

**NEAR EAST UNIVERSITY**



**FACULTY OF ECONOMICS AND ADMINISTRATIVE  
SCIENCE DEPARTMENT OF BUSINESS**

**COMPARATIVE FINANCIAL STATEMENT ANALYSIS  
OF  
TWO TYRE MANUFACTURER'S  
BRIDGESTONE (BRISA) & GOODYEAR**

**Submitted By : Nevzat Anıl -970854  
Submitted to : Dr. Mehmet Ağa.**

## ABSTRACTS

The financial statements analysis is a very important step in evaluating the performance of the companies. This performance evaluations are very important for the creditors and investors and managers who needs the information about the past, current and forecasted position of the company.

This study aims to analyze financial statements of both Bridgestone and Goodyear between the year 1998 – 2002. The analysis will be made on those companies as they are competitors in the market, so that we can make comparisons and decide which one is more powerful than the other.

After conducting all these analysis in this project the final conclusion that appeared to be that, the overall performance of Bridgestone is stronger company then Goodyear.

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## INTRODUCTION

Financial Statement analysis involves using the output of the standard business information system found in all businesses to judge the performance and riskiness at an instance or over time. A business may have other information systems for managers but all business must conform with generally accepted standards with their accounting statements.

There are several steps in the use of Financial Statement Analysis is designed to;

Understanding the basic statements, Inherent problems with the system

Use of ratio analysis, Interpreting the analysis and Using the analysis.

Financial statements is a tool which used by the investors and analysts to understand the current position of the company also helps them to understand the basic concepts and makes them to understand the position of the company more efficiently.

Financial analysis can be easily made with the help of the financial statements, which helps to identify and find answer to the question, regarding the company's well being. For example, a bank officer may want to know if the company has short-term liquidity problems, or an investor might need to find out if investment in a certain company is profitable or not. Finding answers to such questions obtained through the use of financial ratios. Although financial statement analysis has some limitations, when used with care and judgments, it can provide a great deal of information about the company.

The aim of this study is to analyze financial statements of both Bridgestone and Goodyear for the last five years (1998- 2002) as they are competitors and to find out which one is more powerful situation than the other. Both Bridgestone and Goodyear are tyre manufacturers in Turkey and they both operate globally. Their stocks are traded in Istanbul Stock Exchange.

The information needed to do this analysis have been gathered from books related finance and accounting, the web sites of the investment companies, homepages of the company itself and from the web side of Istanbul Stock Exchange market.

The analyses of the Goodyear and Bridgestone have been conducted in five stages.

The first stage includes the background of both Bridgestone and Goodyear and their historical development till year 2002.

The second stage is concerned with the scientific definitions and different approaches from different sources about the financial statements. The functions of balance sheet, Income statement, stockholders equity section and statement of cash flows are clearly identified in this stage.

The third stage illustrates some very important tools of analyzing the financial position of the company. These tools are Dollar and Percentage Changes, Component Percentages, Trend Analysis and Ratios of both Goodyear and Bridgestone, which gives the information necessary to see the weaknesses and strengths of companies.

In the forth stages all the calculations related to these Component Percentage, Dollar and Percentage Changes, Trend Percentages and Ratio of both Goodyear And Bridgestone have been illustrated.

In the fifth stages the limitations faced while conducting the projects has been illustrated.

At the end conclusion and recommendations will be provided to the users of financial statements.

## **I. HISTORICAL BACKGROUND**

### **I. HISTORICAL BACKGROUND OF BRIDGESTONE (BRISA)**

The Lassa was established in 1974 by the Sabancı Group, the leading industrial conglomerate in Turkey, and started production in 1978.

In response to developments in the world tyre industry, the Sabancı Group and the Bridgestone Corporation of Japan became joint venture partners in November 1988. The new company, BRISA Bridgestone Sabancı Tyre Manufacturing and Trading Inc., represented Turkey's largest Japanese investment at that time. The joint venture synergy allowed the company to increase its capacity and product range.

In July 1989, the groundbreaking ceremony of the new plant signaled a period of rapid development, and production in the new factory started in November 1990. Brisa has one of the world's largest tyre production facilities under a single roof. The Brisa plant is located in Kentsa, a unique and exceptionally green industrial town built by the Sabancı Group, located hundred kilometers East of Istanbul.

With its integrated tyre production facilities extending 2 million m<sup>2</sup>, the Brisa plant has a covered area of 260.000 m<sup>2</sup>, where over four hundred different types of tyres from passenger to earthmover are produced. New products are introduced continuously for keeping a competitive position not only in the domestic market, but in the world markets as well. Brisa markets its products to automotive manufacturers and retail outlets in over 30 countries, primarily European.

Production at Brisa is supported by its own Tyre Research and Development Center which is equipped with laboratories capable of conducting standard and special tests, a computer-aided tyre design and development center and a conference unit. In collaboration with Bridgestone's Technical Center, this center plays a vital role in reinforcing Brisa's competitive edge in world markets.

Brisa has an internationally recognized record of achievements in quality management in the pursuit of total customer satisfaction, and continues to build its future on Excellence.

Brisa's Excellence practices, which have been put to effect in all aspects of company activities since 1990, have yielded outstanding results. The improvements in employees' well-being, customer satisfaction, market share and business performance have made Brisa a role model in Turkish society, and is now firmly established, and perceived by all, as part of Brisa's corporate culture.

Brisa became the first tyre company to receive the ISO-9001 Quality Systems Certificate in 1992 for all of its production. Brisa has obtained BS-7750 and ISO/DIS-14001 Environmental Management Systems Certificate, and places the highest emphasis on environmental issues.

Successful practices on its journey towards Excellence have brought Brisa numerous national and international awards. Among them was the first National Quality Award given in Turkey in 1993, based on the criteria set by the European Foundation for Quality Management (EFQM). In 1996 Brisa won the prestigious European Quality Award at the first attempt. The Award presented to the best-performing company in the implementation of the European Model for Excellence, stands as the ultimate recognition of Brisa's dedication to quality in all aspects of its operations.

## **II. HISTORICAL BACKGROUND OF GOODYEAR**

Goodyear completed several international acquisitions, expanding its global scope. Acquired a 50 percent stake in Sweden's Dackia, a tire retailer. Purchased tire assets of Sime Darby Pilipinas in the Philippines. Purchased a 60 percent interest in South African tire company Contred. Bought the assets of Belt Concepts of America, a lightweight conveyor belt maker, in Spring Hope, North Carolina. Formed Goodyear Polska subsidiary to sell products in Poland. Closed a tire plant in Thessaloniki, Greece. Introduced Infinitred, the industry's first auto tire to carry lifetime tread wear warranty.

Expanded Goodyear's European presence with a tire and engineered products joint venture pact with Slovenia's Sava Group. Signed an off take agreement with Sumitomo Rubber, exchanging United States replacement tire manufacturing capacity for Japanese capacity and began a market test to sell each other's tires. Increased ownership in India's South Asia Tyres from 60% to 74%, Goodyear Engineered Products bought the assets of Venezuelan hose manufacturer Indomax and its three affiliated companies. Announced plans to build a power transmission products plant in northern Mexico. Goodyear Brazil announced a deal with a subsidiary of Japan's NGK/NTK Spark Plug Co. to sell automotive belts through its 60-distributor Brazilian network. Introduced the "Serious Freedom" advertising campaign in North America. Signed a deal with NASCAR, making Goodyear the "exclusive tire supplier" of NASCAR's top three race divisions. Became the exclusive NASCAR-licensee of automotive-aftermarket belts and hose. Blimp fleet doubles with two airships added in Europe and one in Latin America. Introduced Eagle pd synchronous belt and sprocket assembly for power transmissions. Began construction of a conveyor belt technical center in Marysville, Ohio. Closed the Morant Bay, Jamaica, tire plant. Announced that Goodyear would withdraw from Formula One racing after 1998 season. Introduced Eagle HP and Eagle HP Ultra high-performance tires. Announced a six-year, \$600 million expansion plan for Goodyear

Chemicals that includes two new plants, expansions and implementation of new technologies. Began hiring 200 new engineers and scientists to augment technical and engineering staffs in Akron and Luxembourg.

Goodyear celebrated its first 100 years in business. Purchased the remaining 40% interest in control tire and engineered products subsidiary in South Africa. Purchased the remaining shares of India's South Asia Tyres. Sold the All American Pipeline, Celeron Gathering and Celeron Trading and Transportation. Sold a latex plant in Calhoun, Georgia, plant to GenCorp. Sold the extruded rubber business in St. Mary's, Ohio, to Longwood Elastomers. Formed a belt-drive systems development alliance with Litens. Announced the development of an advanced tire manufacturing process called IMPACT. Introduced a new steel passenger car tire technology known as Ultra-Tensile Steel Wire, using it in the Eagle Aqua steel EMT run-flat tire and Eagle F1 Steel tires. Announced plans to close Kelly-Springfield's Cumberland, Maryland, offices by mid-1999. Completed a \$15 million expansion of Luxembourg Technical Center. Introduced Tracker Mud runner tire for ATVs. Developed the industry's first non-directional radial farm tractor tire. Selected Beaumont, Texas, as the site for the first phase of Goodyear Chemical's \$600 million expansion. Announced \$18 million in expansion projects for plants in Union City, Tennessee, and Decatur, Georgia. Completed a \$14 million expansion of the Beaumont, Texas, chemical plant. Invested \$20 million in new state-of-the-art equipment in Union City, Tennessee, tire plant to make it the second North American facility producing run-flat tires. Introduced Regatta 2 all-season radial tires in North America. Increased radial tire capacity at Napanee, Ontario, plant with a \$12 million expansion. Began relocating small bias-ply tire production from Kelly-Springfield's Freeport, Illinois, plant to other locations. Announced \$1 billion global alliance with Japan's Sumitomo Rubber Industries Ltd., which has rights to the Dunlop tire brand in much of the world, to establish six joint ventures. Goodyear will become the world's largest tire company when the alliance takes effect. Became national title sponsor of the 1999 All-American Soap Box Derby....

