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, 2016**

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

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**Suzie Q Corporation**

**Income Statement**

**For Year Ended December 31, 2016**

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

- 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
<table>
<thead>
<tr>
<th>Chapter 3</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Suggested Problems</strong></td>
</tr>
<tr>
<td>- Concepts Review and Critical Thinking Questions:</td>
</tr>
<tr>
<td>- 2, 5, and 7</td>
</tr>
<tr>
<td>- Questions and Problems:</td>
</tr>
<tr>
<td>- 7, 12, 17, 22, 26, and 27</td>
</tr>
</tbody>
</table>