real practice.

**(Out of 25. Assignment scored out of 100 then divided by 4)**

Resources for assignment 2:

1. Moodle discussion – a separate thread for each industry (Healthcare, Tech, Wine, and Materials, respectively). You can ask questions and exchange your views in that particular industry with your classmates there (Peer-learning is beneficial!).
2. CE will offer one hour Q&A online consultation two weeks before the assignment due time (detail is 5th Oct 4-5pm Melbourne time: Meeting ID: 943 2536 9681 Password: 107190).
3. *The public (and free) business portal could be, for example, Bloomberg, Audit Firms research report (e.g., E&Y, KPMG, PwC and Deloitte), FT, WSJ, research articles (access through Monash library).*

Submission Requirements:

- Print the finalised individual assignment as a **<u>pdf</u>** and submit it via the link in Moodle.
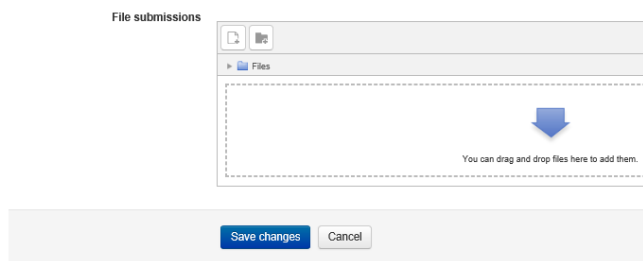
The following images demonstrate the steps involved in the submission:
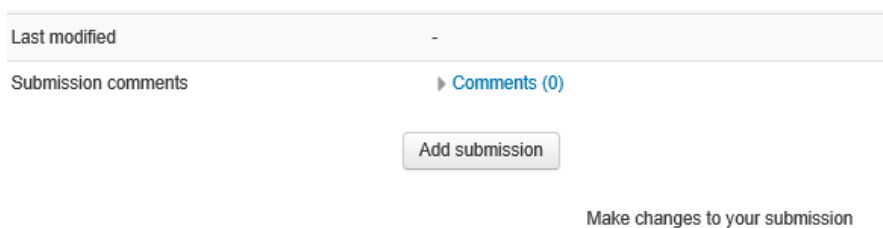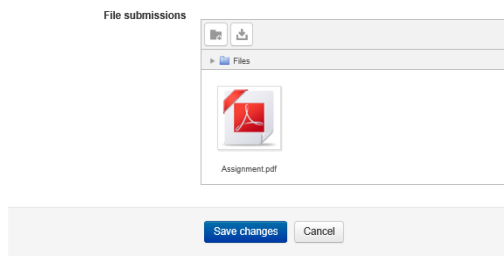
Press 'Save changes" (see image above) and then, when your submission is finalised, **press "Submit assignment"** (see following image):

| File submissions | Assignment.pdf |
| Submission comments | ▶ Comments (0) |

Edit submission

Make changes to your submission

Submit assignment

Once this assignment is submitted you will not be able to make any more changes.

FEEDBACK

The main forms of feedback are

- Guidance in completing the assignment provided during lectures,

- Guidance from tutors during selected tutorials,

- Completion of a marking rubric.

APPENDIX

Why using accounting information in a critical manner is important

The simple answer is, that accounting numbers can never be taken at face value; i.e. accounting numbers must not be taken as objective truths. Instead, it is essential the limitations of accounting information are taken into account when using the information to inform decisions. Information asymmetry cannot be eliminated to zero in the capital market, which adversely stimulates managers to disclose and present accounting information in the best of their interest, among other capital incentives. So it is essential to think critically how accounting information is generated, and who monitor financial reporting quality.

What are some of the limitations of accounting information?

Firstly, in presenting information that describes the real-life outcomes of a business, accounting has its own 'concepts' and ways of measuring them. 'Profit' and 'Assets' are two examples of 'concepts'. In measuring profit, accounting intends to measure an increase in 'wealth' but accounting may exclude aspects of a business's outcomes *that you might think* should impact the measurement of the wealth produced by a business. It might also include aspects you might think are not relevant (e.g. an expense that occurs in only one year and which you think is extraordinary for some reason, such as restructuring costs). Similarly, accounting may include and/or exclude particular resources in its measurement of 'assets'.

Secondly, accounting measures concepts in monetary terms, e.g. dollars. Quantifying business outcomes in money terms is a limitation in itself.

Moreover, accounting may allow different ways of measuring the same thing. Different accounting policies result in different dollar measurements.

Thirdly, the use of many accounting policies require estimates by managers and accountants. For example, the 'measured' value of a depreciation expense for particular equipment depends on estimates of the equipment's useful life, and its value when it will no longer be required. Estimates can be conservative or optimistic.

Fourthly, it's essential to incorporate the quality and/or style of management team into consideration when we evaluate firm's financial performance. ***Executive team is "tone at the top",*** thus to which extend, they adopt the corporate governance would definitely influence the output of accounting performance.

What do these limitations mean for decision-making?

People using accounting information to make decisions need to be aware of how the information has been impacted by these limitations and to then consider them when making a decision or forming an opinion. They must not accept information at face value!

Thus, when using annual information to consider how business outcomes have changed over a number of years, the user must be aware of the ways in which accounting was done differently over the years. When performance of a group of companies is being compared, the users must be aware of the ways in which the companies do their accounting differently. This assignment requires you to demonstrate this awareness.

In regard to this assignment, the ratio "Return on Assets" (ROA) is an accounting indicator of how well assets are used to generate profit in any year. Thus whilst ROA has many limitations as an indicator of how well wealth has been generated by resources, it is a useful ***input*** to decisions about the wealth generated from resources.

A little more about Return on Assets (ROA)

ROA is calculated by dividing the value of profit by the value of assets. Profit is the difference between total income and total expenses. The value of assets is the total of a variety of different kinds of assets.

In other words, total income, total expenses, and total assets are made up of a combination of different ***items***. This assignment requires you ***to select particular items*** that affect the values of profit and assets, and hence ROA, and investigate the accounting of them.

Besides, ratio analysis is not mandatorily required to disclose in an annual report, instead, it is a tool facilitate financial report users to grasp the financial performance and the growth opportunity among others.

How to understand well the company that you are analysing (a few indicators for your consideration)?

Entity level: major supplier, major customer, relationship with employee, sources of financing, ownership structure…

Industry level: Which industry the firm operates in? What's the level of competition in that industry? What's the firm size relative to its competitor in that industry? Any government support in that industry?

Economy level: Economy upturns or downturns? Any currency fluctuations?