

Financial Statement Analysis

Common-Size Financial Statements

- ▶ Balance sheet items as a percentage of _____.
- ▶ Income statement items as a percentage of _____.

**Suzie Q Corporation
Balance Sheet
December 31, 2018**

Assets:			Liabilities & Equity:		
Current Assets:			Current Liabilities:		
Cash	\$ 80	12.5%	Accts. Payable	\$ 95	14.8%
Accounts Rec.	140	21.9%	Notes Payable	<u>110</u>	<u>17.2%</u>
Inventory	<u>155</u>	<u>24.2%</u>	Total CL	\$205	32.0%
Total CA	\$375	58.6%	Long-term Debt:	120	18.8%
Fixed Assets:			Common Stock	40	6.2%
Net Fixed Assets	<u>265</u>	<u>41.4%</u>	Retained Earnings	<u>275</u>	<u>43.0%</u>
Total Assets	<u>\$640</u>	<u>100.0%</u>	Total Liab. & S.E.	<u>\$640</u>	<u>100.0%</u>

**Suzie Q Corporation
Income Statement
For Year Ended December 31, 2018**

Sales	\$910	100.0%
Cost of Goods Sold	470	51.6%
SG&A Expenses	210	23.1%
Depreciation	<u>60</u>	<u>6.6%</u>
EBIT	\$170	18.7%
Interest Expense	<u>40</u>	<u>4.4%</u>
EBT	\$130	14.3%
Taxes	<u>52</u>	<u>5.7%</u>
Net Income	<u>\$78</u>	<u>8.6%</u>

Classification of Financial Ratios

- ▶ Short-term Solvency or Liquidity Ratios
- ▶ Long-term Solvency or Financial Leverage Ratios
- ▶ Asset Management or Turnover Ratios
- ▶ Profitability Ratios
- ▶ Market Value Ratios

Short-term Solvency (Liquidity) Ratios

- ▶ Current Ratio
- ▶ Quick (Acid-Test) Ratio
- ▶ Cash Ratio
- ▶ Net Working Capital to Total Assets
- ▶ Interval Measure

Long-term Solvency (Financial Leverage) Ratios

- ▶ Total Debt Ratio
- ▶ Debt-equity Ratio
- ▶ Equity Multiplier

Long-term Solvency (Financial Leverage) Ratios

- ▶ Long-term Debt Ratio
- ▶ Times Interest Earned (TIE) Ratio
- ▶ Cash Coverage Ratio

Asset Management (Turnover) Ratios

- ▶ Inventory Turnover
- ▶ Days' Sales in Inventory
- ▶ Receivables Turnover
- ▶ Days' Sales in Receivables

Asset Management (Turnover) Ratios

- ▶ Net Working Capital Turnover
- ▶ Fixed Asset Turnover
- ▶ Total Asset Turnover

Profitability Ratios

- ▶ Profit Margin
- ▶ Return on Assets
- ▶ Return on Equity

Market Value Ratios

- ▶ **Earnings Per Share (EPS)*
- ▶ Price–earnings (PE) Ratio
- ▶ Price–sales Ratio
- ▶ Market–to–book Ratio
- ▶ Tobin’s Q
- ▶ Enterprise Value–EBITDA Ratio

DuPont Identity

DuPont Identity

- ▶ ROE =
- ▶ With leverage, _____ is greater than _____.
- ▶ Breaks ROE down into:
 - Profitability
 - Asset Use Efficiency
 - Financial Leverage

Uses of Financial Statements

- ▶ Ratio Analysis
- ▶ Common Size Statements
- ▶ Trend Analysis
- ▶ Cross-sectional Analysis
- ▶ The DuPont Identity

Limitations of Financial Statements

- ▶ Benchmarking
- ▶ Effects of Inflation
- ▶ Seasonal Factors
- ▶ “Window Dressing”
- ▶ Differing Operating and Accounting Practices
- ▶ The Big Picture

Chapter 3

Suggested Problems

- ▶ Concepts Review and Critical Thinking Questions:
 - 2, 5, and 7

- ▶ Questions and Problems:
 - 7, 12, 17, 22, 26, and 27