PROJECT GOAL

The goal of this project is to help use your knowledge of accounting and finance to analyze and understand the annual reports published by corporations. Upon completion of this project, you should know much more about the corporations for which you performed the analyses. Additionally, you should be better equipped to analyze other corporations in the future for both personal and professional reasons.

You should also gain insight into the process of evaluating corporations to determine if they are suitable investment opportunities. To achieve this insight, you will use many ratios which you have learned in other classes. In doing so, you should gain a better understanding of the importance of these ratios to investors and other interested stakeholders.

Additionally, you will be able to sharpen your spreadsheet skills, as you will need to use Microsoft Excel to assist in your analysis of the corporations.

Finally, you will communicate your findings based on the analysis performed in a written report. This report should include the following at a minimum.

1. General information about the corporation, including the industry in which the company operates, the primary products provided, and its main competitors.
2. Stock market performance over the past three to five years.
3. Analysis of the primary financial statements using both horizontal and vertical analyses.
4. Ratio analysis including liquidity, profitability, efficiency, and solvency ratios.
5. Comparison to its major competitors and the market to which it belongs.
6. A discussion of any significant information revealed by the notes to the financial statements.

In addition, you may also be required to highlight the findings of your financial analysis in a classroom presentation. Keep in mind, the more detailed your report, the easier it will be to prepare the presentation.

LET'S GET STARTED

As you go through this project workbook, you will be asked a number of questions to assist you in your analysis of the selected corporations. You will need to download the most recent annual reports of the companies you will be analyzing. You will also need to download the previous year's annual reports for these companies. These reports can be obtained using the following methods.

1. Visit the corporate website of the companies you will be analyzing. Most, if not all, publicly-traded corporation have their annual reports (10-K) on their websites. The reports are generally housed in the section titled "Investor Relations". The reports may be in a Microsoft Word document, PDF file, or a web-based format. My recommendation is the PDF file as it is generally easier to perform searches.
2. Download by visiting the Securities and Exchange Commission's EDGAR database at www.sec.gov. You will need to look for Form 10-K. You can also find financial statement information at the following, however, I recommend going to the company's website first:
   a. google.com/finance
   b. money.msn.com
   c. finance.yahoo.com
3. Contact the corporation and request a hard copy of the report. This is probably the last option you want to employ. While some corporations may be willing to send you a copy, they may just direct you to their corporate website. Additionally, you will lose valuable time waiting the one to three weeks it may take for you to receive the report.

The format the project takes will depend on your instructor. If you and/or your group is given the opportunity to choose the corporation you will analyze, my suggestion is you choose a corporation which you are already interested in. You may also want to choose based on the industry, as you will be comparing your corporation to its competitors and the industry.

Prior to starting the project, you should familiarize yourself with the contents of the corporation's annual report. Starting with the contents page is a very good idea.

While this book will ask the questions you need to perform the appropriate analysis, you will need to create Excel spreadsheets to help you work more efficiently and effectively.

LOCATING INDUSTRY DATA FOR COMPARISONS

To perform an appropriate financial analysis of a corporation, you will need to obtain industry data and competitor data. To obtain the industry data, my suggestion is that you start with a visit to your school library. Explain to the librarian the nature of your project and I am confident you will be provided the required assistance.
To assist the librarian in providing you the needed help, you can mention the following.

- D&B Industry Norms & Key Business Ratios
- Standard & Poor's NetAdvantage
- Almanac of Business & Industrial Financial Ratios

The majority of comparison services you will find arrange the information by Standard Industrial Classification (SIC) codes. For publicly-traded companies, the SIC code will be located in the Form 10-K. This is another area in which your school librarian will be a valuable resource.

Industry averages can also be obtained from various other sources on the Internet, including the following:

1. finance.yahoo.com – To locate the ratios you need to first type in the ticker symbol or the company name in the "Get Quotes" box. Next click on Competitors in the left-hand column menu under "Company".
2. money.msn.com – To locate the ratios, first type in the ticker symbol or the company name in the "Get Quotes" box. Next click on Key Ratios in the left-hand column menu under "Fundamentals".