Formed a joint venture with Tread co, combining U.S. truck tire service and retreading outlets into a network of almost 200 service centers and 77 retreading plants, the world's largest. Reached an agreement with Michelin to combine the best of its Pax system and Goodyear's EMT breakthroughs that includes agreements on research and development, licensing of each company's patents and the creation of a global aftermarket service network. Introduced Aquatred 3, the newest in the popular Aquatred line. Formed an Internet-based purchasing alliance with five other rubber companies called RubberNetwork.com. The Web-based platform is designed to be an easy access, cost-effective medium to buy and sell supplies, exchange information regarding forecasts, inventory, billing, shipment and product design in real time - and cut costs.... Established an internal structure designed to develop Goodyear's e-business. The Australia-based airship "Spirit of the South Pacific" worked with international media to assist telecast of the Sydney 2000 Summer Olympics. Opened a sales and distribution center in Dubai, the chief port and commercial center of the United Arab Emirates, allowing access to more than 40 markets in the Middle East, Africa and Central Asia. Introduced the Kelly Safari SUV tire and the Navigator Platinum TE, a touring tire that features an 80,000-mile limited tread wear warranty and free road hazard protection. Bob Keegan joined Goodyear as president and chief operating officer on Oct. 1, bringing 28 years of experience in the consumer products area, most recently as president of Kodak's global consumer imaging business.

## **II. FINANCIAL STATEMENT**

### **2.1. BALANCE SHEET**

A balance sheet also called the statement of condition or statement of financial position provides a wealth of valuable information about a business firm, particularly when examined over a period of several years and evaluated in relation to the other financial statement. (Lyn Fraser & Aliene Ormiston 2001)

The balance sheet shows the financial condition or financial position of a company on a particular date. The statement is a summary of what the firm owns (assets) and what the firm owes to outsiders (liabilities) and internal owners (stock holders equity). By definition, the account balances on a balance sheet must balance; that is, the total of all assets the sum of liabilities and stockholders equity. (Lyn Fraser & Aliene Ormiston 2001)

Balance Sheet is a financial statement that present the assets of companies. On the specific dates end the source of their assets. Assets are classified from the most liquid to the least liquid according to liquidity and the liabilities are classified from the shortest maturity to the longest maturity. (Lyn Fraser & Aliene Ormiston 2001)

In order to obtain compatibility and unity, the types in the supplementary sheet are taken as a basis in the preparation of balance sheet. Assets are classified in to two groups as current and non-current assets. Liabilities are classified as current and non-current liabilities and shareholders` equity. Balance sheet accounts can not be netted off. If an item classified "Other" exceeds 20% of the respective components, than this item is separately presented. Account groups to be presented in the detailed balance sheet. (Dr.Yuksel Koç Yalçın 2000)

### 2.1.1. Assets

Assets are the resources of a business entity acquired in a market transaction. Included are some cost factors that have been incurred which can reasonably be expected to benefit future periods. (Harold Bierman & Allan R. Drebin 1977)

The asset section of the balance sheet is divided into two basic components assets are classified as current assets or non current assets on the basis of liquidity. Current assets are cash and those other assets that will normally be converted in to cash within a period of one year or one operating cycle if it is longer than a year; Non current are those assets that are not likely to be converted into cash in the normal operating cycle of the firm. (Lyn Fraser & Alieen Ormiston 2001)

Operating cycle refers to the average time it takes to convert raw<sup>3</sup> material into a finished product, sell it. And collect the cash. Most company use a year as the determining factor as to whether an item is a current asset because their normal operating cycle is less than a year. (Lyn Fraser & Alieen Ormiston 2001)

The current assets can be classified as; cash and marketable securities, accounts receivable, inventories and prepaid expenses. (Lyn Fraser & Alieen Ormiston 2001)

The cash account is exactly that cash in any form cash a waiting deposit or in a bank account.

Marketable securities (also referred to as short term investments) are cash substitutes, cash that is not needed immediately in the business and is temporarily invested to earn a return. These investments are in instruments with short-term maturities (less than one year) to minimize the risk of interest rate fluctuations. They must be relatively risk less securities and highly liquid so that funds can be readily withdrawn as needed. Instruments used for such purposes include U.S. Treasury bills, certificates, notes and bonds: negotiable certificates of deposit at financial institutions; and commercial paper<sup>4</sup> (unsecured promissory notes of large business firm). (Lyn Fraser & Alieen Ormiston 2001)

Assets are classified in two as current and non-current assets and assets should be classified as a non-current asset when it:

- a) is expected to be realized in, or is held for sale or conception in, the normal course of the enterprise's operating cycle; or
- b) is held primarily for trading purposes or for the short-term and expected to be realized within twelve months of the balance sheet date; or
- c) is cash or a cash equivalent asset which is not restricted in its use.

All other assets should be classified as non-current assets

Classification of assets as current and non-current assets is the main principle. However in some sectors, this classification may not be applicable. In this case when companies present these assets in accordance with their nature, they have to disclose assets with maturity more than one year. (Dr.Yuksel Koç Yalçın 2000)

When an enterprise supplies goods or services within a clearly identifiable operating cycle, separate classification of current and non-current assets and liabilities on the face of the balance sheet provides useful information by distinguishing the net assets that are continuously circulating as working capital from those used in the enterprise's long-term operations. It also highlights assets that are expected to be realized within the current operating cycle, and liabilities that are due for settlement within the same period. (Dr.Yuksel Koç Yalçın 2000)

In order to report the assets in the current value at the balance sheet date, provision has to be reserved according to the decrease in its value. Provision has to be reserved, if necessary, for the items in current assets that consists of marketable securities, receivables, inventory and for other current assets. (Dr.Yuksel Koç Yalçın 2000)

This principle is also valid for items in non-current assets such as related marketable securities, affiliates, subsidiaries and other non-current items. Notes receivables, that are part in current and

non-current group, have to be rediscounted in order to show its value at balance sheet date.

(Dr.Yuksel Koç Yalçın 2000)

Prepaid expenses of the following accounting periods and accrued income for the current period that will be collected in the following period has to be accounted, identified and presented in the balance sheet. (Dr.Yuksel Koç Yalçın 2000)

In order to distribute the cost of tangible and intangible non-current assets in the balance sheet, accumulated depreciation amounts for each period are presented separately. In order to add the cost of assets in the non-current assets group that are subject to amortization, into various period costs, accumulated amortization amounts for each period are presented separately. (Dr.Yuksel Koç Yalçın 2000)

It is the basic principle that receivables, marketable securities, related marketable securities and other related accounts and liabilities, which are the part of current and non-current assets of the balance sheet related to partners, affiliates and subsidiaries that have relation by capital and management, should be presented separately. (Dr.Yuksel Koç Yalçın 2000)

No accrual is done for the receivable amounts that could not be determined. These kinds of receivables are disclosed in balance sheet footnotes or appendices. (Dr.Yuksel Koç Yalçın 2000)

The properties and contents of the given pledges, mortgages and other guarantees are adequately disclosed in the balance sheet footnotes or appendices. This principle is also valid for the taken pledges, mortgages and other guarantees that are not presented in the balance sheet. In addition, it is required that total insurance amounts related to the assets should be adequately disclosed in the balance sheet footnotes or appendices. (Dr.Yuksel Koç Yalçın 2000)

Account Receivables are relatively liquid assets, usually convertors into cash within a period of 30 to 60 days. Therefore, accounts receivables from customer usually appear in the balance sheet immediately after cash and short-term investments in marketable securities. (Mark Bettner & Ray Whittington & Robert F. Meigs & Mary A. Meigs 1996)

In a merchandising companies inventory consists of all goods owned and held for sale to customers. Inventory is converted into cash within the companies operating cycle and therefore is regarded as a current asset. In the balance sheet, inventory is listed immediately after accounts receivables, because it is just one step far then removed from conversion into cash than customer receivables. (Mark Bettner & Ray Whittington & Robert F. Meigs & Mary A. Meigs 1996)

Certain expenses, such as insurance, rent, property taxes, and utilities, are some times paid in advance. They are included in current assets if they will expire within one year or one operating cycle whichever ever is longer. (Lyn Fraser & Alieen Ormiston 2001)

Non-current assets are also referred to as fixed assets or long-lived assets. This category includes such things as land, buildings and equipment. These items are normally expected to last more than one year and cannot be sold (turned into cash) without disrupting the normal business operations. (Harold Bierman & Allan R. Drebin 1977)

A distinction is made in account practice between tangible and intangible assets. This distinction is to some extent based on the usual physical characteristics of the items. Thus items that are normally considered tangible in the usual sense, such as buildings, equipment, and merchandise are also considered to be tangible assets for accounting purposes. (Harold Bierman & Allan R. Drebin 1977)

Items classified as intangibles in account do not usually possess any physical substances (they may be represented by a piece of paper) and generally lack an easily measurable cost of reproduction.

Intangible assets include such items as patent, trademarks, copyrights, and goodwill. These items

are very important resources to a company, but it would generally be exceedingly difficult to place a value on them. (Harold Bierman & Allan R. Drebin 1977)

Other assets on a Firm's balance sheet can include a multitude of other non-current items such as property held for sale, start up costs in connection with a new business, the cash surrender value of life insurance policies and long-term advance payments. (Lyn Fraser & Alieen Ormiston 2001)

The distinction between current and non-current assets is made on the basis of intention or normal expectation rather than ability to convert to cash. Thus inventories of materials are classified as current because they would normally be disposed of within one year. A building that might be disposed of just as easily is treated as non-current if it would not be sold within a year in the normal course of business. This is an application of the going concern premise. (Harold Bierman & Allan R. Drebin 1977)

### **2.1.2. Liabilities**

Liabilities are the obligation of the corporation. The terms are generally fixed by legal contract and have definite due dates. Stockholders equity refers to the ownership interest in the corporation. The amounts of the stockholders interests are not fixed by contract and they do not have definite due dates. (Lyn Fraser & Alieen Ormiston 2001)

The liability section is further divided on the basis of due date between current liabilities and non-current liabilities. The distinction is essentially the same as that applied to assets current liabilities are those obligations that are to be paid within one year. Whereas non-current or long term liabilities are those coming due in more than one year. (Lyn Fraser & Alieen Ormiston 2001)

Because the solvency of a corporation rests upon its ability to meet payment obligations when due, the distinctions between current and non-current liabilities is significant. An analyst wants to know the amount of debts coming due in each time period. (Lyn Fraser & Alieen Ormiston 2001)

Current liabilities include amounts owed to trade creditors (accounts payable), workers (wages payable), government (taxes payable), investors (interests or dividend payable) and customers (advances by customers). All are the current liabilities if they are due within a year (or within the operating cycle of the firm). (Lyn Fraser & Alieen Ormiston 2001)

Long-term liabilities include amounts that are owed but do not have paid within a year. The most common long-term liabilities are bonds, mortgages and notes. If a part of these items is due within 12 months, that amounts should be classified as current liability. It is the due date not the title, which determines the classification. (Harold Bierman & Allan R. Drebin 1977)

Liabilities divided into two groups as current and non-current:

Liabilities with a maturity of twelve months or maturity with in the operation period are presented as current liabilities in the balance sheet.

