

Intermediate Accounting II PROJECT

The objective of this project is to analyze the financial statements of a company you select , using the knowledge you have acquired in intermediate accounting. To do this you will select a company to analyze following the instructions provided below. You should allow at least 8-10 hours to complete the project . **Turn in the Annual Report with your project.**

1. Obtain the most recent Annual Report of a U.S. publicly-traded corporation.

You may choose any industry(ies) **as long as the company you choose has inventory and their income statement shows cost of goods sold.** As a matter of fact most large companies operate in more than one industry. The largest segment of your company should not be in financial or insurance services. The reason for this is that financial ratios etc. are different for financial services. Each student must choose a different company. A list of suggested companies will be passed around in class. If the company you want is not on the list then write that company's name at the bottom of the list with your name next to it.

The report can be a professionally printed version or a downloaded versions from the internet, but it should contain a complete set of audited financial statements and notes plus interim (quarterly) information.

To obtain the annual report you may contact the company by phone, e-mail or regular mail and ask them to send you one. However, in many cases easier to get a copy off the internet. After locating the website of the company you will have to find the link to their financial information. Often this link is found by clicking on "Investor Relations" .

2. You will also need stock market information about your company. Places to get stock market information are through Yahoo or other major search engines. You may need SEC information, which can be obtained through EDGAR. WEB addresses are listed below.

The objective of the project is accomplished by answering a series of questions about the company you have selected. These questions are provided below in the instructions:

Part I: General Questions.

Part II: Cash Flow Activity

Part III: Common size and ratio analysis of balance sheet and income statement information.

Part IV: Analysis of other financial statement information and footnotes.

Part IV: Summary

WEB SITES: Electronic gathering and retrieval service of the SEC (EDGAR): www.sec.gov/edgar.shtml
 Yahoo Financial: <http://finance.yahoo.com> (use global symbol look up to look up the Stock market symbol for your company)

Important Notes about the Grading of your Project

- 1) The **complete** Annual Report for your company must be turned in with the project. If your company's annual report includes pictures, highlights and the complete financial statements including the auditors' opinion then you have what you need. If your company's annual report says to see the 10K report for the financial statements then you need to turn in the annual report and the 10K report. If your company says their only annual report is the 10K then you need to turn in the 10K report. If the 10K is **more than 100 pages** you may print just the financial statements and notes to the financial statements for your company from the 10K and also turn in a CD with the complete 10K file for reference. However you must **include a hard copy of at least your company's and your competitor company's balance sheet and income statement.**
- 2) You must also turn in the financial statements of the competitor that you used for comparisons.
- 3) The project is **due on are last scheduled class day. This is not the final exam day.**
- 4) Part III – The Common size and Ratio sections are important. All figures in these tables are percentages or ratios. **No dollar (\$) amounts** are to be used in these tables since you cannot make meaningful comparisons using raw dollars. Each column that has a 100% in it means that each number in that column should be a percent of that item (i.e. either sales or total assets as the case may be). For the Part III comments and analysis column you must have at least 2-3 comments per page and not just say the amount is bigger or smaller but describe what the difference means.
- 5) When asked about changes or differences be sure to explain or discuss important changes or differences as they relate to the analysis of your company. Unless otherwise stated all questions related to the most recent year financial statements.
- 6) **All** questions must be answered completely. If the question does not apply to your company state that the question does not apply and why. For example if your company does not have a pension plan you would state in your report – not applicable because the company does not a pension plan as the answer to questions concerning their pension plan.
- 7) All ratios are to be computed by you and are not to be obtained from internet sources for your company or its competitor. It is important that you use the same computational methods for your company as you do for the competitor. If you use published industry averages make sure you compute your company's ratios in a similar manner.
- 8) Put your project in a binder, folder or envelope with your name on the outside to ensure that any flash drive or attachments are not lost and that you can easily find your graded project in the pile when you pick it up at the final exam.
- 9) Do not wait until the last minute to start this important project.

REFERENCES: You should use chapter 24 of *Kieso, Weygandt and Warfield* (including Appendix A) as a reference for completing this project. Other reference will be mentioned below in the instructions.

INSTRUCTIONS FOR WRITING YOUR ANSWERS: Print out this document and **Handwrite your answers within the spaces provided.** Try not to exceed the allotted space.