Please keep in mind that some of the websites where you can locate industry information may require a paid subscription. Here again your school's librarian may be of tremendous assistance in getting access. You will never know till you inquire.

DIRECTIONS

To fulfill a primary requirement of this project, you will need to respond to questions regarding the operational performance and financial position of both the selected corporation and its competitors. Ensure that all your answers are retrieved from the annual reports obtained from the corporations' websites or Form 10-Ks.

If you are unable to locate information requested in this project, you should seek the advice of your instructor. Keep in mind that not all corporations will have the requested information. Your instructor will help you if this should happen.

If you downloaded the annual report as a Word document, you can locate information by using the find command. If you downloaded it as a PDF file, you can instead locate information by using the search box.

In addition to the financial analysis you will perform using horizontal, vertical, and ratio analysis, you will also need to locate recent company news and market information about the corporations, as well as stock price activity information.

FAMILIARIZE YOURSELF WITH THE FINANCIAL STATEMENTS

General Information:

The general information for corporations can usually be found toward the beginning of the annual report. Some information can also be found toward the end of the report, including the back cover.

Provide information for the corporation you are analyzing. You will be requested to obtain information for its competitors and the industry in which it operates later in the project.

Name of the corporation: ______________________________

Location of the corporate headquarters: ______________________________

Fiscal year end of the corporation: ______________________________

Industry: ______________________________

Primary products or services provided by the corporation:

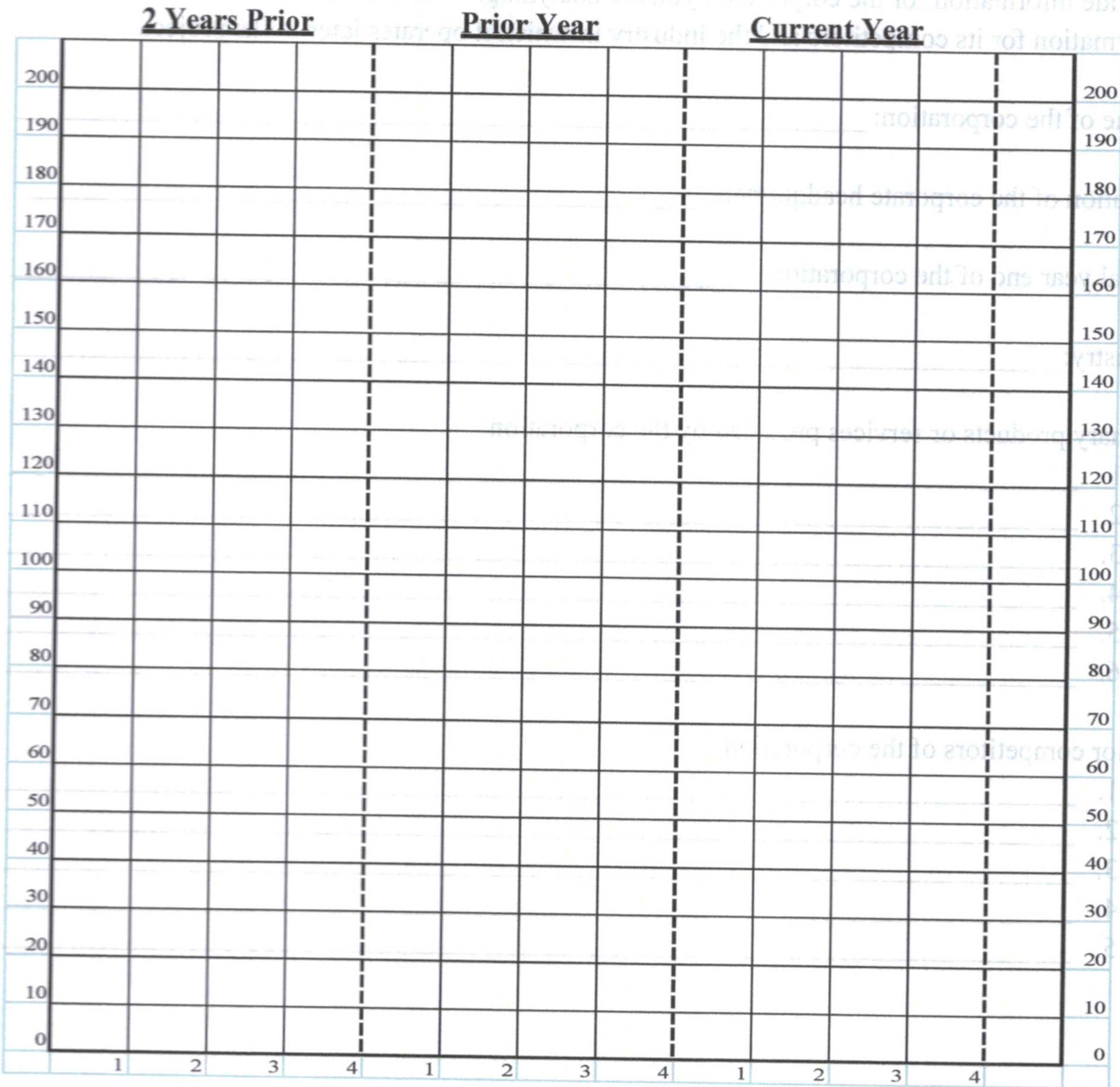
1. ______________________________
2. ______________________________
3. ______________________________
4. ______________________________
5. ______________________________
6. ______________________________

