

ALLAMA IQBAL OPEN UNIVERSITY, ISLAMABAD
(Department of Business Administration)

ANALYSIS OF FINANCIAL STATEMENTS (8551)

CHECKLIST

SEMESTER: SPRING, 2014

This packet comprises the following material:

1. Text Book (one)
2. Course Outline
3. Assignment No.1 and 2
4. Assignment Forms (two sets)

In this packet, if you find anything missing out of the above mentioned material, please contact at the address given below:

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ALLAMA IQBAL OPEN UNIVERSITY, ISLAMABAD
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WARNING

1. **PLAGIARISM OR HIRING OF GHOST WRITER(S) FOR SOLVING THE ASSIGNMENT(S) WILL DEBAR THE STUDENT FROM AWARD OF DEGREE/CERTIFICATE, IF FOUND AT ANY STAGE.**
2. **SUBMITTING ASSIGNMENTS BORROWED OR STOLEN FROM OTHER(S) AS ONE'S OWN WILL BE PENALIZED AS DEFINED IN "AIOU PLAGIARISM POLICY".**

Course: Analysis of Financial Statements (8551)
Level: MBA (3½ Years)/ MBA (2½ Years)

Semester: Spring, 2014
Total Marks: 100
Pass Marks: 50

ASSIGNMENT No. 1
(Units: 1–5)

Q. 1 Why financial analysis is important for stockholders and stakeholders of a public limited company?

Q. 2 (a) Determine the cost of sales of a firm with the financial data given below:

Current ratio	2.5
Quick ratio	2.0
Current liabilities	Rs.400,000
Inventory turnover	3 times

(b) Discuss why some firms have longer natural operating cycles than other firms?

Q. 3 The following information was in the annual report of Rover Company.

	1995	1994	1993
Earning per share	1.12	1.20	1.27
Cash dividends per share (common)	0.90	0.85	0.82
Market price per share	12.80	14.00	16.30
Other information (in ,000)			
Total common dividends	21,700	19,500	18,360
Shares outstanding end of year	24,280	23,100	22,500
Total asses	1,280,100	1,267,200	1,260,400
Total liabilities	800,400	808,500	799,200
Non-redeemable preferred stock	15,300	15,300	15,300
Preferred dividends	910	910	910
Net Income	31,200	30,600	29,800

- (a) Based on the data, compute the following ratios for 1995, 1994, and 1993.
1. Percentage of earnings retained
 2. Price/earnings ratio
 3. Dividend payout
 4. Dividend yield
 5. Book value per share
- (b) Discuss your findings from the viewpoint of potential investor.
- Q. 4 (a) Why are the firm's employees not valued as asset on balance sheet?
(b) Can cash dividends be paid from retained earnings? Comment?
- Q. 5 (a) A firm has a high current debt to net worth ratio in relation to prior years, competitors and the industry. Comment on what this tentatively indicates?
(b) Why is it difficult to determine the value of asset?

GUIDELINES FOR ASSIGNMENT # 1:

You should look upon the assignments as a test of knowledge, management skills, and communication skills. When you write an assignment answer, you are indicating your knowledge to the teacher:

- Your level of understanding of the subject;
- How clearly you think;
- How well you can reflect on your knowledge & experience;
- How well you can use your knowledge in solving problems, explaining situations, and describing organizations and management;
- How professional you are, and how much care and attention you give to what you do.

To answer a question effectively, address the question directly, bring important related issues into the discussion, refer to sources, and indicate how principles from the course materials apply. The student must also be able to identify important problems and implications arising from the answer.

For citing references, writing bibliographies, and formatting the assignment, APA format should be followed.

ASSIGNMENT No. 2

Total Marks: 100

Pass Marks: 50

This assignment is a research-oriented activity. You are required to obtain information from a business/commercial organization and prepare a report of about 1000 words on the issue allotted to you to be submitted to your teacher for evaluation.

