

FIN-511 Chapter 4

- Major Topics:
- Five major categories of ratios:
 - liquidity, efficiency, leverage, coverage, & profitability
- Calculation of the ratios
- Assess the firm's financial performance using the ratios and:
 - Trend analysis and industry averages

Techniques in Ch. 4

- Custom format to display number and X
 - *format, cell, custom, 0.00 X*
- Wrap text
 - *format, cell, alignment, wrap text*
- Automating ratio analysis
 - Use nested =IF, with AND and OR statements
 - AND returns true if all arguments are true
 - OR returns true if any one argument is true

Example

=IF (AND (2009CR > 2008CR, 2009CR > 2009ICR),
"Good", IF (OR (2009CR > 2008CR, 2009CR > 2009ICR), "OK",
"Bad"))

where 2009CR = firm's 2009 current ratio and
2009ICR = industry 2009 current ratio

Z-Score

$$Z = 1.2X_1 + 1.4X_2 + 3.3X_3 + 0.6X_4 + X_5$$

X1 = net working capital/total assets
X2 = retained earnings/total assets
X3 = EBIT/total assets
X4 = mkt value of equity/book value of total liabilities
X5 = sales/total assets

Z < 1.81 bankruptcy predicted within one year
1.81 < Z < 2.675 financial distress, possible bankruptcy
Z < 2.675 no financial distress predicted

- **Assignment:**
 - Do all of the work in the chapter, final result should look like Exhibit 4-6. Include DuPont in cells A31/B31 and Z-Score in cells A32/B32.
 - Use balance sheet & income statement from Chapter 2
 - **Include typed write-up with interpretation of how the firm is doing (about 1 page)**
 - Format exactly like in the text.
 - Remember Columns/Rows/Gridlines
 - Each person will turn in one set of information: print out of spreadsheet and print out of cell formulas
 - Work is individual.
 - Due at the beginning of class