Liabilities with maturity of twelve months or maturity after the operation period are presented as non-current liability in the balance sheet. At the end of the period items with maturity less than twelve months are transferred to current liabilities. (Dr.Yuksel Koç Yalçın 2000)

Classification of liabilities as current and non-current is the main principle. However in some sectors, this classification is not applicable. In this case when companies present these liabilities in accordance with their nature, they have disclose liabilities with maturity more than one year.

Including the ones whose amounts cannot be found or are disputable, all the liabilities of the company that are known or can be reliably estimated are presented in the balance sheet. Liabilities that are known, but cannot be properly estimated should also be disclosed in the balance sheet footnotes.

Pre-collected revenue that belongs to subsequent period and accrued expenses should be accounted identified, and presented separately in the balance sheet. Notes payables in current term and non-current liabilities section are rediscounted at balance sheet date to reflect their value in real terms.

It is the basic principle that current and non-current liabilities, advances received and the other related accounts that are related to partners, affiliates and subsidiaries should be presented separately. (Dr.Yuksel Koç Yalçın 2000)

### **2.1.3. Stock Holders Equity**

The rights of the owners and shareholders on the assets of the enterprise form the equity group. (Dr.Yuksel Koç Yalçın 2000)

The owner interests in the company are represented in the final section of the balance sheet, stockholders equity or shareholders equity. Ownership equity is the residual interest in assets that remains after deducting liabilities. The owners bear the greatest risk because their claims are subordinate to creditors in the event of liquidation but owners also benefit from the rewards of a successful enterprise. The relationship between the amount of debt and equity in a firms capital structure and the concept of financial leverage, by which shareholder return are magnified. (Lyn Fraser & Aliene Ormiston 2001)

The stockholders equity section may be classified in various ways to provide additional information. The selection of the classification that is most useful will depend upon the interest of the users of the financial statements. Classifications of the stockholder equity section are considered which are designed to accomplish the follows purpose

1. Distinguish among equities of various classes of stockholders.
2. Distinguish between par value of stock and amounts paid in excess of or below par
3. Distinguish shares issued and outstanding from those that have been reacquired by the corporation.
4. Distinguish between capital arising from original contributions of stockholders and that generated through the retention of earnings.

5. Distinguish between retained earnings available for distribution to stockholders and retained earnings restricted for various reasons. (Harold Bierman & Allan R. Drebin 1977)

## **2.2. INCOME STATEMENTS**

Income statements represents all the income generated by the company during a certain period and all the costs and expenses bared by the company during the same period, and the resulting net profit or net loss for the period.

In the preparation of income statement, the explanations stated in the principles of financial statements are taken as a basis. Both income from operations and income from non-continuous operations and non-continuous extraordinary income are shown separately in the income statement. In addition, expenses related to ordinary operations of the company, and other ordinary expenses (whether continuous or non- continuous expenses) are shown separately. In the consolidated income statement profits distributed to minority shareholders are subtracted from profit for the period.

The items of the income statement cannot be netted off. If an item classified as "other" within an income or expense component exceeds 20% of the respective component, than this item is separately presented. Items with nil balance are not shown in the income statement. Income statement items are presented parallel to the order and explanations of the chart of accounts.

The aim of an income statement is to present the sales, revenues, cost of sales, expenses, profit and loss accounts and the results of operations belonging to specific periods in a classified, true and fair manner.

All sales, income and profit, cost, expense and loss are presented in gross amounts and no sales, income or profit account can be removed from the income statement by fully or partially comparing to expense and loss items.

While preparing the income statement, unrealized sales, income and profit cannot be presented as a realized ones cannot be shown less or more than the real amounts. In order to display the results of operation of a specific period, accounts are closed in a true and fair manner at the beginning or at the end of the period or periods.

Sales and income of a specific period are compared with cost of sales and expenses that are incurred to obtain those. In order to display the actual costs and expenses, inventory, receivables and payable accounts are closed in true and fair manner at the beginning or at the specific periods. For tangible assets and for the assets subject to amortization appropriate depreciation and amortization should be calculated and provided.

Costs are distributed among tangible assets inventories repair and maintenance and other expense group in an appropriate way. Direct costs are fully charged; indirect costs are accrued and charged with respect to their time and usage factor.

Accidental or extraordinary profit and losses are accrued within the period they occur, but presented separately from the results of the ordinary operations.

Profit and loss items expected for items that are so material that these require adjustments to prior period financial statements are presented in the current period income statement.

Provision cannot be used to arbitrage decrease the profit of an enterprise or to transfer the profit of a period to another period.

When there had been any changes in the valuation principles and costing methods that had been used, the results of these changes should be adequately disclosed.

The expenses and losses whose outcomes is dependent on the outcome of other events, results are based on conditional events; and that can be reliably estimated with a reasonable correctness, are accrued and presented in the income statement. Profit and income whose outcome is dependent on conditional events are not accrued and presented, even if there outcome can be reliably estimated. income statement. (Mark Bettner & Ray Whittington & Robert F. Meigs & Mary A. Meigs 1996)

### **2.2.1 Revenue**

Revenue is the price of goods sold and services rendered during a given accounting period.

Earning revenue causes owner's equity to increase. When a business renders services or sells merchandise to its customers, it usually receives cash or acquires account receivables from the customer. The inflow of cash and receivables from customers increases the total assets of the company; on the other side of the accounting equation, the liabilities do not change, but owner's equity increases to match the increase in total assets. Thus revenue is the gross increase in owner's equity resulting from operation of the business. Revenues are increases in the companies' assets from its profit directed activities, and they result in positive cash flows. Costs and income items that are either charged or credited to the profit and loss account for an accounting period. Various terms are used describe different types of revenue. The price of goods sold and services rendered during a given accounting period, thus revenue earned by selling merchandise is recognized when the goods are sold. Revenue also earned by rendering services to customers is recognized in the period in which the services are rendered. (Mark Bettner & Ray Whittington & Robert F. Meigs & Mary A. Meigs 1996)

### **2.2.2. Expenses**

Expenses are the costs of the goods and services used up in the process of earning revenue. Examples include the cost of employees, salaries, advertising, rent, utilities, and the gradual wearing-out (depreciation) of such assets as buildings, automobiles, and office equipment. All these costs are necessary to attract and serve customers and thereby earn revenue. Expenses are often called the "costs of doing business" that is, the cost of the various activities necessary to carry on a business. Expenses are decrease in the company's assets from its profit directed activities, and they results in negative cash flows. An expense always causes a decrease in owner's equity. The related changes in the accounting equation can be either, decrease in assets, or an

increase in liabilities. An expense reduces assets if payment occurs at the time that the expense is incurred. If the expense will not be paid until later as for example the purchase of advertising services on account, the recording of the expense will be accompanied by an increase in liabilities. Revenue increases owner's equity therefore revenue is recorded by a credit. (Mark Bettner & Ray Whittington & Robert F. Meigs & Mary A. Meigs 1996)

### **2.2.3. Net Income**

Net income is an increase in owner's equity resulting from the profitable operation of the business. Net income does not consist of any cash or any other specific assets. Rather, net income is a computation of the overall effects of many business transactions on owner's equity. Why is earning net income so important to business? The answer lies in the definition of net income: an increase in owner's equity resulting from the profitable operation of the business. The opposite of net income, a decrease in owner's equity resulting from unprofitable operation of the business, is termed net loss. When we measure the net income earned by a business we are measuring its economic performance its success or failure as a business enterprise. On the other hand net income may include gains or losses relating to investing and financing activities. The income of organization after the deduction of appropriate expenses incurred in earning it. (Mark Bettner & Ray Whittington & Robert F. Meigs & Mary A. Meigs 1996)

### **2.3. STATEMENT OF STOCKHOLDERS EQUITY**

The Statement of Stockholder Equity reconciles the beginning and ending balances of all accounts that appear in the stockholders equity section of the balance sheet. Some firms prepare a statement of retained earnings, frequently combined with the income statement, which reconciles the beginning and ending balances of the retained earnings accounts. Companies choosing the latter format will generally present the statement of stockholders equity in a footnote disclosure. (Lyn Fraser & Alleen Ormiston 2001)

Paid in capital, capital reserves (in the form such that all related items are presented separately) reserves (in the form such that all related items are presented separately) prior period profits (losses) net profit (loss) for the period and total shareholders equity are presented in separate columns and the movements related to each of these items are presented in the schedule. The transactions that increase shareholders equity are plus and the transaction that decrease shareholders equity are shown in parenthesis and considered as minus. (Mark Bettner & Ray Whittington & Robert F. Meigs & Mary A. Meigs 1996)

### **2.4. STATEMENT OF CASH FLOW**

The statement of cash flows required by Statement Of Financial Accounting Standards no.95 represents a major step forward in accounting measurement and disclosure because of its relevance to financial statement users. Sample evidence has been provided over the years by firms of every conceivable size structure, and type of business operation that it is possible for a company to post a healthy net income still not have the cash needed to pay its employees, suppliers and bankers. The statement of cash flows, which replaced the statement of changes in financial position in 1988, provides information about cash inflows and outflows during an accounting

period. On the statement cash flows are segregated by operating activities, investing activities and financing activities.

Information about cash flows is prepared for users of financial statements with a view to assessing the ability of an enterprise to generate cash and cash equivalents and understanding the needs of the enterprise for the use of such values.

The mandated focus on cash in this statement results in a more useful documents than its predecessor. A positive net income figure on the income statement is ultimately insignificant unless a company can translate its earnings into cash, and the only source in financial statements for learning about cash generation is the statement of cash flows.

The objective of statement of cash flows are twofold: (1) to explain how the statement of cash flows is prepared and (2) to interpret the information presented in the statement, including a discussion of the significance of cash flows from operations as an analytical tool in assessing financial performance. (Lyn Fraser & Aileen Ormiston 2001)

The objective of this standard is to classify the changes in cash and cash equivalents of enterprises during a specific period into "operating activities", "investing activities" and "financing activities" and to explain how such shall be presented in the cash flow statement. Cash flow statements reports the cash flows during the period classified by "Operating Activities", "Investing Activities" and "Financing Activities". An enterprise should prepare a cash flow statement in accordance with the requirements specified in this Standard, and should present it as an integral part of its financial statements for each period. An enterprise reports its cash flows generated from the "Operating Activities" and "Investing Activities" and "Financing Activities" in a manner, which is most appropriate to its business.

The amount of cash flows arising from operating activities is a key indicator of the extent to which operations of the enterprise have generated sufficient cash flows to repay loans, maintaining the operating capability, pay dividends and make new investment without recourse to. External sources of financing. Information about the specific components of cash flows for the period is

useful in forecasting future cash flows and preparation of budgets. Cash flows from operating activities are primarily derived from the principal revenue producing activities of the enterprise. However, as the income and profits, and losses and expenses from other ordinary and extraordinary activities influence the determination of the net profit or loss, these items are classified in the section of operating activities.

#### **2.4.1. Operating Activities**

The operating activities section shows the cash effects of revenue and expense transactions. Stated another way, the operating activities section of the statement of cash flows includes the cash effects of those transactions reported in the net income statement. In this concept, consider the effects of credit sales. Credit sales are reported in the income statement in the period when the sales occur. But the cash effects occur later when the receivables are collected in cash. If these events occur in different accounting periods, the income statements of cash flows differ. Similarly differences may exist between the recognition of an expense and the related cash payments. (Mark Bettner & Ray Whittington & Robert F. Meigs & Mary A. Meigs 1996)

In the long run, a business must generate positive net cash flows from its operating activities. If its to survive. A business with negative cash flows from operations will not be able to raise cash from other sources indefinitely. In fact, the ability of a business to raise cash through financing activities is highly dependent on its ability to generate cash from its normal business operations. Creditors and stockholders are reluctant to invest in a company that does not generate enough cash from operating activities to ensure prompt payment of maturing liabilities, interest, and dividends. Neither can a company expect to survive indefinitely on cash provided by investing activities. At some point, plant assets, investments, and other assets available for sale will be depleted. (Mark Bettner & Ray Whittington & Robert F. Meigs & Mary A. Meigs 1996)

Cash flows from operating activities are the cash effects revenue and expense transaction that are include in the income statements. The operating activities section shows the cash effects of

revenue and expense transactions. Stated another way, the operating activities section of the statement of cash flows includes the cash effects of those transactions reported in the income statement. For example, the expense postretirement benefits earned by employees during the current period. If this expense is not funded with a trustee, the cash payments may not occur from many years. One might argue that interest and dividend receipts are related to investing activities, and that interest payments are related to financing activities. The fasb considered this point of view decided instead to classify interest and dividend receipts and interest payments as operating activities. The fasb wanted net cash flows from operating activities to reflect the cash effects to the revenue and expense transactions entering into the determination of net income. Because dividend and interest revenue and interest expense enter into the determination of net income, the fasb decided to classify the related cash flows as operating activities. Payments of dividends, however, do not enter into the determination of net income. Therefore dividends payment is classified as financing activities.

#### **2.4.2. Investing Activities**

Investing Activities include (1) acquiring and selling or otherwise disposing of (a) securities that are not cash equivalents and (b) productive assets that are expected to benefit the firm for long periods of time and (2) lending money and collecting on loans

The separate disclosure of cash flows arising from investing activities is important because the expenditures have been made for resources intended to generate future income and cash flows. Cash flows from investing activities are the cash effects of purchasing and selling assets. Cash flows relating to investing activities present the cash effects of transactions involving plant assets, intangible assets, and investments. Investing activities can be obtained simply by looking at the changes in the related assets accounts during the year. Debit entries these accounts represent purchases of the assets, or cash outlays. Credit entries represent sales of the assets, or cash receipts.

However, credit entries in assets accounts represent only the cost (or book value) of the assets sold. To determine the cash proceeds from these sales transactions, we must adjust the amounts of credit entries for any gains or losses recognized on the sales.

### **2.4.3. Financing Activities**

Financing Activities include borrowing from creditors and repaying the principal and obtaining resources from owners and providing them with a return on the investment. (Lyn Fraser & Aileen Ormiston 2001)

The separate disclosure of cash flows arising from financing activities is important because it is useful in predicting claims on future cash flows by providers of capital to the enterprise. Examples of cash flows arising from investing activities are;

- a) Cash proceeds from issuing shares and other equity instruments
- b) Cash payments relating to capital decrease
- c) Cash repayments of amounts borrowed
- d) Cash receipts from advances and other loans from the money and capital markets.
- e) Cash payments for loan repayments arising from financial leasing contracts.

(Mark Bettner & Ray Whittington & Robert F. Meigs & Mary A. Meigs 1996)

### **III. RESEARCH METHODOLOGY**

These business organizations prepare classified financial statements, meaning that items with certain characteristics are placed together in a group, or classification. The purpose of these classifications is to develop usefully subtotals that will assist users of the statements in their analysis.

The financial statements amounts several years appear side by side in vertical columns this assist investor in identifying and evaluating significant changes and trends.

Consolidated financial statements present the financial position and operating results of the parent company and it's subsidiaries as if they were single business organizations. (Mark Bettner & Ray Whittington & Robert F. Meigs & Mary A. Meigs 1996)

#### **3.1. Tools Of Analysis**

Significant changes in financial data are easier to see when financial statements amount for two or more years are placed side by side in adjacent columns. Such a statement is called a comparative financial statement.

Analysis is largely a matter of establishing significant relationships an identifying changes and trends. For widely used analytical techniques are (1) dollar and percentage changes (2) trend percentages (3) component percentages (4) ratios.

##### **3.1.1. Dollar And Percentage Changes**

The dollar amount of change from year to year is significant, and expressing the change in percentage adds perspective. The dollar amount of any change is difference between the amount for a comparison year and the amount for a base year. The percentage change is computed by dividing the amount of the dollar change between years by the amount for the base year.

Computing the percentage changes in sales, gross profit, and net income from one year to the next gives insight in to a companies rate of growth. If a company is experiencing growth in its economic activities, sales and earning should increase at more than the rate inflation. (Mark Bettner & Ray Whittington & Robert F. Meigs & Mary A. Meigs 1996)

### **3.1.2. Component Percentage (Vertical Analysis)**

Component percentage indicates the relative size of each item included in a total. For example Bridgestone Co. Each item on a balance sheet could be express as a percentage of total assets this shows quickly the relative importance of current and non-current assets as well as the relative amount of financing obtained from current creditors, long-term creditors, and stockholder. By computing component percentages for several successive balance sheets, we can see which items are increasing in importance and which are becoming less significant. (Mark Bettner & Ray Whittington & Robert F. Meigs & Mary A. Meigs 1996)

Another Application of component percentage is to express all items in an income statement as a percentage of net sales. Such a statement is called a common size income statement. (James Van Horne & John M.Wachowicz 1992)

### **3.1.3. Trend Percentage (Horizontal Analysis)**

The changes in financial statement items from base year to following years are often express as trend percentages to show the extent and direction of change. Two steps are necessary to compute trend percentages. (1) Base year is selected and each items in the financial statements for the base year is given a weight 100%. (2) Step is to express each item in the financial statements for following years as a percentage of its base-year amount.

This computations consists of dividing an item such as sales in the years after the base year by the amount of sales in the base year. (Mark Bettner & Ray Whittington & Robert F. Meigs & Mary A. Meigs 1996)

### **3.1.4. Ratio Analysis**

An other way of avoiding the problems involved in comparing companies of different sizes is to calculate and compare financial ratios. Such ratio are ways of comparing and investigating the relationships between different pieces of financial information. Using ratio eliminates the size problem because the size effectively divides out we are then left with percentage, multiples, or time periods. (Mark Bettner & Ray Whittington & Robert F. Meigs & Mary A. Meigs 1996)

There is a problem in discussing financial ratios. Because a ratio is simply one number divided by another, and because there is a substantial quantity of accounting numbers out there, there is a huge number of possible ratios we could examine. Everybody has a favorite, we will restrict ourselves to a representative sampling.

Financial ratios are traditionally grouped into the following categories;

1. Short-term solvency or liquidity ratios
2. Long-term solvency or financial leverage ratios
3. Assets Management or turnover ratios
4. Profitability ratios
5. Market value ratios.

#### **3.1.4.1. Measures Of Short-Term Liquidity**

Short-term solvency ratios as a group are intended to provide information about a firms liquidity and these ratios are sometimes called liquidity measures. The primary concern is the firms ability to pay its bills over the short run without undue stress. Consequently, these ratios focus on current assets and current liabilities.

Liquidity ratios are particularly interesting to short-term creditors. Because financial managers are constantly working with banks and another short-term lenders an understanding of these ratios is essential.

One advantage of looking at current assets and liabilities is that their book values and market values are likely to be similar. Often (though not always), these assets and liabilities just don't live long enough for to get seriously out of step. On the other hand like any type of near-cash, current assets and liabilities can and do change fairly rapidly, so today amounts may not be reliable guide to the future. (James Van Horne & John M.Wachowicz 1992)

The current ratio is commonly used measure of short-run solvency, the ability of a firm to meet its debt requirements as they come due. Current liabilities are used as the denominator of the ratio because they are considered to represent the most urgent debts, requiring retirement with in one year or one operating cycle. The available cash resources to satisfy these obligations must come primarily from cash or the conversion to cash of other current assets. (Lyn Fraser & Aliene Ormiston 2001)

To a creditor, particularly short-term creditor such as a supplier, the higher the current ratio, the better. To the firm a high current ratio indicates liquidity, but it also may indicate an in efficient use of cash and other short-term assets. Absent some extraordinary circumstances, we would expect to see a current ratio of at least 1, because a current ratio of less than 1 would mean that net working capital (current assets less current liabilities) is negative. This would be unusual in a healthy firm at least for most types of business. (James Van Horne & John M.Wachowicz 1992)

$$\text{Current Ratio} == \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

The quick or (acid test) ratio is inventory is often the least liquid current as set. Its also the one for which the book values are least reliable as measures of market value, because the quality of the inventory isn't considered. Some of the inventory may later turn out to be damaged, obsolete or lost. More to the point, relatively large inventories are often sign of short-term trouble. The firm

may have overestimated sales and overbought or overproduced as a result. In this case, the firm may have a substantial portion of its liquidity tied up in slow-moving inventory.

Notice that using cash to buy inventory does not affect the current ratio, but it reduces the quick ratio. Again the idea is that inventory is relatively illiquid compared to cash. (James Van Horne & John M. Wachowicz 1992)

$$\text{Quick Ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilities}}$$

Cash Flow Liquidity ratio is another approach to measuring short-term solvency is the cash flow liquidity ratio, which considers cash flow from operating activities (from the statement of cash flows). The cash flow liquidity ratio uses in the numerator, as an approximation of cash resources cash and marketable securities, which are truly liquid current assets and cash flow from operating activities, which represents the amount of cash, generated from the firms operations such as the ability to sell inventory and collect the cash. (Lyn Fraser & Alieen Ormiston 2001)

$$\text{Cash Flow Liquidity Ratio} = \frac{\text{Cash} + \text{Marketable Securities} + \text{CFO}}{\text{Current Liabilities}}$$

Working capital; is a measurement often used to express the relationship between current assets and current liabilities. Working capital is the excess of current assets over current liabilities.

Working capital measures a company's potential excess source of cash over its up coming uses of cash.

$$\text{Working Capital} = \text{Current Assets} - \text{Current Liabilities}$$

Cash Flow From Operations To Current Liabilities; This measure provides evidence of the company's ability to cover its currently maturing liabilities from normal operations.

$$\text{Cash Flow From Operations To Current Liabilities} = \frac{\text{Cash Flow From Operating Activities}}{\text{Current Liabilities}}$$

Account Receivables Turnover Rate; the account receivable turnover rate indicates how quickly a company converts its accounting receivables into cash.

$$\text{A/R turnover rate} = \frac{\text{Net Sales}}{\text{Average Account Receivables}}$$

Days to Collect Average Account Receivables; the number of days required (on average) to collect account receivables then may be determined by dividing the number of days in a year (365) by the turnover rate.

$$\text{Days to Collect Average A/R} = \frac{365 \text{ days}}{\text{Receivables Turnover Rate}}$$

Inventory Turn Over Rate; the inventory turnover rate indicates how many times during the year the company is able to sell a quantity of goods equal to its average inventory

$$\text{Inventory Turnover Rate} = \frac{\text{C.O.G.S.}}{\text{Average Inventory}}$$

Days to Sell The Average Inventory; Measures of average days taken to sell inventory, indicates in days how quickly inventory sells.

$$\text{Days To Sell The Average Inventory} = \frac{365 \text{ days}}{\text{Inventory Turnover Rate}}$$

Operating Cycle; the period of time required for merchandising company to convert its inventory into cash is called the operating cycle.

$$\text{Operating Cycle} = \text{Days To Sell Inventory} + \text{Days To Collect Receivables}$$

Free Cash Flow; excess of operating cash flow over basic needs.

$$\text{F.C.F.} = \text{Net Cash From Operating Activities} - \text{Cash Used For Investing Activities and Dividend}$$

Net Working Capital Turnover; this ratio measures how much “work” we get out of our working capital.

$$\text{Net Working Capital Turnover} = \frac{\text{Sales}}{\text{Net Working Capital}}$$

Fixed Assets Turnover; the fixed assets turnover considers only the firms investment in property, plant and equipment and is extremely important for a capital intensive firm.

$$\text{Fixed Asset Turnover} = \frac{\text{Net Sales}}{\text{Net Fixed Asset}}$$

Total Assets Turnover; the total assets turnover measures the efficiency of managing all of a firms assets.

$$\text{Total Assets Turnover} = \frac{\text{Net Sales}}{\text{Total Assets}}$$

### 3.1.4.2. Measures Of Long-Term Credit Risk

Measures of long term credit risk measures the extent of the firm's financing with debt. The amount and proportion of debt in a company's capital structure is extremely important to the financial analyst because of the trade-off between risk and return. Use of debt involves risk because debt carries a fixed commitment in the form of interest charges and principal repayment. Failure to satisfy the fixed charges associated with debt will ultimately result in bankruptcy. (Lyn Fraser & Aileen Ormiston 2001)

**Debt Ratio;** the debt ratio considers the proportion of all assets that are financed with debt. The smaller the portion of total asset financed by creditors, the smaller risk that business may become unable to pay its debt.

**Trend in next cash provided by operating activities,** indicator of company ability to generate cash necessary to meet its obligations. (Liabilities)  
Appears in comparative statement of cash flow.

$$\text{Debt Ratio} = \frac{\text{Total Liabilities}}{\text{Total Assets}}$$

**Interest Coverage Ratio;** indicator of company's ability to generate the cash necessary to meet its interest payment obligations.

$$\text{Interest Coverage Ratio} = \frac{\text{Operating Incomes}}{\text{Annual Interest Expenses}}$$

**Long-term Debt To Total Capitalization;** the ratio of long-term debt to total capitalization reveals the extent to which long-term debt is used for the firm's permanent financing. (both long-term debt and equity)

$$\text{Long-term Debt To Total Capitalization} = \frac{\text{Long-term Debt}}{\text{Long-term Debt} + \text{Stockholders Equity}}$$

Debt To Equity; the debt to equity ratio measures the riskness of the firms capital structure in terms of the relationship between the funds supplied by creditors (debt) and investors (equity).

$$\text{Debt To Equity} = \frac{\text{Total Liabilities}}{\text{Stockholders Equity}}$$

### 3.1.4.3. Measures Of Profitability

Measures of company's profitability are of interest primarily to equity investors and management, and are drawn from the income statement. Measures of profitability include percentage changes in key measurements, gross profit rates, operating income, net income as a percentage sales, earning per share, return on assets, and return on equity. Many people believe that most businesses earn a profit equal to 30% or more of the sales price of their merchandise. Actually, this is far from true. Most successful companies earn a net income of between 5% and, perhaps, 15% of sales revenue. Measures of a company's profitability are of interest to equity investors and management and are drawn primarily from the income statement. (Mark Bettner & Ray Whittington & Robert F. Meigs & Mary A. Meigs 1996)

Percentage changes; the rate at which a key measure is increasing or decreasing the "growth rate "

$$\text{Percentage Changes} = \frac{\text{Dollar Amount Of Change}}{\text{Financial Statement Amount in The Earlier Year}}$$

Gross Profit Rate; measures of profitability of the company's products

$$\text{Gross Profit Rate} = \frac{\text{Gross Profit}}{\text{Net Sales}}$$

Operating Expense Ratio; measures of management ability to control expenses.

$$\text{Operating Expense Ratio} = \frac{\text{Operating Expense}}{\text{Net Sales}}$$

Operating Income ; profitability of a companies basic business activities.

$$\text{Operating Income} = \text{Gross Profit} - \text{Operating Expenses}$$

Net Income As a Percentage Of Net Sales; an indicator of management ability to control costs.

$$\text{Net Income As a Percentage of Net Sales} = \frac{\text{Net Income}}{\text{Net Sales}}$$

Earning per share; to assist individual stockholders in relating the corporations net income to their ownership shares, large corporation compute earning per share and show these amounts at the bottom of their income statement.

$$\text{Earning Per Share} = \frac{\text{Net Income} - \text{Preferred Dividend}}{\text{Average Number of Common Shares Outstanding}}$$

Net income applicable to each share of common stock.

Return on asset; this ratio is used in evaluating whether management has earned a reasonable return with the assets under its control. In this computation, return usually defined as operating income, since interest expense and income taxes are determined by factors other than the manner in which assets are used.

$$\text{Return On Assets} = \frac{\text{Operating Income}}{\text{Average Total Assets}}$$

A measure of the productivity of assets regardless of how the assets are financed.

Return on Equity ; the return on equity looks only at the return earned by management of the stockholders investment that is on owners equity. The return to stockholders is net income, which represents the return from all sources both operating and non-operating.

$$\text{Return On Equity} = \frac{\text{Net Income}}{\text{Average Total Equity}}$$

Return on common stockholders equity ; the rate of return earned on the common stockholders equity appropriate when company has both common and preferred stock.

$$\text{Return on Common Stock Holders Equity} = \frac{\text{Net Income} - \text{Preferred Dividend}}{\text{Average Common Stockholders Equity}}$$

#### 3.1.4.4. Measures For Evaluating The Current Market Price Of Common Stock

Price Earning Ratio; a measure of investors expectations about the company future prospects.

$$\text{Price Earning Ratio} = \frac{\text{Current Stock Price}}{\text{Earning Per Share}}$$

Dividend Yields; dividend yields is especially important to those investors whose objectives is to maximize the dividend revenue from their investments.

$$\text{Dividend Yields} = \frac{\text{Annual Dividend}}{\text{Current Stock Price}}$$

Book value per share; the recorded value of net assets underlying each share of common stock

$$\text{Book Value Per Share} = \frac{\text{Common Stockholders Equity}}{\text{Shares of Common Stock Outstanding}}$$

## IV. FINANCIAL STATEMENT ANALYSIS OF BRIDGESTONE AND GOODYEAR CORPORATIONS

### 4.1. Findings Of Bridgestone

#### 4.1.1. Component Percentages (Vertical Analysis)

Component percentage indicate the relative size of each item as percentage of gross sales in income statement. Net sales, cost of the sales, operating expenses have been used during the calculations. The income statement of Bridgestone is included in Appendix 1.

<b>Table 4.1.1.1.</b>	<b>1999</b>	<b>1998</b>	<b>1999</b>	<b>1998</b>
Gross Sales	113.368.936	91.499.138	100%	100%
Sales Deduction (-)	(22.813.356)	(19.936.799)	(20.1) %	(21.8) %
Net Sales	90.555.580	71.562.339	79.9%	78.2%
Cost of Sales (-)	(54.771.142)	(44.154.247)	(48.3) %	(48.3) %
Gross Profit or Losses	35.784.438	27.408.092	31.6%	29.9%
Operating Expenses (-)	(16.115.823)	(11.780.722)	(14.2) %	(12.9) %
Operating Profit or Losses	19.668.615	15.627.370	17.3%	17.1%
Income and Gains from other Opr.	9.574.751	4.821.055	8.4%	5.3%
Expenses and Losses from other Opr. (-)	(2.567.055)	(1.138.358)	(2.3) %	(1.2) %
Financial Expenses (-)	(1.371.577)	(1.341.246)	(1.2) %	(1.5) %
Operating profit or Losses	25.304.734	17.968.821	22.1%	19.6%
Extraordinary Income or Profits	11.493.135	520.203	10.1%	0.6%
Extraordinary Expense and Losses (-)	(17.721.598)	(2.893.338)	(15.6) %	(3.2) %
Income before Taxes	19.076.271	15.595.736	16.8%	17 %
Taxation and other legal liabilities	(5.938.941)	(3.699.167)	(5.2) %	(4.0) %
Net Income	13.137.330	11.896.569	11.6%	13.1%

In the analysis of component percentage in table 4.1 we can analyses that the companies net income had decreased by 1.4% from year 1998 to 1999, this decrease might be the effect of the increase extraordinary expenses which was increase of 12.4% from year 1998 to 1999. And also the operating expenses also increased by 1.3% from the same interval.

