ASSIGNMENT 2 – ACC/ACF5903 SEMESTER 1, 2017

This task is to be completed as a **GROUP** and accounts for 25% of the final mark for ACC/ACF5903 (provided the final exam is passed). The objective of this task is to gain experience interpreting accounting information in order to make judgements about an aspect of a company performance. The point of the assignment is encapsulated in the following statement from the text book:

> "Although ratios offer a quick and useful method of analysing the financial position and financial performance of a business, they are not without their problems and limitations" (p.276)

Accordingly, when using reported accounting numbers and ratios to form an opinion about a company's performance over a three year period, or forming an opinion about how the performance of a group of companies compare with each other, consideration must be given to

- How well the accounting numbers and ratios reflect the "real world";
- The company's choices of, or changes over time in, accounting policies and in the estimation of items, e.g. assets, doubtful debts; and the points in time when items are measured;
- The comparability of accounting information of different companies; e.g. if their respective choices are different, how these differences should affect your judgements;
- Other limitations of the financial statements and ratios.

CONTEXT

You are a member of a group of friends who wish to identify companies for which you would like to work. You all prefer to be employed in the same industry and you have agreed the company you would most like to work for ***is the company that is best at using its resources to generate wealth***. Therefore you need to evaluate how well each company does this so that your group can rank the companies in order of how well they perform. You know that the ratio, ***Return on Assets***, is an indicator of performance in this respect and you also know ratios can't be taken at face value. Also, it is difficult for your group to gather regularly in one place to do this work and therefore you depend on technology to help you collaborate effectively.

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DUE DATES

Note the deadlines have been eased by one week compared to the Unit Guide.

Set up of Moodle and shared folder	Friday 14th April (Week 7)
Part 1: Individual investigation (sharing the outcomes of your initial investigations with your group members)	**5pm Monday 1st May (Week 9)**
Part 2: Final version of individual essay, group essay, and participation & contribution spreadsheet)	**5pm Monday 22nd May (Week 12)**

SET UP of Moodle and shared folder

1. Form an assignment group by joining with other students from the same tutorial class. The ideal group size is four students but sizes of three and five are permissible. It is your responsibility to ensure you have joined a group by the due date. Notify your tutor of your group members using the Team Sign-up sheet available on Moodle.

2. Your tutor will provide your group with an alpha-numeric code, e.g. CGM2pmG3. This code serves as the name of your group.

3. One of your group members must create a folder within Google Drive and share it with the other group members as well as your tutor. Use your group code as the name of the folder. This folder is where you will share information and collaborate in the production of the assignment. See the demonstration video "***How to set up the shared folder***" on Moodle for assistance with this.

4. Each group member should use the group code to join a discussion forum on Moodle. The discussion forum is therefore restricted to your group members as well as your tutor. This discussion forum is where you will raise and answer questions within the group, discuss evaluations of the companies, and debate the ranking of their performance. See the demonstration video "***How to use Moodle and Google Drive to collaborate***" on Moodle for assistance with this.

5. Marking for this Assignment includes a component for group participation and contribution. As inputs to this, you will score your satisfaction with the participation and contribution of your group members. These scores are collected twice during the course of completing the Assignment via two links on Moodle. Via both of these links, you need to

register yourself for peer assessment. The same video "***How to use Moodle and Google Drive to collaborate***" demonstrates how to do this.

6. From the Morningstar database: select an Industry within any Industry Group within any of the following GICS Sectors[1] (see Fig. 1):

- Energy
- Materials
- Industrials
- Consumer Discretionary
- Consumer Staples

Each group member is to select a different listed company[2] within the Industry. See the demonstration video "***How to choose a company and access accounting information about it***" on Moodle for assistance with this.

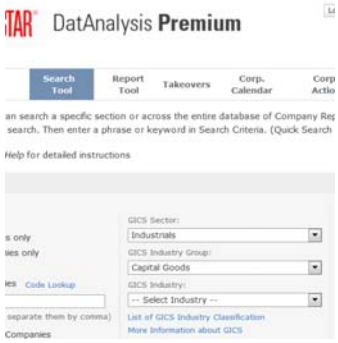

Fig. 1 A screenshot of where and how to select an industry within a Sector

[1] The Global Industry Classification Standard (GICS) is an industry classification developed by Standard & Poor's (S&P) for use by the global financial community. The GICS structure consists of 10 sectors, 24 industry groups, 68 industries and 154 sub-industries

[2] Note: The assignment is likely to provide a better learning experience if you don't select a highly diversified company. Selecting a listed company provides the advantage of readily accessible Annual Reports.

