A pair of glasses with a dark frame and clear lenses is positioned over a newspaper. The newspaper text is partially visible, including the word "Daily," and other words like "warni's an", "hree", "major", "cline", "day", "puncer", "Alr L", "exp". A pen is also visible on the newspaper. The background is a dark blue gradient.

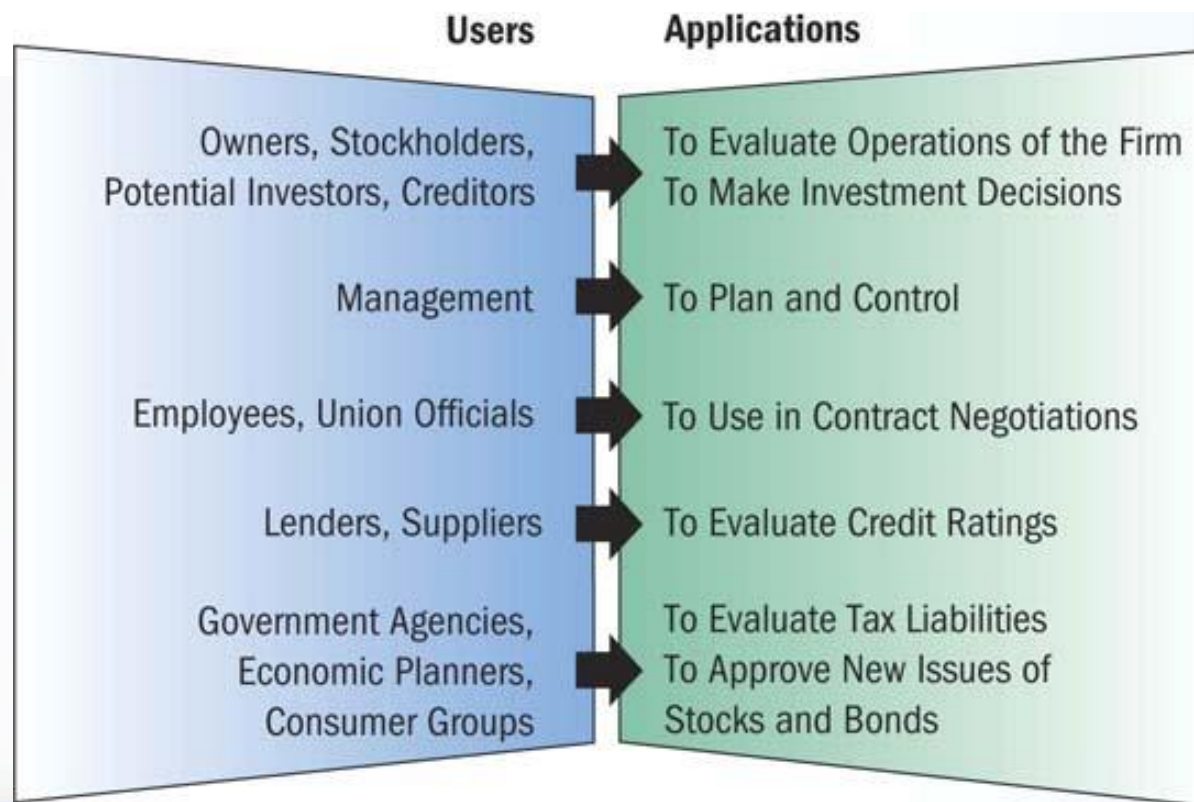
Understanding and Analyzing Financial Statements

Objectives of Session

1. Understand financial statements and their components
2. Understand the different approaches to analyzing financial statements.
3. Understand the application of specific tools for analyzing financial statements.

Users of Accounting Information

- **Accounting:** The process of measuring, interpreting, and communicating financial information to support internal and external business decision-making



Business Activities Involving Accounting

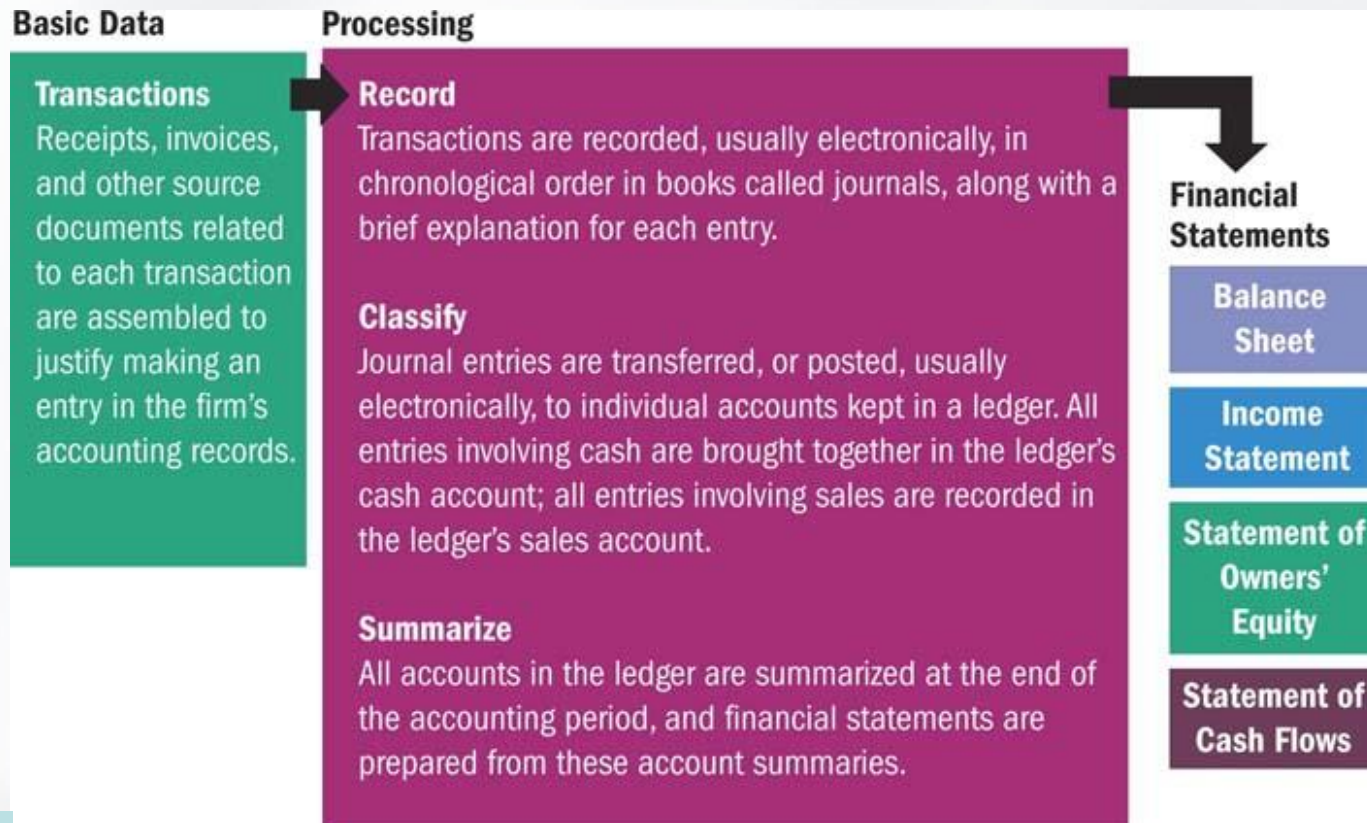
- **Financing** activities provide necessary funds to start a business and expand it after it begins operating.
- **Investing** activities provide valuable assets required to run a business.
- **Operating** activities focus on selling goods and services, but they also consider expenses as important elements of sound financial management.

