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DECISION GUIDELINES

Using Ratios in Financial Statement Analysis

Horizontal & Vertical (common sizing)
(time series) (cross-sectional)

Ratio	Computation	Information Provided
Measuring the company's ability to pay current liabilities:		
1. Current ratio	$\dfrac{\text{Current assets}}{\text{Current liabilities}}$	Measures ability to pay current liabilities with current assets.
2. Acid-test (quick) ratio	$\dfrac{\text{Cash} + \text{Short-term investments} + \text{Net current receivables}}{\text{Current liabilities}}$	Shows ability to pay all current liabilities if they come due immediately.
Measuring the company's ability to sell inventory and collect receivables:		
3. Inventory turnover	$\dfrac{\text{Cost of goods sold}}{\text{Average inventory}}$	Indicates saleability of inventory—the number of times a company sells its average inventory level during a year.
4. Accounts receivable turnover	$\dfrac{\text{Net credit sales}}{\text{Average net accounts receivable}}$	Measures ability to collect cash from credit customers.
5. Days' sales in receivables	$\dfrac{\text{Average net accounts receivable}}{\text{One day's sales}}$	Shows how many days' sales remain in Accounts Receivable—how many days it takes to collect the average level of receivables.
Measuring the company's ability to pay long-term debt:		
6. Debt ratio	$\dfrac{\text{Total liabilities}}{\text{Total assets}}$	Indicates percentage of assets financed with debt.
7. Times-interest-earned ratio	$\dfrac{\text{Income from operations}}{\text{Interest expense}}$	Measures the number of times operating income can cover interest expense.
Measuring the company's profitability:		
8. Rate of return on net sales	$\dfrac{\text{Net income}}{\text{Net sales}}$	Shows the percentage of each sales dollar earned as net income.
9. Rate of return on total assets	$\dfrac{\text{Net income} + \text{Interest expense}}{\text{Average total assets}}$	Measures how profitably a company uses its assets.
10. Rate of return on common stockholders' equity	$\dfrac{\text{Net income} - \text{Preferred dividends}}{\text{Average common stockholders' equity}}$	Gauges how much income is earned with the money invested by common shareholders.
11. Earnings per share of common stock	$\dfrac{\text{Net income} - \text{Preferred dividends}}{\text{Number of shares of common stock outstanding}}$	Gives the amount of net income per one share of the company's common stock.
Analyzing the company's stock as an investment:		
12. Price/earnings ratio	$\dfrac{\text{Market price per share of common stock}}{\text{Earnings per share}}$	Indicates the market price of \$1 of earnings.
13. Dividend yield	$\dfrac{\text{Dividend per share of common (or preferred) stock}}{\text{Market price per share of common (or preferred) stock}}$	Shows the percentage of a stock's market value returned as dividends to stockholders each period.
14. Book value per share of common stock	$\dfrac{\text{Total stockholders' equity} - \text{Preferred equity}}{\text{Number of shares of common stock outstanding}}$	Indicates the recorded accounting amount for each share of common stock outstanding.

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Term Project

Comparative ~~Financial~~ Financial Statement Analysis of Quality Distribution, Inc. and Swift Transportation, Inc., 2017-19

Prepared by Bry . ~~Batt~~

For

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Introduction

One of the most important tools for assessing the strength of a business organization within its industry is financial analysis. Managers, investors, and creditors employ some form of this analysis as the beginning point for their financial decision-making. Investors use financial analyses in making decisions about whether to buy or sell stock, and creditors use them in deciding whether to lend. Financial analysis provides managers with various measurements of how the company is doing in comparison with its performance in past years and with the performance of competitors in the industry. Comparisons are essentially intended to shed light on how well a company is achieving its objectives~~, and~~. The overall objective of ~~a~~ any business is to create value for its shareholders while maintaining a sound financial position.

The purpose of this project is to analyze and compare two public companies from within the same industry with one company headquartered in Florida. Those companies are Office Depot with headquarters in Delray Beach, Florida and Staples Inc., headquartered in Framingham, Massachusetts. What follows first is an industry overview and a profile of the two companies. Then financial analysis is performed using the ratio analysis as well as horizontal analysis and vertical analysis. Using these analyses, creditworthiness and investment attractiveness are determined. Finally, there ~~are~~ is a summary and conclusions.