**NEAR EAST UNIVERSITY**



**FACULTY OF ECONOMICS AND ADMINISTRATIVE  
SCIENCE DEPARTMENT OF BUSINESS**

**COMPARATIVE FINANCIAL STATEMENT ANALYSIS  
OF  
TWO TYRE MANUFACTURER'S  
BRIDGESTONE (BRISA) & GOODYEAR**

**Submitted By : Nevzat Anıl -970854  
Submitted to : Dr. Mehmet Ağa.**

## ABSTRACTS

The financial statements analysis is a very important step in evaluating the performance of the companies. This performance evaluations are very important for the creditors and investors and managers who needs the information about the past, current and forecasted position of the company.

This study aims to analyze financial statements of both Bridgestone and Goodyear between the year 1998 – 2002. The analysis will be made on those companies as they are competitors in the market, so that we can make comparisons and decide which one is more powerful than the other.

After conducting all these analysis in this project the final conclusion that appeared to be that, the overall performance of Bridgestone is stronger company then Goodyear.

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## INTRODUCTION

Financial Statement analysis involves using the output of the standard business information system found in all businesses to judge the performance and riskiness at an instance or over time. A business may have other information systems for managers but all business must conform with generally accepted standards with their accounting statements.

There are several steps in the use of Financial Statement Analysis is designed to;

Understanding the basic statements, Inherent problems with the system

Use of ratio analysis, Interpreting the analysis and Using the analysis.

Financial statements is a tool which used by the investors and analysts to understand the current position of the company also helps them to understand the basic concepts and makes them to understand the position of the company more efficiently.

Financial analysis can be easily made with the help of the financial statements, which helps to identify and find answer to the question, regarding the company's well being. For example, a bank officer may want to know if the company has short-term liquidity problems, or an investor might need to find out if investment in a certain company is profitable or not. Finding answers to such questions obtained through the use of financial ratios. Although financial statement analysis has some limitations, when used with care and judgments, it can provide a great deal of information about the company.

The aim of this study is to analyze financial statements of both Bridgestone and Goodyear for the last five years (1998- 2002) as they are competitors and to find out which one is more powerful situation than the other. Both Bridgestone and Goodyear are tyre manufacturers in Turkey and they both operate globally. Their stocks are traded in Istanbul Stock Exchange.

The information needed to do this analysis have been gathered from books related finance and accounting, the web sites of the investment companies, homepages of the company itself and from the web side of Istanbul Stock Exchange market.

The analyses of the Goodyear and Bridgestone have been conducted in five stages.

The first stage includes the background of both Bridgestone and Goodyear and their historical development till year 2002.

The second stage is concerned with the scientific definitions and different approaches from different sources about the financial statements. The functions of balance sheet, Income statement, stockholders equity section and statement of cash flows are clearly identified in this stage.

The third stage illustrates some very important tools of analyzing the financial position of the company. These tools are Dollar and Percentage Changes, Component Percentages, Trend Analysis and Ratios of both Goodyear and Bridgestone, which gives the information necessary to see the weaknesses and strengths of companies.

In the forth stages all the calculations related to these Component Percentage, Dollar and Percentage Changes, Trend Percentages and Ratio of both Goodyear And Bridgestone have been illustrated.

In the fifth stages the limitations faced while conducting the projects has been illustrated.

At the end conclusion and recommendations will be provided to the users of financial statements.

## **I. HISTORICAL BACKGROUND**

### **I. HISTORICAL BACKGROUND OF BRIDGESTONE (BRISA)**

The Lassa was established in 1974 by the Sabancı Group, the leading industrial conglomerate in Turkey, and started production in 1978.

In response to developments in the world tyre industry, the Sabancı Group and the Bridgestone Corporation of Japan became joint venture partners in November 1988. The new company, BRISA Bridgestone Sabancı Tyre Manufacturing and Trading Inc., represented Turkey's largest Japanese investment at that time. The joint venture synergy allowed the company to increase its capacity and product range.

In July 1989, the groundbreaking ceremony of the new plant signaled a period of rapid development, and production in the new factory started in November 1990. Brisa has one of the world's largest tyre production facilities under a single roof. The Brisa plant is located in Kentsa, a unique and exceptionally green industrial town built by the Sabancı Group, located hundred kilometers East of Istanbul.

With its integrated tyre production facilities extending 2 million m<sup>2</sup>, the Brisa plant has a covered area of 260.000 m<sup>2</sup>, where over four hundred different types of tyres from passenger to earthmover are produced. New products are introduced continuously for keeping a competitive position not only in the domestic market, but in the world markets as well. Brisa markets its products to automotive manufacturers and retail outlets in over 30 countries, primarily European.

Production at Brisa is supported by its own Tyre Research and Development Center which is equipped with laboratories capable of conducting standard and special tests, a computer-aided tyre design and development center and a conference unit. In collaboration with Bridgestone's Technical Center, this center plays a vital role in reinforcing Brisa's competitive edge in world markets.

Brisa has an internationally recognized record of achievements in quality management in the pursuit of total customer satisfaction, and continues to build its future on Excellence.

Brisa's Excellence practices, which have been put to effect in all aspects of company activities since 1990, have yielded outstanding results. The improvements in employees' well-being, customer satisfaction, market share and business performance have made Brisa a role model in Turkish society, and is now firmly established, and perceived by all, as part of Brisa's corporate culture.

Brisa became the first tyre company to receive the ISO-9001 Quality Systems Certificate in 1992 for all of its production. Brisa has obtained BS-7750 and ISO/DIS-14001 Environmental Management Systems Certificate, and places the highest emphasis on environmental issues.

Successful practices on its journey towards Excellence have brought Brisa numerous national and international awards. Among them was the first National Quality Award given in Turkey in 1993, based on the criteria set by the European Foundation for Quality Management (EFQM). In 1996 Brisa won the prestigious European Quality Award at the first attempt. The Award presented to the best-performing company in the implementation of the European Model for Excellence, stands as the ultimate recognition of Brisa's dedication to quality in all aspects of its operations.

## **II. HISTORICAL BACKGROUND OF GOODYEAR**

Goodyear completed several international acquisitions, expanding its global scope. Acquired a 50 percent stake in Sweden's Dackia, a tire retailer. Purchased tire assets of Sime Darby Pilipinas in the Philippines. Purchased a 60 percent interest in South African tire company Contred. Bought the assets of Belt Concepts of America, a lightweight conveyor belt maker, in Spring Hope, North Carolina. Formed Goodyear Polska subsidiary to sell products in Poland. Closed a tire plant in Thessaloniki, Greece. Introduced Infinitred, the industry's first auto tire to carry lifetime tread wear warranty.

Expanded Goodyear's European presence with a tire and engineered products joint venture pact with Slovenia's Sava Group. Signed an off take agreement with Sumitomo Rubber, exchanging United States replacement tire manufacturing capacity for Japanese capacity and began a market test to sell each other's tires. Increased ownership in India's South Asia Tyres from 60% to 74%, Goodyear Engineered Products bought the assets of Venezuelan hose manufacturer Indomax and its three affiliated companies. Announced plans to build a power transmission products plant in northern Mexico. Goodyear Brazil announced a deal with a subsidiary of Japan's NGK/NTK Spark Plug Co. to sell automotive belts through its 60-distributor Brazilian network. Introduced the "Serious Freedom" advertising campaign in North America. Signed a deal with NASCAR, making Goodyear the "exclusive tire supplier" of NASCAR's top three race divisions. Became the exclusive NASCAR-licensee of automotive-aftermarket belts and hose. Blimp fleet doubles with two airships added in Europe and one in Latin America. Introduced Eagle pd synchronous belt and sprocket assembly for power transmissions. Began construction of a conveyor belt technical center in Marysville, Ohio. Closed the Morant Bay, Jamaica, tire plant. Announced that Goodyear would withdraw from Formula One racing after 1998 season. Introduced Eagle HP and Eagle HP Ultra high-performance tires. Announced a six-year, \$600 million expansion plan for Goodyear

Chemicals that includes two new plants, expansions and implementation of new technologies. Began hiring 200 new engineers and scientists to augment technical and engineering staffs in Akron and Luxembourg.

Goodyear celebrated its first 100 years in business. Purchased the remaining 40% interest in control tire and engineered products subsidiary in South Africa. Purchased the remaining shares of India's South Asia Tyres. Sold the All American Pipeline, Celeron Gathering and Celeron Trading and Transportation. Sold a latex plant in Calhoun, Georgia, plant to GenCorp. Sold the extruded rubber business in St. Mary's, Ohio, to Longwood Elastomers. Formed a belt-drive systems development alliance with Litens. Announced the development of an advanced tire manufacturing process called IMPACT. Introduced a new steel passenger car tire technology known as Ultra-Tensile Steel Wire, using it in the Eagle Aqua steel EMT run-flat tire and Eagle F1 Steel tires. Announced plans to close Kelly-Springfield's Cumberland, Maryland, offices by mid-1999. Completed a \$15 million expansion of Luxembourg Technical Center. Introduced Tracker Mud runner tire for ATVs. Developed the industry's first non-directional radial farm tractor tire. Selected Beaumont, Texas, as the site for the first phase of Goodyear Chemical's \$600 million expansion. Announced \$18 million in expansion projects for plants in Union City, Tennessee, and Decatur, Georgia. Completed a \$14 million expansion of the Beaumont, Texas, chemical plant. Invested \$20 million in new state-of-the-art equipment in Union City, Tennessee, tire plant to make it the second North American facility producing run-flat tires. Introduced Regatta 2 all-season radial tires in North America. Increased radial tire capacity at Napanee, Ontario, plant with a \$12 million expansion. Began relocating small bias-ply tire production from Kelly-Springfield's Freeport, Illinois, plant to other locations. Announced \$1 billion global alliance with Japan's Sumitomo Rubber Industries Ltd., which has rights to the Dunlop tire brand in much of the world, to establish six joint ventures. Goodyear will become the world's largest tire company when the alliance takes effect. Became national title sponsor of the 1999 All-American Soap Box Derby....

Formed a joint venture with Tread co, combining U.S. truck tire service and retreading outlets into a network of almost 200 service centers and 77 retreading plants, the world's largest. Reached an agreement with Michelin to combine the best of its Pax system and Goodyear's EMT breakthroughs that includes agreements on research and development, licensing of each company's patents and the creation of a global aftermarket service network. Introduced Aquatred 3, the newest in the popular Aquatred line. Formed an Internet-based purchasing alliance with five other rubber companies called RubberNetwork.com. The Web-based platform is designed to be an easy access, cost-effective medium to buy and sell supplies, exchange information regarding forecasts, inventory, billing, shipment and product design in real time - and cut costs.... Established an internal structure designed to develop Goodyear's e-business. The Australia-based airship "Spirit of the South Pacific" worked with international media to assist telecast of the Sydney 2000 Summer Olympics. Opened a sales and distribution center in Dubai, the chief port and commercial center of the United Arab Emirates, allowing access to more than 40 markets in the Middle East, Africa and Central Asia. Introduced the Kelly Safari SUV tire and the Navigator Platinum TE, a touring tire that features an 80,000-mile limited tread wear warranty and free road hazard protection. Bob Keegan joined Goodyear as president and chief operating officer on Oct. 1, bringing 28 years of experience in the consumer products area, most recently as president of Kodak's global consumer imaging business.

## **II. FINANCIAL STATEMENT**

### **2.1. BALANCE SHEET**

A balance sheet also called the statement of condition or statement of financial position provides a wealth of valuable information about a business firm, particularly when examined over a period of several years and evaluated in relation to the other financial statement. (Lyn Fraser & Aliene Ormiston 2001)

The balance sheet shows the financial condition or financial position of a company on a particular date. The statement is a summary of what the firm owns (assets) and what the firm owes to outsiders (liabilities) and internal owners (stock holders equity). By definition, the account balances on a balance sheet must balance; that is, the total of all assets the sum of liabilities and stockholders equity. (Lyn Fraser & Aliene Ormiston 2001)

Balance Sheet is a financial statement that present the assets of companies. On the specific dates end the source of their assets. Assets are classified from the most liquid to the least liquid according to liquidity and the liabilities are classified from the shortest maturity to the longest maturity. (Lyn Fraser & Aliene Ormiston 2001)

In order to obtain compatibility and unity, the types in the supplementary sheet are taken as a basis in the preparation of balance sheet. Assets are classified in to two groups as current and non-current assets. Liabilities are classified as current and non-current liabilities and shareholders` equity. Balance sheet accounts can not be netted off. If an item classified "Other" exceeds 20% of the respective components, than this item is separately presented. Account groups to be presented in the detailed balance sheet. (Dr.Yuksel Koç Yalçın 2000)

### 2.1.1. Assets

Assets are the resources of a business entity acquired in a market transaction. Included are some cost factors that have been incurred which can reasonably be expected to benefit future periods. (Harold Bierman & Allan R. Drebin 1977)

The asset section of the balance sheet is divided into two basic components assets are classified as current assets or non current assets on the basis of liquidity. Current assets are cash and those other assets that will normally be converted in to cash within a period of one year or one operating cycle if it is longer than a year; Non current are those assets that are not likely to be converted into cash in the normal operating cycle of the firm. (Lyn Fraser & Alieen Ormiston 2001)

Operating cycle refers to the average time it takes to convert raw<sup>3</sup> material into a finished product, sell it. And collect the cash. Most company use a year as the determining factor as to whether an item is a current asset because their normal operating cycle is less than a year. (Lyn Fraser & Alieen Ormiston 2001)

The current assets can be classified as; cash and marketable securities, accounts receivable, inventories and prepaid expenses. (Lyn Fraser & Alieen Ormiston 2001)

The cash account is exactly that cash in any form cash a waiting deposit or in a bank account.

Marketable securities (also referred to as short term investments) are cash substitutes, cash that is not needed immediately in the business and is temporarily invested to earn a return. These investments are in instruments with short-term maturities (less than one year) to minimize the risk of interest rate fluctuations. They must be relatively risk less securities and highly liquid so that funds can be readily withdrawn as needed. Instruments used for such purposes include U.S. Treasury bills, certificates, notes and bonds: negotiable certificates of deposit at financial institutions; and commercial paper<sup>4</sup> (unsecured promissory notes of large business firm). (Lyn Fraser & Alieen Ormiston 2001)

Assets are classified in two as current and non-current assets and assets should be classified as a non-current asset when it:

- a) is expected to be realized in, or is held for sale or conception in, the normal course of the enterprise's operating cycle; or
- b) is held primarily for trading purposes or for the short-term and expected to be realized within twelve months of the balance sheet date; or
- c) is cash or a cash equivalent asset which is not restricted in its use.

All other assets should be classified as non-current assets

Classification of assets as current and non-current assets is the main principle. However in some sectors, this classification may not be applicable. In this case when companies present these assets in accordance with their nature, they have to disclose assets with maturity more than one year. (Dr.Yuksel Koç Yalçın 2000)

When an enterprise supplies goods or services within a clearly identifiable operating cycle, separate classification of current and non-current assets and liabilities on the face of the balance sheet provides useful information by distinguishing the net assets that are continuously circulating as working capital from those used in the enterprise's long-term operations. It also highlights assets that are expected to be realized within the current operating cycle, and liabilities that are due for settlement within the same period. (Dr.Yuksel Koç Yalçın 2000)

In order to report the assets in the current value at the balance sheet date, provision has to be reserved according to the decrease in its value. Provision has to be reserved, if necessary, for the items in current assets that consists of marketable securities, receivables, inventory and for other current assets. (Dr.Yuksel Koç Yalçın 2000)

This principle is also valid for items in non-current assets such as related marketable securities, affiliates, subsidiaries and other non-current items. Notes receivables, that are part in current and

non-current group, have to be rediscounted in order to show its value at balance sheet date.

(Dr.Yuksel Koç Yalçın 2000)

Prepaid expenses of the following accounting periods and accrued income for the current period that will be collected in the following period has to be accounted, identified and presented in the balance sheet. (Dr.Yuksel Koç Yalçın 2000)

In order to distribute the cost of tangible and intangible non-current assets in the balance sheet, accumulated depreciation amounts for each period are presented separately. In order to add the cost of assets in the non-current assets group that are subject to amortization, into various period costs, accumulated amortization amounts for each period are presented separately. (Dr.Yuksel Koç Yalçın 2000)

It is the basic principle that receivables, marketable securities, related marketable securities and other related accounts and liabilities, which are the part of current and non-current assets of the balance sheet related to partners, affiliates and subsidiaries that have relation by capital and management, should be presented separately. (Dr.Yuksel Koç Yalçın 2000)

No accrual is done for the receivable amounts that could not be determined. These kinds of receivables are disclosed in balance sheet footnotes or appendices. (Dr.Yuksel Koç Yalçın 2000)

The properties and contents of the given pledges, mortgages and other guarantees are adequately disclosed in the balance sheet footnotes or appendices. This principle is also valid for the taken pledges, mortgages and other guarantees that are not presented in the balance sheet. In addition, it is required that total insurance amounts related to the assets should be adequately disclosed in the balance sheet footnotes or appendices. (Dr.Yuksel Koç Yalçın 2000)

Account Receivables are relatively liquid assets, usually convertors into cash within a period of 30 to 60 days. Therefore, accounts receivables from customer usually appear in the balance sheet immediately after cash and short-term investments in marketable securities. (Mark Bettner & Ray Whittington & Robert F. Meigs & Mary A. Meigs 1996)

In a merchandising companies inventory consists of all goods owned and held for sale to customers. Inventory is converted into cash within the companies operating cycle and therefore is regarded as a current asset. In the balance sheet, inventory is listed immediately after accounts receivables, because it is just one step far then removed from conversion into cash than customer receivables. (Mark Bettner & Ray Whittington & Robert F. Meigs & Mary A. Meigs 1996)

Certain expenses, such as insurance, rent, property taxes, and utilities, are some times paid in advance. They are included in current assets if they will expire within one year or one operating cycle whichever ever is longer. (Lyn Fraser & Alieen Ormiston 2001)

Non-current assets are also referred to as fixed assets or long-lived assets. This category includes such things as land, buildings and equipment. These items are normally expected to last more than one year and cannot be sold (turned into cash) without disrupting the normal business operations. (Harold Bierman & Allan R. Drebin 1977)

A distinction is made in account practice between tangible and intangible assets. This distinction is to some extent based on the usual physical characteristics of the items. Thus items that are normally considered tangible in the usual sense, such as buildings, equipment, and merchandise are also considered to be tangible assets for accounting purposes. (Harold Bierman & Allan R. Drebin 1977)

Items classified as intangibles in account do not usually possess any physical substances (they may be represented by a piece of paper) and generally lack an easily measurable cost of reproduction.

Intangible assets include such items as patent, trademarks, copyrights, and goodwill. These items

are very important resources to a company, but it would generally be exceedingly difficult to place a value on them. (Harold Bierman & Allan R. Drebin 1977)

Other assets on a Firm's balance sheet can include a multitude of other non-current items such as property held for sale, start up costs in connection with a new business, the cash surrender value of life insurance policies and long-term advance payments. (Lyn Fraser & Alieen Ormiston 2001)

The distinction between current and non-current assets is made on the basis of intention or normal expectation rather than ability to convert to cash. Thus inventories of materials are classified as current because they would normally be disposed of within one year. A building that might be disposed of just as easily is treated as non-current if it would not be sold within a year in the normal course of business. This is an application of the going concern premise. (Harold Bierman & Allan R. Drebin 1977)

### **2.1.2. Liabilities**

Liabilities are the obligation of the corporation. The terms are generally fixed by legal contract and have definite due dates. Stockholders equity refers to the ownership interest in the corporation. The amounts of the stockholders interests are not fixed by contract and they do not have definite due dates. (Lyn Fraser & Alieen Ormiston 2001)

The liability section is further divided on the basis of due date between current liabilities and non-current liabilities. The distinction is essentially the same as that applied to assets current liabilities are those obligations that are to be paid within one year. Whereas non-current or long term liabilities are those coming due in more than one year. (Lyn Fraser & Alieen Ormiston 2001)

Because the solvency of a corporation rests upon its ability to meet payment obligations when due, the distinctions between current and non-current liabilities is significant. An analyst wants to know the amount of debts coming due in each time period. (Lyn Fraser & Alieen Ormiston 2001)

Current liabilities include amounts owed to trade creditors (accounts payable), workers (wages payable), government (taxes payable), investors (interests or dividend payable) and customers (advances by customers). All are the current liabilities if they are due within a year (or within the operating cycle of the firm). (Lyn Fraser & Alieen Ormiston 2001)

Long-term liabilities include amounts that are owed but do not have paid within a year. The most common long-term liabilities are bonds, mortgages and notes. If a part of these items is due within 12 months, that amounts should be classified as current liability. It is the due date not the title, which determines the classification. (Harold Bierman & Allan R. Drebin 1977)

Liabilities divided into two groups as current and non-current:

Liabilities with a maturity of twelve months or maturity with in the operation period are presented as current liabilities in the balance sheet.

