

影印

世界工商管理名典系列 (影印版)

UNDERSTANDING FINANCIAL STATEMENTS

Fifth Edition

读懂财务报表

(第五版)

Lyn M. Fraser
Aileen Ormiston



清华大学出版社

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Preface

For those of you who have read the prefaces to earlier editions of my book and are awaiting updates, you will be relieved to know that my daughter Eleanor graduated in December 1996 from Texas A&M University with a major in international studies, and she is now working in London; my hair is still grey; and I have upgraded my computer system so I can communicate reasonably comfortably via cyberspace, though I do occasionally still send letters using paper, envelope, and stamp.

It is a special treat for me to announce the collaboration on this fifth edition of *Understanding Financial Statements* with Aileen Ormiston. As a graduate student in my financial statement analysis course at Texas A&M in the early eighties, Aileen impressed me for a number of reasons, not the least of which was the fact that she could make an analysis of even the dullest of companies—like Maytag, then stable in all categories—sound interesting. For the first edition of *Understanding Financial Statements*, Aileen helped me create R.E.C., Inc., the company that provides the model for this text; and she is also largely responsible for the first edition being produced error-free, a feat which I have never managed to duplicate.

Aileen has moved on to a successful career as a professor of accounting, and for the fourth edition, she developed the chapter-end mini-cases, which have met with tremendously positive user response. For this fifth edition revision, Aileen agreed to participate as a coauthor.

Understanding Financial Statements is designed to serve a wide range of readers and purposes, which include:

1. Text or supplementary text for financial statement analysis courses.
2. Supplementary text for accounting, finance, and business management classes that cover financial statement analysis.
3. Study material for short courses on financial statements in continuing education and executive development programs.
4. Self-study guide or course material for bank credit analysis training programs.
5. Reference book for investors and others who make decisions based on the analysis of financial statements.

Features of the Fifth Edition

In revising the text, we have paid close attention to the responses received from faculty who teach from the book, from students who take courses using the book as a primary or supplementary text, and from other readers of the book. Our primary ob-

jective remains to convey to readers the conceptual background and analytical tools necessary to understand and interpret business financial statements. Readers and reviewers of earlier editions have commented that the strengths of this book are its readability, concise coverage, and accessibility. We have attempted to retain these elements in the fifth edition.

Given the positive user response to the mini-cases, which are based on actual corporate annual reports, we have provided an additional set of cases in this edition. These cases allow students to explore practical and realistic applications of the concepts and analytical tools presented throughout the text.

This fifth edition incorporates all new requirements and changes in accounting reporting and standards, and any proposed change that we think may affect financial reporting in the future.

The footnotes provided throughout the text contain resources which may be used by instructors to form the basis of a reading list for students.

Many instructors have commented on the uniqueness and usefulness of Appendix A, "A Guide to Earnings Quality." We have retained the appendix as well as integrated some of the most relevant issues into chapter coverage.

The fifth edition includes other features of earlier editions that readers have found useful: appendices on the analysis of segmental data and understanding bank financial statements; self-tests at the ends of chapters, with solutions provided; chapter-end study questions and problems; and a glossary of key terms used in text.

The Instructor's Manual, which is available as a supplement, contains solutions to study questions, problems, and mini-cases; a sample course project with assignment, outline, and resources; and selected transparency masters from exhibits and tables from the text.

We hope that readers will continue to find the material in *Understanding Financial Statements* accessible, relevant, and useful.

Lyn M. Fraser

Acknowledgments

We would like to acknowledge with considerable appreciation those who have contributed to the publication of this book.

Several individuals have made critical comments and suggestions on the manuscript. In particular, we would like to thank: Eric L. Blazer, Millersville University; Steven Grossman, Texas A&M University; Suzanne Hartley, Franklin University; Leon Korte, University of South Dakota; James L. Kuhle, California State University-Sacramento; Dong Woo Lee, California State University-Los Angeles; Abe Qastin, Lakeland College; and Thomas Robinson, University of Miami.

We would also like to thank the editorial, production, and marketing departments of Prentice Hall for their assistance at each stage of the writing and production process.

The list would be incomplete without mentioning the pets in our households who helped keep us in good humor throughout the revision of this edition. Little Bit, Picadilly Circus, Babe, R. T., and Ruthie kept Lyn smiling. Dogs Cedric and Dieter kept things lively in Aileen's household, while the horses, Toby, Tucker, Teddi, and her newborn colt Torin were a great source of amusement in the barn.

Lyn M. Fraser
Aileen Ormiston

1

CHAPTER

Financial Statements: An Overview

Map or Maze

One of the major purposes of a *map* is to help its user reach a desired destination through clarity of representation. A *maze*, on the other hand, attempts to confuse its user by purposefully introducing conflicting elements and complexities that prevent reaching the desired goal. Business financial statements have the potential for being both map and maze.

As a map, financial statements form the basis for understanding the financial position of a business firm and for assessing its historical and prospective financial performance. Financial statements have the capability of presenting clear representations of a firm's financial health, leading to informed business decisions.

Unfortunately, there are mazelike interferences in financial statement data that hinder understanding the valuable information they contain. The sheer quantity of in-

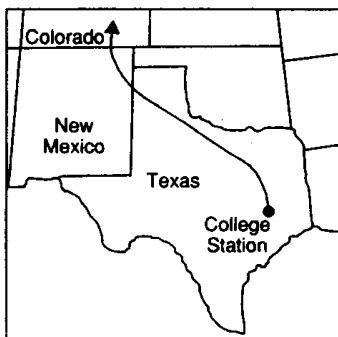


FIGURE 1.1

formation contained in financial statements can be overwhelming and intimidating. Independent auditors attest to the fairness of financial statement presentation, but many lawsuits have been filed and won against accounting firms for issuing “clean” auditors’ reports on companies that subsequently failed. The complexity of accounting policies underlying the preparation of financial statements can lead to confusion and variations in the quality of information presented. And these rules are constantly evolving and changing. Management discretion in a number of areas influences financial statement content and presentation in ways that affect and even impede evaluation. Changing prices can erode the usefulness of financial statement numbers. Some key information needed to evaluate a company is not available in the financial statements, some is difficult to find, and much is impossible to measure.

One of the main objectives of this book is to ensure that financial statements serve as a map, not a maze; that they lead to a determination of the financial health of a business enterprise which is as clear as possible for purposes of making sound business decisions about the firm.

The material in this book will convey information about how to read and evaluate business financial statements; and the authors will attempt to present the material in a straightforward manner that will be readily accessible to any reader, regardless of background or perspective. The book is designed for use by those who would like to learn more about the content and interpretation of financial statements for such purposes as making investment or credit decisions about a company, evaluating a firm for current or prospective employment, advancing professionally in the current business environment, or even passing an examination or course.

The reader can expect more than a dull exposition of financial data and accounting rules. Throughout these pages we will attempt with examples, illustrations, and explanations to get behind the numbers, accounting policies, and tax laws to assess how well companies are actually performing. The chapters and appendixes in the book show how to approach financial statements in order to obtain practical, useful information from their content. Although the examples in the book are based on corporate financial statements, the discussion also applies to the financial statements of small business firms that use generally accepted accounting principles.

The emphasis throughout the book is on *analysis*. We will break financial statements into parts for individual study in order that we might better understand the whole of their content as a map to intelligent decisionmaking.

ORGANIZATION

Chapter 1 provides an overview of financial statements and presents approaches to overcoming some of the challenges, obstacles, and blind alleys that may confront the user of financial statements: (1) the volume of information, with examples of specific problems encountered in such areas as the auditor’s report and the management discussion and analysis section as well as material that is sometimes provided by management but is not useful for the analyst; (2) the complexity of the accounting rules that underlie the preparation and presentation of financial statements; (3) the variations in quality of financial reporting, including management discretion in some important areas that affect analysis; (4) the impact of inflation on financial statement data; and (5)

the importance of financial information that is omitted or difficult to find in conventional financial statement presentations.

Chapters 2 through 5 describe and analyze financial statements for a mythical but potentially real company: Recreational Equipment and Clothing, Incorporated (R.E.C., Inc.), which sells recreational products through retail outlets in the southwestern United States. The specifics of this particular firm should be helpful in illustrating how financial statement analysis can provide insight into a firm's strengths and weaknesses. But the principles and concepts covered throughout the book apply to any set of published financial statements (other than for specialized industries, such as financial institutions and public utilities; the interpretation of financial statements for commercial banks is covered in Appendix C).

As no one company can provide every account and problem the user will encounter in financial statements, additional company examples are introduced throughout the text where needed to illustrate important accounting and analytical issues.

Chapters 2 through 4 discuss in detail a basic set of financial statements: the balance sheet in Chapter 2; the income (earnings) statement, including the evaluation of earnings quality, and statement of retained earnings (or statement of shareholders' equity) in Chapter 3; and the statement of cash flows in Chapter 4. The emphasis in each of these chapters is on what the financial statements convey about the condition and performance of a business firm as well as how the numbers have been derived.

With this material as background, Chapter 5 covers the interpretation and analysis of the financial statements discussed in Chapters 2 through 4. This process involves the calculation and interpretation of financial ratios, an examination of trends over time, a comparison of the firm's condition and performance with its competitors, and an assessment of the future potential of the company based on its historical record. The chapter also reviews additional sources of information that can enhance the analytical process.

Self-tests at the ends of Chapters 1 through 5 provide an opportunity for the reader to assess comprehension of major topics with solutions to the self-tests listed in Appendix D. For more extensive student assignments, there are also Study Questions and Problems at the ends of the chapters. Mini-cases drawn from actual company annual reports are used to highlight in a case problem format many of the key issues discussed in the chapters.

Appendix A discusses and illustrates issues that relate to the quality and, thus, the usefulness of financial reporting. The appendix contains a step-by-step checklist of key items to help the analyst assess the quality of reporting, with examples of each step provided.

Appendix B shows how to evaluate the segmental accounting data reported by diversified companies that operate in several unrelated lines of business.

Appendix C presents a guide to understanding and analyzing the financial statements of commercial banks. Given the impact of commercial banking on all aspects of financial operations in the United States and the spate of bank failures in recent years, it is important for a well-informed financial statement user to develop a working knowledge of bank financial statements. The financial statements of commercial banking institutions in the United States are, like their nonbank counterparts, based on generally accepted accounting principles. Because of the nature of a bank's assets and

4 CHAPTER 1 *Financial Statements*

liabilities, however, the financial statements are quite different in organization, content, and appearance from other types of business organizations.

Appendix D contains solutions to self-tests for Chapters 1 through 5.

Appendix E covers the computation and definition of the key financial ratios that are used in Chapter 5 to evaluate financial statements.

Appendix F presents a glossary of the key terms used throughout the book.

The ultimate goal of this book is to improve the reader's ability to translate financial statement numbers into a meaningful map for business decisions. It is hoped that the material covered in the chapters and the appendixes will enable each reader to approach financial statements with enhanced confidence and understanding of a firm's historical, current, and prospective financial condition and performance.

USEFULNESS

Financial statements and their accompanying notes contain a wealth of useful information regarding the financial position of a company, the success of its operations, the policies and strategies of management, and insight into its future performance. The objective of the financial statement user is to find and interpret this information in order to answer questions about the company, such as the following:

- Would an investment generate attractive returns?
- What is the degree of risk inherent in the investment?
- Should existing investment holdings be liquidated?
- Will cash flows be sufficient to service interest and principal payments to support the firm's borrowing needs?
- Does the company provide a good opportunity for employment, future advancement, and employee benefits?
- How well does this company compete in its operating environment?
- Is this firm a good prospect as a customer?

The financial statements and other data generated by corporate financial reporting can help the user develop answers to these questions as well as many others. The remainder of this chapter will provide an approach to using effectively the information contained in a corporate annual report.¹

Volume of Information

The user of a firm's annual report can expect to encounter a great quantity of information that encompasses the required information—financial statements, notes to the financial statements, the auditor's report, a five-year summary of key financial data,

¹Annual reports in this book will refer to the information package published primarily for shareholders and the general public. The Securities and Exchange Commission requires large, publicly held companies to file annually a 10-K report, which is generally a more detailed document and is used by regulators, analysts, and researchers. The basic set of financial statements and supplementary data is the same for both documents, and it is this basic set of information—financial statements, notes, and required supplementary data—that is explained and interpreted throughout this book.