Major competitors of the corporation:

1. ______________________________
2. ______________________________
3. ______________________________
4. ______________________________
5. ______________________________

STOCK PRICES

Knowing the stock prices of the corporation being analyzed is very important. In the following section you will need to chart the closing stock prices of the corporation for the most recent three years by quarter. This can easily be done in an Excel spreadsheet. You may also find graphs of the stock prices of corporations at various Internet websites, such as google.com/finance, money. msn.com, and finance.yahoo.com.



Describe and discuss the trend, if any, in the price of the stock over the past three years. That is: Was the trend consistent in either direction? Was the price constant, or did it show signs of volatility? Why do you think the stock price behaved as it did?

THE FINANCIAL STATEMENTS

The financial statements play an integral role in the analysis of a corporation. They are the records summarizing the financial activities of a business. The primary purpose of financial statements is to present the financial information of a corporation as clearly as possible to interested stakeholders with a reasonable understanding of accounting. The set of financial statements provided by a corporation generally includes an income statement, a balance sheet, a statement of comprehensive income, a statement of changes in stockholder's equity, and a statement of cash flows. If the corporation is a parent or holding company, the statements will include the word consolidated in the title. For example, the income statement will be titled the consolidated income statement, and the balance sheet the consolidated balance sheet.

For publicly-traded corporations in the United States, financial statements must be presented using generally accepted accounting principles (GAAP). This is imperative to meet the requirements of consistency and comparability. For publicly-traded companies located in other parts of the world, the statements may be prepared using International Financial Reporting Standards (IFRS). While statements prepared using U.S. GAAP and IFRS are similar in many ways, it is imperative you are aware of the differences so you can adjust accordingly.

The ***income statement***, or ***statement of operations***, measures the financial performance of a company over a specified period of time. Financial performance is determined by a summary of both the operating and non-operating activities of the corporation. The operating activities include revenues earned and expenses incurred as a direct consequence of the operations of the business. The non-operating activities include revenues, gains, expenses, and losses that are considered incidental to the operations of the business. The income statement may also include extraordinary items and discontinued operations. These are referred to as non-recurring items because they are not expected to happen frequently. Take note that effective for fiscal periods after December 15, 2015, corporations will no longer be required to classify, present and separately disclose extraordinary items.

The income statement is useful when performing trend analysis, common-size analysis, and certain ratio analyses. These ratios include: gross margin, profit margin, earnings per share (EPS), times interest earned, return on assets, and return on stockholders' equity.

The ***balance sheet,*** or ***statement of financial position***, summarizes the assets, liabilities, and equity of a company at a point in time. The accounting equation:

Assets = Liabilities + Stockholders' Equity, is a summarized formula for the balance sheet.

Within the assets section of the balance sheet, the assets are normally listed in the order of liquidity for companies using U.S. GAAP. In the liabilities and stockholders' equity section, current liabilities are listed before long-term liabilities, which are listed before the equity items. Equity includes preferred stocks, common stocks, additional paid-in capital, retained earnings, and treasury stocks.

