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, 2017

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

## Suzie Q Corporation
### Income Statement
#### For Year Ended December 31, 2017

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

- 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