Week three discussion questions

Week 3 Discussion Horizontal Analysis: Horizontal analysis also known as comparative analysis is a procedure where analysts compare the ratios and other items in the company's financial statements. This is mainly done for a certain period of time which is chosen by the analyst. This is conducted by analysing different financial statements from different periods by keeping them side by side and analysing the changes in the individual categories. This can be on a multi year basis or even on a year to year basis. The main value of using the horizontal analysis is it provides a clear trend of the statements. Also the analysis will help provide the direction, speed and also the extent of the trends.

Ratios, Uses and Importance:

There are a number of different ratios that can be calculated from the financial statements of a company. The three most important ratios however, are the Liquidity, Profitability and Gearing ratios. The ratio analysis is of great importance, as it is the most effective method to estimate a firm's performance and also compare it with that of its competitors and the industry on the whole. The long term viability of a company can be assessed from the ratios which indicate the overall performance, such as the asset turnover ratio, which measures how effectively the company has been utilizing its assets to generate sales. The other important measure is the gearing ratio which indicates the capital structure of the company and how effectively it has utilized its debt raising capacity. A company which has an optimum gearing ratio can be considered to be well positioned, or, geared for long term growth.

Fraud Detection Control Systems:

It is imperative to note that though there are strong policies and strict

procedures set up within a company, frauds do occur at times. Anonymous reporting hotlines are found to be effective reporting mechanisms. It is also important to keep a positive atmosphere, as very strict policies and internal controls might have adverse effects on employee motivation. Hence it is essential to carefully analyse the working conditions and the policies are to be set accordingly, so that both the objectives are achieved successfully. With the improvements in technology, it has become increasingly easier and effective for management to implement security programs and software within the organization. Software based on Benford's law and surprise testing are also effective measures when carried out in a professional well planned manner.

Fraud Detection:

The most important thing to understand is a person's base nature, in order to identity deception, fraud or a false statement. The most common symptoms of deception, as discussed here, include unusual behaviour and body language, nervousness, defensive stance in conversations, a lot of blinking and a subtle delay in responses. It is interesting to note that more sophisticated lie detectors and facial expressions analysers have become popular when compared to the traditional polygraph. The polygraph has itself seen great improvements in the last decade or so. One of main sectors where these software are put to great use is the casinos.