Dos and Don'ts in Designing An Annual Financial Report Project

A Teacher's Perspective

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Abstract

The principle purpose of this article serves a number of purposes. Among them, it provides instructors with a tested financial statement report project. It also helps students to develop higher-level learning skills. In addition, the project provides an opportunity for students to apply their basic accounting knowledge to the analysis and use of the basic financial statements. The article also summarizes and explains the importance of key ingredients in creating a successful student-oriented project such as (1) planning and executing the project, (2) building an active learning environment and time line, and (3) emphasizing the importance of group work in completing the project. The article also discusses some simple dos and don'ts in the constructing and administering of the annual financial report project for introductory accounting students.

Keywords: *accounting case studies; active learners; motivating student interest; planning and execution; problem-based learning; project learning goals and objectives; teaching methods in accounting; teaching*

1. Introduction

The principle purpose of this article meets five primary educational goals. First, it provides educators with a simple report template guiding students in the analysis of financial statements in an organized fashion. Second, the annual financial report project shared in this article helps students to develop their higher-level cognitive, analytical, critical thinking, and communication skills. Fourth, the project requires students to apply their basic accounting and finance knowledge to the analysis and uses of the basic financial statements such as the consolidated balance sheet and income statement. Fifth and more importantly, the article discusses some simple dos and don'ts in constructing, administering, and evaluating the annual financial report project for introductory accounting students.

Such a project was administered to fifty-eight introductory financial accounting students at Slippery Rock University during the 2012 fall semester. It satisfied one of the learning objectives for accounting and business core; specifically, it was devoted to the analysis of financial statements using ratios defined by and analytical report formats provided by the authors, Porter and Norton (2011). At SRU, the introductory accounting course is taught uses a conceptual approach focusing on the impact of transactional events on financial statements.

2. Current Literature and Research

2.1 Project Considerations

2.1.1 Planning and Execution

During the initial project brain storming, it is essential that we remember some basic tenements in planning and executing a student problem-based learning project. Of course, the planning and execution of a project depends on a number of factors such as one's goals, objectives, audience, subject matter, classroom environment, and the way in which the project will be evaluated. In light of these factors, it is the planning and execution of the project which helps to determine the ultimate student outcomes (McComb et al, 2012). Recently, this was the case with the modification and use of an un-authored web-based internet annual report project designed for introductory financial accounting students to analyze four basic financial statements.

2.1.2 Building an Active and Problem-Based Learning Environment

As with most professional educators, we want to encourage our students to be active learners in the classroom. It is one means by which we can reinforce the concepts and principles taught (Carter and Jones, 2011). This is true in accounting and across the curriculum. However, we must first create a positive- learning environment to enhance the student's performance and meet our mastery and performance goals (Ames, 1992). This can be done by (1) sharing the project's goals and benefits with the students, (2) setting time aside for informative discussions in and out of class regarding the students' challenges, search discoveries, and a sharing of valuable information, (3) providing appropriate intervention and feedback at periodic intervals tied to the evaluation of key project components (requirements), and (4) using on-line discussion boards, email messages, chat discussion boards, and other communication tools to answer student questions. Of course there is the old fashion and effective method of sitting down with the student to view their progress in person and provide them with guidance. By creating a positive and inviting environment, we can reduce the student's anxiety while helping them view the project as a process of learning new skills (Ames & Archer, 1988).

In addition, several authors have demonstrated that "problem-based learning can build a better learning environment by elevating the student from a passive to active learner" (Dockter, 2012). "The goals of problem-based learning 'helps' students' to (a) think critically, analyze, and solve complex real-word problems; (b) find, evaluate, and use learning resources; (c) work cooperatively in teams; (d) demonstrate effective communication skills; and (e) use content knowledge and intellectual skills to become continual learners" (Duch, Grosh, & Allen, 2001).

2.1.3 Project Learning Goals

Currently, there is an absence in the accounting literature focusing on the construction of and guidelines for annual report projects. On the other hand, there is an ample supply of annual report projects available from publishers in the form of supplements or individually published projects. Annual report projects can also be discovered by surfing the internet. But as often is stated in the old cliche, 'buyer be ware!'

Once a suitable project is located no matter what its source, the project may need to be modified to fit the educator's goals, objectives, time constraints, and audience. Again one of the ultimate goals mentioned earlier is to help students apply their accounting knowledge to and help them analyze the four basic financial statements. Also, modifications may be necessary to assure that the textbook's used by the students and project author's definitions for ratios and the format for the analytical reports are the same; if not, the distinction must be self-explanatory.

2.1.4 Project Time-Line and Group Work

Maybe the most important element to consider in setting the project's goals is one's time-line. Will the project span a few days, weeks, or an entire term. A related consideration regarding the length of time devoted to the project is whether students would be required to work in groups, and what will be the depth in which students will be asked to analyze the four financial statements. Now let us turn our attention to the benefits of group work.

If encouraged or required to work in collaborative groups, this step would help students to improve their communication skills and elevate their level of critical thinking. As cited by Gokhale, collaborative learning helps to "stimulate interest among the students" while leading to a sharing and clarification of ideas (Gokhale, 1995). In conclusion, the author states that collaboration among students fosters development of critical thinking through discussion, clarification of ideas, and evaluation of others' ideas (Gokhale, 1995). As a result, the learning process is enhanced and a better product results. But again, is there time for this step and others?

Of course, additional requirements will have a direct bearing on the time needed to complete the project. For instance, periodic reviews by the instructor during its execution will be beneficial. On the other hand, the extra time commitment will create conflicts with other tasks. But the tradeoff may help to improve the quality of the end-product and reduce the student's frustration by detecting errors early. In addition, it will make the evaluation easier at the end if we can keep students on-track. As the 'old cliche' states, two eyes are better than one; a common practice when writing documents for presentation, testing a business strategy among one's peers, or getting a second opinion regarding decisions.

2.1.5 Project Relevance

With lower-level courses such as the introductory accounting, relevance is another important consideration. Greater relevance leads to extended student interest. In short, outcomes for the project will be more beneficial if students want to learn (Song & Grabowski, 2006) and if they possess the prerequisites skills necessary to do well (McMillan, 2010). There is also the students' other time demands which will pose a challenge especially near the end of the term. Some universities in order to remedy this challenge such Utah State in the area of English coordinate their major writing assignments and spread out the due dates to minimize time conflicts. As mentioned earlier, instructors can also spread out the work and evaluate the student progress along the way avoiding a last minute rush by students to complete the project and the instructor to evaluate it.

Of course, any project can be scaled back which would reduce some of these challenges. On the other hand, we do want students to learn how to organize their work, manage their time commitments, and meet time dead-lines. In all, ultimately the project final grade rests on the shoulders of the students no matter its length and/or requirements.

The accomplishment of key learning objectives is also an important project consideration and will give you insight on the next project's go-around (revisions). If so, the question must be asked early, what do you wish the students to learn as an outcome of the project, and will you be able to convey the importance of the project and its intent (perceived outcomes) to all of the participants. These are all factors that must be considered when introducing and completing the project. Of course, there may be students who consider what is being assigned is just busy-work; having no applications to themselves. These are students who have to be sold on the importance of the project and need the instructor's intervention and encouragement along the way. In summary, we have to keep sight of our goals and keep everyone interested and on track in the project.

3. Project Components

3.1 Project Requirements

As stated in the introduction, one of the primary goals for this financial report project was to assess a company's liquidity, profitability, long-term solvency, and market strength through the application of appropriate financial analytical tools (Deberg et al., 2012). Further, the students were asked to compare their company with another similar one in size and composition within the same industry. In reference to the following project requirements, the reader is asked to refer to **Exhibit 1** (project handout shown at the end of this article).

3.1.1 Requirement 1

At the initial stage, the students were asked to select a company of their own choice listed on one of two stock exchanges, Dow or Nasdaq. The selection of the entity had to be approved by the instructor so no one student would be analyzing the same company except in comparison to key ratios. Early on, it was discovered that this step needed to be modified due to the lack of comparability between entities or lack of sufficient data or time to compute all of the required ratios. Therefore, it was necessary for some of the students to select another company which would satisfy the project's selection criteria. Once this was accomplished, the student was given permission to proceed. For the instructor and student, this approval phase consumed at least a half hour for each student. However, the time consumed up front by the students and instructor lessen the need for further outside research of other sources to supplement data missing from their primary source.

It was discovered after the assignment was first used that it would have been better for two or more students to select companies in the same industry allowing them to share their computed ratios with each other for comparison. As implied earlier in the forward section of this article, this procedure would have reduced the student's work load in re-computing comparative ratios and/or seeking out published ratios using the same formula definitions.

This is what did happen initially before the project was modified and reused. Student had compared their computed ratios with another company using the same ratio by name but with a different component definition. Students also accidentally made their comparison using ratios base on different time lines such as three quarters versus four. This was the case for approximately 5 percent of the students when not making a comparison among themselves.

3.1.2 Requirement 2

The second phase of the project required students to describe their company products and/or services. This was the simplest step for the students to complete and an easy component for grading. It was also a very important for helping the student gain background information pertinent to a later write-up in explaining movements in their ratios and differences in year to year numbers.

As with any writing assignment, students were warned not to plagiarize. The source most often used was the 10-K or a similar section in the company's annual report. However, financial web sites such as Yahoo finance also served as a good source supplement.

3.1.3 Requirement 3

In the third phase, students were required to construct a chart depicting the movement of their company's stock price over a one year period. In the future, it would have been better to extend the chart time-line over a longer period such as three to five years. Students too often using the shorter time line drew the wrong conclusion on how the company was doing. This was especially true during severe economic swings or other factors affecting the company's value. It was also better for the student to use a chart constructed by one of the financial web sites rather than constructing their own using Excel unless the instructor wants to take the time in class teaching basic chart construction skills. We can't always assume that students remember these skills even considered course prerequisites. Again, time is a consideration!

3.1.4 Requirement 4

The fourth phase of the project required students to construct a horizontal analysis. This analysis for the balance sheet and income statement should have been a straight-forward task. However, that was not the case due in part by providing students with a brevetted exhibit. As a result, some students left out line items from their source documents when transferring financial data from its original source. Since subtotals were often transferred over as text, the students did not detect the problem or assumed that the instructor would not pick up on the missing line items.

In addition to providing a detailed example of a horizontal analysis from the textbook or another source, the instructor must emphasize that every line item must be transferred to their worksheet and formulas must be created for all totals. A demonstration and explanation on how to use the financial notes must be also be done at an early stage when the financial statements show consolidated information (e.g., receivables and payables). The detailed breakout of consolidated line items found in the financial notes is important in calculating all of the required financial ratios. Again, periodic evaluation and feedback by the instructor and group members should be beneficial in accomplishing this requirement and reducing potential problems.

3.1.5 Requirement 5

The vertical analysis phase of the report was meant to be a useful and simple task. Here the students were asked to prepare a common-size balance sheet and income statement for two years. If all of the data was transferred over to the spreadsheet used for the horizontal analysis, students used this same information to construct a vertical analysis. It was also emphasized at this point that the student must use total assets (or total liabilities and stockholder equity) or net sales to compute their percentages of the totals for the balance sheet and income statement. In a few cases, there were a few students who computed the percentages based on total liabilities or stockholder's equity alone. A demonstration constructing a sample vertical spreadsheet in class or presenting a finished product on screen should remedy this error. Again, intervention by the instructor along the way would reduce potential problems.

3.1.6 Requirement 6

The opinion write-up in this phase of the report varied based on the time taken by the student to do a comparison of line item percentages computed from one year to the next using information from their horizontal or vertical analysis. To help direct the student's focus in writing this section, students should be given a list of key line items which should be included in their opinion write-up. As example, the comparison of percentages in respects to the income statement's vertical analysis should include such line items as the cost of goods sold to net sales, gross profit margin, total expenses to net sales, and net income after taxes and interest to net sales. The same is true for the balance sheet using vertical analysis such as percentage of current assets to total assets, and total liabilities to total liabilities and stockholder's equity. Yes, there may be some an overlap here with ratios to be computed but a foundation must be laid to provide the student for their opinions.

3.1.7 Requirement 7

The seventh component of the annual report project required students to calculate a series of ratios assessing the company's liquidity, solvency, and profitability for the current and previous year. Initially, the students were given a list of ratios by category from another source than their textbook. This posed a problem with the exception of the cash flow ratios. Students discovered quickly and were confused by the fact that some of the formulas supplied in the handout differed from their textbook's formula definitions for the same ratios. It was far better to provide the students with a list of ratios directly from their textbook and supplement it with additional ratio not supplied in the textbook. For instance, Porter and Norton in Chapter 13, entitled financial analysis, furnish the students with a concise list of liquidity, solvency, and profitability ratios and their related formulas. In short, the teacher needs to do their homework when utilizing a model from the internet, but we sometime learn great lessons from our mistakes.

3.1.8 Requirement 8

Students did well with the eighth component of the annual report project. They were asked to prepare a report analyzing their company's financial status using all of the required computed ratios for the previous and current year. In turn, they were asked to compare two of the ratios from each category with a competitor. In some cases, students went beyond the requirements and compared their company not only with a competitor but with the industry. As a result, this was added as additional requirement with the next revision.

3.1.9 Requirement 9

Here, the students were asked to provide an opinion of whether they would invest in the company and accept employment from them. In respects to the first requirement, students based their opinions on the comparative analysis of their company with one competitor and the industry; adding greater credence to their opinion. The revised project reflected this effort. In respects to employment, the student conducted more research about their company to support their opinion. This was true for approximately 82% of the 58 students. They didn't just base their opinion on a financial comparison but scanned the literature to support their decision.

3.1.10 Requirement 10

The last phase or section of the report was the most revealing and provided the instructor with greatest gratification. The students were asked to write what they learned from the project. The question was simple and open-ended.

Here, the comments were very supportive in administering a similar assignment in the future with appropriate modifications as suggested above. Following is a short sample of actual comments made by the students.

< "I have learned a lot from doing this project."

< At the beginning of this project, I really didn't think I would learn anything. I thought it would be a number crunching project that just took a lot of time. In the end, I learned a lot from this project . . . ."

< "This project showed me how to understand and apply the information found in a company's financial statements and annual report."

< I have learned how to analyze the financial results of a company and make an informed decision about its financial strength."

< "I have also learned that not all' financial 'statements look the same . . . ."

< "From this project, I have learned that a lot of work goes into producing the financial statements. I have not even produced the statements, but I have just analyzed them for one company . . . which took hours."

< "One important thing I learned is how to do a horizontal and vertical analysis' and 'how to interpret the results."

< "Being able to analyze what the numbers mean, beyond whether they show just an increase or decrease, will be a valuable skill to have as an investor."

< Learning how to prepare the horizontal and vertical analysis are skills that I wouldn't have learned without this project."

< "I was not aware of all the data a person could obtained about a company.' In terms of Nestle, 'it is amazing how many other products they produce."

< "I have a better understanding now for how the company financial statements provide' . . . 'insight into how a company' might or 'has done in the stock market".

< "The project was a lot of work and but I now can comprehend things that I could never understand" earlier.

< "It was interesting to be able to go behind the scenes of Family Dollar and be able to look at their revenues, liabilities, and etc. It was a very informative experience to be able to do research' on 'Family Dollar".

< "I learned how accounting is used in everyday life' to analyze a company, and 'how important it is for a company".

< “From this project, I have learned that it is necessary to do some background searching on a company before you have a complete grasp of that company.”

< “From the annual report project, one of the first things I learned was how Proctor and Gamble got their start as a health, beauty, and wellness product supplier.”

< “Sometimes looking at financial reports is necessary to see if you would like to see employment there or not.”

< “I did not realize that so many calculations were done and could be done.”

< “From completing this project, I have learned how to obtain financial documents” through sites such as “Yahoo and the investor’s relations section of a company’s website”.

< “There were always many situations in class where we simulated doing calculations like these but I have actually done calculations that were real life situations.”

< “. . . understanding how various accounts relate to one another and what effect they have on’ . . . ‘profitability, costs and etc. was a great way to illustrate what we have been studying this semester”.

< “I appreciate completing an assignment that can translate to something that actually benefits me and my family.”

In summary, here is one student’s comment who sums up the benefits of the project well. “. . . The ratio analysis taught me how much is hidden behind the numbers on the financial statements. Overall, I believe this project was a good experience and wasn’t overwhelming. It reinforced the semester long objectives’ for ‘the student in a different way than readings, homework, and quizzes. The skills learned during this project are valuable not only’ for my future ‘accounting and finance classes but also valuable in life itself because I now know how to interpret a financial statement and decide whether or not to invest in a company. . .” The statement speak for themselves regarding the success of the project and its impact. It certainly was a learning process for the students and teacher.

4. Conclusion

As with most student projects, educators hope for the best in helping students become more active learners. The results of any project also help educators to assess the degree of their success in meeting specific student learning goals and objectives.

Of course, we normally modify project on a regular basis to meet the students’ needs. There is also changes in financial accounting presentation standards that must be considered which help a project stay up-to-date. The type of ratios also must consider the needs of the users such as investor which will change the ratios to be assigned. This project was only a sample of a problem-based assignment helping students learn better and apply what they have learned.

Exhibit A: Annual Report Project

The following Exhibit A needs to be modified based on the instructor’s needs, time constraints, objectives, and goals. There are many such projects published or posted by individuals on the internet who wish to share their work with others; a commendable attribute among educators and a golden opportunity for educators. One of the finished projects completed by one students is shown in Exhibit B. It has not been revised or edited except for appropriate captions.

Exhibit A: Financial Accounting Annual Report Project

(Original Source - Internet, No Author Provided & Modified)

General Directions: Please attach the following assignment sheet as the first page of your report. Each report must also include a title page as outlined by your instructor, copies of your four financial statements, an introduction to the purpose of the paper, and body including all the items listed below.

_____ 1. Obtain the four basic financial statements for the company selected by you and approved by your instructor (e.g., consolidated balance sheet, consolidated statement of income, consolidated statement of cash flow, and consolidated statement of shareholders’ equity). The company must have been incorporated and headquartered in the United States.

The detailed statements must come from a 10-K or Annual report to support all required calculations. You need to transfer all of the balance sheet and income statement line items (data) to an Excel spreadsheets in order to complete the horizontal, vertical, and ratio analysis for this project. Copies of your statements must appear in the first section of your report after this cover page. **(# points)**

_____ 2. Describe your company and what it produces. This should take no more than one or two short paragraphs. **(# points)** {Remember: Follow the university's rules regarding plagiarism stated in your syllabus and student handbook pertaining to all written reports}.

_____ 3. Using a financial web site tool for charting such as the one located on Yahoo Finance, chart the closing market prices for your stock, at least one competitor, and the applicable stock market where it is listed (e.g., Dow Jones) for a five year period. Your last chart date should end one week before the final due date for the report. Most investment sites (e.g., Yahoo/Finance) will furnish this information in graphic form which can be pasted into your Word or WordPerfect document including data values for your stock, competitor, and selected stock market average closing prices. **(# points)**

_____ 4. Horizontal Analysis: Enter the current and prior year account balances for the balance sheet and income statement onto an Excel spreadsheet. Determine the dollar and percentage net change (using at least 1 decimal place behind the decimal) over the last two years – refer to your textbook or internet for an example of a horizontal analysis layout. **(# points)**

_____ 5. Vertical Analysis: Prepare a common-size Balance Sheet and Income Statement for two years. All individual line items should be calculated as a percentage of your total Assets (or total liabilities and equity) on the balance sheet and net sales for the income statement. **(# points)**

_____ 6. Opinion: Using the completed horizontal and vertical analysis, answer the following question. Is the company in good or bad shape? Discuss the account(s) that support your opinion. **(# points)**

_____ 7. Ratio Analysis: Compute the ratios listed on following page and state what account(s) caused the change (you must show what numbers you used to compute your ratios). Formulas for the ratios should be provided by your instructor or found in your textbook. **(# points)**.

