



BUSINESS/COMPUTER SYSTEMS DIVISION
WINTER '04 ANNUAL REPORT PROJECT
FINANCIAL ACCOUNTING 1B



Accounting 1B final project:

To complete this assignment, you will use the annual report of your company as well as any other pertinent information you may have collected. You are expected to find an annual report using the Web. **The company annual report should be either an 2002 or 2003 year-ended report.** You will also have to deal with some terminology that you are not familiar with and be forced to make decisions about what is and what is not relevant. You should refer to your textbook as well as numerous reference resources located in our Learning Center or another library and on the Web. Please feel free to work in study groups, **but turn in your own analysis of your company.**

This case study assignment is not laid out in as clear-cut a fashion as were the previous accounting course materials. This will allow you to use your imagination and present your work in the most effective manner.

You are expected to write narratives about each section. It is not acceptable to copy text directly from the annual reports into your projects. You are expected to write the narratives yourselves.

Good luck, work hard, and have fun!!

Ken Harper

Introductory Information: Begin with statistics about the company's stock (exchange on which it is listed, its ticker symbol, number of shares outstanding, high/low/ending price per share) and a description of the company, including such things as its product(s), location(s), competitors, etc. Keep your focus on the purpose of your study: (1) potential investment in the company or (2) potential employment by the company. The bulk of your material can come from the annual report.



The beginning portions of the annual report, which includes a Message to the Stockholders, will be most helpful for your introduction. The purpose of the message to stockholders is to make positive statements about the company. These statements are made by the chief executive officers. The message covers both financial and product developments and is phrased in terms of how the future will be better.

Comment on the nature of the message. Sometimes negative news is phrased in a positive fashion. Can you find an example that you can cite from your annual report?

Some graphs are presented in the first pages of the annual report. Pick one that impressed you. Explain why, in your view, it was or was not effective.

Ratio Analysis: Ratio analysis is important to better understand the company's performance. However, a ratio is meaningless by itself. Comparing the ratio to last year's ratio and understanding the reasons for the change is important. This understanding will give you insight into the company's performance. In addition, comparing the company's ratios to industry ratios (see industry surveys or norms from organizations such as Dun and Bradstreet, Robert Morris, S&P, Value Line) will let you better assess their performances. Calculate the following ratios and, if applicable, give possible reasons for the change in the ratios from last year to this year.

For all of the ratios on the following page, include the following:

Formula:

Calculation for your company (last year; this year):

Ratio (last year; this year):

Industry average:

Liquidity Ratios: Explain what are you measuring with liquidity ratios.

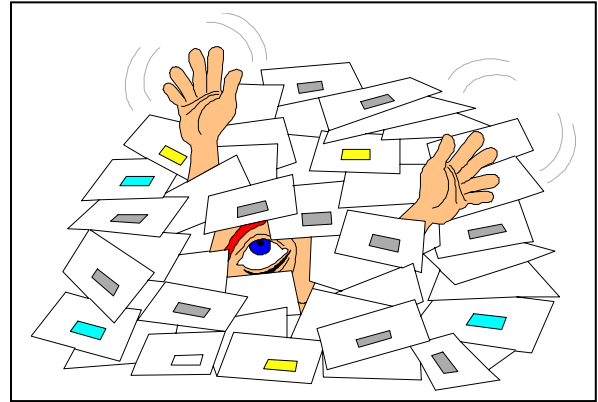
- Current Ratio
- Acid Test Ratio
- Accounts Receivable Turnover
- Inventory Turnover

What significant changes in the liquidity ratios did you notice? How do these ratios compare with the industry?

Long-term Solvency Ratios: Explain what you are measuring with long-term solvency ratios.

- Plant assets to long-term liabilities
- Debt to Equity
- Interest Coverage

What significant changes in the long-term solvency ratios did you notice? How do these ratios compare with the industry?



Profitability Ratios: Explain what are you measuring with profitability ratios.

