

# EMBA5401 Accounting

## Financial Statement Analysis

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## Tools and Techniques

- Common Size Financial Statements
  - Vertical and Horizontal Statements
- Financial Ratios
  - Liquidity
  - Activity
  - Leverage (Financing – Coverage)
  - Profitability
  - Market
- Trend Analysis
- Industry Comparisons

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## Financial Ratios-Liquidity

- Current Ratio =  $CA/CL$
- Quick Ratio =  $(CA - \text{Inventory})/CL$
- CF Liq Ratio =  $(\text{Cash} + \text{mkt sec} + \text{CFO})/CL$

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## Financial Ratios-Activity

- Avg Coll Period=  
 $A/R / \text{Avg Daily Sales}$
- A/R Turnover =  $\text{Net Sales} / \text{Acc.Rec.}$
- Inv. Turnover =  $\text{COGS} / \text{Inv.}$
- FA Turnover =  $\text{Net Sales} / \text{FA}$
- TA Turnover =  $\text{Net Sales} / \text{TA}$

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## Leverage Ratios

- Debt Ratio =  
 $\text{Total Liabilities} / \text{Total Assets}$
- L-T debt to capitalization =  
 $\text{LTdebt} / (\text{LTdebt} + \text{Equity})$
- Debt to Equity =  $\text{TL} / \text{TE}$

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## Leverage (coverage) Ratios

- Times Interest Earned (TIE) =  
 $\text{Operating Profit} / \text{Interest Expense}$
- Fixed Charge Coverage (FCC) =  
 $\text{Oper Prof.} + \text{Lease} / \text{Int.exp.} + \text{Lease}$
- Cash Flow Adequacy =  
 $\text{CF operating} / \text{Avg Ann LT debt matur.}$

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## Profitability Ratios

- Gross Profit Margin =  
Gross Profit / Net Sales
- Operating Profit Margin =  
Operating Profit / Net Sales
- Net Profit Margin =  
Net Profit / Net Sales

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## Return on ratios

- Return on Assets =  
Net Earnings / Total Assets
- Return on Equity =  
Net Earnings / Shareholder's Eq.
- Cash Return on Assets =  
CF Operating / Total Assets

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## Dupont Analysis

- $NPM \times TAT = ROA$
- $ROA \times \text{Fin Lev} = ROE$
  
- $NPM \times TAT \times FL = ROE$
- $NI/NS \times NS/TA \times TA/TE = NI/TE$

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## Extended Dupont Analysis (à la ATJ)

$$\text{NPM} = (1 - \text{COGS}\% - \text{Oper. Exp}\% - \text{Int. Exp}\% - \text{Tax Exp}\%)$$

$$\text{ROE} = (1 - \text{C}\% - \text{OE}\% - \text{IE}\% - \text{TE}\%) \times \text{TAT} \times \text{FL}$$

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