REQUIRED:

PART 1. Individual investigation

a) Download the Financial Data spreadsheet for your selected company with data for years ended 2014 thru 2016 inclusive;

b) Download Annual Reports for 2014, 2015, and 2016 for your selected company;

c) Critically review the use of ROA (Return on Assets) as an indicator for your purposes of how a company's resources are used to generate wealth, and how different companies might measure it in different ways. Decide 3 asset categories (items) and 1 income statement item which you think will require closer inspection before you rely on ROA information to form your opinion about how well resources are used to generate wealth. For each of these financial statement items, present the relevant financial information for each of the three years, describe the company's choice of respective accounting policy, and any methods of making relevant estimates;

d) In essay form, write your initial impressions of ***how well the company is using its resources to generate wealth*** and rate it on a scale of 1 to 10 (10 = excellent, 5 = satisfactory, 1 = very unsatisfactory)[3]. Justify your judgements by presenting appropriate accounting information and evidence (e.g. from the Company Report).

In your evaluation of the company's performance, you should take account of

- Relevant information in the Annual Reports, e.g. Director and CEO Reports; e.g. explanations for the level of profits generated from assets and how the level varied annually between 2014 and 2016
- How well the financial information reflects the "real world";
- Choices of, or changes over time in accounting policies, and in the measurement or estimation of items;
- Reported ratios, i.e. return on assets, asset turnover, profitability ;
- Other ways in which the limitations of the company's financial statements should be considered;

[3] Note: You will be more able to rate the performance of your company after you have compared your company with the companies of the others in your Assignment Group in Part 2.

e) Store the outcomes of (c) and (d) in the shared folder on Google Drive by **5pm Monday 1st May.** By storing it you both share it with the other group members and submit it to your tutor.

PART 2. Group setting

a) As a group, compare initial impressions and investigations of each group member;

b) Identify the need for more work to better inform and justify group members' evaluations of their own companies, and to improve the comparability of companies' accounting information. Check your group has a common understanding of what 'performance in relation to use of resources to produce wealth' means. ***Aim to do this for the first time by Monday 8th May, because you should expect to work on these things at least a second time before finalizing the group essay***;

c) Provide feedback about your satisfaction to date with other group member's participation and contribution by scoring them via the *Assignment 2 - participation and contribution - early peer assessment feedback* link on Moodle by **11pm Wednesday 10th May**. Upon completion of this by all group members, you will be presented with the other group members' satisfaction with your own participation and contribution. Use this as feedback that might help you improve and/or support others better during the remainder of the Assignment.

d) As a group, attempt to reach consensus about the ranking of performance of the group's set of companies. ***In essay form***, state the ranking and justify it using appropriate presentation of information and evidence. List any conventions adopted by the group to improve the comparability of the companies' accounting information, e.g. how account was taken of companies valuing assets in different ways[4].

e) In the process of performing 2(a) – (d), group members must ***finalize their own individual evaluations in essay form*** of how well their own company used resources to generate wealth. This essay must include a final version of the output from 1(c) and 1(d), i.e.

- Your opinion of how well your company used its resources to generate wealth, justified by real world explanations and financial information;

[4] If consensus is not reached, then include dissenting opinion(s) in the essay along with appropriate information and justifications.

- Details about the 3 asset categories (items) and 1 income statement item which you think required closer inspection before you could form your opinion about how well resources were used to generate wealth;
- For each of these, present the relevant financial information for each of the three years and descriptions of the company's choices of accounting policies and methods of making estimations. In an attachment, include copies of the relevant pages from the "Notes to the Accounts" from each of the three Annual reports.

f) Submission: **to be completed by 5pm Monday 22nd May**

- Print the individual essay from Google Docs as a pdf and submit it via the link in Moodle. One group member must also print the group essay as a pdf and submit it via the Group assignment link in Moodle.
- Use the Assignment link "*Assignment 2 – group participation and contribution*" to finally rate your satisfaction with the participation and contribution of the other group members.

Word limit

- Individual evaluations (part 2(d) above): Maximum 1,000 words (not including data presented in tables or attachments).
- Group evaluation (part 2(c) above): Maximum 600 words (not including data presented in tables or attachments).
- However, a good assignment is one which makes a well-informed evaluation and communicates it succinctly. For example, a 500 word evaluation will score a better mark than a 1,000 word evaluation which does not provide additional substance and clarity.

Submission Requirements

- **Print the individual essay from Google Docs as a pdf** and submit it via the link in Moodle. **One group member must also print the group essay as a pdf** and submit it via the Group assignment link in Moodle.
- Make sure you ***use only one version*** of individual and group essays so that they contain a complete Revision History. Ensure this by when saving changes to a Google document, ***simply the close the window***, don't select File / "Make a copy".
- Save individual essays with the Student ID as the file name, e.g. "23456789.docx";
- Save the group essay with your group code as its filename, e.g. "CGM2pmG3.docx";
- Make sure your folder name is exactly the code given to you by your tutor
- Move any working papers to a sub folder. This means apart from the subfolder, the only documents visible in the group folder are the individual and group essays to be marked, and the group participation and contribution spread sheet.
- Document offline participation and contributions by group members on the discussion forum. For example, post reports of meeting attendees and outcomes.