You are required to select one of the following issues according to the last digit of your roll number. For example, if your roll number is P-3427180 then you will select issue # 0 (the last digit): -

ISSUES:

0. Analyze the application of generally accepted accounting principles in preparation of financial statements with reference to a specific organization.
1. Select any organization and highlight various tools of financial analysis that can be used by the said organization.
2. Impact of recent financial crises on short term financial position of a public limited company selected by you.
3. Impact of recent financial crises on long term financial position of a public limited company selected by you.
4. Prepare a detailed report on asset utilization analysis of any public limited company.
5. Make profitability analysis of any public limited company.
6. Five year horizontal analysis of income statement and balance sheet a public limited company.
7. Select a public limited company and prepare 5 year vertical analysis of income statement and balance sheet.
8. Select a public limited company and highlight various issues related to its credit analysis.
9. Prepare Equity Investment Analysis report of a public limited company.

The report should follow the following format:

1. Title page
2. Acknowledgements
3. An abstract (one page summary of the paper)
4. Table of contents
5. Introduction to the issue (brief history & significance of issue assigned)
6. Practical study of the organization (with respect to the issue)
7. Data collection methods
8. SWOT analysis (strengths, weaknesses, opportunities & threats) relevant to the issue assigned
9. Conclusion (one page brief covering important aspects of your report)
10. Recommendations (specific recommendations relevant to issue assigned)
11. References (as per APA format)
12. Annexes (if any)

GUIDELINES FOR ASSIGNMENT # 2:

- 1.5 line spacing
- Use headers and subheads throughout all sections
- Organization of ideas
- Writing skills (spelling, grammar, punctuation)
- Professionalism (readability and general appearance)
- Do more than repeat the text
- Express a point of view and defend it.

WORKSHOP:

The workshop presentations provide you an opportunity to express your communication skills, knowledge & understanding of concepts learned during practical study assigned in assignment # 2.

You should use transparencies and any other material for effective presentation. The transparencies are not the presentation, but only a tool; the presentation is the combination of the transparencies and your speech comments; explanation etc. Workshop presentation transparencies should only be in typed format.

The transparencies should follow the following format:

- 1) Title page
- 2) An abstract (one page summary of the paper)
- 3) Introduction to the issue (brief history & significance of issue assigned)
- 4) Practical study of the organization (with respect to the issue)
- 5) Data collection methods
- 6) SWOT analysis (strengths, weaknesses, opportunities & threats) relevant to the issue assigned
- 7) Conclusion (one page brief covering important aspects of your report)
- 8) Recommendations (specific recommendations relevant to issue assigned)

GUIDELINES FOR WORKSHOP PRESENTATION:

- Make eye contact and react to the audience. Don't read from the transparencies or from report, and don't look too much at the transparencies (occasional glances are acceptable to help in recalling the topic to cover).
- A 15-minute presentation can be practiced several times in advance, so do that until you are confident enough. Some people also use a mirror when rehearsing as a substitute for an audience.

WEIGHTAGE OF THEORY & PRACTICAL ASPECTS IN ASSIGNMENT # 2 & WORKSHOP PRESENTATIONS:

Assignment # 2 & workshop presentations are evaluated on the basis of theory & its applicability. The weightage of each aspect would be:

Theory:	60%
Applicability (practical study of the organization):	40%

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Course: Analysis of Financial Statements
Level: MBA (3½ Years)/ MBA (2½ Years)

Course Code: 8551
Credit Hours: 03

Unit–1: Introduction to Financial Statements

- 1.1 Financial Statements: Their Nature and Importance
- 1.2 Accounting Principles and Limitation of Financial Statements.
- 1.3 Construction and Contents of Financial Statements
- 1.4 Prudent Policies to Financial Current and Fixed Assets and their Utility in Financial Statements Analysis
- 1.5 Different Groups Interested in Financial Statement Analysis
- 1.6 Types of Analysis
 - 1.6.1 Ratio Analysis
 - 1.6.2 Trend Percentages
 - 1.6.3 Common size Statement Analysis
 - 1.6.4 Comparative Statement Analysis
- 1.7 Industry Averages
- 1.8 Sources of Industry Averages

Unit–2: Short-Term Position Analysis

- 2.1 Net Working Capital
- 2.2 Current and Quick Asset to Total Current Assets Ratio
- 2.3 Total Current Liabilities to Total Liabilities Ratio
- 2.4 Individual Current Liability to Total Current Liabilities

Unit–3: Long-Term Position Analysis

- 3.1 Debt / Equity Ratio
- 3.2 Total Liabilities to Owner's Equity Ratio
- 3.3 Debt to Capitalization Ratio
- 3.4 Owner's Equity to Total Assets Ratio
- 3.5 Owner's Equity to Fixed Assets Ratio
- 3.6 Long-term Liabilities to Total Assets Ratio
- 3.7 Long-term Liabilities to Fixed Assets Ratio
- 3.8 Times Interest Earned Ratio

Unit–4: Assets Utilization Analysis

- 4.1 Average Collection Period and Receivable Turnover
- 4.2 Inventory Turnover Ratio

- 4.3 Fixed Assets Turnover Ratio
- 4.4 Current Assets Turnover Ratio
- 4.5 Average Payment Period and Accounts Payable Turnover

Unit-5: Profitability Analysis

- 5.1 Gross Profit Margin
- 5.2 Operating Profit Margin
- 5.3 Net Profit (BT) Margin
- 5.4 Net Profit (AT) Margin
- 5.5 Return on Equity
- 5.6 Return on Total Assets
- 5.7 Return on Fixed Assets
- 5.8 Net Sales to Total Operating Assets
- 5.9 Earning Per Share (EPS)
- 5.10 Price Earning (P / E) Ratio
- 5.11 Divided Payout Ratio
- 5.12 Book Value Per Share
- 5.13 Book Value to Market Value Ratio
- 5.14 Yield on Common Stocks

Unit-6: Interpretation of Analysis

- 6.1 Interpret the Data
- 6.2 Du Pont Formula
- 6.3 Comparison of the Ratios with Industry Averages
- 6.4 Interpretation of the Data and Precautions

Unit-7: Analysis of Cash Flow Statement

- 7.1 Importance of Cash flow Statement
- 7.2 Construction and Use of Cash Flow Statement
- 7.3 Analysis of Cash Flow Statement and Sufficiency of Cash for Overall Operations of the Firm

Unit-8: Comparative Analysis of Financial Statements & Trend Percentages

- 8.1 Comparative Financial Statements
- 8.2 Horizontal and Vertical Analysis
- 8.3 Trend Analysis
- 8.4 Interpretation

Unit-9: Credit Analysis and Equity Investment Analysis

- 9.1 Short-Term and Long-Term Credit Analysis
 - 9.1.1 Role of Credit Information Bureau (CB) of State Bank of Pakistan to know the Outstanding Credit and the Repayment Behavior of Firms
 - 9.1.2 Use of Different Ratios, Trends and Their Interpretation in the Light of CB Report for Credit Decision Making
- 9.2 Equity Investment Analysis
 - 9.2.1 Use of Dividends, Payout Ratios, EPS, P/Es Book Value to Market Value to Market Value Ratios for Equity Investment Decisions

Recommended Books:

Charles H. G. (2008). *Financial Reporting and Analysis: Using Financial Accounting Information* (11th Ed.). USA Cengage Learning.

Charles H. G. (1998). *Financial Statement Analysis: Using Financial Accounting Information* (7th Ed.). USA South Western College Publishers.

Benajmin, G., & Spensor (2006). *International of Financial Statements*. USA: Harper and Brothers Publishers.

Halfet, E.A. (2007). *Techniques of Financial Analysis*. New Jersey: Prentice Hall.

Martin F., & Fernando, A. (2008). *Financial Statement Analysis* (3rd Ed.). New York: John Wiley Sons Inc.

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