Part I: General Questions:

1. Name of the Corporation

2. Location of corporate headquarters

3. Fiscal year end of year whose report you are analyzing: (for example 12/31/2012)

4. From the web or a newspaper find the ticker symbol and current stock price.

5. Internet address of this company

6. Total Revenues of this company

7. Percent increase or decrease in revenues compared to last year.

8. Total profits of this company (use "income from continuing operations")

9. Percent increase or decrease in profits compared to last year.

10. Total assets of this company

11. Percent increase or decrease in total assets.

12. Major industries: products or services of this company: list up to six.

13. If your company is a diversified company, summarize revenues and operating profit of each major reported **operating segment*** of the company and the percent change of revenues and profit compared to last year.

Segment Name: Revenues: %Change Profit: %Change

Note: * Operating segment information is often reported in the footnotes to the financial statements.

14. Briefly summarize management's explanation for the change in revenues and profits this fiscal year.

*Questions 15-18 relate to Quarterly information (**For quarterly information you should consult the company web page, or you may look this up on Quicken Finance, Yahoo Finance or another service.)*

15. Quarterly revenues for the most recent two quarters and percent increase or decrease from the same quarter last year.

16. Quarterly earnings per share for the most recent two quarters:

17. Percent change in quarterly earnings compared to the same quarter the previous year

18. Date of the end of the most recent quarter reported.

Part II. Cash Flow Activity

	This Year	Last Year
Net Income		
Operating cash Flow		
Investing Cash Flow		
Financing Cash Flow		

Analysis:

1. Compare operating cash flows during the last two years to net income .
 - a. What are the most important reasons why they differ?
 - b. What are the strengths and weaknesses of income and cash flow as a measure of the company's performance?
2. What were the most significant investing inflows and outflows for each of the past two years?
3. What were the most significant financing inflows and outflows for each of the past two years?

4. Does the company have enough cash in your opinion? Explain your reasoning.

Part III: Common size and ratio analysis of balance sheet and income statement information. For the "comparative" number use a close competitor (largest revenue source).

Income Statement - Common Size analysis

Account	Current Year	Previous Year	Comparative	Comments and Analysis
Revenues	100%	100%	100%	
Cost of Goods Sold				
Gross Profit				
Operating Expenses (total)				
Other income and expenses (net)				
Income before taxes				
Income Tax Expense			XXXXX	
Income from Continuing Operations			XXXXX	
Discontinued Operations (net)			XXXXX	
Extraordinary gain or loss (net)			XXXXX	
Net Income			XXXXX	
Research and development costs in operating expenses			XXXXX	
Special charges in operating or other expenses			XXXXX	

For the comparative I used: (write the name of the competitor):

Balance Sheet

	Current	Previous Year	Com- parative	Comments and Analysis
Cash & Equivalents				
Trade Receivables				
Inventories				
Total Current Assets				
Fixed Assets				
Intangibles				
Investments and other assets				
Total Assets	100%	100%	100%	
Current Liabilities				
Long Term Debt				
Other Non Current Liabilities				
Total Liabilities				
Total Stockholders' Equity				

Financial Ratios (Use ratios from Chapter 24 your Kieso Weygandt & Warfield Intermediate Accounting textbook.)

Circle the income number you will be using in your profitability ratios below:

Net income

Income from continuing operations after taxes

Income from continuing operations before taxes

Ratio	Current Year	Previous Year	Comparative	Comments and Analysis
Liquidity:				
Current ratio				
Quick Ratio				
Current Cash Debt Ratio			XXXX	
Operating:				
Receivables turnover				
Inventory Turnover				
Asset Turnover				
Profitability:				
Profit margin on sales				
Rate of Return on Assets:				
Rate of Return on Stockholders Equity				
Coverage (Solvency)				
Debt (Liabilities) to Total Assets				
Times Interest Earned				
Cash debt coverage ratio.			XXXX	
Book value Per share			XXXX	
Market price to earnings ratio				
Ratio of Market Price to Book Value				

Questions: Which income statement, balance sheet or ratio items stand out in comparison to last year? Which items stand out in comparison to your chosen competitor? What explanations can you find for the items that stand out?

Part IV: Analysis of other financial statement information and footnotes.

A. Describe your company's Significant Accounting Policies Concerning

- a. Revenue Recognition

- b. Cash equivalents

- c. Inventories

- d. Fixed Asset depreciation

- e. Are there any other accounting policies you think are important? If so describe the policy(ies).

B. Comprehensive Income and Changes in Stockholders' Equity

1. What is the book value per share of common stock?

2. Has your company acquired shares of treasury stock: if so for what purpose?

3. What is the average cost per share of treasury stock at the end of this year?

4. Describe any dividends that were declared or paid?

5. What percentage of earnings was paid out as dividends?

6. Which seems to be the most important source of financing for your company; contributed capital, retained earnings, or borrowing?
7. Describe any stock splits or stock dividends in the last two years, and say how they were accounted for.
8. Does your company have preferred stock outstanding? If so describe the features of this preferred stock.
9. Did your company issue any new shares of stock this year? If so describe the size of the issue and its purpose.
10. Prepare a comprehensive income report for your company using the following format:

Net income

Other comprehensive income (list items)

1.

