

# [Financial analysis term papers example](https://assignbuster.com/financial-analysis-term-papers-example/)

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## Section A: Vertical and Horizontal Financial Statements

In this section, we will produce horizontal and vertical financial statements of the company which we will use later to frame a brief report relating to the financial performance of the company over a period of one year, i. e. from 2012 to 2013.

## Horizontal Balance Sheet

Horizontal Income Statement
Vertical Balance Sheet
Vertical Income Statement
Section B: Cash Flow Statement
In this section, we will produce a tentative cash flow statement of the company from the given financial statements. Important to note, we will be directly using the numbers from the financial statements and no assumption shall be made related to any financial item. We believe that since we are only having the financial statements and no explanatory information is given related to them, there is a high possibility that courtesy missing data, our closing cash balance shall not match the one in the company’s balance sheet.

## Cash Flow Statement

Note: As we were expecting, the ending cash balance did not matched with the one in the balance sheet and this happened probably because of missing data relating to other assets, etc.

## Section 3: Dupont Analysis

In this section, we will decompose the Return on Equity multiple of the company to find the real stimulator for the return generated by the company. The formula used for Dupont analysis is :

## Return on Equity: (Net Income/ Revenue)\* (Revenue/ Assets)\* (Assets/ Equity)

Here: Net Income/ Revenue= Net Income Margin
Revenue/ Assets= Asset Turnover
Assets/ Equity= Financial Leverage
ROE2012= (2749317/83523330)\* (83523330/47762345)\*(47762345/30035042)
= 0. 032\*1. 748\*1. 59
= 8. 90%
ROE2013= (-42837/75266038)\*(75266038/45414899)\* (45414899/29559716)
= -0. 0005\* 1. 657\*1. 536
=-0. 12%
Referring to the above calculations, we can witness that the year 2013 was indeed a financially disaster for the company. Following the DuPont analysis, we find that during 2012, the ROE of the company was 8. 90% of which all the three multiples had a sustainable contribution as the return on sales peaked 3. 2%, asset turnover at 1. 748 and financial leverage at 1. 590. Important to note, ROE factor driven by high asset turnover and net margins is a sign of stable financial performance of the company.
However, the situation turned around in 2013, when the ROE of the company dropped to only -0. 12%. During 2013, the asset turnover of the company continued to be at an appreciable stage with multiple of 1. 657 well supported through the financial leveraging multiple of 1. 536. However, it was the significant fall in the return on sales from 3. 2% to -. 05% that lead to this situation.

## Section 4: Report Conclusion

At the conclusion of this report, we can infer that the year 2013 was indeed a worst one for the company. During the year, the company lost 9. 89% of their revenue figures that resulted in immediate dip in the gross profit margins by 17. 88% as the proportion of COGS increased from 62% to 65%. This was followed by fall in the operating margins by 82. 64%. Overall, it was the decrease in revenue figures that sourced the fall in profit margins of the company, primarily, the net margins which decreased from 3. 2% to -0. 05%.
Our conclusion was also validated in section 3 when using the Dupont analysis we found that despite the asset turnover and financial leverage of the company was at sustainable position during 2012 and 2013, it was the fall in net margins that led to a significant fall in ROE multiple from 8. 90% to -0. 12%, thus sending negative signals to the shareholders of the company.

## Works Cited

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