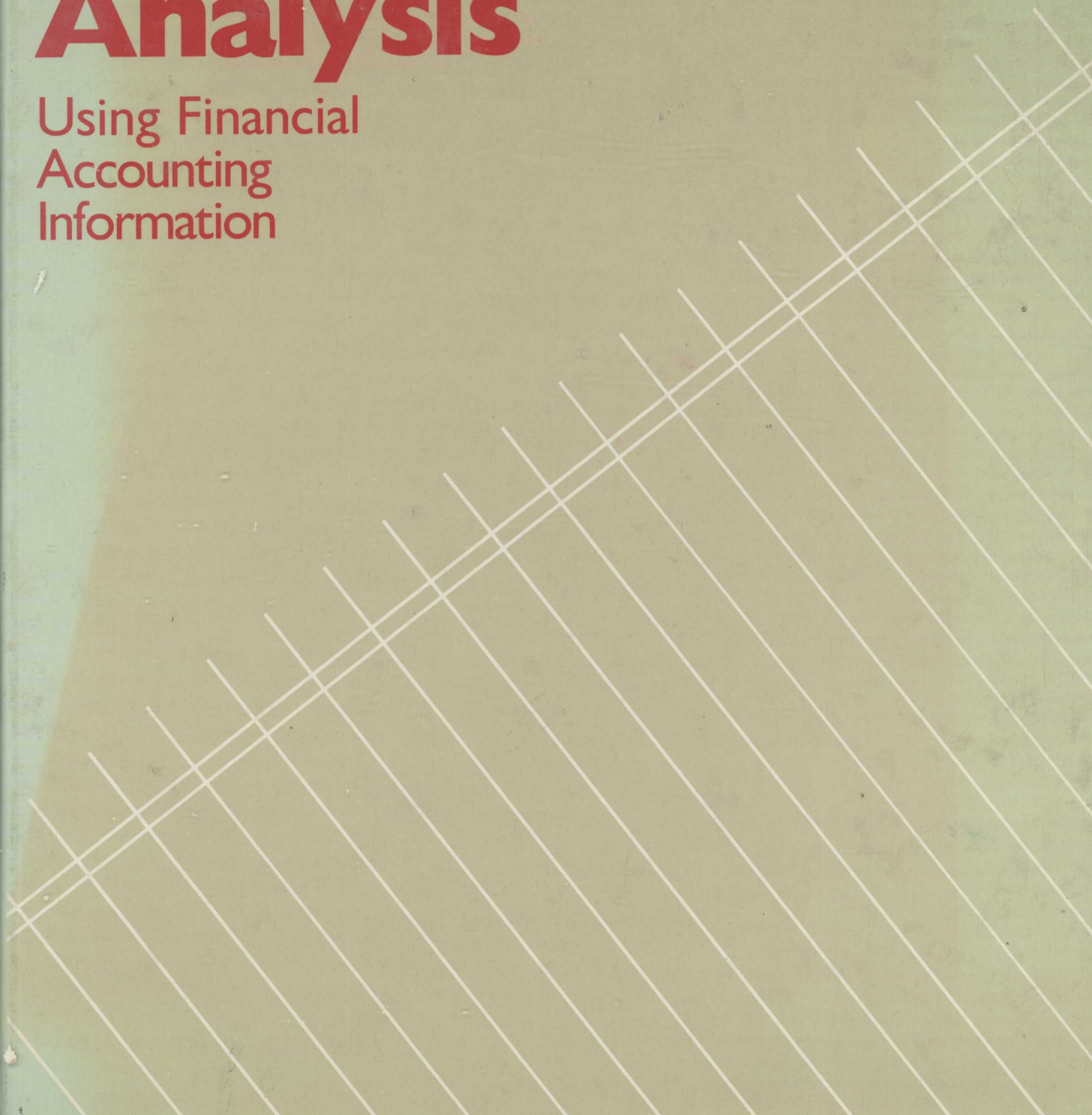


Financial Statement Analysis

Using Financial
Accounting
Information

Third Edition

Gibson/Frishkoff



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Using Financial Accounting Information

Third Edition

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Preface

The objective of this book is to present a realistic and organized approach to financial reporting, with particular emphasis placed on the analysis of the end result of financial reporting—financial statements. Students and professionals often become too involved in statement preparation, without ever really reading the statements to interpret results. Typical financial accounting textbooks take a procedural versus an analytical approach. This book emphasizes the interpretation of the end result. Typical textbook presentations oversimplify financial statements. As a result, readers are not prepared to understand or analyze actual financial reports. This book utilizes actual statements extensively in illustrations, problems, cases, and complete analyses.

The Financial Accounting Standards Board has recently specified understandability as a desired quality for financial reporting. It is the goal of the authors to enhance the user's understanding. Hopefully, this book makes the analysis of financial reporting meaningful, interesting, and exciting.

The authors' major objective in writing this book has been to make a clear and balanced presentation of the material. Manufacturing, retailing, and service firms, including regulated and nonregulated industries, are presented. All discussion is based on accounting principles in an effort to have students understand the methods used, as well as their implications for analysis. Consideration has been given to current financial reporting problems including inflation accounting, lease presentation, pension presentation, options, and social reporting.