_____ 8. Report: Prepare a report analyzing your company's financial status. Your discussion should include paragraphs using your calculated liquidity, profitability, long term solvency, cash flow adequacy, and market strength ratios for your selected company. Remember the introductory paragraph and the summary paragraph. It is strongly recommended that you should also compare your company ratios with with a competing company and industry averages (e.g., comparing Home Depot with Lowes and averages for the home improvement industry). **(# points)**.

_____ 9. Your Opinion: State reasons you would or would not INVEST in your selected company and if you would or would not accept EMPLOYMENT with this company. **(# points)**.

_____ 10. Your Opinion: State what you have learned from this project. **(# points)**

Company Selection Rules

Selection of a company. Each student must select a different company than other students in class. For example, only one student can analyze Disney, one student can analyze Dollar General, and one student can analyze Netflix. Student must sign up for the company of your choice on a first come, first serve basis. Please send an email message to your instructor indicating the name of the company you have selected and await your confirmation that choice is approved.

How to select a company. Using a financial website such as Fidelity, Charles Schwab, E-Trade, Yahoo Finance, type in a name of a company in which you are familiar such as Home Depot, McDonald, Proctor and Gamble, and Family Dollar Stores. Make sure that the company is headquartered and incorporated in the United States.

Securing your financial statements copies. Using a search engine such as Googles or Bing, type out the name of your company and the words, "annual report" or "10-K". Typically this procedure will bring up the 10-K for your company. Always select the most recent 10-K or annual report. You may need to bring up an annual report or 10-K for more than one period of time. You will also need to go to the company's official web site and find the annual report and/or 10-K which is usually located in the "Stock(Share) Holders Services" or "Investors" section of the official website.

Here is a sample of companies in which students selected using their famliar names: Amazon, Alcoa, American Eagle Outfitters, Apple, Barnes & Noble, Best Buy, Cabela, Inc., Cisco, Coca-Cola, Columbia, Costco, Deere & Company, Dik's Sporting Goods Inc., Disney, Dollar General Corporation, Dr. Pepper Snapple Group Inc., Family

Dollar Inc., FedEx, Foot Locker, Ford, Geeknet, General Mills, General Motors, Googles, HallMark Financial Inc., Harley-Davidson, Home Depot, H&R Block Inc., Johson & Johnson, Karfts Foods Inc., Lowes, Mattel, McDonalds, Microsoft, Nike, Nestle, Netflix, Inc., Nordstroms, Pepsico, Inc., Procter & Gamble, Sears Holding Corporation, Sprint Nextel Corporation, Stanley Black & Decker Inc., Star Bucks, Target, Teavana, TimeWarner Inc., Dell Computer, Under-Armour (UA), UPS, US Airways Group, Inc. (LCC), Visa Inc., Yahoo Inc, and Walmart. [In hindsight, students who selected small companies with sales of 5 million or below which did not have consolidated financial statements were simplier to analyze.]

Financial Ratios

Liquidity- meeting current obligations

Quick Ratio(Acid Test, Current Ratio, Accounts Receivable turnover, Average days' sales uncollected, Inventory turnover, Average days' inventory on hand, Payables turnover, & Average days' payables

Long Term Solvency (Leverage Ratios)- meeting short/long term obligations

ratio Debt to equity ratio & Interest coverage

Profitability – earnings ability indicators

Gross Profit Margin, Profit Margin (Return on Net Sales), Asset Turnover & Return on Assets Return on Equity

Market Strength

Dividend Yield, Price Earning Ratio & Earnings Per Share

Cash Flow

Cash Flow Yield, Cash Flow to Sales, Cash Flow to Assets & Free Cash Flow

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Appendix

EXHIBIT B

Annual Report Project

Cisco Systems, Inc.

Submitted by:

Sandy Stabile

Principles of Financial Accounting

To: **Dr. DuWayne Dockter CPA**

Associate Professor of Accounting

College of Business

Slippery Rock University

PROJECT COMPONENT -- REQUIREMENT 1

ORIGINAL SOURCE DOCUMENT

(Source: 2012 CISCO Annual Report)

Consolidated Balance Sheets

(in millions, except par value)

	July 28, 2012	July 30, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 9,799**	$ 7,662
Investments	**38,917**	36,923
Accounts receivable, net of allowance for doubtful accounts of $207 at July 28, 2012 and $204 at July 30, 2011	**4,369**	4,698
Inventories	**1,663**	1,486
Financing receivables, net	**3,661**	3,111
Deferred tax assets	**2,294**	2,410
Other current assets	**1,230**	941
Total current assets	**61,933**	57,231
Property and equipment, net	**3,402**	3,916
Financing receivables, net	**3,585**	3,488
Goodwill	**16,998**	16,818
Purchased intangible assets, net	**1,959**	2,541
Other assets	**3,882**	3,101
TOTAL ASSETS	**$ 91,759**	$ 87,095
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term debt	**$ 31**	$ 588
Accounts payable	**859**	876
Income taxes payable	**276**	120
Accrued compensation	**2,928**	3,163
Deferred revenue	**8,852**	8,025
Other current liabilities	**4,785**	4,734
Total current liabilities	**17,731**	17,506
Long-term debt	**16,297**	16,234
Income taxes payable	**1,844**	1,191
Deferred revenue	**4,028**	4,182
Other long-term liabilities	**558**	723
Total liabilities	**40,458**	39,836
Commitments and contingencies (Note 12)		
Equity:		
Cisco shareholders' equity:		
Preferred stock, no par value: 5 shares authorized; none issued and outstanding	**—**	—
Common stock and additional paid-in capital, $0.001 par value: 20,000 shares authorized; 5,298 and 5,435 shares issued and outstanding at July 28, 2012 and July 30, 2011, respectively	**39,271**	38,648
Retained earnings	**11,354**	7,284
Accumulated other comprehensive income	**661**	1,294
Total Cisco shareholders' equity	**51,286**	47,226
Noncontrolling interests	**15**	33
Total equity	**51,301**	47,259
TOTAL LIABILITIES AND EQUITY	**$ 91,759**	$ 87,095

Consolidated Statements of Operations

(in millions, except per-share amounts)

Years Ended		**July 28, 2012**		July 30, 2011		July 31, 2010
NET SALES:						
Product	**$**	**36,326**	$	34,526	$	32,420
Service		**9,735**		8,692		7,620
Total net sales		**46,061**		43,218		40,040
COST OF SALES:						
Product		**14,505**		13,647		11,620
Service		**3,347**		3,035		2,777
Total cost of sales		**17,852**		16,682		14,397
GROSS MARGIN		**28,209**		26,536		25,643
OPERATING EXPENSES:						
Research and development		**5,488**		5,823		5,273
Sales and marketing		**9,647**		9,812		8,782
General and administrative		**2,322**		1,908		1,933
Amortization of purchased intangible assets		**383**		520		491
Restructuring and other charges		**304**		799		—
Total operating expenses		**18,144**		18,862		16,479
OPERATING INCOME		**10,065**		7,674		9,164
Interest income		**650**		641		635
Interest expense		**(596)**		(628)		(623)
Other income, net		**40**		138		239
Interest and other income, net		**94**		151		251
INCOME BEFORE PROVISION FOR INCOME TAXES		**10,159**		7,825		9,415
Provision for income taxes		**2,118**		1,335		1,648
NET INCOME	**$**	**8,041**	$	6,490	$	7,767
Net income per share						
Basic	**$**	**1.50**	$	1.17	$	1.36
Diluted	**$**	**1.49**	$	1.17	$	1.33
Shares used in per-share calculation						
Basic		**5,370**		5,529		5,732
Diluted		**5,404**		5,563		5,848
Cash dividends declared per common share	**$**	**0.28**	$	0.12	$	—

Consolidated Statements of Cash Flows

(in millions)

Years Ended	**July 28, 2012**	July 30, 2011	July 31, 2010
Cash flows from operating activities:			
Net income	**$ 8,041**	$ 6,490	$ 7,767
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, amortization, and other	**2,602**	2,486	2,030
Share-based compensation expense	**1,401**	1,620	1,517
Provision for receivables	**50**	89	112
Deferred income taxes	**(314)**	(157)	(477)
Excess tax benefits from share-based compensation	**(60)**	(71)	(211)
Net gains on investments	**(31)**	(213)	(223)
Change in operating assets and liabilities, net of effects of acquisitions and divestitures:			
Accounts receivable	**272**	298	(1,528)
Inventories	**(287)**	(147)	(158)
Financing receivables	**(846)**	(1,616)	(996)
Other assets	**(674)**	275	(98)
Accounts payable	**(7)**	(28)	139
Income taxes, net	**418**	(156)	55
Accrued compensation	**(101)**	(64)	565
Deferred revenue	**727**	1,028	1,531
Other liabilities	**300**	245	148
Net cash provided by operating activities	**11,491**	10,079	10,173
Cash flows from investing activities:			
Purchases of investments	**(41,810)**	(37,130)	(48,690)
Proceeds from sales of investments	**27,365**	17,538	19,300
Proceeds from maturities of investments	**12,103**	18,117	23,697
Acquisition of property and equipment	**(1,126)**	(1,174)	(1,008)
Acquisition of businesses, net of cash and cash equivalents acquired	**(375)**	(266)	(5,279)
Purchases of investments in privately held companies	**(380)**	(204)	(137)
Return of investments in privately held companies	**242**	163	58
Other	**166**	22	128
Net cash used in investing activities	**(3,815)**	(2,934)	(11,931)
Cash flows from financing activities:			
Issuances of common stock	**1,372**	1,831	3,278
Repurchases of common stock	**(4,760)**	(6,896)	(7,864)
Short-term borrowings, maturities less than 90 days, net	**(557)**	512	41
Issuances of debt, maturities greater than 90 days	**—**	4,109	4,944

Repayments of debt, maturities greater than 90 days	**—**	(3,113)	—
Excess tax benefits from share-based compensation	**60**	71	211
Dividends paid	**(1,501)**	(658)	—
Other	**(153)**	80	11
Net cash (used in) provided by financing activities	**(5,539)**	(4,064)	621
Net increase (decrease) in cash and cash equivalents	**2,137**	3,081	(1,137)
Cash and cash equivalents, beginning of fiscal year	**7,662**	4,581	5,718
Cash and cash equivalents, end of fiscal year	**$ 9,799**	$ 7,662	$ 4,581
Cash paid for:			
Interest	$ 681	$ 777	$ 692
Income taxes	$ 2,014	$ 1,649	$ 2,068

Consolidated Statements of Equity

(in millions, except per-share amounts)

	Shares of Common Stock	Common Stock and Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Cisco Shareholders' Equity	Non-controlling Interests	Total Equity
BALANCE AT JULY 25, 2009	5,785	$ 34,344	$ 3,868	$ 435	$ 38,647	$ 30	$ 38,677
Net income			7,767		7,767		7,767
Change in:							
Unrealized gains and losses on investments				195	195	(12)	183
Derivative instruments				48	48		48
Cumulative translation adjustment and other				(55)	(55)		(55)
Comprehensive income (loss)					7,955	(12)	7,943
Issuance of common stock	201	3,278			3,278		3,278
Repurchase of common stock	(331)	(2,148)	(5,784)		(7,932)		(7,932)
Tax effects from employee stock incentive plans		719			719		719
Share-based compensation expense		1,517			1,517		1,517
Purchase acquisitions		83			83		83
BALANCE AT JULY 31, 2010	5,655	$ 37,793	$ 5,851	$ 623	$ 44,267	$ 18	$ 44,285
Net income			6,490		6,490		6,490
Change in:							
Unrealized gains and				154	154	15	169

losses on investments							
Derivative instruments				(21)	(21)		(21)
Cumulative translation adjustment and other				538	538		538
Comprehensive income					7,161	15	7,176
Issuance of common stock	141	1,831			1,831		1,831
Repurchase of common stock	(361)	(2,575)	(4,399)		(6,974)		(6,974)
Cash dividends declared ($0.12 per common share)			(658)		(658)		(658)
Tax effects from employee stock incentive plans		(33)			(33)		(33)
Share-based compensation expense		1,620			1,620		1,620
Purchase acquisitions		12			12		12

BALANCE AT JULY 30, 2011	5,435	$ 38,648	$ 7,284	$ 1,294	$ 47,226	$ 33	$ 47,259
Net income			8,041		8,041		8,041
Change in:							
Unrealized gains and losses on investments, net				(78)	(78)	(18)	(96)
Derivative instruments				(59)	(59)		(59)
Cumulative translation adjustment and other				(496)	(496)		(496)
Comprehensive income (loss)					7,408	(18)	7,390
Issuance of common stock	137	1,372			1,372		1,372
Repurchase of common stock	(274)	(2,090)	(2,470)		(4,560)		(4,560)
Cash dividends declared ($0.28 per common share)			(1,501)		(1,501)		(1,501)
Tax effects from employee stock incentive plans		(66)			(66)		(66)
Share-based compensation expense		1,401			1,401		1,401
Purchase acquisitions and other		6			6		6
BALANCE AT JULY 28, 2012	5,298	$ 39,271	$ 11,354	$ 661	$ 51,286	$ 15	$ 51,301

PROJECT COMPONENT -- REQUIREMENT 2

COMPANY OVERVIEW

Cisco Systems, Inc. is headquartered in San Jose, CA. The company designs, manu- factures, and sells IP-based hardware and software used for networking and communications. They employ over 66,000 people around the world, and more than 36,000 in the United States. Cisco is publicly traded on the NASDAQ exchange under the symbol CSCO. Cisco was incorporated in the state of California in December, 1984.

John T. Chambers serves as Chairman and CEO. He was made CEO in 1995, and he was elected as Chairman of the Board of Directors in 2006. Cisco's Chief Financial Officer is Frank A. Calderoni. He joined Cisco in 2004, and was named CFO in 2008.

Cisco Systems sells their networking and communications products to large corp- orations, telecommunications companies, public institutions, commercial companies, and even to individuals for personal use. Cisco is continuing to focus on the networking trends of virtualization and cloud-based resources as an area of growth.

Other companies competing with Cisco Systems in the networking industry include Citrix Systems, Dell, Hewlett-Packard, Juniper Networks, Palo Alto Networks, and Symantec Corporation.

The following pages include a chart depicting Cisco System's stock price since the beginning of 2012 (including Hewlett-Packard and Juniper Networks for comparison), and horizontal and vertical analyses for FY 2012 and FY 2011.

CHARTING

PROJECT COMPONENT – REQUIREMENT 3

This chart shows the weekly closing stock prices for Cisco Systems, Hewlett-Packard, and Juniper Networks for the period of January 1, 2012 through November 9, 2012. Attached is a table listing each company's weekly closing stock price.

SOURCE DATA FOR CHART (See Below)

Date		Cisco Systems		Hewlett-Packard		Juniper Networks
11/5/2012		16.82		13.61		17.65
10/31/2012		17.35		13.76		17.12
10/22/2012		17.29		14.09		16.58
10/15/2012		18.04		14.48		17.79
10/8/2012		18.41		14.41		16.35
10/1/2012		18.86		14.73		16.65
9/24/2012		19.10		17.06		17.11
9/17/2012		18.90		17.59		18.49
9/10/2012		19.49		18.17		19.33
This chart has been truncated to save room						

Horizontal Analysis

Project Component – Requirement 4

Cisco Systems, Inc. (CSCO)
Comparative Balance Sheets
July 28, 2012 and July 30, 2011
(in millions of dollars)

			Increase (Decrease)	
ASSETS	**July 28, 2012**	**July 30, 2011**	**Dollars**	**Percent**
Current assets:				
Cash and cash equivalents	$ 9,799	$ 7,662	$ 2,137	28%
Investments	38,917	36,923	1,994	5%
Accounts receivable, net	4,369	4,698	(329)	(7%)
Inventories	1,663	1,486	177	12%
Financing receivables, net	3,661	3,111	550	18%
Deferred tax assets	2,294	2,410	(116)	(5%)
Other current assets	1,230	941	289	31%
Total current assets	$ 61,933	$ 57,231	$ 4,702	8%
Property and equipment, net	$ 3,402	$ 3,916	$ (514)	(13%)
Financing receivables, net	3,585	3,488	97	3%
Goodwill	16,998	16,818	180	1%
Purchased intangible assets, net	1,959	2,541	(582)	(23%)
Other assets	3,882	3,101	781	25%
Total Assets	**$ 91,759**	**$ 87,095**	**$ 4,664**	**5%**
LIABILITIES AND EQUITY				
Current liabilities:				
Short-term debt	$ 31	$ 588	$ (557)	(95%)
Accounts payable	859	876	(17)	(2%)
Income taxes payable	276	120	156	130%
Accrued compensation	2,928	3,163	(235)	(7%)
Deferred revenue	8,852	8,025	827	10%
Other current liabilities	4,785	4,734	51	1%
Total current liabilities	$ 17,731	$ 17,506	$ 225	1%
Long-term debt	$ 16,297	$ 16,234	$ 63	0%
Income taxes payable	1,844	1,191	653	55%
Deferred revenue	4,028	4,182	(154)	(4%)
Other long-term liabilities	558	723	(165)	(23%)
Total liabilities	$ 40,458	$ 39,836	$ 622	2%
Total equity	$ 51,301	$ 47,259	$ 4,042	9%
Total Liabilities and Equity	**$ 91,759**	**$ 87,095**	**$ 4,664**	**5%**

OMPONENT – REQUIREMENT 3

Total equity	$ 51,301	$ 47,259	$ 4,042	9%
Total Liabilities and Equity	**$ 91,759**	**$ 87,095**	**$ 4,664**	**5%**

Cisco Systems, Inc. (CSCO)
Comparative Statements of Income
For the Fiscal Years Ended July 28, 2012 and July 30, 2011
(in millions of dollars)

			Increase (Decrease)	
	July 28, 2012	**July 30, 2011**	**Dollars**	**Percent**
Net sales	**$ 46,061**	**$ 43,218**	**$ 2,843**	**7%**
Cost of goods sold	17,852	16,682	1,170	7%
Gross margin	$ 28,209	$ 26,536	$ 1,673	6%
Operating Expenses:				
Research and Development	5,488	5,823	(335)	(6%)
Sales and marketing	9,647	9,812	(165)	(2%)
General and administrative	2,322	1,908	414	22%
Amortization of purchased intangible assets	383	520	(137)	(26%)
Restructuring and other charges	304	799	(495)	(62%)
Total operating expenses	18,144	18,862	(718)	(4%)
Operating income	$ 10,065	$ 7,674	$ 2,391	31%
Interest income	650	641	9	1%
Interest expense	(596)	(628)	32	(5%)
Other income (loss), net	40	138	(98)	(71%)
Interest and other income, net	94	151	(57)	(38%)
Income before taxes	$ 10,159	$ 7,825	$ 2,334	30%
Income tax expense	2,118	1,335	783	59%
Net income	**$ 8,041**	**$ 6,490**	**$ 1,551**	**24%**

Cisco Systems, Inc. (CSCO)
Comparative Statements of Cash Flows
For the Fiscal Years Ended July 28, 2012 and July 30, 2011
(in millions of dollars)

	July 28, 2012	July 30, 2011	Increase (Decrease) Dollars	Increase (Decrease) Percent
Net Cash Flows from Operating Activities:				
Net Income	$ 8,041	$ 6,490	$ 1,551	24%
Adjustments:				
Depreciation, amortization, and other	2,602	2,486		
Share-based compensation expense	1,401	1,620		
Provision for receivables	50	89		
Deferred income taxes	(314)	(157)		
Excess tax benefits from share-based compensation	(60)	(71)		
Net gains on investments	(31)	(213)		
Changes in:				
Accounts receivable	272	298		
Inventories	(287)	(147)		
Financing receivables	(846)	(1,616)		
Other assets	(674)	275		
Accounts payable	(7)	(28)		
Income taxes, net	418	(156)		
Accrued compensation	(101)	(64)		
Deferred revenue	727	1,028		
Other liabilities	300	245		
Net cash provided by operating activities	$ 11,491	$ 10,079	$ 1,412	14%

	July 28, 2012	July 30, 2011	Increase (Decrease) Dollars	Increase (Decrease) Percent
Net Cash Flows from Investing Activities:				
Purchase of investments	$ (41,810)	$ (37,130)		
Proceeds from sales of investments	27,365	17,538		
Proceeds from maturities of investments	12,103	18,117		
Acquisition of property and equipment	(1,126)	(1,174)		
Acquisition of businesses, net of cash and cash equivalents	(375)	(266)		
Purchases of investments in privately held companies	(380)	(204)		
Return of investments in privately held companies	242	163		
Other	166	22		
Net cash used in investing activities	$ (3,815)	$ (2,934)	$ 881	30%
Net Cash Flows from Financing Activities:				
Issuance of common stock	$ 1,372	$ 1,831		
Repurchase of common stock	(4,760)	(6,896)		
Short-term borrowings, maturities less than 90 days, net	(557)	512		
Issuances of debt, maturities greater than 90 days	-	4,109		
Repayments of debt, maturities greater than 90 days	-	(3,113)		
Excess tax benefits from share-based compensation	60	71		
Dividends paid	(1,501)	(658)		
Other	(153)	80		
Net cash used in financing activities	$ (5,539)	$ (4,064)	$ 1,475	36%
Net increase (decrease) in cash and cash equivalents	$ 2,137	$ 3,081		
Cash and cash equivalents, beginning of fiscal year	7,662	4,581		
Cash and cash equivalents, end of fiscal year	$ 9,799	$ 7,662	$ 2,137	28%
Supplemental Information:				
Interest paid	$ 681	$ 777		
Income taxes paid	$ 2,014	$ 1,649		

Vertical Analysis

PROJECT COMPONENT – REQUIREMENT 5

Cisco Systems, Inc. (CSCO)
Common-Size Comparative Balance Sheets
July 28, 2012 and July 30, 2011
(in millions of dollars)

	July 28, 2012		July 30, 2011	
	Dollars	Percent	Dollars	Percent
Cash and cash equivalents	$ 9,799	10.7%	$ 7,662	8.8%
Investments	38,917	42.4%	36,923	42.4%
Accounts receivable, net	4,369	4.8%	4,698	5.4%
Inventories	1,663	1.8%	1,486	1.7%
Financing receivables, net	3,661	4.0%	3,111	3.6%
Deferred tax assets	2,294	2.5%	2,410	2.8%
Other current assets	1,230	1.3%	941	1.1%
Total current assets	**$ 61,933**	**67.5%**	**$ 57,231**	**65.7%**
Property and equipment, net	3,402	3.7%	3,916	4.5%
Financing receivables, net	3,585	3.9%	3,488	4.0%
Goodwill	16,998	18.5%	16,818	19.3%
Purchased intangible assets, net	1,959	2.1%	2,541	2.9%
Other assets	3,882	4.2%	3,101	3.6%
Total long-term assets	**$ 29,826**	**32.5%**	**$ 29,864**	**34.3%**
Total assets	**$ 91,759**	**100%**	**$ 87,095**	**100%**
Short-term debt	$ 31	0.03%	$ 588	0.7%
Accounts payable	859	0.9%	876	1.0%
Income taxes payable	276	0.3%	120	0.1%
Accrued compensation	2,928	3.2%	3,163	3.6%
Deferred revenue	8,852	9.6%	8,025	9.2%
Other current liabilities	4,785	5.2%	4,734	5.4%
Total current liabilities	**$ 17,731**	**19.3%**	**$ 17,506**	**20.1%**
Long-term debt	16,297	17.8%	16,234	18.6%
Income taxes payable	1,844	2.0%	1,191	1.4%
Deferred revenue	4,028	4.4%	4,182	4.8%
Other long-term liabilities	558	0.6%	723	0.8%
Total liabilities	**$ 40,458**	**44.1%**	**$ 39,836**	**45.7%**
Total equity	51,301	55.9%	47,259	54.3%
Total liabilities and equity	**$ 91,759**	**100%**	**$ 87,095**	**100%**

Cisco Systems, Inc. (CSCO)
Common-Size Comparative Income Statements
For the Fiscal Years Ended July 28, 2012 and July 30, 2011
(in millions of dollars)

	July 28, 2012		July 30, 2011	
	Dollars	**Percent**	**Dollars**	**Percent**
Net Sales	**$ 46,061**	**100%**	**$ 43,218**	**100%**
Cost of goods sold	17,852	38.8%	16,682	38.6%
Gross margin	**$ 28,209**	**61.2%**	**$ 26,536**	**61.4%**
Operating expenses:				
Research and development	5,488	11.9%	5,823	13.5%
Sales and marketing	9,647	20.9%	9,812	22.7%
General and administrative	2,322	5.0%	1,908	4.4%
Amortization of purchased intangible assets	383	0.8%	520	1.2%
Restructuring and other charges	304	0.7%	799	1.8%
Total operating expenses	18,144	39.4%	18,862	43.6%
Operating income	$ 10,065	21.9%	$ 7,674	17.8%
Interest income	650	1.4%	641	1.5%
Interest expense	(596)	1.3%	(628)	1.5%
Other income (loss), net	40	0.1%	138	0.3%
Interest and other income, net	94	0.2%	151	0.3%
Income before taxes	**$ 10,159**	**22.1%**	**$ 7,825**	**18.1%**
Income tax expense	2,118	4.6%	1,335	3.1%
Net Income	**$ 8,041**	**17.5%**	**$ 6,490**	**15.0%**

Opinion of Financial Statement Analysis

PROJECT COMPONENT – REQUIREMENT 6

A study of the horizontal and vertical analyses of the financial statements leaves the reader with the impression that Cisco is reducing its debt burden, managing expenses, and conserving cash. The balance sheet accounts show a 95% decrease in short-term debt and a 28% increase in cash. Cisco's cash position (including investments) comprises 53% of total assets. The relative composition of other current asset accounts has remained almost the same over the past two fiscal years.

The income statement shows a 7% increase in net sales that is offset by the same increase in the cost of goods sold. However, since other expenses are being controlled, overall operating income increased by 31%; the profit margin ratio increased to 17.5% from 15%. This may be due to a reduction in employee-related costs.

From the cash flow statement, operations generated $1.4 billion more in FY2012 than FY2011. Net income for the period increased by 24%, or $0.33 per share. Cisco's investment activities have also shown improvement, and the company more than doubled the amount of dividends paid to $0.28 per share.

It is the author's opinion that Cisco appears to be managing its resources well in the current uncertain environment of rising expenses, taxes, and regulations. The company's ability to reduce debt and conserve cash, while still investing in the company, seems prudent given the current economic conditions.

Ratio Analysis

PROJECT COMPONENT – REQUIREMENT 7

LIQUIDITY RATIOS		
Quick Ratio:	**July 28, 2012**	**July 30, 2011**
Cash and cash equivalents	9,799	7,662
Investments	38,917	36,923
Accounts receivable, net of allowance for doubtful accounts	4,369	4,698
Financing receivables, net	3,661	3,111
Total quick assets	56,746	52,394
Current liabilities	17,731	17,506
Quick Ratio	3.20	2.99
Current Ratio:		
Current assets	61,933	57,231
Current liabilities	17,731	17,506
Current Ratio	3.49	3.27
Accounts Receivable Turnover Ratio:		
Net Sales	46,061	43,218
Average accounts receivable	4,131	4,551
A/R Turnover Ratio	11.15	9.50
Average days' sales uncollected	32.74	38.44
Inventory Turnover Ratio:		
Cost of goods sold	17,852	16,682
Average inventory	1,593	1,513
Inventory turnover ratio	11.21	11.03
Average days' inventory on hand	32.57	33.10
LONG TERM SOLVENCY RATIOS		
Debt to Equity Ratio:	**July 28, 2012**	**July 30, 2011**
Total liabilities	40,458	39,836
Total stockholders' equity	51,301	47,259

Debt to equity ratio (to 1)	0.79	0.84
Times Interest Earned Ratio:		
Net income	8,041	6,490
Interest expense	596	628
Income tax expense	2,118	1,648
	10,755	8,766
Times interest earned ratio (to 1)	18.05	13.96
PROFITABILITY RATIOS		
Profit Margin Ratio:		
Net income	8,041	6,490
Net sales	46,061	43,218
Profit margin ratio	17.46%	15.02%
Asset Turnover Ratio:		
Net sales	46,061	43,218
Average total assets	89,427	84,113
Asset turnover ratio	0.52	0.51
Return on Assets Ratio:		
Net Income	8,041	6,490
Average total assets	89,427	84,113
Return on assets ratio	8.99%	7.72%
Return on Equity Ratio:		
Net income	8,041	6,490
Average stockholders' equity	49,256	45,747
Return on equity ratio	16.32%	14.19%
MARKET STRENGTH RATIOS		
Dividend Yield Ratio:	**July 28, 2012**	**July 30, 2011**
Dividend per share	0.28	0.12
Market price per share	15.69	15.97
Dividend yield ratio	1.78%	0.75%
Earnings per Share:		
Net income	8,041	6,490
Common shares outstanding	5,404	5,563
	$ 1.4	$ 1.1
Earnings per share	9	7
Price/Earning Ratio:		
Market price per share	15.69	15.97
Earnings per share	1.49	1.17
P/E ratio (to 1)	11	14
CASH FLOW		
Cash Flow Yield:		
Net cash flow from operations	11,491	10,079
Net Income	8,041	6,490
	1.43	1.55
Cash Flow to Sales:		
Net cash flow from operations	11,491	10,079
Net sales	46,061	43,218
	0.25	0.23
Cash Flow to Assets:		
Net cash flow from operations	11,491	10,079
Average total assets	89,427	84,113
	0.13	0.12

Cisco's Financial Status

PROJECT COMPONENT – REQUIREMENT 8

As stated earlier, Cisco Systems has maintained profitability and revenue growth by controlling debt and expenses while managing the company's investments to increase cash. Therefore, it's not surprising that an analysis of certain ratios would reinforce this evaluation.

The current ratio for FY2012 of 3.5 is in line with the networking and communication devices industry standard of 3.4. Two of Cisco's competitors within the same industry, Juniper Networks and Palo Alto Networks, show current ratios of 2.6 and 3.1, respectively. Cisco's accounts receivable turnover ratio is 11.1 (industry standard is 10.9), and the inventory turnover ratio is 11.2 (industry standard is 9.4). These would indicate that the company is managing those accounts effectively, as indicated by Cisco's strong cash position.

Cisco continues to maintain its profitability ratios. A profit margin ratio of 17.5% (an increase of 2.5% over FY2011) beats the industry standard of 15.3%. Comparatively, Juniper Networks' profit margin lags at 4.3%. Cisco has also shown an improvement in the return on assets ratio (8.99% vs 7.72%) and the return on equity ratio (16.32% vs. 14.19%). These figures would be favorable to investors and creditors.

Cisco does not show any serious solvency issues based on their debt-to-equity ratios and times interest earned ratios. The debt-to-equity ratio declined in FY2012 by 6%. The times interest earned ratio for FY2012 increased by 29%. Again, these results are not unexpected for a company trying to control its debt.

Cisco's earnings per share for FY2012 was $1.49, an increase of 27% over the previous year. The dividend yield ratio increased 137% over the same period. Both are positive indicators for investors. Juniper Networks showed an EPS of only 0.35.

It would appear that Cisco's management has been successful in keeping the company profitable and in a position to continue revenue growth. A quick Internet search reveals that the company has surpassed market estimates for earnings and profits for the last several quarters. Cisco's ability to conserve cash allows the company to acquire smaller companies that should help to ensure future growth. Overall, Cisco seems well-positioned to weather the current uncertain financial conditions.

Author's Opinion

PROJECT COMPONENT – REQUIREMENTS 9 & 10

Based on the results of this project, I would be inclined to purchase stock in Cisco Systems. I am encouraged by the company's performance over the last few years, and companies that pay dividends have always appealed to me. I would consider myself to be a value investor, and I believe that Cisco is currently favorably priced.

As for employment, theoretically, I would accept a position with the company. I believe that demand for Cisco's products will continue to grow over the next several years because of the move towards virtualization and cloud-based networking within the industry. I also feel that Cisco's leadership shows integrity in the management of the company.

This project showed me how to understand and apply the information found in a company's financial statements and annual report. Being able to analyze what the numbers mean, beyond whether they show just an increase or decrease, will be a valuable skill to have as an investor. Also, understanding how various accounts relate to one another and what effect they have on revenue, profitability, costs, etc., was a great way to illustrate what we have been studying this semester. I appreciate completing an assignment that can translate to something that actually benefits me and my family.