

**Coursework assignment 1 (35%)**

**ASSIGNMENT DETAILS**

Your client, Mrs Deborah Mayer, is considering investing some recently inherited money in the shares of a major company. She has no previous experience of being a shareholder, nor has she any accounting expertise. Deborah is also concerned that her new-found wealth should not compromise her view of herself as an ethical individual, with high moral standards, and so wishes to be assured that her company of choice observes ethical conduct in its operations. She has identified a company in the pharmaceutical sector, GlaxoSmithKline plc (GSK), as being of potential interest to her. As her financial advisor you are required to prepare a report for Mrs Mayer, advising her as to whether this is an investment you would recommend. You should base your recommendations on information obtained from the company's 2009 Annual Report (available at <http://www.gsk.com/investors/reps09/GSK-Report-2009-full.pdf> ), as well as accounting knowledge you have gained from your studies to date, and any other useful sources of information you identify during your research.

Your report should address the following:

**Prepared in suitable format, with good presentation and structure (10%)**

**Analysis of annual report (10% for each question)**

Do you think the Business Review in GSK's Annual Report provides essential information for users of its financial statements? Why would a potential investor such as Mrs Mayer find it valuable? Which other groups of users might find it valuable?

Do you believe GSK is an ethical company? Is it a responsible corporate citizen? What evidence is provided (or lacking) in the Annual Report to support your opinion?

Identify and discuss the main elements of business risk faced by GSK. What is your assessment of the impact of the current global financial crisis on GSK's business risk?

Who are GSK's external auditors? Will they continue to audit the company next year? What sort of audit opinion did GSK receive in 2009? Explain, in your own words, what such an audit opinion means?

Explain GSK's accounting policy for the treatment of:

- a) research and development (R&D) expenditure
- b) depreciation of property, plant and equipment
- c) inventory valuation

Discuss the implications of each of these treatments for reported profitability.

The Annual Report provides some ratios (e.g. gearing) which may help users to analyse business performance. Using the consolidated accounts, calculate FOUR other ratios, and explain why you believe these are useful for a potential investor. You should show all workings and calculate the ratios for 2008 and 2009.

Discuss the potential problems which may arise in trying to compare GSK's financial performance with that of a key competitor based solely on the financial statements. Explain whether the use of ratios can help to overcome such problems.

Identify one of GSK's main competitors, and evaluate the relative quality of their 2009 Annual Reports in terms of how informative they are for a potential investor.

In your opinion what are the limitations of GSK's Annual Report, and what additional information do you believe should be included that is likely to be useful to a potential investor?

### **IMPORTANT INFORMATION**

Your discussion should **not exceed 1,500 words** excluding references and appendices. You should include the word count on your cover page.

Submission date: by 3.00pm **Monday 15 November** 2010.

The report should be word-processed in 12pt font, double-spaced between lines, printed only on one side of the page, using black colour for the main text. Put a page number on each page and staple or bind your report.

You should observe the following guidelines for writing a report:

#### **(1) The report should be headed up appropriately, e.g.:**

To: Mrs Mayer  
From: Financial Advisor

Report title

Terms of reference / Introduction

#### **(2) Main body of report**

You should 'signpost' your work. That is, you should give section and subsection headings where relevant so it is easy to follow your report. It is recommended that you follow the structure of the questions in completing the report: answers should be in the same order as the questions.

#### **(3) Conclusion and recommendations**

Your report should end with a conclusion, summing up your main findings and making your recommendations.

Plagiarism is an academic offence. See [http://www.uea.ac.uk/plagiarism/understanding\\_plagiarism](http://www.uea.ac.uk/plagiarism/understanding_plagiarism) for details. Answer the questions in your own words. You should not quote extensively from the Annual Report.

You should use the Harvard style of referencing to cite the work of others. A copy of the guide is available on Blackboard.

When you have finished writing your report, re-read it to check for language mistakes.

Happy writing!

Omiros Georgiou  
October 2010