

Group Classroom Exercise #3

Preparing Common Size Financial Statements, Ratio Analysis and Comparative Analysis

ACCT 416, Spring 2026

Prepared by Professor Tony Aaron

Due Date, Grading : Your **Word Answer Sheet** and Excel spreadsheet must be turned in as attachments via email to aarona@marshall.usc.edu prior to the start of class (Either 8:00am or 10:00am, for 14106 or 14107, respectively) on the date set forth in the syllabus. Each group classroom exercise will be graded, based upon a maximum score of 40 points (4% of your ultimate grade). There will be a total of five classroom exercises, plus a group presentation of your cumulative findings for the company you have chosen for your group, based upon the results of your work on the five classroom exercises.

Instructions: Please answer each question in a narrative fashion using a **Word file**. Do not convert the file to PDF or any other format. Include your group number and the names of your group members at the beginning of your deliverable(s). Prepare the exercise portion of the classroom exercise in an Excel spreadsheet. Use the following naming conventions, for the Word and Excel files, respectively:

ACCT 416 Classroom Exercise 3 Group X 8am S26 Narrative.docx

ACCT 416 Classroom Exercise 3 Group X 8am S26 Analysis.xlsx

Or...

ACCT 416 Classroom Exercise 3 Group X 10am S26 Narrative.docx

ACCT 416 Classroom Exercise 3 Group X 10am S26 Analysis.xlsx

Questions:

1. In your own words, list and describe the five major account captions of the Balance sheet and give examples of the various kinds of accounts contained within each caption (e.g. "Current Assets" is an example of a major caption). Also, provide what you would expect the most important insights to be that analysts might gain from analyzing the accounts within each caption.

- In your own words, describe the four categories of ratios discussed in class and what you would expect the most important insights to be that analysts might gain from each category of ratios.

Exercise:

For the publicly traded company which you have chosen and which you have utilized in both Classroom Exercises #1 and #2 (and for which you downloaded five years of financial statement history from a data aggregator), please prepare a **comparative analysis** (i.e. growth rates), a **common size analysis** and a **ratio analysis**. Utilize the Classroom Lecture Decks to help with your analysis. It would be best to merge your five years of income statement data, balance sheet data and cash flow data into a single spreadsheet (use separate tabs for each, if you would like), as it will make it easier to calculate ratios. In your spreadsheet, using the five years of dollar-based balance sheets and income statements, respectively, calculate and present the common size balance sheet and income statements for each of the five years. For the comparative analysis, you will be showing growth rates on at least the key accounts for four years (as you will not be able to calculate the growth rates for the first year of your series). You may calculate growth rates on all accounts if you find that to be easier. For certain ratios that require “average” amounts (i.e. beginning of year account balance, plus end of year account balance, divided by two), you will also be showing the ratios for just four years, as you will not be able to calculate ratios for the first year of your series due to the averaging of balance sheet amounts. In such cases, either put “NA” in the first year’s cell or a dashed line “-“. Your formulas must be in your spreadsheet cells. Do not copy ratio presentations from the data aggregator! Also, feel free to use tabs to separate the analyses, if you would like.

For the ratio analysis, please calculate the following ratios for each of the five years (or four years if averaged data is required):

| Profitability | Efficiency/Activity | Liquidity | Solvency |
|--------------------------------|------------------------------|---|-----------------------|
| Gross Margin | Total Asset Turnover | Current Ratio | Debt to Equity Ratio |
| (Net) Profit Margin | Net Fixed Assets Turnover | Quick (Acid test) Ratio | Debt Percentage Ratio |
| Income from Operations Margin | Accounts Receivable Turnover | Times Interest Earned Coverage Ratio | |
| Return on Assets | Inventory Turnover | Cash Times Interest Earned Coverage Ratio | |
| Return on Equity | Accounts Payable Turnover | | |
| Return on Net Operating Assets | | | |

Be aware that, due to the nature of the operations and financial reporting of some companies, some ratios may not be subject to calculation, or may not provide meaningful results (e.g. if a company has no interest-bearing debt and thus no interest expense, you will be unable to calculate certain of the Liquidity ratios). If that is the case, indicate that in your analysis, rather than attempting to calculate a non-meaningful ratio, using “NMF” in place of the calculated ratio

and provide a footnote explanation. Be mindful that you will need to impute interest expense on operating leases, if they are significant part of the company's capital structure.