Organization

The first chapter develops the basic principles of accounting upon which financial statements are based. The second and third chapters contain an overview of basic accounting statements. The fourth chapter is an introduction to analysis and comparative statistics.

A novel feature of this book is that one firm, Cooper Tire & Rubber Company, is used extensively as an illustration. This allows readers to become familiar with a particular firm and industry and to view the analysis as a whole. This firm and its industry are introduced in Chapter 5 which contains Cooper Tire & Rubber Company statements in their entirety.

Chapter 6 covers short-term liquidity; Chapter 7, long-term borrowing ability; Chapter 8, profitability; Chapter 9, analysis for the investor; Chapter 10, analysis of statement of changes in financial position; and Chapter 11, analysis of the impact of inflation on financial statements.

The Cooper Tire & Rubber Company illustration is synthesized in Chapter 12 with a ratio summary comparing the company with industry statistics. Summary comments guide readers through methodology of comprehensive analysis.

Chapter 13 introduces the expanded utility of financial ratios. Some topics covered here are financial ratios as perceived by commercial loan departments and financial executives, financial ratios used in annual reports, and forecasting financial failure.

Regulated industries create analytical problems different from those of other firms and require special analysis. Therefore, banks, utilities, transportation, and oil and gas companies are discussed in Chapter 14 which offers suggestions for these industries.

Chapter 15 introduces personal financial statements and accounting for governments and other nonprofit institutions. These financial statements are much different from those of profit-oriented businesses. A Comprehensive Case is at the end of the text.

Using the Book As a Text

Throughout, the book provides the flexibility necessary to meet the needs of accounting and finance courses varying in content and length. Sufficient text and problem materials are presented to allow the instructor latitude in the depth of coverage during a course. The materials have been tested in the classroom and by faculty. The authors hope that professors and students enjoy using this text as much as they have enjoyed preparing it.

Acknowledgments

The authors are grateful to many people for help and encouragement during the writing of this book. Many changes were made as a result of helpful comments received from colleagues and students who used the first edition and

second edition. The authors' appreciation is extended to Cooper Tire & Rubber Company for permission to use its statements as illustrations. They are also grateful to the numerous other firms and organizations that granted permission to reproduce their materials. Special thanks go to the American Institute of Certified Public Accountants, the Institute of Management Accounting of the National Association of Accountants, and the Institute of Chartered Financial Analysts for permission to use material from their respective exams. Appreciation is also extended to:

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The Authors

Dr. Charles Gibson is a certified public accountant who practiced with a big eight public accounting firm for four years and has had over twenty years of teaching experience at fully accredited colleges of business. Dr. Gibson's teaching experience encompasses a variety of accounting courses including financial, managerial, tax, cost, and financial statement analysis. The level of the courses has varied from basic accounting principles to graduate courses.

Dr. Gibson teaches seminars on financial statement analysis throughout the United States to company presidents, financial executives, bank commercial loan officers, and lawyers. He also has taught financial reporting seminars for certified public accountants. On numerous occasions he has also taught review courses for both certified public accountants and certified management accountants. Dr. Gibson has authored several problems that have been used on the certified management accountants exam.

Dr. Gibson has written over forty articles for publication. His articles have appeared in such journals as the *Journal of Accountancy*, the *Journal of Commercial Bank Lending*, the *CPA Journal*, the *Ohio CPA*, *Management Accounting*, *Risk Management*, *Taxation for Accountants*, *Advanced Management Journal*, *Taxation for Lawyers*, *California Management Review*, and the *Journal of Small Business Management*. Dr. Gibson is a contributing author to the book, *Corporate Controller's Manual*, published by Warren, Gorham & Lamont, Inc.

Dr. Patricia A. Frishkoff is both a certified public accountant and a certified management accountant. She has taught at colleges that emphasized liberal arts and at fully accredited colleges of business. Dr. Frishkoff has taught courses in financial and managerial accounting, financial accounting

theory, financial management, and financial statement analysis. She also has extensive experience in small business consulting.

Dr. Frishkoff has served as an officer of the Financial Management Association, the Eastern Finance Association, and the Eugene/Springfield Chapter of the National Association of Accountants. She was selected as the outstanding member for both 1979–1980 and 1980–1981. She currently serves on the Regents Assistance Committee for the Institute of Management Accounting. She has authored numerous problems for the CMA and CPA examinations. She is also active in the American Accounting Association, the American Institute of Certified Public Accountants, and the Oregon Society of Certified Public Accountants.

Dr. Frishkoff has published in a wide variety of areas and journals. Her articles have appeared in *The Journal of Accounting, Auditing and Finance*, *Advances in Accounting*, the *Journal of Accountancy*, the *Journal of Commercial Bank Lending*, *The CPA Journal*, *The CLU Journal*, and the *Akron Business and Economic Review*. She was the lead author for *Inflation Reporting by the Banking Industry*, published by the Bank Administration Institute. She has performed research under grants from the American Accounting Association, the Financial Accounting Standards Board, and the Bank Administration Institute.

Drs. Gibson and Frishkoff co-authored *Cases in Financial Reporting*, published by Kent Publishing company. They have also co-authored two continuing education courses consisting of books and cassette tapes, published by the American Institute of Certified Public Accountants. These courses are entitled *Funds Flow Evaluation* and *Profitability and the Quality of Earnings*.

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