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**TECHNIQUES OF FINANCIAL ANALYSIS, MODELING,
AND FORECASTING**



Delta Publishing Company

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PREFACE

Financial analysis is necessary in evaluating internal operations and activities to optimize profit and efficiency while at the same time reducing the risk. Problem areas must be identified so that corrective, timely action may be taken.

Break-even analysis determines what level of sales of a product line is necessary to cover costs. Contribution margin evaluation indicates what selling price to charge given a special order situation.

To determine where funds should be expended in the business, capital budgeting techniques are provided including present value, internal rate of return, and payback. Applications of various types of investment opportunities are addressed.

Analyzing the balance sheet, income statement, and overall financial structure shows you the company's financial strengths and deficiencies, and problem areas are noted for management attention. How the business is viewed financially by investors and creditors affects the firm's chances of financing, cost of capital, and the market price of its stock.

Knowing how to evaluate segmental performance is essential in recognizing the relative performance of divisions within the firm. Also, comparisons can be made to similar divisions in competing companies. Measures of performance include return on investment and residual income.

The management of current assets and liabilities positively affects the bottom-line and reduces risk. Some examples of this are accelerating cash inflow, delaying cash outflow, inventory planning, and investment portfolio management. By acquiring other companies, diversification and earning power may be enhanced. Selecting the right financing instrument to obtain funds is critical; it affects both cost of capital and restrictiveness of funds.

Financial planning models are used to generate pro-forma financial statements and financial ratios. These are the basic tools for budgeting and profit planning. There are user-oriented computer software systems specifically designed for corporate planners and executives. Due to technological advances in computers, such as networking and data base management systems, more companies are using modeling. A model is necessary for making day-to-day operational and strategic planning decisions. Financial planning models, which is one functional branch of a general corporate model, may be used for many purposes. Among these applications are

- Financial forecasting
- Budgeting
- Tax planning
- Profit planning
- Capital budgeting
- Risk analysis
- Cash management
- Merger and acquisition analysis
- New venture analysis

Supported by the expanded capabilities provided by models, many companies are increasingly successful in including long-term strategic considerations in their business plans, thus enabling them to investigate the possible impact of their current decisions on future profitability and cash flow. For example, companies are able to examine the effects of proposed mergers and acquisitions with much more certainty and to estimate with more confidence the potential profits from new markets. The applications of and benefits deriving from the use of well-designed and sophisticated planning models are unlimited. The model is, in short, a technique for “risk” analysis and “what-if” experiments. Modeling allows for strategic planning and for accomplishing operational and tactical decisions for immediate planning problems.

With the ever-increasing technology in the areas of spreadsheets, data base management systems, graphics, and the like, businesspeople will have no choice but to utilize financial models more effectively. Using the applications found throughout this course, you will be able to use modeling for analytical decisions without having to know programming.

The course shows you:

- How to develop a new model
- How to select the best user-oriented planning package to meet the specific needs and resources available
- How to use your spreadsheet program on a microcomputer for various modeling purposes
- How to tie the financial model to the overall management information system framework

This is your guide for more effective financial management. Use it often, to keep continuous tabs on your company’s financial health.

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