ACCT 5023

Financial Accounting Fundamentals – M

Assignment – 2 (Group Assignment)

SP2 2009

This assignment may be carried out in pairs or on your own. I strongly encourage you to find a partner for this assignment to ensure a high quality assignment is attained. No allowance (in terms of marks or extensions) will be made for students completing the assignment on their own. If you do not have a partner for the assignment you can use the general discussion board (on the course online resources) to find a suitable partner. Please do not post your private telephone numbers on the discussion board. Use your UniSA email address as your contact address in the first instance.

All assignments must be submitted via AssignIT and must include an assignment cover sheet. Please take time to learn how to use AssignIT before the due date.

Assignment Question

Your friend, Carl Jansen, is considering investing in a wholesale clothing company called Fraser Pty Ltd. Carl has asked you to analyse the financial statements of the business for the past three years and give your opinion. You explain to Carl that you are not an expert in the field but that you are happy to provide him with your opinion and some questions that he needs to have clarified by the directors of Fraser Pty Ltd before making a decision.

REQUIRED:

Part A:

Establish the profitability, liquidity and financial stability of the business by calculating the percentage and ratio analysis for Fraser Pty Ltd needed to provide a sound analytical basis to your report (not part of the word limit, include these as an appendix to the report). <u>All calculations for ratio analysis are to be shown</u>.

Part B::

1. Prepare a 1,000 word report (give or take 100 words) for Carl that interprets the profitability, liquidity and financial stability of Fraser Pty Ltd.

2. In the report, point out that Fraser Pty Ltd has shown a large increase in profit in the last financial year compared to previous financial years. Identify the financial statement figures that cause you to doubt the 2008 operating profit figure. If your suspicions are correct, how useful is the financial analysis that you have provided? What might be some genuine explanations for the large increase in profit in 2008?

3. As part of your report, present an executive summary, a list of questions that Carl needs to have answered before proceeding, and a conclusion.

Financial Data

Disclaimer: The financial data of Fraser Pty Ltd are fictitious. They do not represent actual financial data and are only for the purposes of the assignment

Fraser Pty Ltd
Comparative Income Statements
for the years ended 30 June
(in thousands of dollars)

	2008	2007	2006
Net Sales	8,800	7,600	6,500
Cost of Sales	5,900	5,500	4,300
Gross Profit	2,900	2,100	2,200
Expenses:			
Selling & Admin	1,200	1,250	1,250
Interest	200	150	80
Total	1,400	1,400	1,330
Operating Profit Before Tax	1,500	700	870
Income Tax Expense	300	150	220
Operating Profit after Tax	1,200	550	650

Fraser Pty Ltd
Comparative Balance Sheets
as at 30 June
(in thousands of dollars)

	2008	2007	2006
Assets:			
Cash	1,700	900	750
Debtors	800	750	650
Inventory	780	620	500
Prepaid Expenses	20	20	15
Property, Plant & Equipment	12,000	10,000	4,000
Total Assets	15,300	12,290	5,915
Liabilities:			
Accounts Payable	1,500	900	320
Bills Payable (6 mths)	150	150	50
Taxation Payable	300	150	220
Non-current Liabilities	2,700	1,000	300
Total Liabilities	4,650	2,200	890
NET ASSETS	10,650	10,090	5,025
Shareholders' Equity:			
Paid Up Capital	10,000	10,000	5,000
Retained Profits	650	90	25
	10,650	10,090	5,025

Fraser Pty Ltd
Number of shares 10,000 in all three years

Dividends in 2006	$300,000

Industry Averages

Clothing Wholesalers 2008	
Gross profit margin	45%
Profit margin	15.0%
Earnings per Share	$12.00
Equity ratio	55.9%
Asset turnover	3.6 times
Current ratio	2.08:1
Days stock on hand	40 days

NOTE: Although industry average and similar comparative information has been provided for this assignment the aim of this assignment is **not** to establish the relative performance of this company to similar companies. The aim is to use the analysed financial data in a manner appropriate to make recommendations to Carl to help him decide if he should invest in this wholesale clothing company. Though some general comparative data should be researched (for example both borrowing and deposit interest rates) and used to make observations, it is not necessary to seek out specific industry data for this assignment.

