

Financial Project Essay.docx

by Valerie Albury

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Introduction

1 Every financial manager is involved in financial decision making and financial planning in order to make the right decision at the right time ,they should be equipped with sufficient past and present information about the firm and its operations and how it is changing over time .Much of this information that is used by the financial manager to make various decisions and to plan for the future is derived from the financial statements .

The project of Financial Analysis of the company Ulta Beauty ,Inc focuses to analyse the financial statements and to study and interpret the vertical analysis or ratio calculations and horizontal analysis and to study the significance of the ratios over the period of the two quarters of the financial years to determine the financial health, performance, strengths, and weaknesses of the company, as well as any identified positive or negative trends, Drake, P. P., & Fabozzi, F. J. (2012).

1 Financial analysis involves the use of various financial statements .These statements do several things .First the balance sheet summarizes the assets ,liabilities and owners' equity of a business at a moment in time ,usually the end of the year or a quarter .Then the income statement summarizes the revenues and the expenses of the firm over a period of time while the balance sheet represents a full picture or a snapshot of firm's financial position at a point in time .

Financial management is planning and controlling of the financial resources that a firm access or it is within reach of the company or at the management's disposal to use to run the company with a specific objective in mind ,which is to achieve profitability or goals depending on the purpose set by the organisation's administration . Since financial management as a separate discipline is of recent origin .It is

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in a developing stage .It is very crucial for an organisation to manage its funds and resources effectively and efficiently .

7 Financial analysis refers to an assessment of the viability ,stability ,and profitability of a business or project .It is a process performed by professionals who prepare reports using ratios and other techniques that make use of the information taken from financial statements and other reports .

8 Financial analysis is the process of evaluating businesses ,projects ,budgets ,and other finance related transactions to determine their performance and suitability .Typically , financial analysis is used to analyse whether an entity is stable or not .

1 Financial analysis today has assumed to be of greater importance today as the financial strategies required to compete in the competitive environment have become very important .In the financial markets also new instruments and concepts are coming and one must say that a finance manager of today is operating in a more complex environment based on the analysis of the market .1 A study of theories and concepts of financial analysis has therefore become a part of paramount importance for academics as well as for practitioners ,but there are many concepts and theories about which controversies exist as no unanimous is achieved yet .

9 As an analyst it is worth defining the products and markets that describe the domain of the company, Boulton, T. J. et.al (2004) .5 Once the business segment that the company is operating on has been understood ,it will be easier serving it efficiently .Secondly , it is important going an extra mile to know some of the segment's key players as an analyst including suppliers ,competitors and customers .Thirdly identifying the requirements and trends that determine the critical success factors for the company is vital.

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⁴ The elements of the balance sheet consists of the company's assets ,liabilities ,and shareholder's equity .The balance sheet below shows the financial position of Ulta Beauty .However it shows and proofs that the company is running on losses for the two quarters .Increased liabilities and reducing assets of the company .

¹ The financial health of a company is determined from the financial statement of the ⁴ company .For publicly traded companies end users or investors not only consider published financial statements ,but also other indicators of the business climate that affect the company's health ,including stock prices ,cost of living and inflation ⁴ .One of the most common methods to analyse the company's financial health is comparing historical financial statements .In this case study we will use comparative income statement horizontal analysis and vertical analysis of the balance sheet as shown in the diagram below .

From the two financial statements there is a common trend where the total liabilities and stakeholders equity is reducing gradually when comparing the first and the second quarters' .However the company is still running on losses in both quarters .The total liabilities and stakeholders equity for the first quarter was 5,497,121\$ while for the second quarter was 4,870,994 \$ which reduced by 38% indicating a significant loss on the company indicating a negative trend on the company's financial performance for the two quarters . ³ A loss is also the result of a difference in the value an asset is listed for on the balance sheet and the proceeds received from the sale of that asset. Let's say, example, that our soft drinks company purchased a machine that speeds up the process of getting the soft drinks into the can. As a result, we decide to sell the old machine. Since the machine is somewhat out of date and used, we are not able to sell the \$1,000

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machine for the same price we purchased it for. Instead, we can only sell it for \$500. Since this is \$500 less than the amount we had the machine listed for on our balance sheet (under the property/plant/equipment line of accounting), we're able to account for a \$500 loss on the income statement. Ulta Beauty Inc.

Getting into the details: When the old machine is sold, the cash account (balance sheet) will add \$500 for the funds gained from the sale, the property account (balance sheet) will decrease by \$1,000 since the machine is no longer owned by the company, and the loss line (income statement) will have -\$500 listed for the difference between the purchase price and the sales price.

As mentioned earlier in the Gains section, losses are considered non-operating income accounts. Consequently, you will most likely find losses reported near the bottom of the income statement. In combination, the line is usually called extraordinary income/expense, as in our example, or sometimes sale on assets. As the \$275 is a positive number for line 11, we could conclude that there has been more extraordinary income than expenses, or more gains than losses.

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The high cost of doing business and limited cash flow are among common financial weaknesses. In some industries you need some very expensive equipment, facilities and materials to operate. If the business does not generate enough monthly cash flow to overcome the costs, making a profit can be a major uphill climb. For Ulta Beauty Inc. the cash flow reduces by 70% when comparing the balance sheet for the first and second quarters. The company is getting weaker with time.

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The major accounting objective in selecting an analysis method should be to choose the one which, under the conditions and circumstances in practice, most clearly reflects periodic income. Prepaid expenses are expenses of a future period that have been paid for but for

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which the company has not yet received benefits, such as prepaid rent, prepaid insurance, or prepaid advertising. The benefits will usually be received in the next year. Prepaid expenses are assets, not expenses as the title might suggest. They are reported as deferred charges in the "other asset" section. An accrued asset or accrued revenue is revenue for which the service has been performed or the goods have been delivered but that has not been recorded in the accounts, i.e., unrecorded revenue. For example, interest on a loan receivable is earned daily but may not actually be received until the following accounting period.

On the balance sheet before the interest is received, unearned revenue would be reported as an asset. An adjusting entry would record the asset and the revenue. Long-term investments in stocks, bonds, and other investments owned by a company that are to be held for a period of time exceeding the normal operating cycle of the business or one year, whichever is longer, are classified as investments on the balance sheet.

Investments in common stock in which an investor is able to exercise significant influence over the operating and financial policies of an investee require the use of the equity method of accounting. An investment of between 20 percent and 50 percent in the outstanding common stock of the investee is a presumption of significant influence. When the equity method is used, income from the investment is recorded by the investor when it is reported by the investee. The amount of the income recognized is based on the investor's percentage of ownership in the investee. Dividends are recorded as reductions in the carrying value of the investment account when they are paid by the investee. Note: When ownership is less than 20%, the cost method is used the investment is recorded at cost.

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Conclusion

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The financial position of Ulta Beauty Inc is not quite comfortable with a judicious mix of debt and equity .The overall assessment of financial statements signifies poor utilization of the investments ,loans and advances .The profitability of the company appears to be fairly impressive since assets and resources at the company's disposal keep reducing as more liabilities debts keep increasing .

1 As judged by the reducing reserves and surplus ,the management discussion's and my analysis report and opinions expressed by the auditor's report through the financial statements is true and fair view in accordance with the provision of the companies Acts and the Accounting Standards .

The overall financial position of the company appears to be less satisfactory to my expectations.

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