The balance sheet is also useful when performing trend, common-size, and ratio analyses. Some key financial ratios that can be calculated using the balance sheet are working capital, current ratio, quick (acid-test) ratio, accounts receivable turnover, days' sales in accounts receivable, inventory turnover, days' sales in inventory, and debt to equity.

The ***statement of comprehensive income*** is a statement which includes all income and expenses of a corporation during a specific period of time, generally a quarter or a year. While some companies may report comprehensive income separately from the income statement, others use a single statement approach. The statement of comprehensive income includes the income statement profit or loss plus other comprehensive income not reflected in the income statement.

These other income items, also known as accumulated other comprehensive income may include unrealized holding gains and losses from foreign currency transactions, investments classified as available-for-sale, and a corporations pension fund and post-retirement benefit plan prior service costs or credits. It may also include derivative instruments gains and losses from cash flow hedges, and translation adjustment.

The ***statement of changes in stockholder's equity*** is a very important component of the financial statements because it reveals information about the equity of a corporation and the changes over the period being examined. This statement typically contains, among other things, net income, dividends paid, unrealized and realized gains and losses, and increase or decrease in the shares.

The ***statement of cash flows*** includes information about the inflows and outflows of a corporation for a period of time. It is organized based on operating activities, investing activities, and financing activities of a company. Within the operating activities section, you generally find items that affect current assets and current liabilities. In the investing activities section you will find items affecting long-term assets. In the financing activities section you will find items affecting long-term liabilities and equity.

While the statement of cash flows is useful for understanding the cash inflows and outflows from a corporation's operating, investing, and financing activities, it is not as useful for most financial ratios. However, an important item it is used to calculate is the free cash flow. The free cash flow reveals how much cash is left over from the operations of a corporation after it has paid for its capital expenditures.

ANALYZING THE INCOME STATEMENT

Horizontal (trend) analysis:

The following is an example of the Excel spreadsheet you should prepare when completing the horizontal analysis for the corporation you are analyzing.

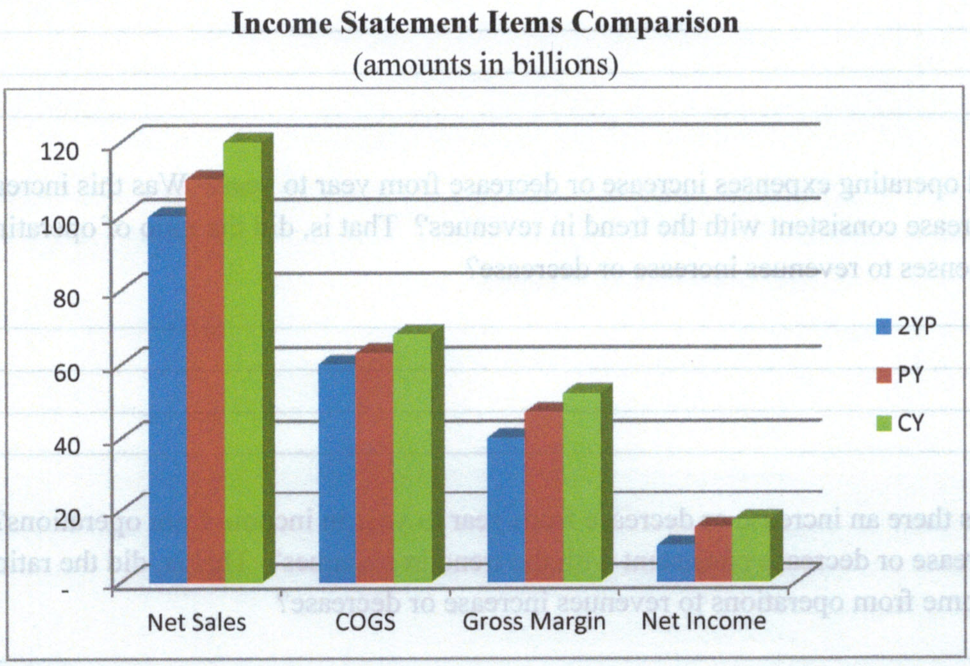
HORIZONTAL ANALYSIS						
ABC Corporation						
Comparative Income Statements						
For the Years Ending December 31						
					Percentage Difference	
	Current Year (CY)	Prior Year (PY)	2 Years Prior (2YP)		(CY - PY)/PY	(PY - 2YP)/2YP
Net Sales						
Cost of goods sold						
Gross Margin						
Operating expenses:						
Selling expenses						
Administrative expenses						
Total operating expenses						
Income from continuing operations						
Income tax expense						
Nonrecurring items						
Net income						

Vertical (common-size) analysis:

The following is an example of the Excel spreadsheet you need to create when performing the vertical analysis for the corporation you are analyzing.

VERTICAL ANALYSIS			
ABC Corporation			
Comparative Income Statements			
For the Years Ending December 31			
	Current Year (CY)	Prior Year (PY)	2 Years Prior (2YP)
Net Sales	100%	100%	100%
Cost of goods sold			
Gross Margin			
Operating expenses:			
Selling expenses			
Administrative expenses			
Total operating expenses			
Income from continuing operations			
Income tax expense			
Nonrecurring items			
Net income			

Below is a sample comparison of the income statement items of net sales, cost of goods sold, gross margin, and net income. You are required to create a similar chart, in the form of either a chart like this one or of a line graph.



Based on the horizontal analysis, vertical analysis and the comparison chart with income statement items, respond to the following questions.

1. What was the increase or decrease in revenues from year to year?

2. Did cost of goods sold increase or decrease from year to year? Was this increase or decrease consistent with the trend in revenues? That is, did the ratio of cost of goods sold to revenues increase or decrease?

3. Was there an increase or decrease in gross margin? Net margin? Was the increase or decrease consistent with the trend in revenues?

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4. Did operating expenses increase or decrease from year to year? Was this increase or decrease consistent with the trend in revenues? That is, did the ratio of operating expenses to revenues increase or decrease?

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5. Was there an increase or decrease from year to year in income from operations? Was this increase or decrease consistent with the trend in revenues? That is, did the ratio of income from operations to revenues increase or decrease?

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6. In addition to the above, there are other items that are required to be disclosed on the income statements prepared using US GAAP. Were there interest expense, unusual or infrequent items, discontinued operations, or extraordinary items? If so, please describe and discuss accordingly?

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7. Were there any other significant observations from your review of the income statements?

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To assist in your responses to the above, you should consult both the management discussion and analysis (MD&A) and notes to the financial statements sections of the annual reports.

ANALYZING THE BALANCE SHEET

Horizontal (trend) analysis:

The following is an example of the Excel spreadsheet you should prepare when completing the horizontal analysis for the corporation you are analyzing.

HORIZONTAL ANALYSIS ABC Corporation Comparative Balance Sheets For the Years Ending December 31						
					Percentage Difference	
	Current Year (CY)	Prior Year (PY)	2 Years Prior (2YP)		(CY – PY)/PY	(PY – 2YP)/2YP
Current assets						
Long-term investments						
Property, plant, & equipment						
Intangible assets						
Other assets						
Total assets						
Current liabilities						
Long-term liabilities						
Total liabilities						
Paid-in capital						
Retained earnings						
Treasury stock						
Total stockholders' equity						
Total liabilities & stockholders' equity						

