

FINANCIAL ANALYSIS

COURSE OUT LINE

Course Objectives:

This course is an advance subject which uses the out put of accounting records/data. The outline of this course is basethink about the firm.ed on the thinking that you have audited accounting data available and from that you have to use financial techniques for commenting on strengths and weaknesses and overall financial performance of the organization under consideration.

At the outset, it involves methods of calculating and interpreting financial ratios to analyze and monitor the firm's performance. The management of the organization not only have to worry about the financial situation of he firm, but also they are critically interested in what the other parties such as stockholders, bond holders, lending institutions, financial & regulatory authorities, trade creditors and prospective investors.

However, this course is not merely calculating financial ratios and interpreting each category of the ratio to judge the performance of the firm. We have included the discussion of various accounting concepts, financial reporting standards and varied/extended analytical tools, ratings, indices used by national and international organizations.

It is evident from the above lines that effort has been made to make the course a blend of theoretical concepts and practical practices.

Topic 1 Basic of analysis

Ratio analysis

Common-Size Analysis (Vertical and Horizontal)

Year-to-Year Change Analysis

Financial Statement Variation by Type of Industry

Comparisons

- Trend Analysis
- Standard Industrial Classification (SIC) Manual
- North American Industry Classification System (NAICS)
- Industry Averages and Comparison with Competitors
- Caution in Using Industry Averages

Relative Size of Firm

Other Library Sources

- Wards Business Directory
- Standard & Poor's stock reports

- Standard & Poor's Register of Corporation, Directors, and executives
- Standard & Poor's Analyst's hand book
- Standard & Poor's Corporation records
- America's Corporate families : the billion dollar directory
- D & B Million Dollar Directory
- Directory of Corporate Affiliation
- Thomas register of American Manufacture
- Mergent Industrial Manual
- Security Owner's Stock Guide
- Standard & Poor's Statistical Service
- Mergent Dividend Record
- Standard & Poor's Annual Dividend Record
- D & B Reference book of corporate Managements
- Compact Disclosure

Topic 2 Introduction to Financial Reporting
Traditional Assumptions of the Accounting Model

- Business Entity
- Going Concern or Continuity
- Time Period
- Monetary Unit
- Historical Cost
- Conversation
- Realization
- Matching
- Consistency
- Full Disclosure
- Materiality
- Industry Practices
- Transaction Approach
- Cash Basis
- Accrual Basis

Topic 3 Introduction to Financial statements and Other Financial Reporting Topics

Forms of Business Entities

The Financial Statements

- Balance Sheet (statement of Financial Position)
- Statements of Stockholders Equity (Reconciliation of Stockholders Equity Accounts)
- Income Statements (Statements of Earnings)
- Statements of Cash Flows (Statements of Inflows and Outflows of Cash)

Topic 4 Balance Sheet

Basic Elements of Balance Sheet

- Assets
- Liabilities

- Stockholders' Equity
- Quasi-Reorganization
- Accumulated other comprehensive income
- Equity-Oren tied Differed compensation
- Employee stock ownership plans (ESOPs)
- Treasury stock
- Stock holders' Equity in unincorporated firms

Topic 5

Income statement

Basic elements of the Income Statement

- Net sales (revenues)
- Cost of goods(cost of sales)
- Other operating revenue
- Operating expenses
- Other income or expense

Special income statement items

- Unusual or infrequent item disclosed separately
- Equity in earnings of nonconsolidated subsidiaries
- Income taxes related to operations
- Discontinued operations
- Extraordinary items
- Cumulative effect of change in accounting principle
- Minority share of earnings

Topic 6

Liquidity of Short-Term Assets; Related Debt-Paying Ability

Current Assets, Current Liabilities, and the Operating Cycle

- Cash
- Marketable securities
- Receivables
- Inventories
- Prepayments
- Other current assets
- Current liabilities

Current Assets Compared with Current Liabilities

- Working Capital
- Current ratio
- Acid-Test Ratio (Quick Ratio)
- Cash ratio

Other Liquidity Considerations

- Sales to working capital (working capital turnover)
- Liquidity considerations not on the face of the statements

Topic 7

Long –Tern Debt-Paying Ability

Income Statement Consideration when Determining Long-Term

Debt-Paying Ability

- Times interest earned
- Fixed charge coverage

Balance Sheet Consideration when Determining Long-Term Debt-Paying Ability

- Debt ratio
- Debt/Equity ratio
- Debt to tangible net worth ratio
- Other Long-Term Debt-Paying Ability ratios

Topic 8 Profitability

Profitability Measures

- Net profit margin
- Total asset turnover
- Return on assets
- DuPont return on assets
- Interpretation through DuPont analysis
- Variation in computation of DuPont ratios considering only operating accounts
- Operating income margin
- Operating asset turnover
- Return on operating assets
- Sales to fixed assets
- Return on investments (ROI)
- Return on total equity
- Return on common equity
- The relationship between profitability ratios
- Gross profit margin

Topic 9 Expanded Analyses

Financial Ratios as Perceived by Commercial Loan Departments

- Most significant ratios and their primary measure
- Ratios appearing most frequently in loan agreements

Financial Ratios as Perceived by Corporate Controllers

- Most significant ratios and their primary measure
- Key financial ratios included as corporate objectives

Topic 10 Special Industries: Banks, Utilities, Oil and Gas, transportation, Insurance, Real Estate, Companies

Banks

- Balance Sheet
- Income Statement
- Ratios for Banks

Regulated Utilities

- Financial Statements
- Ratios for Regulated utilities

Oil And Gas

- Successful –Efforts versus full-costing method
- Supplementary Information on oil and gas exploration, development, and production activities

- Cash flow

Transportation

- Financial Statement
- Ratios

Insurance

- Balance Sheet under GAAP
- Assets- Other than Investments
- Income Statement Under GAAP
- Ratios

Real State Companies

Topic 11 Personal Financial Statements and Accounting for Governments and not-for-Profit Organizations

Personal Financial Statements

- Form of the statements
- Suggestions for reviewing the statement of financial condition
- Suggestions for reviewing the statement of changes in net worth
- Illustration of the preparation of the statement of financial condition
- Illustration of preparation of the statement of changes in networks

Recommended Books:

Financial Reporting & Analysis By Charles H. Gibson

Financial Statement Analysis By Gerald I. White CFA