The primary goal of financial management is to maximize shareholders' wealth, not accounting measures such as net income or earnings per share (EPS). However, accounting data influence stock prices, and these data can be used to see why a company is performing the way it is and where it is heading. Therefore, in this project, the key financial statements are used by you (as a manager) to improve the firm's stock price; as lenders do to evaluate the likelihood that borrowers will be able to pay off loans; and as security analysts do to forecast earnings, dividends, and stock prices. If management is to maximize a firm's value, it must take advantage of the firm's strengths and correct its weaknesses. Financial analysis (as was discussed in class and in the text) involves (1) comparing the firm’s performance to that of other firms in the same industry and (2) evaluating trends in the firm's financial position over time. These studies help managers identify deficiencies and take corrective actions. In this project, the focus is on how managers and investors evaluate a firm's financial position. Then, to examine the types of actions managers can take to improve future performance and thus increase the firm's stock price.

Consequently, in this project, you should be able to:

1. Explain what ratio analysis is.
2. List the five groups of ratios and identify, calculate, and interpret the key ratios in each group.
3. Discuss why return on equity (ROE) is the key ratio under management's control and how the other ratios impact ROE, and explain how to use the DuPont equation for improving ROE.
4. Compare a firm's ratios with those of other firms (benchmarking) and analyze a given firm's ratios over time (trend analysis).
5. Discuss the tendency of ratios to fluctuate over time (which may or may not be problematic); explain how they can be influenced by accounting practices as well as other factors; and explain why they must be used with care.