Good example of report on finance

Finance, Investment

Analysis of Financial Statements

Financial Analysis Statement

Report

Introduction: I was asked by the directors of Universal Health Services to write a report on the analysis of financial statements for the last three years to identify the elements which are affecting the internal cash health of the business. The followings are my findings and recommendation.

The financial health of the business depends on the historical financial data of the business. It is the responsibility of the CFO of any listed company to identify important financial signals and reports to the higher management in timely manners for the proper planning. It is in a view that the management and directors of the business relay on the financial statements available for them. Therefore, it is the responsibility of the CFO of the business to critically analyze the financial information of the business and identify any important or key financial element to the directors of the business. (Penman & Penman, 2007)

In the case of Universal Health Services, the new CFO of the company must critically analyze the financial performance of the last three years of the business to identify the trend and weaknesses of the business. Moreover, it is of the highest importance for the new CFO of the Universal Health Services to understand the business activities properly in decision making. Therefore, a complete financial analysis is required in this case to give an opinion. (Penman & Penman, 2007)

Analysis of Statement of Financial Positions (Balance Sheet) for last three years

The Balance Sheet of Universal Health Services provides the information regarding liabilities, share capital and the assets of the business. Therefore, it is very important to analyze the trend and movement in the liabilities and the assets of the business and their impact on the other important elements. (Penman & Penman, 2007)

Current Ratio = (Current Assets / Current Liabilities)

According to the current ratio of the Universal Health Services, the current assets available to pay the current liabilities of the business are reducing in last three years. In the year 2011, the business was acquired 63% of more current assets as compared to the current liabilities. In the year 2012, the current assets of the business are 57% more than the current liabilities and this percentage reduced by 22% in the year 2013. The current ratio in the year ended 2013 is 1. 35 which shows that the business has 35% more assets than the current liabilities. (Penman & Penman, 2007)

The overall position of the business is favorable for the decision making of the management. However, the continuous reduction in the current ratio is a strong signal to the management to account for. The main reason for the reduction in the current ratio is a reduction in the cash and cash equivalents of the business. Moreover, the inventory level is increasing which is another important financial signal to the management. It is very important to convert inventory into cash to improve the cash inflows of the business. However, in the year 2013, the current long term liability is not an important issue to consider for the directors because it is a known expense for the directors of the business. (Penman & Penman, 2007)

The long term liabilities of Universal Health Services is reducing in last three years. Reduction in the liabilities has been always a positive signal to the business. The total long term liabilities for the last three years are 4, 314, 000 for the year ended 2011, 4, 359, 000 for the year ended 2012 and 3, 784, 000 for the year ended 2013. This reduction in liabilities will assist the management of the Universal Health Services to reinvest their profits in their business. Therefore, the constant increase in the retained earnings is a vital signal for the investors and other stakeholders that the business is retaining their earnings to reinvest in the business effectively and efficiently. The total retained earnings of the Universal Health Service are 2, 494, 000 for the year ended 2011, 2, 962, 000 for the year ended 2012 and 3, 499, 000 for the year ended 2013. The improvement in the overall sales of the business is the proper justification of effective use of retained earnings. (Penman & Penman, 2007)

Critical analysis of Income statement for last three years

Operating Income Ratio = (Net Profit / Revenue) x 100

In the case of Universal Health Services, the operating income ratio is very important to analyze. The most important element involving in the calculation of net income ratio is the operating expenses which are reducing the amount of revenue significantly. However, the operating income ratio is constant for last three years and that is why it is important to identify the important factors involved in the operations in the business which are reducing the overall profitability. (Halsey & Subramanyam, 2004)

The first most important financial signal is that the amount of selling and distribution expenses must be verified and inspect if there is any loop holes or non professionalism of the staff. It is very important for the directors of the business to communicate with the good supply manager to search for cheaper delivery and selling costs to reduce the expense. (Halsey & Subramanyam, 2004)

Critical Analysis of Cash Flow Statements for last three years

As far as cash position is concerned, the cash flow statement of any business shows the actual cash inflows and the outflows of the business. In the case of Universal Health Services, the most important cash outflow is the net borrowing of $424, 463 in the year ended 2013. This cash outflow shows that the Universal Health Services are in the position to invest or lend their earnings in the profitable ways. This is a favorable financial signal to the existing and potential shareholders of the Universal Health Services. (Halsey & Subramanyam, 2004)

The reduction in the receivables is another favorable element for the stakeholders of the business because it represents that the receivables of the business are reduced and the credit control department of the Universal Health Services is working effectively. (Halsey & Subramanyam, 2004)

The change in liabilities is another important element for the stakeholders of the business. The universal health services had paid to reduce their liabilities in the year ended 2013 as compared to the prior years. This change in the statement of cash flows shows that the business is in a position to reduce their debts and improve the gearing of the business. Therefore, the reduction in the gearing of the business always attracts existing and potential shareholders of the business. Moreover, reduced risk in the business is a positive sign for the workers and other stakeholders of the business. (Halsey & Subramanyam, 2004)

Conclusion

After the critical analysis of the financial statements of Universal Health Services, the business is in a good position. However, it is very important for the directors of the business to reduce the expenses of selling and distribution.

Signed XYZ

References

Penman, S. H., & Penman, S. H. (2007). Financial statement analysis and security valuation.

Halsey, R., Subramanyam, K. R., & Wild, J. J. (2004). Financial Statement Analysis.