FINANCIAL STATEMENT ANALYSIS PROJECT
PRINCIPLES OF ACCOUNTING

Students will be assigned a publicly traded company and will need to obtain the audited financial statements for that company. The company information to be included in the project report are: history, product/service, location, competitors, and a financial statement analysis. The majority of the project will be the analysis of the financial statements, as explained below.

The purpose of financial statement analysis is to examine past and current financial data so that a company's performance and financial position can be evaluated and future risks and potential can be estimated. Financial statement analysis can yield valuable information about trends and relationships, the quality of a company's earnings, and the strengths and weaknesses of its financial position.

Financial statement analysis begins with establishing the objective(s) of the analysis. For example, is the analysis undertaken to provide a basis for granting credit or making an investment? After the objective of the analysis is established, the data is accumulated from the financial statements and from other sources. The results of the analysis are summarized and interpreted. Conclusions are reached and a report is made to the person(s) for whom the analysis was undertaken.

Financial analysis of a company should include an examination of the financial statements of the company, including notes to the financial statements, and the auditor's report. The auditor's report will state whether the financial statements have been audited in accordance with generally accepted auditing standards. The report also indicates whether the statements fairly present the company's financial position, results of operations, and changes in financial position in accordance with generally accepted accounting principles. Notes to the financial statements are often more meaningful than the data found within the body of the statements. The notes explain the accounting policies of the company and usually provide detailed explanations of how those policies were applied along with supporting details. Analysts often compare the financial statements of one company with other companies in the same industry and with the industry in which the company operates as well as with prior year statements of the company being analyzed.

Comparative financial statements provide analysts with significant information about trends and relationships over two or more years. Comparative statements are more significant for evaluating a company than are single-year statements. Financial statement RATIOS are additional tools for analyzing financial statements. Financial ratios establish relationships between various items appearing on financial statements.

Additional topics that will be covered throughout the Financial Statement Analysis Project are accrual accounting, fixed assets, depreciation, inventories, cost of goods sold, and long-term debt.