The Foundation of the Accounting System

- **Generally accepted accounting principles (GAAP):** Principles that outline the conventions, rules, and procedures for deciding on the acceptable accounting practices at a particular time
- **Accounting Standards Board (AcSB):** The organization that interprets and modifies GAAP in Canada for private and not-for-profit businesses
 - ❑ Canadian public companies are required to use International Financial Reporting Standards (IFRS). These standards allow for financial statements to be more easily compared from country to country.
 - ❑ Senior executives must personally certify that the financial information reported by the company is correct.
 - ❑ **Corruption of Foreign Public Officials Act:** A federal law that prohibits Canadian citizens and companies from bribing foreign officials to win or continue business (in US Sarbanes-Oxley Act).

The Accounting Cycle

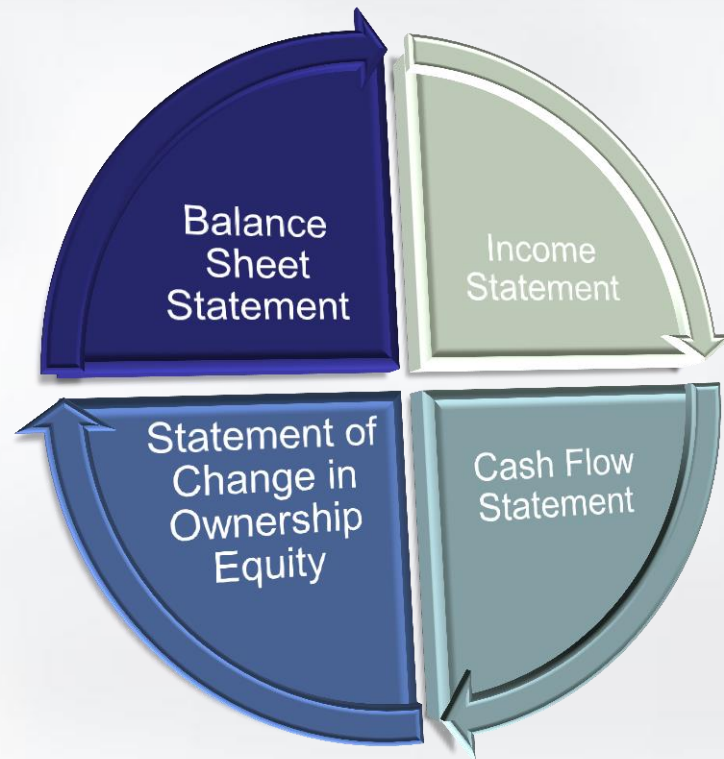
- **Accounting cycle:** The set of activities involved in converting information and individual transactions into financial statements



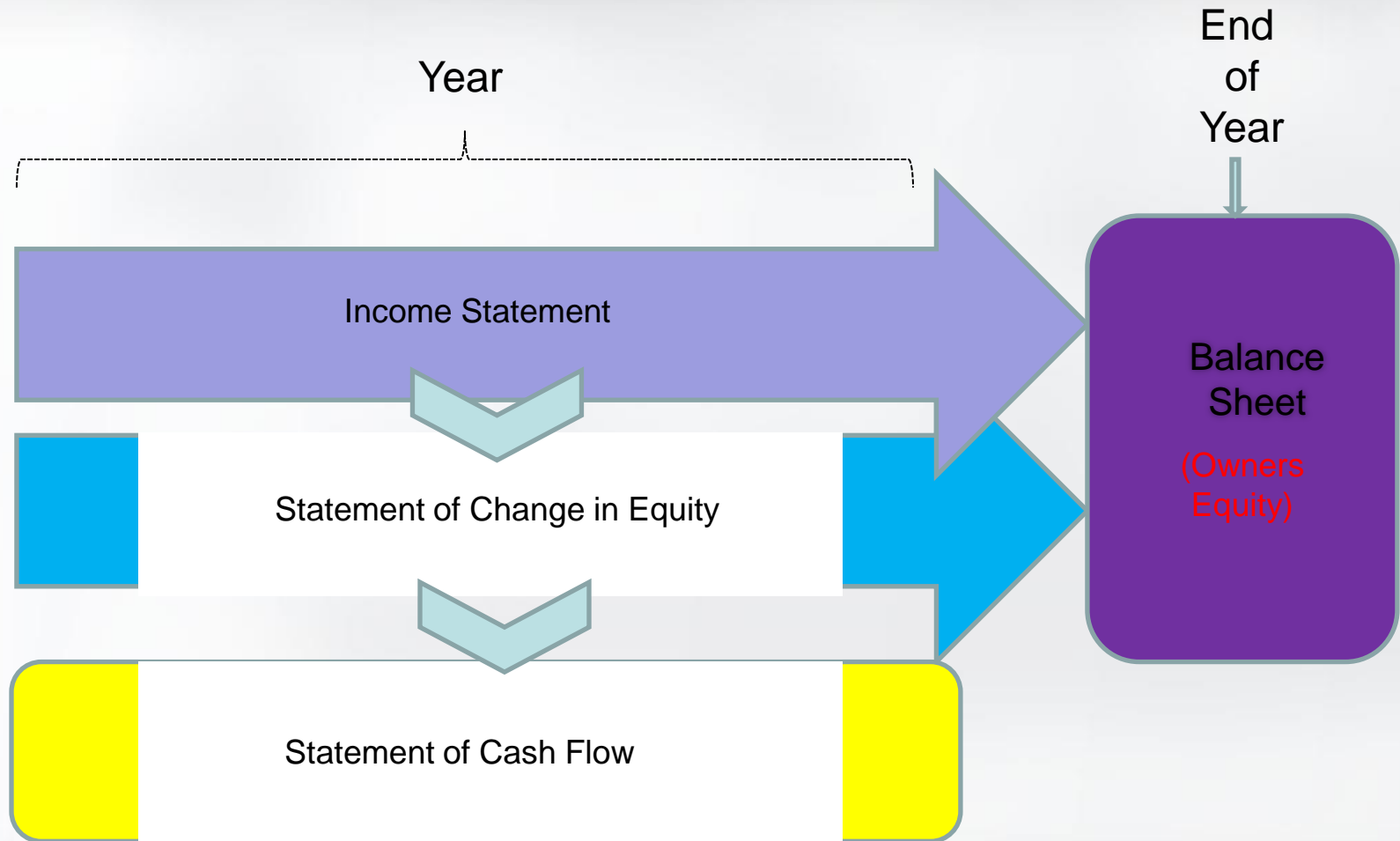


FINANCIAL STATEMENTS

Financial Statements



Relationship Between Profits & Financial Statements



Balance Sheet

- Statement of a firm's financial **position** at a specific point in time.
 - What the firm **owns** versus what it **owes** at a specific point in time.

BALANCE SHEET		
ASSETS	LIABILITIES	EQUITY
CASH	LOAN	

Balance Sheet Components

- **Asset:** anything with future value (or benefit) owned or controlled by a firm (*i.e., what the firm owns*)
- **Liability:** A claim against a firm's assets (*what the firm owes others apart from owners*).
- **Owner's equity:** The funds that owners invest in the business plus accumulated profits

Assets

- **Current Assets** – Cash or tangible liquid assets that can be easily converted into cash and are expected to be used within the next year (cash, supplies, inventory, etc.)
- **Fixed Assets** – Tangible assets that are expected to last one year or more (plant, equipment, land, etc.)
- **Intangible Assets** – Intangible assets that are expected to last one year or more (e.g., patents, copyrights, trademarks, etc.)

Types of Liabilities

- **Current Liabilities** – Liabilities expected to be paid off within one year (e.g., wages, bank line of credit, bills that have money still owing, etc.)
- **Long-term Liabilities** – Liabilities expected to not be paid off within the next year (e.g., bank loans, mortgages, etc.)

The Balance Sheet

1 Current Assets:

Cash and other liquid assets that can or will be converted to cash within one year.

2 Plant, property, and equipment (net):

Physical assets expected to last for more than one year; shown net of accumulated depreciation.

3 Value of assets such as patents and trademarks.

4 Current Liabilities:

Claims of creditors that are to be repaid within one year; accruals are expenses, such as wages, that have been incurred but not yet paid.

5 Long-term debt:

Debts that come due one year or longer after the date on the balance sheet.

6 Owners' (or Shareholders') equity:

Claims of the owners against the assets of the firm; the difference between total assets and total liabilities.

Diane's Java

Balance Sheet - December 31

	2014	2013
(\$ thousands)		
Assets		
1 Current Assets		
Cash	\$ 800	\$ 600
Short-term investments	1,250	940
Accounts receivable	990	775
Inventory	2,200	1,850
Total current assets	5,240	4,165
2 Plant, property, and equipment (net)	3,300	2,890
3 Goodwill and other intangible assets	250	250
Total Assets	8,790	7,305
Liabilities and Shareholders' Equity		
4 Current Liabilities		
Accruals	\$ 350	\$ 450
Accounts payable	980	900
Notes payable	700	500
Total current liabilities	2,030	1,850
5 Long-term debt	1,100	1,000
Total liabilities	3,130	2,850
6 Shareholders' equity	5,660	4,455
Total Liabilities and Equity	8,790	7,305

Balance Sheet

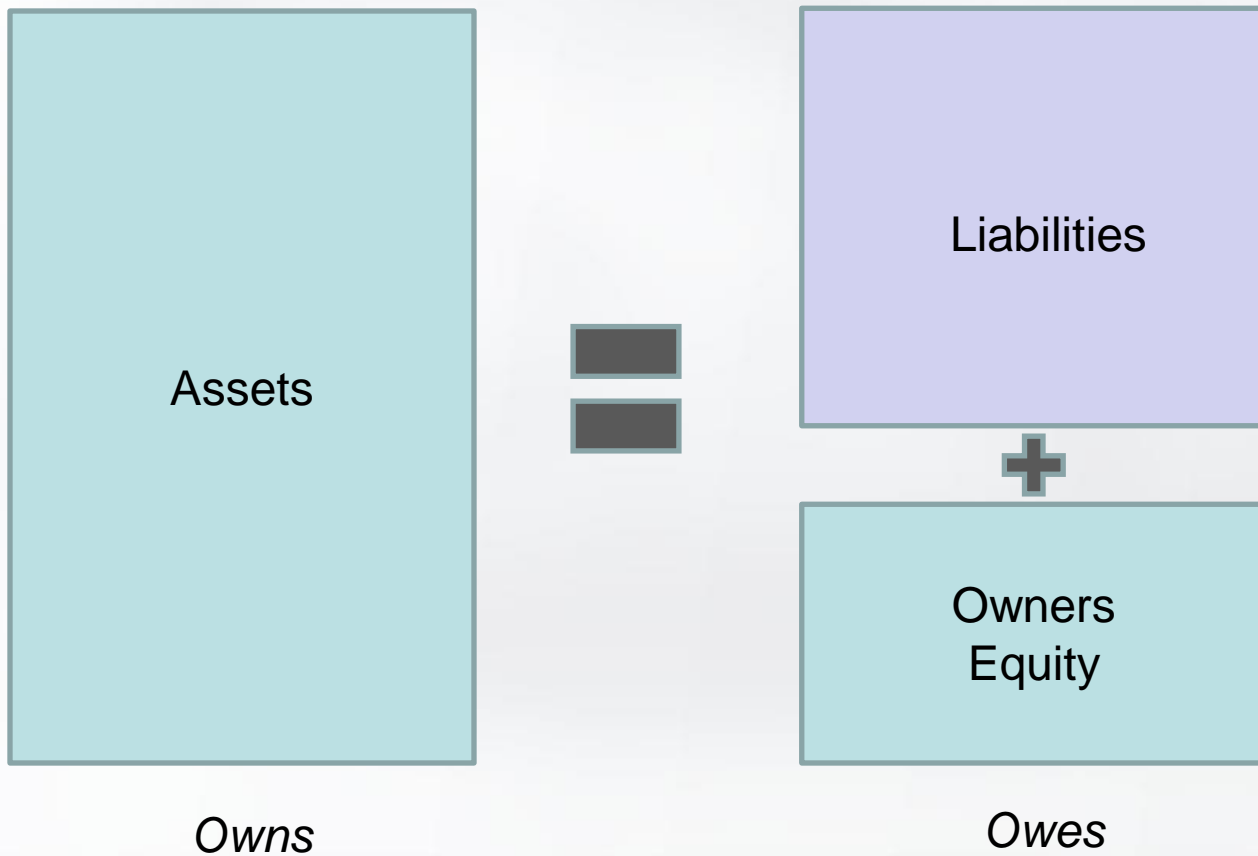
Two key Notions

- **Accounting equation:**

$$\text{Assets} = \text{Liabilities} + \text{Owners' equity}$$

- **Balanced Accounts & Double-entry bookkeeping:** The process used to record accounting transactions; each individual transaction is always balanced by another transaction

Balance Sheet Components



Balance Sheet Statement

Assets		Liabilities & Owners Equity	
Current Assets		Current Liabilities	
Fixed Assets		Long-term Liab.	
Intangible Assets		Total Liabilities	
		Owners' Equity	
Total Assets		Total Liab. & Equit.	

$$\text{Assets} = \text{Liabilities} + \text{Owners' equity}$$

Test Your Knowledge

The Macro Corporation has purchased land for \$100,000, and has financed 50% of the cost using long-term debt. The effect on its balance sheet is

- a. an increase in assets of \$50,000; an increase in liabilities of \$50,000.
- b. an increase in assets of \$100,000; a decrease in owners' equity of \$100,000.
- c. an increase in assets of \$100,000; an increase in liabilities of \$50,000.
- d. a decrease in assets of \$50,000; a decrease in owners' equity of \$50,000.

Test Your Knowledge

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- a. an increase in assets of \$50,000; an increase in liabilities of \$50,000.
- b. an increase in assets of \$100,000; a decrease in owners' equity of \$100,000.
- c. an increase in assets of \$100,000; an increase in liabilities of \$50,000.
- d. a decrease in assets of \$50,000; a decrease in owners' equity of \$50,000.

Answer: A

Walmart Balance Sheets

In Millions of USD	2013	2012	2011	2010
Cash and Short Term Investments	6,627.00	7,066.00	6,003.00	6,891.00
Accounts Receivables	6,677.00	6,768.00	5,937.00	5,089.00
Total Inventory	44,858.00	43,803.00	40,714.00	36,437.00
Prepaid Expenses	1,909.00	1,588.00	1,774.00	2,960.00
Other Current Assets, Total	1,114.00	715.00	547.00	635.00
Total Current Assets	61,185.00	59,940.00	54,975.00	52,012.00
Property/Plant/Equipment	178,678.00	171,724.00	160,938.00	154,489.00
Accumulated Depreciation	-60,771.00	-55,043.00	-48,614.00	-46,611.00
Goodwill, Net	19,510.00	20,497.00	20,651.00	16,763.00
Long Term Investments	6,149.00	5,987.00	5,456.00	4,129.00
Total Assets	204,751.00	203,105.00	193,406.00	180,782.00
Accounts Payable	37,415.00	38,080.00	36,608.00	33,676.00
Accrued Expenses	18,793.00	18,808.00	18,180.00	18,701.00
Short Term Debt	7,670.00	6,805.00	4,047.00	1,031.00
Current Port. of LT Debt	4,412.00	5,914.00	2,301.00	4,991.00
Other Current liabilities	1,055.00	2,211.00	1,164.00	204.00
Total Current Liabilities	69,345.00	71,818.00	62,300.00	58,603.00
Long Term Debt	56,641.00	54,136.00	53,427.00	49,864.00
Deferred Income Tax	8,017.00	7,613.00	7,862.00	6,682.00
Minority Interest	6,575.00	5,914.00	4,850.00	3,113.00
Other Liabilities, Total	-	-	-	-
Total Liabilities	128,496.00	126,762.00	122,091.00	112,240.00
Total Equity	76,255.00	76,343.00	71,315.00	68,542.00
Total Liabilities & Shareholders' Equity	204,751.00	203,105.00	193,406.00	180,782.00

The Income Statement

- **Income statement:** A financial record of a company's revenues, expenses, and profits over a specific period of time
- Reports profit or loss
- Focus on revenues and costs associated with revenues



The Income Statement

1

Sales:

Funds received from the sale of goods and services over a specified period of time.

2

Cost of goods sold:

Cost of merchandise or services that generate the firm's sales.

3

Operating expenses:

Salaries and other operational expenses not directly related to the acquisition or production, of the firm's output.

4

Depreciation:

Noncash expenses that reflect the systematic reduction in the value of the firm's plant, property and equipment.

5

Net income:

Sales minus total expenses; profit after taxes.

Diane's Java

Income Statement for the year ending December 31

(\$ thousands)	2014	2013
1 Sales	\$17,300	\$14,200
2 Cost of goods sold	<u>10,370</u>	<u>8,804</u>
Gross profit	6,930	5,396
3 Operating expenses	<u>3,550</u>	<u>2,950</u>
Operating profit	3,380	2,446
4 Depreciation	350	300
Interest expense (net)	<u>98</u>	<u>75</u>
Earnings before taxes	2,932	2,071
Income taxes	<u>1,005</u>	<u>650</u>
5 Net income	1,927	1,421

Walmart Income Statements

In Millions of USD	2013	2012	2011	2010
Revenue	476,294.00	468,651.00	446,509.00	421,849.00
Other Revenue, Total	-	-	-	-
Total Revenue	476,294.00	468,651.00	446,509.00	421,849.00
Cost of Revenue, Total	358,069.00	352,297.00	334,993.00	314,946.00
Gross Profit	118,225.00	116,354.00	111,516.00	106,903.00
Selling/General/Admin. Expenses, Total	91,353.00	88,629.00	85,025.00	81,361.00
Total Operating Expense	449,422.00	440,926.00	420,018.00	396,307.00
Operating Income	26,872.00	27,725.00	26,491.00	25,542.00
Income Before Tax	24,656.00	25,662.00	24,332.00	23,538.00
Income After Tax	16,551.00	17,704.00	16,408.00	15,959.00
Minority Interest	-673.00	-757.00	-688.00	-604.00
Net Income Before Extra. Items	15,878.00	16,947.00	15,720.00	15,355.00
Net Income	16,022.00	16,999.00	15,699.00	16,389.00

Statement of Changes in Equity

- **Statement of changes in equity:** A record of the change in equity from the end of one fiscal period to the end of the next fiscal period
- Begins with the amount of equity shown on the balance sheet
- Net income is added, and cash dividends paid to owners are subtracted

Statement of Changes in Equity

1 From the prior year's balance sheet.

2 From the current year's income statement.

3 Amount should equal the figure shown on the current year's balance sheet.

Diane's Java

Simplified Statement of Owners' Equity for the year ending December 31

	2014
(\$ thousands)	
1 Shareholders' equity (beginning of year)	\$4,455
2 Add net income	1,927
Subtract cash dividends	(460)
Add sale of new shares	0
Subtract repurchase of existing shares	(262)
3 Equals shareholders' equity (end of year)	<u>5,660</u>

Statement of Cash Flows

- **Statement of cash flows:** A record of the sources and uses of cash during a period of time
- **Accrual accounting:** An accounting method that records revenue and expenses when they occur, not when cash actually changes hands



Statement of Cash Flows

1 Operating Activities:
The nuts and bolts of day-to-day activities of a company carrying out its regular business; increases in accounts receivable and inventory are like uses of cash, while increases in accruals and accounts payables are like sources of cash; in financially healthy firms, net cash flow from operating activities should be positive.

2 Investing Activities:
Transactions to accumulate or use cash in ways that affect operating activities in the future; often a use of cash.

3 Financing Activities:
Ways to transfer cash to or from creditors and to or from owners; can be either positive or negative.

4 Net Cash Flow:
The sum of cash flow from operating, investing, and financing activities, a reconciliation of cash from the beginning to the end of the accounting period (one year in this example).

Diane's Java Statement of Cash Flows for the year ending December 31

	2014
(\$ thousands)	
1 Cash Flow from Operating Activities	
Net income	\$1,927
Depreciation	350
Change in accounts receivable	(215)
Change in inventory	(350)
Change in accruals	(100)
Change in accounts payable	80
Total cash flow from operating activities	<u>1,692</u>
2 Cash Flow from Investing Activities	
Capital expenditures	(760)
Change in short-term investments	(310)
Total cash flow from investing activities	<u>(1,070)</u>
3 Cash Flow from Financing Activities	
Cash dividends	(460)
Sale/repurchase of shares	(262)
Change in notes payable	200
Change in long-term debt	100
Total cash flow from financing activities	<u>(422)</u>
4 Net Cash Flow	200
Cash (beginning of year)	600
Cash (end of year)	<u>800</u>

Walmart Cash Flow Statement

Millions of USD	2013	2012	2011	2010
Net Income/Starting Line	16,695.00	17,756.00	16,387.00	16,993.00
Depreciation/Depletion	8,870.00	8,501.00	8,130.00	7,641.00
Amortization	-	-	-	-
Deferred Taxes	-279.00	-133.00	1,050.00	651.00
Non-Cash Items	794.00	527.00	465.00	53.00
Changes in Working Capital	-2,823.00	-1,060.00	-1,777.00	-1,695.00
Cash from Operating Activities	23,257.00	25,591.00	24,255.00	23,643.00
Capital Expenditures	-13,115.00	-12,898.00	-13,510.00	-12,699.00
Other Investing Cash Flow Items, Total	817.00	287.00	-3,099.00	506.00
Cash from Investing Activities	-12,298.00	-12,611.00	-16,609.00	-12,193.00
Financing Cash Flow Items	-1,210.00	-498.00	-597.00	-634.00
Total Cash Dividends Paid	-6,139.00	-5,361.00	-5,048.00	-4,437.00
Issuance (Retirement) of Stock, Net	-6,683.00	-7,600.00	-6,298.00	-14,776.00
Issuance (Retirement) of Debt, Net	3,015.00	1,487.00	3,485.00	7,819.00
Cash from Financing Activities	-11,017.00	-11,972.00	-8,458.00	-12,028.00
Foreign Exchange Effects	-442.00	223.00	-33.00	66.00
Net Change in Cash	-500.00	1,231.00	-845.00	-512.00
Cash Interest Paid, Supplemental	2,362.00	2,262.00	2,346.00	2,163.00
Cash Taxes Paid, Supplemental	8,641.00	7,304.00	5,899.00	6,984.00



FINANCIAL ANALYSIS

Categories of Basic Financial Analysis

1. **Ratio Analysis** – assess and interpret the relationships among the financial results of a firm.
2. **Trend** – look at a firm's financial trends over a period of time to see whether they are improving or declining.
3. **Comparative Analysis** – compare financial metrics and ratios to firm's the same industry or situation.



FINANCIAL RATIO ANALYSIS

Ratio Analysis

- Examines the relationships between critical components of information found on the financial statements.
- Produces a standardized metric.
- *Used as first indicators of financial and operating health.*
- *Many firms and industries have key ratio metrics that they monitor daily.*

Financial Ratio Analysis

- **Ratio analysis** is a tool for measuring a firm's liquidity, profitability, and reliance on debt financing, and how effectively management uses the firm's resources

CATEGORY	RATIO	DESCRIPTION
Liquidity ratios	Current ratio	Current assets divided by current liabilities
	Quick (acid-test) ratio	Current assets (minus inventory) divided by current liabilities
Efficiency ratios	Inventory turnover	Cost of goods sold divided by average inventory
	Receivables turnover	Credit sales divided by average accounts receivable
	Total asset turnover	Revenue or sales divided by average total assets
Leverage ratios	Debt ratio	Total liabilities divided by total assets
	Long-term debt to equity	Long-term debt divided by owners' equity
Profitability ratios	Gross profit margin	Gross profit divided by revenue or sales
	Net profit margin	Net profit divided by revenue or sales
	Return on equity	Net profit divided by average owners' equity

Liquidity Ratios

Liquidity ratios measure a firm's ability to meet its short-term obligations.

- **Current ratio** compares current assets to current liabilities.

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}} = \frac{5,240}{2,030} = 2.58$$

- **Acid-test (or quick) ratio** measures the ability of a firm to meet its debt payments on short notice.

$$\text{Acid-test ratio} = \frac{\text{Current assets} - \text{Inventory}}{\text{Current liabilities}} = \frac{(5,240 - 2,200)}{2,030} = 1.50$$

Efficiency Ratios

Efficiency ratios measure how effectively management uses the firm's resources.

- **Inventory turnover ratio** indicates the number of times merchandise moves through a business.

$$\text{Inventory turnover} = \frac{\text{Cost of goods sold}}{\text{Average inventory}} = \frac{10,370}{[(2,200 + 1,850)]/2} = 5.12$$

- **Total asset turnover ratio** indicates how much in sales each dollar invested in assets generates.

$$\begin{aligned}\text{Total asset turnover} &= \frac{\text{Sales}}{\text{Average total assets}} \\ &= \frac{17,300}{[(8,790 + 7,305)/2]} = 2.15\end{aligned}$$

Efficiency Ratios

- **Receivables turnover ratio** indicates the number of times receivables turnover in a year.

$$\text{Receivables turnover} = \frac{\text{sales}}{\text{Accounts Receivable}}$$

$$\text{Receivables turnover} = \frac{\$2400}{\$187} = 12.83$$

Profitability Ratios

- **Profitability ratios** measure the organization's overall financial performance by evaluating its ability to generate revenues in excess of operating costs and other expenses.

$$\text{Gross profit margin} = \frac{\text{Gross profit}}{\text{Sales}} = \frac{6,930}{17,300} = 40.0\%$$

$$\text{Net profit margin} = \frac{\text{Net income}}{\text{Sales}} = \frac{1,927}{17,300} = 11.1\%$$

$$\text{Return on equity} = \frac{\text{Net income}}{\text{Average equity}} = \frac{1,927}{[(5,660 + 4,455)/2]} = 38.1\%$$

The Income Statement

1

Sales:

Funds received from the sale of goods and services over a specified period of time.

2

Cost of goods sold:

Cost of merchandise or services that generate the firm's sales.

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Salaries and other operational expenses not directly related to the acquisition or production, of the firm's output.

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Diane's Java

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Income taxes	<u>1,005</u>	<u>650</u>
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Leverage Ratios

- **Leverage ratios** measure how much a firm relies on debt financing.

$$\text{Debt ratio} = \frac{\text{Total liabilities}}{\text{Total assets}} = \frac{3,130}{8,790} = 35.6\%$$

$$\text{Long-term debt to equity} = \frac{\text{Long-term debt}}{\text{Owners' equity}} = \frac{1,100}{5,660} = 19.4\%$$

- A total liabilities to total assets ratio (debt ratio) greater than 50 percent indicates that a firm is relying more on borrowed money than owners' equity.

Financial Statement Website

- <http://www.google.ca/finance>

Walmart Income Statements

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Revenue	476,294.00	468,651.00	446,509.00	421,849.00
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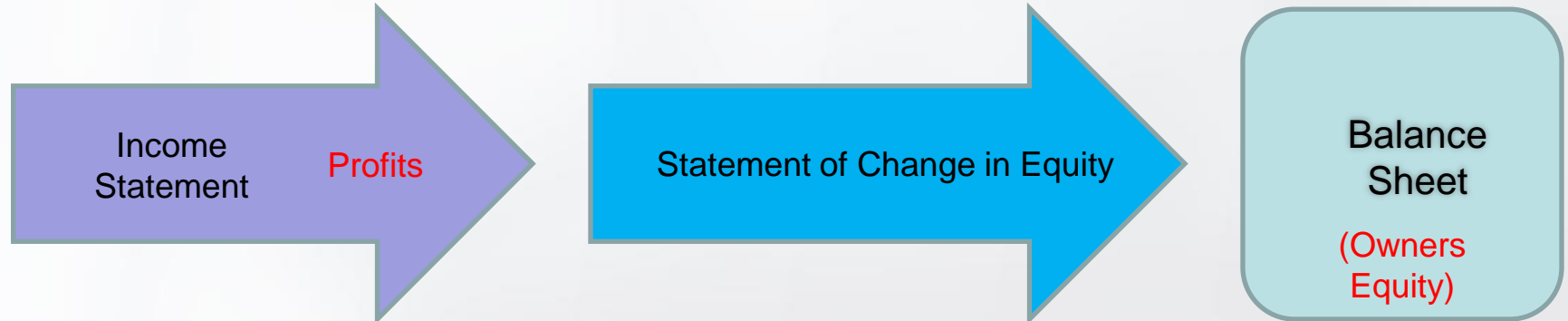
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Total Equity	76,255.00	76,343.00	71,315.00	68,542.00
Total Liabilities & Shareholders' Equity	204,751.00	203,105.00	193,406.00	180,782.00

Profitability Ratios

- Examines the profitability of the firm.
 - Net Profit Margin
 - Return on Equity
 - Gross Profit Margin

Relationship Between Profits & Financial Statements



Net Profit Margin

- Identifies the profit produced by one dollar in sales revenues.

$$\text{Net Profit Margin} = \frac{\text{Net Income}}{\text{Sales}}$$

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$$\text{Net Profit Margin} = \frac{\text{Net Income}}{\text{Sales}}$$

Walmart's Net Profit Margin

$$= 16,022 / 476,294$$

$$= 0.03$$

Or 3%

Return on Equity

- Identifies the profit produced by every dollar invested by owners in the firm.

$$\text{Return on Equity} = \frac{\textit{Net Income}}{\textit{Average Equity}}$$

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$$\text{Return on Equity} = \frac{\text{Net Income}}{\text{Average Equity}}$$

Walmart's Return on Equity

$$= 16,022 / 76,255$$

$$= 0.21$$

Or 21%

Gross Profit Margin

- Identifies the gross profit produced by every dollar of sales.

$$\text{Gross Profit Margin} = \frac{\textit{Gross Profit}}{\textit{Sales}}$$

Note: Gross profit tends to vary in proportion to production and sales. Therefore, it is a critical number for calculating breakeven analysis.

Gross Profit Margin

- Identifies the gross profit produced by every dollar of sales

$$\text{Gross Profit Margin} = \frac{\text{Gross Profit}}{\text{Sales}}$$

Walmart's Gross Profit Margin

$$= 118,225 / 476,294$$

$$= 0.25$$

Or 25%

Note: Gross profit tends to vary in proportion to production and sales. Therefore, it is a critical number for calculating breakeven analysis.

Liquidity Ratios

- Examines the ratio of short term financial obligations relative to the firm`s liquid financial assets.

- Acid Test Ratio

- Current Ratio

- *How much the firm owns in cash-like assets versus how much it owes over the next year.*

Current Ratio

- Identifies how much current activities are available to payoff current liabilities.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

A ratio under 1 suggests that the firm would not be able to pay its short-term obligations.

Current Ratio

- Identifies how much current activities are available to payoff current liabilities.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Walmart's Current Ratio

$$= 204,751 / 128,496$$

$$= 1.59$$

A ratio under 1 suggests that the firm would not be able to pay its short-term obligations.

Acid Test Ratio

- Identifies how much cash and cash equivalent assets are available to payoff current liabilities

$$\text{Acid Test Ratio} = \frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$$

*Ability of the firm to meet short-term financial commitments.
Generally should be higher than 1.1 but this varies with industry.*

Acid Test Ratio

- Identifies how much cash and cash equivalent assets are available to payoff current liabilities

$$\text{Acid Test Ratio} = \frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$$

Walmart's Acid Test Ratio

$$= (204,751 - 45,318) / 128,496$$

$$= 1.24$$

*Ability of the firm to meet short-term financial commitments.
Generally should be higher than 1.1 but this varies with industry.*

Leverage Ratios

- Measures how much the firm relies on debt financing, which is riskier than equity financing.

- Debt to Asset Ratio

- Long-term Debt to Equity

Debt Ratio

- Examine the ratio of assets that back up the debt.

$$\text{Debt Ratio} = \frac{\textit{Total Liabilities}}{\textit{Total Assets}}$$

Note: A total liabilities to total assets ratio (debt ratio) greater than 50 percent indicates that a firm is relying more on borrowed money than owners' equity.

Debt Ratio

- Examine the ratio of assets that back up the debt.

$$\text{Debt Ratio} = \frac{\text{Total Liabilities}}{\text{Total Assets}}$$

Walmart's Debt Ratio

$$= 128,496 / 204,751$$

$$= 0.62$$

Or 62%

Note: A total liabilities to total assets ratio (debt ratio) greater than 50 percent indicates that a firm is relying more on borrowed money than owners' equity.

Long-term Debt to Equity

- Examine firm`s ability to cover long-term debt.

$$\text{Long-term Debt to Equity} = \frac{\text{Long - term Debt}}{\text{Owner`s Equity}}$$

Capital-intensive industries such as auto manufacturing tend to have a debt/equity ratio above 2, while personal computer companies have a debt/equity of under 0.5.

Long-term Debt to Equity

- Examine firm`s ability to cover long-term debt.

$$\text{Long-term Debt to Equity} = \frac{\text{Long-term Debt}}{\text{Owner`s Equity}}$$

Walmart`s Long-term Debt to Equity Ratio

$$= 44,559 / 76,255$$

$$= 0.58$$

Or 58%

Activity Ratios

- Examines how efficient the firm is at operating.
 - Inventory Turnover
 - Total Asset Turnover

Inventory Turnover

- How many times inventory is sold or turned over in a year.

$$\text{Inventory Turnover} = \frac{\textit{Cost of Goods Sold}}{\textit{Inventory}}$$

Note: Faster inventory turnover is efficient because it lowers the possibility of inventory deterioration or out of style. It also lowers inventorying costs.

Inventory Turnover

- How many times inventory is sold or turned over in a year.

$$\text{Inventory Turnover} = \frac{\text{Cost of Goods Sold}}{\text{Inventory}}$$

Walmart's Inventory Turnover Ratio

$$= 358,069 / 76,255$$

$$= 4.7 \text{ times}$$

Note: Faster inventory turnover is efficient because it lowers the possibility of inventory deterioration or out of style. It also lowers inventorying costs.

Total Asset Turnover

- Indicates how efficient a firm is at deploying its resources.

$$\text{Total Asset Turnover} = \frac{\textit{Sales}}{\textit{Average Total Assets}}$$

Note: Fewer assets required to make a sale the more efficient the operation.

Total Asset Turnover

- Indicates how efficient a firm is at deploying its resources.

$$\text{Total Asset Turnover} = \frac{\text{Sales}}{\text{Average Total Assets}}$$

Walmart's Total Asset Turnover Ratio

$$= 476,294 / (204,751 + 203,000) / 2$$

$$= 2.3 \text{ times}$$

Note: Fewer assets required to make a sale the more efficient the operation.

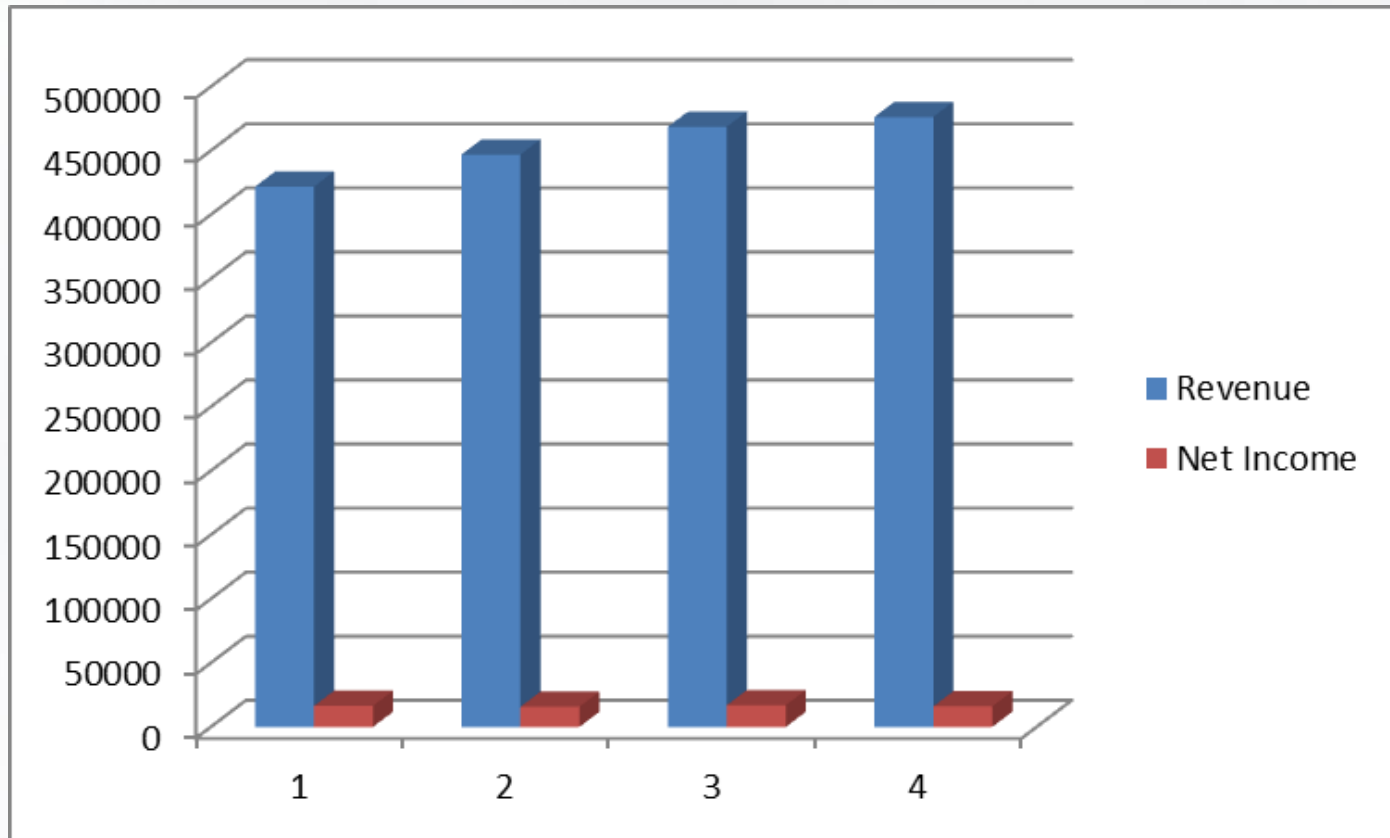


FINANCIAL TREND ANALYSIS

Trend Financial Analysis

- How are the metrics trending with time.
- *Are the financial trends improving or weakening.*
- *Can analyze trends of raw financial values or financial ratios.*

Walmart Revenue & Net Income Trends



Walmart Revenue & Net Income Trend

Year	2011	2012	2013	2014
Revenue	421,849	446,950	468,651	476,294
Net Income	16,389	15,699	16,999	16,022

Walmart Ratio Trend Analysis



Walmart Ratio Trend Analysis



Year	2014	2013	2012	2011
Debt Ratio	0.62	0.63	0.62	0.63



COMPARATIVE FINANCIAL ANALYSIS

Comparative Financial Analysis

- Compare financial metrics, values, and ratios to other firms (usually in the same industry).
- *Is your firm better or worse than the other firms in the industry?*
- *What is the standard in the industry?*

Walmart Income Statements

In Millions of USD	2013	2012	2011	2010
Revenue	476,294.00	468,651.00	446,509.00	421,849.00
Other Revenue, Total	-	-	-	-
Total Revenue	476,294.00	468,651.00	446,509.00	421,849.00
Cost of Revenue, Total	358,069.00	352,297.00	334,993.00	314,946.00
Gross Profit	118,225.00	116,354.00	111,516.00	106,903.00
Selling/General/Admin. Expenses, Total	91,353.00	88,629.00	85,025.00	81,361.00
Total Operating Expense	449,422.00	440,926.00	420,018.00	396,307.00
Operating Income	26,872.00	27,725.00	26,491.00	25,542.00
Other, Net	-	-	-	-
Income Before Tax	24,656.00	25,662.00	24,332.00	23,538.00
Income After Tax	16,551.00	17,704.00	16,408.00	15,959.00
Minority Interest	-673.00	-757.00	-688.00	-604.00
Net Income Before Extra. Items	15,878.00	16,947.00	15,720.00	15,355.00
Net Income	16,022.00	16,999.00	15,699.00	16,389.00

The Bay Income Statements

\$CAD	2013	2012	2011	2010
Revenue	5,223.40	4,077.00	3,849.60	3,718.20
Other Revenue, Total	-	-	-	-
Total Revenue	5,223.40	4,077.00	3,849.60	3,718.20
Cost of Revenue, Total	3,216.80	2,487.00	2,306.00	2,209.10
Gross Profit	2,006.60	1,590.00	1,543.60	1,509.10
Selling/General/Admin. Expenses, Total	1,823.90	1,370.40	1,347.20	1,360.80
Total Operating Expense	5,216.30	3,961.50	3,646.10	3,569.90
Operating Income	7.10	115.50	203.50	148.30
Other, Net	-180.50	-14.20	-22.50	-59.20
Income Before Tax	-254.20	18.40	53.50	-93.00
Income After Tax	-175.70	27.80	57.30	88.10
Net Income Before Extra. Items	-175.70	27.80	57.30	88.10
Net Income	-258.10	-35.10	1,449.00	88.00

Walmart Balance Sheets

In Millions of USD	2013	2012	2011	2010
Cash and Short Term Investments	6,627.00	7,066.00	6,003.00	6,891.00
Accounts Receivables	6,677.00	6,768.00	5,937.00	5,089.00
Total Inventory	44,858.00	43,803.00	40,714.00	36,437.00
Prepaid Expenses	1,909.00	1,588.00	1,774.00	2,960.00
Other Current Assets, Total	1,114.00	715.00	547.00	635.00
Total Current Assets	61,185.00	59,940.00	54,975.00	52,012.00
Property/Plant/Equipment	178,678.00	171,724.00	160,938.00	154,489.00
Accumulated Depreciation	-60,771.00	-55,043.00	-48,614.00	-46,611.00
Goodwill, Net	19,510.00	20,497.00	20,651.00	16,763.00
Long Term Investments	6,149.00	5,987.00	5,456.00	4,129.00
Total Assets	204,751.00	203,105.00	193,406.00	180,782.00
Accounts Payable	37,415.00	38,080.00	36,608.00	33,676.00
Accrued Expenses	18,793.00	18,808.00	18,180.00	18,701.00
Short Term Debt	7,670.00	6,805.00	4,047.00	1,031.00
Current Port. of LT Debt	4,412.00	5,914.00	2,301.00	4,991.00
Other Current liabilities	1,055.00	2,211.00	1,164.00	204.00
Total Current Liabilities	69,345.00	71,818.00	62,300.00	58,603.00
Long Term Debt	56,641.00	54,136.00	53,427.00	49,864.00
Deferred Income Tax	8,017.00	7,613.00	7,862.00	6,682.00
Minority Interest	6,575.00	5,914.00	4,850.00	3,113.00
Other Liabilities, Total	-	-	-	-
Total Liabilities	128,496.00	126,762.00	122,091.00	112,240.00
Total Equity	76,255.00	76,343.00	71,315.00	68,542.00
Total Liabilities & Shareholders' Equity	204,751.00	203,105.00	193,406.00	180,782.00

The Bay Balance Sheets

\$Millions of CAD	2013	2012	2011	2010
Cash and Short Term Investments	27.00	46.00	48.10	51.80
Accounts Receivables	160.00	74.00	124.00	131.90
Total Inventory	2,048.00	994.00	1,814.20	1,679.80
Prepaid Expenses	-	-	-	-
Other Current Assets, Total	75.00	306.00	20.90	29.30
Total Current Assets	2,310.00	1,420.00	2,007.20	1,892.80
Property/Plant/Equipment	-	-	1,765.30	1,571.20
Accumulated Depreciation	-	-	-415.00	-308.60
Goodwill, Net	1,192.00	233.00	224.60	169.20
Long Term Investments	334.00	264.00	410.60	556.70
Total Assets	7,946.00	3,252.00	3,993.50	3,881.80
Accounts Payable	585.00	400.00	613.00	629.30
Accrued Expenses	-	-	-	-
Short Term Debt	0.00	132.00	0.00	0.00
Current Port. of LT Debt/Capital Leases	532.00	-	291.00	749.10
Other Current liabilities, Total	407.00	542.00	312.30	219.70
Total Current Liabilities	2,012.00	1,353.00	1,916.80	1,997.00
Long Term Debt	3,455.00	851.00	1,192.70	2,179.50
Deferred Income Tax	636.00	0.00	-	-
Minority Interest	-	-	-	-
Other Liabilities, Total	332.00	172.00	219.10	227.30
Total Liabilities	5,903.00	2,244.00	3,037.60	3,654.70
Total Equity	2,043.00	1,008.00	955.90	227.10
Total Liabilities & Shareholders' Equity	7,946.00	3,252.00	3,993.50	3,881.80

Walmart vs Loblaw's vs Bay

Ratio	Walmart	Loblaws	The Bay
Net Profit Margin	3%	1.9%	-ve
Return on Equity	21%	8.9%	-ve
Debt Ratio	62%	66%	74%
Inventory Turnover	4.7 times	11.8 times	2.55
Asset Turnover	2.3 times	1.6 times	0.65

Financial Terms & Resources

- <http://www.investopedia.com/dictionary/>
- <https://www.google.ca/finance?hl=en&tab=ee>