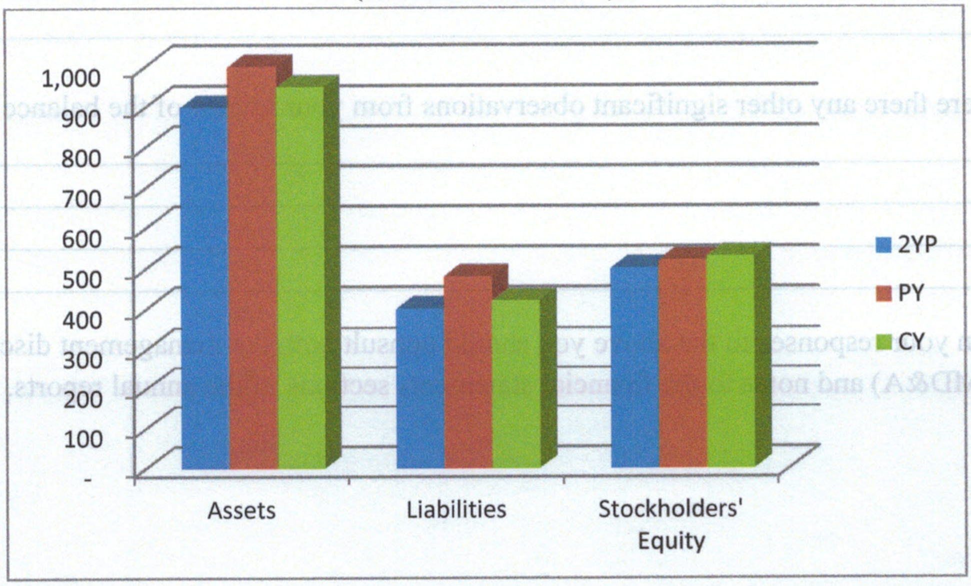
Vertical (common-size) analysis:

The following is an example of the Excel spreadsheet you need to create when performing the vertical analysis for the corporation you are analyzing.

VERTICAL ANALYSIS			
ABC Corporation			
Comparative Balance Sheets			
For the Years Ending December 31			
	Current Year (CY)	Prior Year (PY)	2 Years Prior (2YP)
Current assets			
Long-term investments			
Property, plant, & equipment			
Intangible assets			
Other assets			
Total assets	100%	100%	100%
Current liabilities			
Long-term liabilities			
Total liabilities			
Paid-in capital			
Retained earnings			
Treasury stock			
Total stockholders' equity			
Total liabilities and stockholders' equity	100%	100%	100%

Below is a sample comparison of the balance sheet items of assets, liabilities, and stockholders' equity. Your analysis should include a similar comparison, in the form of either a chart like this one or of a line graph.

Balance Sheet Items Comparison
(amounts in billions)



Based on the horizontal analysis, vertical analysis and the comparison chart with balance sheet items, respond to the following questions.

1. What was the increase or decrease in assets from year to year? Which assets were the primary reasons for the increase or decrease?

2. Did liabilities increase or decrease from year to year? Which liabilities had the most impact?

3. Was there an increase or decrease in stockholders' equity? Why?

4. Which balance sheet accounts experienced the most significant changes from year to year? What events may have caused these changes?

5. Were there any other significant observations from your review of the balance sheets?

To assist in your responses to the above you should consult both the management discussion and analysis (MD&A) and notes to the financial statements sections of the annual reports.

ANALYZING THE STATEMENT OF COMPREHENSIVE INCOME

Horizontal (Trend) Analysis:

The following is an example of a spreadsheet you should prepare in the completion of the analysis of the statement of comprehensive income.

HORIZONTAL ANALYSIS						
ABC Corporation						
Comparative Statement of Comprehensive Income						
For the Years Ending December 31						
					Percentage Difference	
	Current Year (CY)	Prior Year (PY)	2 Years Prior (2YP)		(CY - PY)/PY	(PY - 2YP)/2YP
Net income						
Other comprehensive income:						
Foreign currency translation adjustments						
Unrealized gains (losses) on securities						
Unrealized gains (losses) on pension obligations						
Derivatives financial instruments gains (losses)						
Other						
Net other comprehensive income						
Less comprehensive income (loss) attributable to noncontrolling interest						
Comprehensive income (loss) attributable to ABC Corporation						

Based on the information in the statement of comprehensive income, respond to the following questions.

1. Did the company have foreign currency translation adjustments? If yes, were there significant changes from year to year? What were the reasons for these changes?

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2. Did the company have unrealized gains (losses) on securities? If yes, were there significant changes from year to year? What were the reasons for these changes?

3. Did the company have unrealized gains (losses) on pension obligations? If yes, were there significant changes from year to year? What were the reasons for these changes?

4. Were there any other significant observations from your review of the statements of comprehensive income? If yes, please discuss.

To assist in your responses to the above you should consult both the management discussion and analysis (MD&A) and notes to the financial statements sections of the annual reports.