MARKING

Individual evaluation	15 marks
Group essay	5 marks
Group participation / contribution	5 marks
TOTAL	**25 marks**

Group participation

The maximum individual score for group participation is the score given for the group essay. The mark will be awarded by the tutor and judged on the basis of discussion and contribution evident on the Moodle Discussion forum, and on a review of the Revision History (see Fig. 2) associated with the group essay in the shared folder on Google Drive. For these reasons, you should document offline participation and contributions by group members on the discussion forum. Peer assessment responses may also be considered.

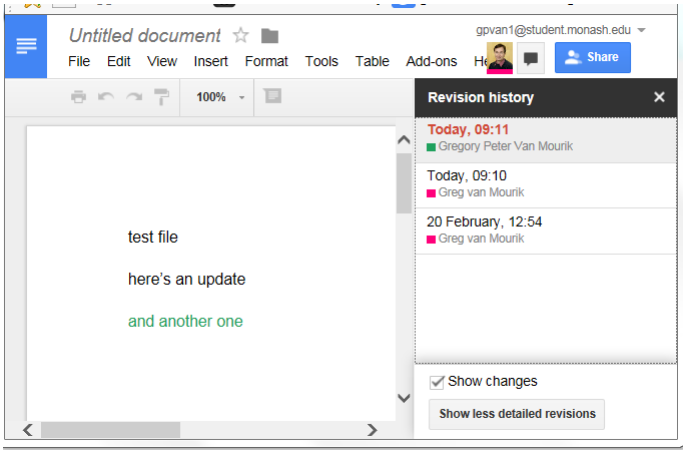

Fig. 2 An illustration of a document's Revision History

See last page for the Marking Guide.

FEEDBACK

Most feedback will be provided in the course of completing the assignment (i.e. formative feedback) rather than after final submission. The reason for this is to provide you feedback whilst you are learning so that you can take advantage of it to improve the quality of your assignment. The main forms of feedback are

- Guidance in completing the assignment provided during lectures,
- Guidance from tutors during selected tutorials,
- From other group members as you use early versions of each other's individual essays to rank companies and improve your justifications of your judgements about company performance, and as you understand others' ways of using accounting information as evidence,
- From other group members in the form of interim peer assessments of your participation and contribution to the group,
- By inviting tutors to join in forum discussions when the group needs help to understand something or get questions answered.

MARKING CRITERIA

Individual Essay (Out of 15. Essay scored out of 60 then divided by 4)

1. As well as clarity of expression, quality of individual essay depends on		
Criterion		**Performance Indicators**
1	**Quality of opinion** A clear, justified opinion about how well resources are being used to generate wealth **(out of 10)**	• Performance judged and justified with reference to bench marks (e.g. other companies in group)
2	**Evaluation of performance** How well real world explanations are given for performance **(out of 10)**,	• Real world drivers of trends identified
3	**Performance analysis** How well ratios in 2014 – 2016 and trends are explained (analysis of ROA, asset turnover and profitability trends) **(out of 10)**,	• Trends explained in terms of changes in their numerators and/or denominators o e.g. ROA improved because profit increased due to increase in sales
4	**Looking behind the numbers** Not simply taking financial and ratio numbers at face value Taking account of how well wealth is represented by profit, and resources by assets; and how measurement of these (and hence ratios) are affected by accounting choices and need for estimations **(out of 30)**	• Appropriateness of 'profit' and 'assets' as indicators of 'wealth' and 'resources' considered. • Selection of balance sheet and income statement item(s) justified. • Required excerpts from Notes to the Accounts provided. • Appropriateness of the measurement of accounting items and calculation of ratios considered and adjustments, involving either recalculations or subjective judgements, made as required. o Consistency of approach with those of other group members • Relevant trend information provided (ROA, asset turnover, profitability).

Group essay (Out of 5. Essay scored out of 20 then divided by 4)

A good essay is one where the group members try to achieve consensus of what 'performance in relation to how resources are used to produce wealth' means, recognises ways in which accounting data may be inadequately representative of that, take account of how data about companies may not be directly comparable and they attempt to cater for these issues when deciding the ranking.

2. As well as clarity of expression, quality of group essay depends on	
Criterion	**Performance Indicator**
Issue Identification How well issues affecting cross-company comparability of accounting information were identified[5], **(out of 12)**	• Quality of explanation of at least 3 issues
Protocols for dealing with identified issues How well the group decided to handle these issues **(out of 4)**	• Quality of explanation as to how the issues were handled (this may have required individuals to do extra work on, and thus improve, their individual evaluations)
Justified performance ranking Having protocols for dealing with issues, how well the group forms and justifies an opinion about performance ranking of companies in the group **(out of 4)**	• Quality of justification / supporting evidence

[5] Examples are: agreement about meaning of 'performance', whether there are differences in asset valuations and depreciation expenses that affect comparability of company accounting data