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

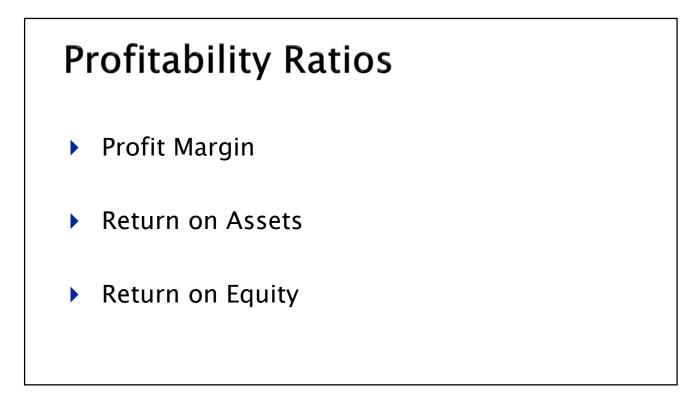
- Long-term Debt Ratio
- Times Interest Earned (TIE) Ratio
- Cash Coverage Ratio

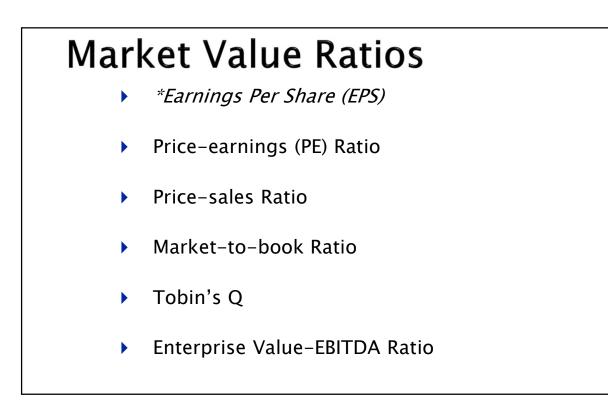
Asset Management (Turnover) Ratios

- 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





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