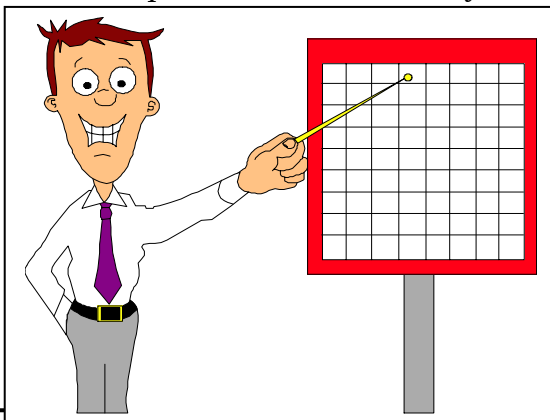
- Net Sales to Assets
- Return on Assets
- Return on Equity
- Earnings Per Share (EPS)

What significant changes in the profitability ratios did you notice? How do these ratios compare with the industry?

Market Test Ratios: Explain what are you measuring with market test ratios.

- Price/Earnings
- Dividend Yield

What significant changes in market test ratios did you notice? How do these ratios compare with the industry?



Trend Analysis: Trend analysis, sometimes called trend percentages, is a technique used to identify directions in which a

company has been going. How have sales, profits, etc. changed over the past years? Using a spreadsheet program and the condensed income statement and balance sheet data for the last 5 or more years, prepare a trend analysis of your company. Comment on any significant changes.

Horizontal and Vertical Analysis

Income Statement Analysis: Using a spreadsheet program, perform a horizontal and vertical analysis for your company's income statement for the last 2 years. The purpose of horizontal analysis is to identify changes between years. The purpose of the vertical analysis, on the other hand, is to internalize the year's performance. After you have completed your analysis, please comment on anything unusual or significant.

Balance sheet Analysis: Perform horizontal and vertical analysis of the Balance Sheet for the last 2 years. After you have completed the analysis, please comment on anything unusual or significant.

Cash Flow Analysis:

- What were the largest sources of cash for each of the years reported?
- What were the largest uses of cash for each of the years reported?
- What was the largest adjustment made to convert net income to cash generated from operations in each of the years reported?

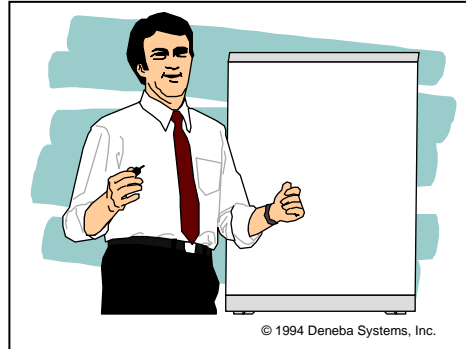


Footnotes (or Notes): The full disclosure rule is the reason companies are required to provide a written narrative about the financial numbers. Remember, the numbers are not enough to understand the statements! Briefly describe some of the major items disclosed in the notes on your annual report. For example:

- When does your company recognize revenue?
- How does your company calculate depreciation on plant assets?
- If your company experienced a restructuring, what types of costs were included in restructured operations?
- What types of contingencies does your company face?

Auditor's Report: The purpose of the auditor's opinion is to provide an independent evaluation of the financial statements.

Auditors must be independent in appearance and in fact. Who audited your company? What type of opinion did they get? How much time elapsed between the end of the fiscal year and the date of the auditor's report?



Summary: This is your opportunity to explain how well you think your company measures up to your requirements. You should review the Management Discussions section near the end of the annual report for management's explanation of what happened to the company during the past year. After completing the ratios, trend analysis, and horizontal and vertical analyses, you will probably find this section most enlightening.

Other: Place summaries of your readings from publications and from the Web at the end of the report. Also include other information you think would demonstrate your ability to apply what you have learned in accounting. Be sure you have cited references where appropriate.