

Annual Report Analysis ISP

Your ISP for this term will be the **analysis** of annual reports. This ISP will help you get familiar with annual reports produced by public companies. By evaluating annual reports, you will have an opportunity to see what auditors do and what accountants are responsible for producing in order for owners, managers, and shareholders to make important financial decisions.

When choosing your annual report (of a publicly traded corporation), make sure it has all the requirements you need to do this assignment. For example, it would be much easier to choose a company that actually earns a profit! Also make sure it has the required information you will need to answer the questions below and to calculate the necessary ratios. Don't leave this to the last minute!

When doing this assignment, remember that the key factors I am looking for is your ability to **analyze** the information and come up with some conclusions about how the company is doing and what they might do to improve. Some information is not easily found and it is expected that you will go through the entire annual report including notes to the financial statements to help find the answers you are looking for. Another source would be the company's web site and possible other sites that analyze the particular industry of the company.

Answer the following questions (you may add more detail if you wish as the questions are only a guideline).

Company Profile

- 1) Which company did you select and why? Prepare a small company profile. What type of business is your company in? What geographic area does your company operate in? What is the mission statement of the company? How many employees does the company have?
- 2a) Who is the Chief Executive Officer (CEO) of the company? When was the letter to the shareholders written?
- 2b) What important events are highlighted in the letter to the shareholders?
- 2c) What is the company predicting for the upcoming fiscal period?
- 3a) Who was the auditor? What was the purpose of the audit?
- 3b) What opinion do the auditors express about the financial statements? Whose responsibility are the financial statements?
- 3c) When is the auditor's letter dated?
- 4a) When was the fiscal year end? Why would it be dated differently than in 3c?

- 4b) Why is the date of the letter to the shareholders different from the fiscal year end?
- 4c) Are the financial statements prepared for a single legal entity or for a parent and its subsidiaries?

Financial Statement Analysis

- 5a) Examine the comparative income statement for the last two fiscal years. Prepare a horizontal analysis for the last two fiscal years to show the dollar change and percentage change for each item on the income statement. Use Excel to restate the statement and to show your calculations in detail. See your text pages 892-894 for examples. On the basis of the information on the comparative income statement and from your horizontal analysis do you feel that the business has improved over the year? Are there any significant changes in any of the accounts (sales, specific expense accounts, etc) that the company should be worried about?
- 5b) Examine the comparative balance sheet for the last two fiscal years. Prepare a horizontal analysis using the same Excel document in 5a – just use sheet2 and rename the sheet appropriately. On the basis of the information on the comparative balance sheet and from your horizontal analysis do you feel that the financial position of the business has improved over the year? Are there any accounts/areas that the company should be worried about?

Ratio Analysis (refer to Ch. 19 pp. 914-915 of text for summary of ratios)

When doing your ratio analysis, make sure you show all numbers used for the particular calculation and reference each number to the page in the report where it was found. If a particular ratio cannot be computed, specifically explain why it cannot be computed.

- 6) Conduct a ratio analysis that would shed light on the success of the business from the point of view of short-term creditors. Some of the items you should include are current ratio, quick (acid test) ratio, inventory turnover, and accounts receivable turnover. Does the company look like a good credit risk in the short-term?
- 7) Conduct a ratio analysis that might be done by long-term creditors, You should include the debt to total assets ratio, debt to equity ratio, interest coverage ratio, and cash interest coverage. How does the solvency of the company look? Will the company be able to pay of their long-term debt and pay interest as it comes due?
- 8) Conduct a ratio analysis that might be done by common shareholders. Some of the items to include should be the earnings per share of common stock, dividend yield, price earnings ratio, book value per share of common stock, profit margin, operating expense ratio, return on assets, and the return on common shareholder equity. Do you feel the company represents a good investment? Why?

Notes to Financial Statements

- 9) Read the notes to the financial statements and answer the accompanying questions.
 - a) What method of depreciation did the company use?
 - b) What method was used to determining the value of the inventory?
 - c) Was there anything unusual disclosed in the notes?
 - d) Is the company involved in any lawsuits? How do you expect the outcome of the lawsuits to affect the financial position of the business?
 - e) Were there any intangible assets listed?

Summary Information

You should include a conclusion that summarizes/recaps how your company has done and states your overall opinion on your company's annual report. Does the annual report present the firm's financial position fairly?

You should also include a Summary section that will state what you have learned from the assignment.

Format

- Please submit your assignment in a professionally bound manner as if you were an accountant preparing a summary report to potential shareholders wishing to invest in the company.
- Any spreadsheets or charts should be printed and included in your report.
- A table of contents and bibliography should also be included. References should be used where appropriate.
- You should also e-mail a copy of the spreadsheet files and your report to your teacher.

Due Date: