

Accounting/ Finance Application

BUSA 1105

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➤ Purpose

- The purpose of the application is to make you aware of the usefulness and the vitality of accounting/ financial information.

➤ Assignment Details

- You'll assess a publicly traded company's balance sheet, income statement, and perform ratio analysis on the firm to determine its effectiveness and efficiency.
- The following ratios will be required of you to calculate:
 - Leverage Ratios: to measure the extent to which the company's assets are financed with debt;
 - Liquidity Ratios: to measure the company's ability to pay its bills;
 - Profitability Ratios: to measure the company's ability to generate earnings;
 - Efficiency Ratios: to measure the company's ability to utilize its assets;
 - Market Value Ratios: to measure the market perception about the company's future prospects.

➤ Assignment 1

- First select a corporation. Obtain their current income statement and balance sheet.
- Also obtain an income statement and balance sheet for the past 3 years.
- In reference to the income statement, answer the following questions:
 - Have gross sales grown or declined in the last 3 years?
 - Have their Net/Gross Sales increased or decreased overtime?
 - Have their cost of goods sold increased or decreased overtime?
 - Has anything changed dramatically in their cost of goods section?
 - Is the company making a positive gross profit now? & the last 3 years? If not what do you think is causing that? Can they correct it?
 - Have the operating expenses grown or shrink in the last 3 years?
 - Has anything changed dramatically in the operating expenses?
 - Is the company making a positive gross profit now? & the last 3 years? If not what do you think is causing that? Can they correct it?
 - Is the firm's net income positive or negative? How has it been in the last 3 years?

- In reference to the balance sheet answer the following questions:
 - Assess the firm's current assets; Do you believe they have enough cash, accounts and notes receivables to operate their business?
 - Assess the firm's current liabilities: Do you believe that they are too high? Are they overly in debt compared to their current assets?
 - Lastly, assess the firms' long-term liabilities; Do you believe that they are too high?

➤ **Assignment 2**

- For the second part of this assignment you will do ratio analysis based upon the firm's income and balance sheet.
- Use must use (Pages 434-437) to obtain information on the actual calculations. Also on page (Page 438) is a good summary of all the ratios, and what dictates a good or bad ratio. Also on these pages are the definitions and meanings of the different ratios.
- You will calculate the ratios and also summarize their performance as being good or bad.
- Calculate the following Financial Ratios:
 - **Profitability Ratios:**
 - Return on Sales
 - Return on Owner's Equity
 - Earnings Per Share
 - **Short-Term Financial Ratios:**
 - Working Capital
 - Current Ratio
 - Acid-Test Ratio
 - **Activity Ratios:**
 - Accounts Receivable Turnover
 - Inventory Turnover
 - Debt-to-Owner's Equity Ratio