REPORT PRESENTATION

It is expected that students present their major assignment in an appropriate business report style. A good reference on Report Writing is Fleet, W., Summers, J. & Smith, B. 2006. *Communications skills handbook for accounting*. 2nd edition. John Wiley & Sons Aust Ltd, Brisbane.

The structure of the report should be as follows:

- Assignment cover sheet
- Title page
- Executive summary of the report and its findings. An executive summary outlines what the report is for, how the report was prepared and what it recommended. [200 words]
- Table of contents
- The body of the report based upon the subheadings as requested in the question.
- Correct and accurate referencing using the Harvard style. If you are not familiar with this referencing style research the library website for information.
- Appendices. These are to contain the calculations/data referred to in the assignment and any other detailed information you have used in the report.

Plagiarism is an offence in a tertiary education environment so ensure that you **use in text referencing where appropriate**. Do not sign the plagiarism statement on the assignment cover sheet until you understand what it means.

OTHER POINTS TO NOTE:

Attached is an example of the student's copy of the marking guide for the assignment. One of these will be completed and returned with your marked assignment.
Ideally, the main body of the report will not only comment upon the given ratios and other measures, but attempt to link them to each other.

HINT BOX:
Do not simply provide a rehash of what the numbers are saying using words when you do your interpretation. What is required is an interpretation of what the numbers are saying about the profitability, liquidity and solvency of the firm. For example, if the current ratio is 2.3:1 don't simply write that the current ratio is 2.3:1 and so the firm has 2.3 times more current assets than current liabilities. Rather, explain that as the current ratio is a measure of the firm's ability to meet its short term debts from its current assets a current ratio of 2.3:1 suggests that the firm has a good/solid liquidity position and should be able to meet its current liabilities when they fall due.
Also, don't deal with each individual ratio or horizontal and vertical analyses when discussing them, but consider each group, such as liquidity indicators, as a whole and comment on what they tell you about the performance of the firm.

The language used should be concise and appropriate. The purpose of the report is to communicate information. Distracting the reader or making the reading of the report a laborious task is counter to this purpose.
Students will be penalised for exceeding the maximum word limit or presenting the assignment in a format other than that required.
Since this is a simulation exercise in serving the needs of client, marks are awarded for presentation. Though assignments will be accepted for marking if they are not typed, students who submit hand written assignments can expect to be penalised, the extent of the penalty being dependent upon the way the hand written presentation affects readability.

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Study Period 3 2009

Assignment 2 Marks Sheet

Marks: /50

Student Names and Ids ____

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1. PRESENTATION & RELATED ISSUES /11

a. Appropriate use of headings and sub-headings /1

1.1. Executive summary /3

1.2. Conclusion /3

1.3. A reference list is included /2

1.4. Generally easy to read and follow recommendations from calculations etc. /2

2. CALCULATIONS /15

2.1. Vertical, Horizontal and Trend Analysis /3

2.2. Ratio Analysis - good range of ratios used which are relevant, correct and non repetitive with other ratios calculated or with the vertical &/or horizontal analysis (calculations must be shown or no marks awarded)

2.2.1 Profitability Ratios /4

2.2.2 Liquidity Ratios /4

2.2.3 Solvency Ratios /4

3. REPORT CONTENT /24

3.1 Profitability, Liquidity and Financial Stability /6

3.2 Issues relating operating profit in 2008 /6

3.3 Point out the limitations of the data provided and their impact upon the subsequent conclusion. /6

3.4 Identified other information, not directly related to the financial analysis that should be taken into consideration when making the investment decision. /6

PENALTY MARKS

Word limit violation, late Submission without prior approval, assignment in a format other than a report (eg essay), calculations in the main body of the report rather than in appendices, etc.

Marker: