Annual Report Project

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Annual Report Project

To the Student

The Annual Report Project (ARP) provides you the opportunity to analyze a corporate annual report. You will obtain the annual report of a Fortune 500 company and answer questions regarding the application of concepts studied in your financial accounting course.

The Annual Report Project:

- Will increase your interest in financial accounting by allowing you to personally choose the annual report you will review
- Provides hands-on exposure to financial statements of real-world companies
- Emphasizes the importance of the notes to the financial statements
- Provides an opportunity to examine the application of procedures and methods discussed in your accounting textbook
- Encourages you to work with spreadsheets

The Annual Report Project consists of twelve assignments and is designed to be a useful supplement both for undergraduate financial accounting courses and for introductory financial accounting at the M.B.A. level. The following is a list of the topics covered in each Annual Report Project assignment:

- ARP 1 Obtaining the Annual Report
- ARP 2 Company Information
- ARP 3 Overview of the Annual Report
- ARP 4 The Balance Sheet
- ARP 5 The Income Statement
- ARP 6 Current Assets
- ARP 7 Long-lived Assets
- ARP 8 Liabilities
- ARP 9 Stockholders’ Equity
- ARP 10 Statement of Cash Flow
- ARP 11 International Financial Reporting Standards
- ARP 12 Overall Evaluation
ORGANIZATION OF EACH ASSIGNMENT

Beginning with Assignment 4, each assignment consists of three parts:

- **THE BASICS** requires you to find information in the annual report and may require the calculation of some financial statement ratios.

- **FURTHER ANALYSIS** often includes calculating and interpreting financial statement ratios. It also requires comparing these ratios to industry averages.

- **INFORMATION FOR DECISION MAKING** asks you to evaluate the information obtained in other parts of the assignment.

To the Instructor

The Annual Report Project (ARP) works best if each student obtains a different annual report. In your classroom, students can highlight differences and similarities among companies. Even if class discussion is limited, students have the opportunity to learn something about these differences and similarities as they prepare their assignments and discuss them with each other outside the classroom. They see that terminology, format, and level of disclosure vary. For larger classes, you might have your students work in groups. Each group would examine a different annual report. Students might also work in industry groups. Each student in a group would examine an annual report in the same industry as those of other group members.

NOTES TO SPECIFIC ASSIGNMENTS

ARP 1 & 2. The first assignment asks the student to select a Fortune 500 company. This limitation enhances the likelihood that the report will contain all the disclosures required in the assignments. Assignment 1 also places some limits on industry type in order to avoid specialized industry practices. Because receipt of the annual reports can take 2 – 3 weeks, it is important that Assignment 1 be completed during the first day or two of the school term. Alternatively, the student may download the annual report from the company’s web site. This is the preferred method of obtaining an annual report. Fortune.com provides links to web sites of Fortune 500 companies. Because each student is required to obtain a different annual report, the instructor may ask students to e-mail their choices as soon as the annual reports have been ordered. The instructor can then assign preferred companies to students on a first-come-first-served basis.

Assignments 1 and 2 ask each student to order an annual report for and obtain a profile of each of three companies. This requirement provides alternative annual reports if (1) the instructor requires each student to obtain a different annual report and the student’s first choice has already been selected by another student, or (2) there is an unforeseen delay in receiving an annual report. By the time the student prepares Assignment 3, each will have narrowed the focus to one company.

Information for ARP 2 can be obtained from the Internet and business periodicals. Students are not expected to have received their annual reports at this time. Internet search engines have a menu option labeled stock or stock quotes where students can find a company profile which will include the information required in the assignment. Another useful source for students is fortune.com.

ARP 3. This assignment provides an overview and a table of contents for later assignments. It helps students familiarize themselves with the content of an annual report. In class discussion the
instructor can make note of the optimistic tone of the chairman’s letter and the items included in the management discussion and analysis. More importantly, this assignment provides an opportunity to discuss management’s responsibility for the financial statements, the auditor’s responsibility, the expectation gap problem, internal control and audit committees. Optional Oral Presentation: If the instructor is seeking an opportunity for students to demonstrate oral communication skills, it may be appropriate at this point to have each student give a brief report about his or her company.

ARP 4 & 5. Instructors will need to refer the students to the discussion of vertical analysis in the financial statement analysis chapter of their textbook for guidance in preparing the common-size balance sheets and income statements.

ARP 6. In-class comparisons of ratios, receivables collection and inventory turnover are useful and interesting. These comparisons also provide an opportunity for the class to discuss the reasonableness of the numbers, given the characteristics of that particular company—for example, the nature of its inventory or its type of customer.

ARP 7. In addition to reviewing plant assets, intangibles and depreciation methods, this assignment asks students to examine cash flow effects related to accounting for long-lived assets.

ARP 8. Here is an opportunity to discuss operating leases and the fact that, although they may fit the definition of a liability, they are not included in the balance sheet. The discussion could include other types of off-balance-sheet financing arrangements. This assignment also addresses cash flow.

ARP 9. The instructor will need to refer the students to the financial highlights (or financial summary) in the annual report for a review of stock performance in recent years. That information, along with the information in the financial statements, will enable the students to complete the required calculations.

ARP 10. This assignment examines the statement of cash flows (SCF) and provides an opportunity for students to look at the relationship between the SCF and the balance sheet and between the SCF and the income statement. It also asks students to examine the primary differences between the cash-based numbers and the accrual-based numbers. In addition, the assignment asks students to compute some amounts for operating activities as they would appear if the direct method were used.

ARP 11. This assignment introduces International Financial Reporting Standards (IFRS) and provides an opportunity for students to assess the financial statement impact of IFRS adoption. Each student will also examine the annual report of a company in the European Union (EU).

ARP 12. This assignment asks students to analyze information contained in the previous assignments. The final analysis can be written and/or oral. If a group of students have analyzed companies within the same industry, a group presentation may be appropriate. Alternatively, the instructor may wish to limit this assignment to a consideration of the accounting methods chosen by the company.

**USING THE ANNUAL REPORT PROJECT IN THE CLASSROOM**

The Annual Report Project can be adapted to meet the needs of instructors at institutions of various sizes, with large and small classes, and with various instructor course loads. There is flexibility in the amount of class time devoted to the assignments. The instructor will probably wish to
schedule some time to discuss management’s responsibility for the financial statements, the auditor’s responsibility, comparison of accounting methods used, and some comparison of ratios.

**CUSTOMIZING THE ANNUAL REPORT PROJECT**

The assignments are organized so that the instructor can adjust the requirements as needed for the specific course. Beginning with Assignment 4, each assignment is divided into The Basics, Further Analysis, and Information for Decision Making. The purpose of this division is to allow the instructor to ask students to complete only the first or the first two sections for some of the assignments, as appropriate to the structure of the course. The amount of time required by the project can thereby be adjusted as needed. The instructor will want to make students aware that some annual reports may not contain every item required to complete the assignments. If a student determines that there is insufficient data to answer a particular question, he or she should indicate that conclusion in the space provided for the answer. Students may also require additional pages to answer some questions.
ANNUAL REPORT PROJECT
ASSIGNMENT 1

OBTAINING THE ANNUAL REPORT

Obtain the most recent annual reports of three U.S. corporations which are Fortune 500 companies and are traded on a national stock exchange (NYSE, NASDAQ). You will obtain three annual reports so that you will have an alternate if you are unable to use your first choice.

Do not select a public utility, financial institution or brokerage firm, insurance company, co-operative or government entity. In addition, please note that summary annual reports are not acceptable.

The completion of your annual report project assignments will be easier if you obtain a printed copy of the annual report rather than retrieve the report from an Internet site. However, your instructor may allow you to download the annual report from the company Web site.

A useful resource is fortune.com. This site provides links to the Web sites of Fortune 500 companies. To obtain a printed copy of the annual report, contact the company’s Investor Relations department.

OTHER USEFUL SOURCES ARE:
- The Investor Relations Information Network (www.irin.com)
- The Wall Street Journal Annual Reports Service (www.icbinc.com)
- The Public Register’s Annual Report Service (www.prars.com) (800-4-ANNUAL)

1. Choosing a company
   Choose companies in which you are interested. Perhaps the company has been featured in the news lately. Perhaps you own stock in the company. Perhaps you would like to own stock in the company. If you want to look at a list of possibilities, find a copy of the April issue of Fortune magazine which lists the Fortune 500 or try www.fortune.com

2. Place your order. Answer the following questions.

   Names of companies chosen: (Remember that you will conduct a thorough analysis of one of the companies. Please list the companies in the order of your preference.)

<table>
<thead>
<tr>
<th>Company</th>
<th>Fortune 500 Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. __________________________</td>
<td>________________</td>
</tr>
<tr>
<td>b. __________________________</td>
<td>________________</td>
</tr>
<tr>
<td>c. __________________________</td>
<td>________________</td>
</tr>
</tbody>
</table>

   Date you placed your order: ___________________________
How did you request the annual report? (Indicate phone number called, Internet address, etc.)

a. ____________________________________________________
b. ____________________________________________________
c. ____________________________________________________

Why did you select these particular companies?

a. 

b. 

c. 
ANNUAL REPORT PROJECT
ASSIGNMENT 2

INFORMATION ABOUT THE COMPANY

NOTE: Make two additional copies of this annual report project form. Then complete and submit Assignment 2 for each of the three companies you chose in Assignment 1. If you have not yet received the annual reports, use the Internet to answer the following questions.

<table>
<thead>
<tr>
<th>GUIDANCE FOR THIS AND THE FOLLOWING ASSIGNMENTS:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• When a question asks you to explain, describe, analyze, etc., use complete sentences and well-organized paragraphs.</td>
</tr>
<tr>
<td>• The space provided for the answer indicates the expected length of your answer.</td>
</tr>
</tbody>
</table>

1. Name of company chosen: _______________________________________________

2. Information about the company:

   What is the industry classification for the company (according to Fortune or the Internet site you are using)?

   Describe the nature of the company’s business.

   List the company’s primary products or services (use brand names where available).

   What is the address of the company’s corporate headquarters?

   What is the address of the company’s Web site?

   List other countries in which the company operates:
What were the company’s revenues for the most recent fiscal year? _________

Who is the chairman of the company’s board of directors?
____________________________________________

Who is the company’s CEO?
______________________________________________

3. Provide the following market data:

On what stock exchange is the company’s stock traded?
______________________________________________

What is the ticker symbol for the company? _________________

What was the price of the company’s stock at the end of one day during this past week?
Price: _______________________  Date: ______________________

What were the lowest and highest stock prices during the past year?
52-week low: __________________  52-week high: _________________

4. Obtain a copy of an article about the company. Attach a copy of the article.

Name of article: ____________________________________________

Source of article (name of magazine or newspaper, date, page numbers):
__________________________________________________________

Summarize the article. Use complete sentences and well-organized paragraphs. Your summary should be no fewer than 100 words in length.
OVERVIEW OF ANNUAL REPORT

By now you have received your annual reports and have narrowed your focus to one company. This assignment will provide both an overview of the annual report of your chosen company and a table of contents to help you complete future assignments more efficiently.

HELPFUL ADVICE: You will be able to complete the remaining assignments more readily if you take the time now to:

a. Make copies of pages 2 and 3 of this assignment after you have completed them. It will serve as your table of contents for future assignments.
b. Make a copy of the five-year (or more) summary of selected financial data from your annual report. It contains several key numbers that will be required in future assignments.
c. Print industry comparisons. One useful Web site is Reuters.com.*
   • Under the “News and Markets” tab, click on Stocks.
   • Enter either the ticker symbol or company name.
   • Across the top of the next screen, you will see an extensive menu of options for obtaining more information about your company. You will find much of this useful.
   • For ratios and industry comparisons, choose the Financials option from this menu.
   • Print the resulting pages.

1. Staple these three items together and place them and your company’s annual report in the front pocket of a folder that has both pockets and prongs.

2. Write your name on the outside of the folder in the upper right-hand corner.

3. As you complete your Annual Report Project assignments, place them in the prongs with the most recent assignment on top.

*Another useful Web site is finance.yahoo.com

Name of company chosen: ____________________________________________

Balance sheet date: ____________________________________________

1. REVIEW THE ANNUAL REPORT THAT YOU HAVE RECEIVED. IT WILL CONTAIN SEVERAL SECTIONS:

a. FINANCIAL HIGHLIGHTS. This section provides a summary of selected financial results over a number of years. You may find two schedules providing highlights: one brief summary near the front of the annual report and a more detailed summary in the financial section.
This second schedule may be called Five-Year Summary of Selected Financial Data.
Note its page number here.  

b. **THE CHAIRMAN’S LETTER.** This letter provides the chairman’s overview of the past year and developments which will affect the next year.

Note(s)_____

c. **THE COMPANY, ITS PRODUCTS, ITS EMPLOYEES.** This section may contain a number of color photographs and will highlight the products and accomplishments of the company.

Pages_____

d. **MANAGEMENT DISCUSSION AND ANALYSIS.** This section discusses operating results, industries in which the company operates, financing and investing activities, significant events, trends and developments.

Page_____

e. **THE FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS.** This section contains the balance sheet(also called statement of financial position), income statement, statement of cash flows and statement of stockholders’ equity. The accompanying notes, as indicated at the bottom of each of the above statements, are an integral part of the financial statements. The financial statements cannot be understood without reference to the notes.

The financial statements and accompanying notes will be the focus of your Annual Report Project.

- **Balance Sheet** Page_____
- **Income Statement** Page_____
- **Statement of Cash Flows** Page_____
- **Statement of Stockholders’ Equity** Page_____

**Notes to the financial statements:**
(Include ALL notes. Attach an additional page if necessary.)

<table>
<thead>
<tr>
<th>Note #</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Summary of significant accounting policies</td>
<td>Note #</td>
</tr>
<tr>
<td>Inventories</td>
<td>Note #</td>
</tr>
<tr>
<td>Plant assets</td>
<td>Note #</td>
</tr>
<tr>
<td>Long-term debt</td>
<td>Note #</td>
</tr>
<tr>
<td>Income taxes</td>
<td>Note #</td>
</tr>
<tr>
<td>Employee benefit plans</td>
<td>Note #</td>
</tr>
<tr>
<td>Commitments and contingencies</td>
<td>Note #</td>
</tr>
<tr>
<td>Other notes:</td>
<td>Note #</td>
</tr>
<tr>
<td>Title of note</td>
<td>Note #</td>
</tr>
</tbody>
</table>

f. **MANAGEMENT REPORT ON INTERNAL CONTROL** Page_____

g. **THE INDEPENDENT AUDITOR’S REPORT:**
- **REPORT ON INTERNAL CONTROL** Page_____
- **REPORT ON THE FINANCIAL STATEMENTS** Page_____

h. **Other:**

__________________________________________
Page_____

__________________________________________
Page_____

__________________________________________
Page_____


t. **2. REVIEW THE CHAIRMAN’S LETTER TO THE SHAREHOLDERS.**

Summarize the major points made in the letter.

Page(s) on which letter appears: _________
Locate the management report(s) and the independent auditor’s report(s).

Answer the following questions.

Page(s)______

a) Who is responsible for the preparation and integrity of the financial statements?

b) Does the company maintain a system of internal controls? Why?

c) Does the company have an audit committee? _____ What is its purpose?

d) What is the name of the independent public accountant (auditor)?

(Note: There are two independent auditor’s reports: (1) a report on internal control, and (2) a report on the financial statements. The following questions relate to the financial statement audit.)

e) According to the auditor’s report on the financial statements,
   what is the auditor’s responsibility?

f) According to the audit report, what is an audit?

g) Summarize the auditor’s opinion.
ANNUAL REPORT PROJECT
ASSIGNMENT 4

THE BALANCE SHEET

Name of company chosen: _______________________________________

THE BASICS

Locate the company’s balance sheet. Balance sheet date: ________________

Page on which balance sheet appears: __________

1. The accounting equation is Assets = Liabilities + Stockholders’ Equity. Replacing the words in the accounting equation with dollar amounts, give the company’s accounting equation at the end of the current and prior years.

   Assets = Liabilities + Equity

   This year _______________ ______________ _______________
   Last year _______________ ______________ _______________

2. Calculate the company’s current ratio for both this year and the prior year.

   Show your computations.

   This year:

   Current assets = _________________ =

   Current liabilities

   Last year: = _________________ =

   Explain what information this ratio provides. (Hint: See the Financial Statement Analysis chapter of your textbook.) Use complete sentences.

   Has the current ratio improved or worsened? Explain. Use complete sentences.
Calculate the company’s debt to total assets ratio (also called total debt to equity) for both this year and the prior year. 

This year:

\[
\text{Total liabilities} = \ \frac{\text{Total liabilities}}{\text{Total assets}} =
\]

Last year:

\[
\text{Total liabilities} = \ \frac{\text{Total liabilities}}{\text{Total assets}} =
\]

Explain what information this ratio provides. 

Has the ratio improved or worsened? Explain.

3. Compare these ratios to industry averages. 

Use the ratios you printed in Assignment 3.

<table>
<thead>
<tr>
<th>Your company</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current ratio</td>
<td>_______</td>
</tr>
<tr>
<td>Debt to equity ratio</td>
<td>_______</td>
</tr>
</tbody>
</table>

How do the results for your company compare to industry averages?

**FURTHER ANALYSIS**

4. Prepare common-size balance sheets for the two years presented, expressing each balance sheet item as a percentage of total assets (Total assets = 100%).

(Refer to the discussion of vertical analysis in the financial statement analysis chapter of your text.)

Use a spreadsheet program such as Excel to do this part of the assignment. Label the spreadsheet “Common Size Analysis – Balance Sheet.” Insert the accounts and classifications in column A and the amounts for each of the two years in columns B and C. In columns D and E, use a formula to convert the amounts in columns B and C to percentages.
**INFORMATION FOR DECISION MAKING**

5. Answer the following questions: *Use complete sentences.*

a. In which assets does the company have the most significant investment?

b. Is the company financed primarily with debt or equity? Explain using the information obtained in questions 1–4.

c. Is the debt primarily short-term or long-term? Explain.

d. Comment on any significant changes in individual assets or liabilities. Use the information obtained in question 4.

e. Comment on any significant changes in the composition of current assets or current liabilities. Use the information obtained in question 4.

f. Evaluate the company’s debt-paying ability. Refer to the information obtained in the previous questions.
ANNUAL REPORT PROJECT
ASSIGNMENT 5

THE INCOME STATEMENT
Name of company chosen: __________________________________________

Locate the company’s income statement.
What is the period covered by the income statement? _______________________
What is the page on which the income statement appears? ________

THE BASICS
1. Does the format of the statement more closely follow a single-step or a multiple-step format? ________________________________
   How can you tell?

2. Calculate the following ratios for each of the three years presented.
   Show your computations.

<table>
<thead>
<tr>
<th>Current year</th>
<th>Last year</th>
<th>Two years ago</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

   • Gross profit rate (%) ____________ ____________ ____________
   • Ratio of operating expenses to sales (or operating revenue) (%) ____________ ____________ ____________
   • Profit margin (%) ____________ ____________ ____________
     Net income/sales or operating revenues
   • Return on assets ____________ ____________ ____________
     Net income/average total assets
   You will find prior years’ assets in the Five-Year Summary of Selected Financial Data.

3. Compare these ratios to industry averages. (Note: The gross profit rate may also be called the gross margin. The ratio of operating expenses to sales may also be called the operating margin. The profit margin percentage may also be called the net profit margin.)

<table>
<thead>
<tr>
<th>Your company</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>
   Gross profit rate
   Operating margin
   Profit margin
   Return on assets

   How do the results for your company compare to industry averages?

Market Update: (Stock price this week)
Price ________ on date ________
FURTHER ANALYSIS

4. Prepare common-size income statements for the three years presented, expressing each income statement item as a percentage of total revenue. (Total revenue = 100%). (Refer to the discussion of vertical analysis in your textbook.)

Use a spreadsheet program to do this part of the assignment. Label the spreadsheet “Common Size Analysis – Income Statement.” List the revenue and expense classifications in column A, the amounts for the three years in columns B, C, and D. In columns E, F, and G, use a formula to convert the amounts to percentages.

INFORMATION FOR DECISION MAKING

5. Answer the following questions. Use complete sentences, and explain your answers by reference to the information you obtained in the preceding questions.

a. Comment on the trend in total revenue. Is it increasing or decreasing during the three-year period?

b. How has the gross profit percentage changed over the three-year period?

Refer to the information obtained in question 2.

c. Comment on the ratio of total operating expenses to operating revenues over the three-year period. Refer to the information obtained in question 2.

d. Comment on individual revenue and expense items that had significant percentage changes (changes as a percentage of total revenue or total expenses) over the three-year period. Indicate the percentages.

e. Comment on the overall trend in operating income and net income as a percent of sales over a three-year period. Refer to the information obtained in questions 2 and 4.

f. Comment on the significance of these changes. Do they indicate a positive or negative trend for the company? Explain.

g. Include any other comments that you consider relevant.
CURRENT SETTS
Name of company chosen: _______________________________

Refer to the notes to the financial statements. The first note, “Summary of Significant Accounting Policies,” provides information about the company’s inventory costing and other accounting methods. You will also need to refer to the other notes to the financial statements and to the financial statements themselves in order to answer the following questions.

IMPORTANT: For each answer given, indicate the page number on which the information was found.

THE BASICS
1. Accounts Receivable

(a) What is the amount of the company’s accounts receivable? Page ______

    Before subtracting the allowance for doubtful accounts (gross accounts receivable):

    This year _______________          Last year _______________

    After subtracting the allowance for doubtful accounts (net accounts receivable):

    This year _______________          Last year _______________

(b) What is the amount of the allowance for doubtful accounts? Page ______

    This year _______________          Last year _______________

What percentage of the gross accounts receivables are considered bad debts?

The credit risk ratio: Allowance for doubtful accounts
                      Gross accounts receivable

    This year _______________          Last year _______________
2. **Inventories and Cost of Goods Sold**

(a) What is the amount of inventory?  
   This year ____________________  Last year ____________________  
   Page _____

(b) What is the amount of cost of goods sold?  
   This year ____________  Last year ____________  2 years ago ____________  
   Page _____

(c) What inventory costing method has the company chosen?  
   Page _____

(d) What other information does the company provide in the note about its inventory?  
   Page _____

**FURTHER ANALYSIS**

**Analysis of Current Assets**

3. Calculate the following ratios: *Show your computations.*

(a) Receivables turnover = \[ \frac{\text{Sales}}{\text{Average net receivables}} \]  = ______________  =

(b) Average collection period = \[ \frac{365}{\text{Turnover}} \]  = ______________  =

(c) Inventory turnover = \[ \frac{\text{Cost of goods sold}}{\text{Average inventory}} \]  = ______________  =

(d) Average days inventories held = \[ \frac{365}{\text{Turnover}} \]  = ______________  =

4. Explain what information each of these ratios provides.

(a)

(b)
5. Compare these ratios to industry averages.

<table>
<thead>
<tr>
<th>Ratio</th>
<th>Your company</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receivables turnover</td>
<td>____________</td>
<td>__________</td>
</tr>
<tr>
<td>Inventory turnover</td>
<td>____________</td>
<td>__________</td>
</tr>
</tbody>
</table>

How do the results for your company compare to industry averages?

**INFORMATION FOR DECISION MAKING**

6. Evaluate the company’s receivables collection. In your answer, consider the type of product(s) the company sells, the industry in which the company operates and the type of customer it serves. Refer to the information obtained in the preceding questions.

7. Evaluate the company’s inventory management. In your answer, consider the type of product(s) the company sells, the industry in which the company operates and the type of customer it serves. Refer to the information obtained in the preceding questions.
LONG-LIVED ASSETS

Name of company chosen: _______________________________

Refer to the notes to the financial statements. The first note, “Summary of Significant Accounting Policies,” provides information about the company’s depreciation and amortization methods. You will also need to refer to the other notes to the financial statements and to the financial statements themselves in order to answer the following questions.

IMPORTANT: Indicate the page number in which the information was found.

THE BASICS

Property, plant and equipment

1. What depreciation method does the company use? Page _____

2. What is the amount of depreciation expense for the current year? Page _____
   (Hint: Look at the operating activities section of the cash flow statement if the indirect method was used.)
   Current year____________________   Last year____________________

Intangible assets

3. Does the company have any intangible assets? If so, what are they? Page _____

4. Does the company report any goodwill?______ Page _____
   What is the amount? ____________________

FURTHER ANALYSIS

5. Calculate the following: Show your computations.
   You will find prior years’ total assets in the Five-Year Summary of Selected Financial Data.
   (a) Average useful life of plant assets = \( \frac{\text{Average cost of plant assets}}{\text{Depreciation expense}} \) = ______________
   (b) Average age of plant assets = \( \frac{\text{Accumulated Depreciation}}{\text{Depreciation Expense}} \) = ______________
   (c) Asset turnover = \( \frac{\text{Sales}}{\text{Average total assets}} \) =
      ___________ current year _______ last year _______ two years ago

Market Update:
(Stock price this week)
Price_______ on date ______
(d) Return on assets = \( \frac{\text{Net income}}{\text{Average total assets}} \)

\[
\begin{array}{ccc}
\text{current year} & \text{last year} & \text{two years ago} \\
\hline
\end{array}
\]

6. What information is provided by:
   (a) The asset turnover ratio
   (b) Return on assets

7. Compare the asset turnover ratio and the return on assets computed above to the industry averages.

\[
\begin{array}{cc}
\text{Your company} & \text{Industry} \\
\hline
\text{Asset turnover} & \text{Return on assets} \\
\end{array}
\]

How does your company compare to others in the industry?

**INFORMATION FOR DECISION MAKING**

Answer the following questions. *Use complete sentences.*

8. How does depreciation expense affect cash flow?

9. Comment on the average age of the company’s assets relative to their average useful life. *Refer to the information obtained in question 5, above.*

10. Refer to the investing activities section of the company’s cash flow statement.

What was the amount spent to purchase long-lived assets (capital expenditures) during each year presented?

\[
\begin{array}{ccc}
\text{current year} & \text{last year} & \text{two years ago} \\
\hline
\end{array}
\]

11. Evaluate your company’s capital spending. Compute the capital expenditure ratio

\[
\frac{\text{Cash provided by operating activities}}{\text{Capital expenditures}} = \frac{\text{current year}}{\text{last year}} = \frac{\text{two years ago}}{}
\]

Comment on your company’s ability to finance its capital spending through operations. (A ratio of 2 would indicate that the company could have purchased twice as much property, plant and equipment as it did without any additional external financing.)
LIABILITIES
Name of company chosen: _______________________________

Refer to the financial statements and notes to the financial statements. The first note, “Summary of Significant Accounting Policies,” provides information about the company’s accounting methods. You will also need to refer to the other notes to the financial statements and to the financial statements themselves in order to answer the following questions.

IMPORTANT: Indicate the page number on which the information was found.

THE BASICS
1. What is the amount of the company’s current liabilities? Page _____
   This year ______________________  Last year ______________________

2. What is the amount of the company’s long-term liabilities? Page _____
   This year ______________________  Last year ______________________

3. Refer to the notes to the financial statements. Does the company report any other commitments or contingent liabilities? If yes, provide a description of any contingencies discussed. Page _____

4. Refer to the notes to the financial statements. Does the company disclose any off-balance-sheet financing arrangements? If yes, describe. Page _____

5. (a) Examine the financial statements and the notes. Does the company report any capital leases? Page _____
    What is the amount of the capital lease obligation (liability)?
    This year ______________________  Last year ______________________

(b) Refer to the notes to the financial statements. Does the company report any operating leases? Page _____
    If yes, are these leases noncancellable? __________
    What is the amount of total cash flow commitment under these operating leases? Page _____

What is the definition of a liability? Use complete sentences.
Even though they are not recorded as liabilities, do these operating leases seem to meet the definition of a liability? Explain. *Use complete sentences.*

**FURTHER ANALYSIS**

6. Calculate the following ratios for both years presented in the balance sheet: *Show your computations.*

(a) Current ratio  

\[
\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}} = \quad (\text{current year})
\]

\[
= \quad (\text{prior year})
\]

(b) Quick or Acid-Test ratio  

\[
\text{Quick or Acid-Test ratio} = \frac{\text{Quick assets}}{\text{Current liabilities}} = \quad (\text{current year})
\]

\[
= \quad (\text{prior year})
\]

(c) Debt to total assets ratio  

\[
\text{Debt to total assets ratio} = \frac{\text{Total liabilities}}{\text{Total assets}} = \quad (\text{current year})
\]

\[
= \quad (\text{prior year})
\]

7. Explain what information each of these ratios provides. *Use complete sentences.*

(a) 

(b) 

(c) 

8. Compare the current, quick, and debt to total assets ratios computed above to industry averages. (Remember that the debt to total assets ratio may also be called total debt to equity.)

<table>
<thead>
<tr>
<th>Ratio</th>
<th>Your company</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current ratio</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quick ratio</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt to total assets</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

How do the results for your company compare to industry averages?

9. Refer to the financing activities section of the company’s cash flow statement. 

Page ____

(a) What was the amount of new borrowings during each of the years presented?
(b) What was the amount of debt repaid during each of the years presented?

<table>
<thead>
<tr>
<th>current year</th>
<th>last year</th>
<th>two years ago</th>
</tr>
</thead>
</table>

(c) Did these activities result in a net increase or decrease in the company’s cash balance?

<table>
<thead>
<tr>
<th>current year</th>
<th>last year</th>
<th>two years ago</th>
</tr>
</thead>
</table>

**INFORMATION FOR DECISION MAKING**

10. **Evaluate the company’s debt-paying ability.** Use complete sentences. Refer to the ratios and other information obtained above. Your analysis should include a consideration of unused lines of credit and of any existing off-balance-sheet financing arrangements.
STOCKHOLDERS’ EQUITY

Name of company chosen: _______________________________

Refer to the financial statements and notes to the financial statements. The first note, “Summary of Significant Accounting Policies,” provides information about the company’s accounting methods. You will also need to refer to the other notes to the financial statements and to the financial statements themselves in order to answer the following questions.

IMPORTANT: Indicate the page number on which the information was found

THE BASICS

1. How many shares of common stock have been issued? __________________________
   How many shares are outstanding? __________________________

   If these numbers differ, explain why.

   Page _____

2. Does the company have any preferred stock outstanding? __________________________
   If so, how many shares? _________ Par value _________ Dividend rate _________

   Page _____

3. Does the company report any stockholders’ equity accounts other than contributed capital (capital stock), paid-in capital in excess of par (additional paid-in capital) and retained earnings? List these accounts and their amounts (for example, treasury stock, accumulated other comprehensive income)

   Page _____

FURTHER ANALYSIS

4. Calculate the following ratios for each of the three years presented in the stockholders’ equity statement: (You may be able to find the year-end stock price in the financial review or financial highlights section of the annual report. If the year-end price is not available, compute the average of the high and low prices for the fourth quarter. Show your computations. Indicate the page(s) which contain the information used in the computations.)
a. Dividend payout ratio = \[ \frac{\text{Total cash dividends paid on common stock}}{\text{Net income}} \] 
\[ \text{Current year} \quad \text{Last year} \quad \text{Two years ago} \] Page _____

b. Dividend yield = \[ \frac{\text{Dividends paid per share}}{\text{Stock price at year-end}} \] 
\[ \text{Current year} \quad \text{Last year} \quad \text{Two years ago} \] Page _____

c. Earnings per share (provided in income statement) 
\[ \text{Current year} \quad \text{Last year} \quad \text{Two years ago} \] Page _____

d. Price-earnings ratio = \[ \frac{\text{Market price per share of stock}}{\text{Earnings per share}} \] 
\[ \text{Current year} \quad \text{Last year} \quad \text{Two years ago} \]

e. Return on common stockholders’ equity = \[ \frac{\text{Net income} - \text{preferred stock dividends}}{\text{Average common stockholders’ equity}} \]
You will find prior years’ stockholders’ equity in the Five-Year Summary of Selected Financial Data.
\[ \text{Current year} \quad \text{Prior year} \]

5. **Explain what information each of these ratios provides.** Use complete sentences.

(a) 

(b) 

(c) 

(d) 

(e)
6. Compare the dividend payout, dividend yield, price-earnings ratio and return on equity (current year) to industry averages.

<table>
<thead>
<tr>
<th></th>
<th>Your company</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividend payout</td>
<td>____________</td>
<td>________</td>
</tr>
<tr>
<td>Dividend yield</td>
<td>____________</td>
<td>________</td>
</tr>
<tr>
<td>Price-earnings ratio</td>
<td>____________</td>
<td>________</td>
</tr>
<tr>
<td>Return on equity</td>
<td>____________</td>
<td>________</td>
</tr>
</tbody>
</table>

How does your company compare to others in the industry?

7. Refer to the financing activities section of the company’s cash flow statement.

(a) What amount, if any, was received from common stock issued in each of the years presented?

<table>
<thead>
<tr>
<th></th>
<th>current year</th>
<th>last year</th>
<th>two years ago</th>
</tr>
</thead>
</table>

(b) What amount, if any, was paid to purchase treasury stock in each of the years presented?

<table>
<thead>
<tr>
<th></th>
<th>current year</th>
<th>last year</th>
<th>two years ago</th>
</tr>
</thead>
</table>

(c) What was the amount paid in dividends in each of the years presented?

<table>
<thead>
<tr>
<th></th>
<th>current year</th>
<th>last year</th>
<th>two years ago</th>
</tr>
</thead>
</table>

(d) Did these activities result in a net increase or decrease in the company’s cash balance?

**INFORMATION FOR DECISION MAKING**

8. Based on the ratios computed in question 4 and your understanding of their meaning as indicated in question 5, evaluate the company’s stock as an investment. Refer to each of the ratios in your discussion.
THE STATEMENT OF CASH FLOWS

Name of company chosen: _________________________________________

THE BASICS

Locate the company’s statement of cash flows.
What is the period covered by the statement? ________________________________

On what page of the annual report does the statement appear? ______

1. What was the ending balance of cash and cash equivalents in the current year?

Does this agree with the ending balance of cash and cash equivalents reported on the balance sheet? ________ Explain any discrepancy.

2. What was the net cash flow from investing activities? ________________

Was it an inflow or an outflow of cash? __________________________
What activity accounted for the largest cash flow from investing activities?
___________________________________________________________________

Was it an inflow or an outflow of cash? __________________________

3. What was the net cash flow from financing activities? ________________

Was it an inflow or an outflow of cash? __________________________
What activity accounted for the largest cash flow from financing activities?
___________________________________________________________________

Was it an inflow or outflow of cash? __________________________

4. What was the net cash flow from operating activities? ________________

Was it an inflow or an outflow of cash? __________________________

5. Did the company use the direct or indirect method in reporting net cash flows from operating activities? __________________________
How can you tell?

6. What was the net income for each of the three years presented?  Page _____

_________________________________  ____________  ______________
current year last year two years ago
What was the net cash flow from operating activities for each of the three years presented?

__________________  __________________  __________________
current year        last year          two years ago

What were the major items accounting for the difference between these two numbers?

FURTHER ANALYSIS
7. Calculate the following: Show your computations.

Cash received from customers:

Cash paid to suppliers:

Cash paid for operating expenses:

8. Use the notes to the financial statements to determine the following: Page ____

Cash paid for taxes:  ___________________________

Cash paid for interest:  ___________________________

9. Calculate the following ratios. Show your computations.

a. Free cash flow =

Cash provided by operating activities - capital expenditures – cash dividends

__________________  __________________  __________________
current year        last year          two years ago

b. Current cash debt coverage ratio = \[ \frac{\text{Cash provided by operating activities}}{\text{Average current liabilities}} \]

Calculate this ratio for the current year only.

c. Cash debt coverage ratio = \[ \frac{\text{Cash provided by operating activities}}{\text{Average total liabilities}} \]

Calculate this ratio for the current year only.

d. Cash return on sales ratio = \[ \frac{\text{Cash provided by operating activities}}{\text{Net sales}} \]

__________________  __________________  __________________
current year        last year          two years ago
10. Explain what information each of these ratios provides. *Use complete sentences.*

(a) 

(b) 

(c) 

(d) 

**INFORMATION FOR DECISION MAKING**

11. Evaluate the company’s liquidity, solvency, and profitability as indicated by the cash flow ratios computed above. *Use complete sentences.* Refer to each of the ratios in your discussion. *Use an additional page if necessary.*
The effort to develop a common global set of accounting standards began many years ago with the formation of the International Accounting Standards Committee (IASC). That group was replaced in 2001 by the International Accounting Standards Board (IASB). The IASB is responsible for developing International Financial Reporting Standards (IFRS) and for promoting their use and application. Currently more than 100 countries have adopted IFRS, and number is growing each year. The United States has not yet joined the list, but the SEC has provided a roadmap indicating its intention to adopt IFRS for public companies beginning in 2014. In the interim the IASB and the FASB are engaged in a number of joint projects to attain greater convergence of IFRS and US GAAP.

This assignment requires you to look at the annual report of a company in the European Union (EU) that has already adopted IFRS and to examine the potential impact of IFRS adoption on your company based on the discussion in your textbook and the guidance that follows.

There are many important differences between US GAAP and IFRS in the areas of financial statement presentation, revenue and expense recognition, asset and liability measurement, and business combinations and consolidation. These differences include the following:

- **Inventory valuation.** The use of the last-in-first-out (LIFO) method of inventory measurement is not acceptable under IFRS.

- **Fair value measurement.** IFRS permit revaluation of certain nonfinancial assets to fair market value. In addition, the test for asset impairment is a one-step process that compares the carrying value of the asset to its fair market value (or discounted cash flows). US GAAP uses a two-step model that tests for impairment by comparing asset carrying value to undiscounted future cash flows. IFRS also allows past impairment charges to be recovered; US GAAP does not.

- **Litigation and other contingencies.** US GAAP requires the accrual of a contingent liability if a negative outcome is probable. IFRS reduces that recognition threshold to more likely than not.

- **Leases.** Lease classification is based on the transfer of risks and rewards of ownership rather than on the specific criteria of US GAAP. As a result, more lease arrangements will be recorded as assets and liabilities. Operating leases may be eliminated.

- **Research and development.** Research expenditures will continue to be expensed, but development costs will be capitalized if certain criteria are met.

- **Statement of cash flows.** IFRS classify interest and dividends paid as operating or financing activities. Interest and dividends received are classified as operating or investing activities. Under the FASB/IASB joint proposal, operating activities will be reported using the direct method.

- **Income statement.** IFRS requires either a single statement of comprehensive income or two separate statements: an income statement and a statement of comprehensive income. US GAAP permits the presentation of the components of comprehensive income in a statement of changes in equity.
ASSIGNMENT REQUIREMENTS:

1. Based on the discussion in your textbook and the information above, identify three areas in your company’s annual report which may change as a result of the adoption of IFRS. Make specific reference to your company’s annual report, providing amounts where possible.
   Name of company ________________________________
   a. Page_____
   b. Page_____
   c. Page_____

2. Find the annual report of a company that has adopted IFRS. Go to fortune.com. From the menu at the top of the page choose Rankings. Then choose Global 500 by country. Choose a country in the European Union, and find the link to the company’s Web site. Find the most recent annual report for the company.
   Name of company chosen ________________________________
   Address of company ________________________________
   Address of company Web site: ________________________________
   a. The initial note to the financial statements should describe accounting policies and identify the basis of presentation. What accounting standards are used in the presentation of the company’s financial statements?

   b. Examine the company’s financial statements, and compare them to the financial statements of your US company. Identify at least three differences.
   1.
   2.
   3.
ANNUAL REPORT PROJECT
ASSIGNMENT 12

OVERALL EVALUATION AND RECOMMENDATION

Name of company chosen: _______________________________

Throughout the course you have conducted an extensive review of one company’s annual report. Suppose that a friend has just inherited some money and is considering investing in the company you have analyzed. What is your recommendation? Buy or pass?

Fully explain the reasons for your recommendation. Refer to specific findings from your annual report project assignments, and provide full citations for any other sources you use. Include a discussion of

- The company’s revenue, expense and income patterns (ARP 5)
- Its asset base, asset composition, relationship between assets and liabilities and between liabilities and equity (ARPs 4, 6, 7, 8 and 9)
- Its cash flows (ARP 10)
- Its liquidity, solvency and profitability (see ARPs 4, 5, 8 and 10)
- Management effectiveness and efficiency (see ARPs 6 and 7, and the return and turnover ratios)
- The accounting methods chosen by the company and the impact of these choices on the financial statements. These choices include the company’s inventory-costing and depreciation methods.
- Any other information which you consider appropriate in coming to a decision, including dividend patterns and price-earnings ratios (ARP 9)

Begin your discussion with a thoughtful analysis of the company based on the guidelines above, and end with the recommendation that analysis supports. Your instructor will indicate the appropriate length for your discussion or presentation.