2.

3.

Total other comprehensive income

Total comprehensive income for the year

11. Which do you feel is a better indicator of the company's performance, net income or other comprehensive income, and why ?

C. Earnings Per Share

1. Does your company have potential diluters outstanding? if so which ones?
2. The dilutive effect of options outstanding is included in the difference between basic earnings per share and diluted earnings per share. How large was this effect in the most recent year?
3. Was there a dilutive effect from any other potential diluter? If so describe the magnitude of this effect.
4. What can you conclude from looking at EPS for the most recent three years?
5. Were there special items such as discontinued operations, extraordinary events or accounting changes that impacted your company's earnings per share in the past two years? If so describe these effects and their impact on earnings per share.

D. Stock based compensation

1. Describe your company's most important stock option plans.
2. How much compensation expense was actually booked in connection fixed stock option plans?
3. What was the range of stock prices for fixed stock options granted in the past year?

4. In total how many options were granted this year?
5. What is the shortest vesting period mentioned for the option plans?
6. In total how many options were outstanding at the end of the year?
7. How many of these options were exercisable?

E. Accounts Receivable

	This year	Previous Year
Gross Accounts Receivable		
Percent uncollectible		
Average number of days to collect an account		
Any significant change?		

F. Inventories:

1. List major types and Inventory flow method used for each.
2. If LIFO is used for any major type calculate the ratio of inventory at FIFO or current replacement cost to LIFO
3. Describe any lower of cost or market adjustments disclosed in the footnote
4. How many Days of inventory were on hand? This year; last year; any significant change?

G. Fixed Assets (except leases)

1. What Major categories were listed and what depreciation method for each?
2. Describe any impairment write downs.
3. Calculate the ratio of accumulated depreciation to cost of fixed assets this year and the previous year. Are fixed assets being replaced?

H. Leased Assets

1. Describe any leased assets and the company's policy towards most of its leases.
2. How much is the long term liability for capital leases?
3. How much will the total lease payments be for next year? (assuming no new lease agreements are signed)
 - a. Capital Leases
 - b. Operating Leases

I. Investments

Describe the types and amounts of significant investments:

1. equity method
2. available for sale: debt? Equities?
3. trading debt? Equities?
4. held to maturity
5. other investments.

How much unrealized gain or loss exists for these investments?

J. Other assets

Describe any significant intangible assets

K. Current Liabilities:

1. List the most important current liabilities.
2. Working Capital: Calculate current assets minus current liabilities for this year and last year.

L. Long Term Debt

- a. Describe any significant issues of long term debt during the past year.
- b. How much must be made in debt payments next year?

M. Pensions and Other Post Retirement Benefits

Describe the company's pension plans. Are they defined benefit or defined contribution?

Describe any other post retirement benefit plans.

Would you say that the plans are adequately funded? What indications do the notes or balance sheet show about the funded status of the plans?

N. Derivative instruments and hedging activities:

Does your company use and derivative instruments? If so describe the type of instrument and the purpose for which it is being held.

Type	Purpose
------	---------

- 1.
- 2.
- 3.

O. Income Taxes

1. What was the effective tax rate for your company this year?
2. What types of income taxes does your company pay?
3. What are the most important causes of deferred taxes?
 - a. deferred tax liabilities
 - b. deferred tax assets

What percentage of the income tax provision was deferred?

P. Contingencies: Do the notes disclose any significant loss contingencies that might affect your financial evaluation. If so what are these? Was any liability actually booked for these contingencies?

Q. Related Party Transactions: Do the notes disclose any significant related party transactions? If so, what are these? Describe the impact if any on your financial evaluation?

- R. Subsequent events:** Do the notes disclose any significant events subsequent to the date of the financial statements which might impact your evaluation? If so, describe the impact.
- S. Audit report:** Does the audit report qualify the auditors opinion in any way, or is there a disclaimer? If so describe the qualification or disclaimer and how it might impact your financial evaluation.
- T. IFRS:** Does your company follow International Financial Reporting Standards (IFRS) in the preparation of their financial statements? If so were there any IFRS procedures that they employed that were different than U.S. General Accepted Accounting Procedures (GAAP)? Briefly describe any differences that applied to your company and how those differences affected their financial statements.

3. Would you invest in the company if you had the funds and the price of the company's stock was just about right? If so explain why. If not, explain why not.