Liabilities with maturity of twelve months or maturity after the operation period are presented as non-current liability in the balance sheet. At the end of the period items with maturity less than twelve months are transferred to current liabilities. (Dr.Yuksel Koç Yalçın 2000)

Classification of liabilities as current and non-current is the main principle. However in some sectors, this classification is not applicable. In this case when companies present these liabilities in accordance with their nature, they have disclose liabilities with maturity more than one year.

Including the ones whose amounts cannot be found or are disputable, all the liabilities of the company that are known or can be reliably estimated are presented in the balance sheet. Liabilities that are known, but cannot be properly estimated should also be disclosed in the balance sheet footnotes.

Pre-collected revenue that belongs to subsequent period and accrued expenses should be accounted identified, and presented separately in the balance sheet. Notes payables in current term and non-current liabilities section are rediscounted at balance sheet date to reflect their value in real terms.

It is the basic principle that current and non-current liabilities, advances received and the other related accounts that are related to partners, affiliates and subsidiaries should be presented separately. (Dr.Yuksel Koç Yalçın 2000)

### **2.1.3. Stock Holders Equity**

The rights of the owners and shareholders on the assets of the enterprise form the equity group. (Dr.Yuksel Koç Yalçın 2000)

The owner interests in the company are represented in the final section of the balance sheet, stockholders equity or shareholders equity. Ownership equity is the residual interest in assets that remains after deducting liabilities. The owners bear the greatest risk because their claims are subordinate to creditors in the event of liquidation but owners also benefit from the rewards of a successful enterprise. The relationship between the amount of debt and equity in a firms capital structure and the concept of financial leverage, by which shareholder return are magnified. (Lyn Fraser & Alieen Ormiston 2001)

The stockholders equity section may be classified in various ways to provide additional information. The selection of the classification that is most useful will depend upon the interest of the users of the financial statements. Classifications of the stockholder equity section are considered which are designed to accomplish the follows purpose

1. Distinguish among equities of various classes of stockholders.
2. Distinguish between par value of stock and amounts paid in excess of or below par
3. Distinguish shares issued and outstanding from those that have been reacquired by the corporation.
4. Distinguish between capital arising from original contributions of stockholders and that generated through the retention of earnings.

5. Distinguish between retained earnings available for distribution to stockholders and retained earnings restricted for various reasons. (Harold Bierman & Allan R. Drebin 1977)

## **2.2. INCOME STATEMENTS**

Income statements represents all the income generated by the company during a certain period and all the costs and expenses bared by the company during the same period, and the resulting net profit or net loss for the period.

In the preparation of income statement, the explanations stated in the principles of financial statements are taken as a basis. Both income from operations and income from non-continuous operations and non-continuous extraordinary income are shown separately in the income statement. In addition, expenses related to ordinary operations of the company, and other ordinary expenses (whether continuous or non- continuous expenses) are shown separately. In the consolidated income statement profits distributed to minority shareholders are subtracted from profit for the period.

The items of the income statement cannot be netted off. If an item classified as "other" within an income or expense component exceeds 20% of the respective component, than this item is separately presented. Items with nil balance are not shown in the income statement. Income statement items are presented parallel to the order and explanations of the chart of accounts.

The aim of an income statement is to present the sales, revenues, cost of sales, expenses, profit and loss accounts and the results of operations belonging to specific periods in a classified, true and fair manner.

All sales, income and profit, cost, expense and loss are presented in gross amounts and no sales, income or profit account can be removed from the income statement by fully or partially comparing to expense and loss items.

While preparing the income statement, unrealized sales, income and profit cannot be presented as a realized ones cannot be shown less or more than the real amounts. In order to display the results of operation of a specific period, accounts are closed in a true and fair manner at the beginning or at the end of the period or periods.

Sales and income of a specific period are compared with cost of sales and expenses that are incurred to obtain those. In order to display the actual costs and expenses, inventory, receivables and payable accounts are closed in true and fair manner at the beginning or at the specific periods. For tangible assets and for the assets subject to amortization appropriate depreciation and amortization should be calculated and provided.

Costs are distributed among tangible assets inventories repair and maintenance and other expense group in an appropriate way. Direct costs are fully charged; indirect costs are accrued and charged with respect to their time and usage factor.

Accidental or extraordinary profit and losses are accrued within the period they occur, but presented separately from the results of the ordinary operations.

Profit and loss items expected for items that are so material that these require adjustments to prior period financial statements are presented in the current period income statement.

Provision cannot be used to arbitrage decrease the profit of an enterprise or to transfer the profit of a period to another period.

When there had been any changes in the valuation principles and costing methods that had been used, the results of these changes should be adequately disclosed.

The expenses and losses whose outcomes is dependent on the outcome of other events, results are based on conditional events; and that can be reliably estimated with a reasonable correctness, are accrued and presented in the income statement. Profit and income whose outcome is dependent on conditional events are not accrued and presented, even if there outcome can be reliably estimated. income statement. (Mark Bettner & Ray Whittington & Robert F. Meigs & Mary A. Meigs 1996)

### **2.2.1 Revenue**

Revenue is the price of goods sold and services rendered during a given accounting period.

Earning revenue causes owner's equity to increase. When a business renders services or sells merchandise to its customers, it usually receives cash or acquires account receivables from the customer. The inflow of cash and receivables from customers increases the total assets of the company; on the other side of the accounting equation, the liabilities do not change, but owner's equity increases to match the increase in total assets. Thus revenue is the gross increase in owner's equity resulting from operation of the business. Revenues are increases in the companies' assets from its profit directed activities, and they result in positive cash flows. Costs and income items that are either charged or credited to the profit and loss account for an accounting period. Various terms are used describe different types of revenue. The price of goods sold and services rendered during a given accounting period, thus revenue earned by selling merchandise is recognized when the goods are sold. Revenue also earned by rendering services to customers is recognized in the period in which the services are rendered. (Mark Bettner & Ray Whittington & Robert F. Meigs & Mary A. Meigs 1996)

### **2.2.2. Expenses**

Expenses are the costs of the goods and services used up in the process of earning revenue. Examples include the cost of employees, salaries, advertising, rent, utilities, and the gradual wearing-out (depreciation) of such assets as buildings, automobiles, and office equipment. All these costs are necessary to attract and serve customers and thereby earn revenue. Expenses are often called the "costs of doing business" that is, the cost of the various activities necessary to carry on a business. Expenses are decrease in the company's assets from its profit directed activities, and they results in negative cash flows. An expense always causes a decrease in owner's equity. The related changes in the accounting equation can be either, decrease in assets, or an

increase in liabilities. An expense reduces assets if payment occurs at the time that the expense is incurred. If the expense will not be paid until later as for example the purchase of advertising services on account, the recording of the expense will be accompanied by an increase in liabilities. Revenue increases owner's equity therefore revenue is recorded by a credit. (Mark Bettner & Ray Whittington & Robert F. Meigs & Mary A. Meigs 1996)

### **2.2.3. Net Income**

Net income is an increase in owner's equity resulting from the profitable operation of the business. Net income does not consist of any cash or any other specific assets. Rather, net income is a computation of the overall effects of many business transactions on owner's equity. Why is earning net income so important to business? The answer lies in the definition of net income: an increase in owner's equity resulting from the profitable operation of the business. The opposite of net income, a decrease in owner's equity resulting from unprofitable operation of the business, is termed net loss. When we measure the net income earned by a business we are measuring its economic performance its success or failure as a business enterprise. On the other hand net income may include gains or losses relating to investing and financing activities. The income of organization after the deduction of appropriate expenses incurred in earning it. (Mark Bettner & Ray Whittington & Robert F. Meigs & Mary A. Meigs 1996)

### **2.3. STATEMENT OF STOCKHOLDERS EQUITY**

The Statement of Stockholder Equity reconciles the beginning and ending balances of all accounts that appear in the stockholders equity section of the balance sheet. Some firms prepare a statement of retained earnings, frequently combined with the income statement, which reconciles the beginning and ending balances of the retained earnings accounts. Companies choosing the latter format will generally present the statement of stockholders equity in a footnote disclosure. (Lyn Fraser & Alleen Ormiston 2001)

Paid in capital, capital reserves (in the form such that all related items are presented separately) reserves (in the form such that all related items are presented separately) prior period profits (losses) net profit (loss) for the period and total shareholders equity are presented in separate columns and the movements related to each of these items are presented in the schedule. The transactions that increase shareholders equity are plus and the transaction that decrease shareholders equity are shown in parenthesis and considered as minus. (Mark Bettner & Ray Whittington & Robert F. Meigs & Mary A. Meigs 1996)

### **2.4. STATEMENT OF CASH FLOW**

The statement of cash flows required by Statement Of Financial Accounting Standards no.95 represents a major step forward in accounting measurement and disclosure because of its relevance to financial statement users. Sample evidence has been provided over the years by firms of every conceivable size structure, and type of business operation that it is possible for a company to post a healthy net income still not have the cash needed to pay its employees, suppliers and bankers. The statement of cash flows, which replaced the statement of changes in financial position in 1988, provides information about cash inflows and outflows during an accounting

period. On the statement cash flows are segregated by operating activities, investing activities and financing activities.

Information about cash flows is prepared for users of financial statements with a view to assessing the ability of an enterprise to generate cash and cash equivalents and understanding the needs of the enterprise for the use of such values.

The mandated focus on cash in this statement results in a more useful documents that its predecessor. A positive net income figure on the income statement is ultimately insignificant unless a company can translate its earning in to cash, and the only source in financial statements for learning about cash generation is the statement of cash flows.

The objective of statement of cash flows are twofold: (1) to explain how the statement of cash flows is prepared and (2) to interpret the information presented in the statement, including a discussion of the significance of cash flows from operations as an analytical tool in assessing financial performance. (Lyn Fraser & Alieen Ormiston 2001)

The objective of this standard is to classify the changes in cash and cash equivalents of enterprises during a specific period into “operating activities”, “investing activities “ and “financing activities” and to explain how such shall be presented in the cash flow statement. Cash flow statements reports the cash flows during the period classified by “Operating Activities”, “Investing Activities” and “Financing Activities”. An enterprise should prepare a cash flow statement in accordance with the requirements specified in this Standard, and should presented it as an integral part of its financial statements for each periods. An enterprise reports its cash flows generated from the “Operating Activities” and “Investing Activities” and “Financing Activities” in a manner, which is most appropriate to its business.

The amount of cash flows arising from operating activities is a key indicator of the extent to which operations of the enterprise have generated sufficient cash flows to repay loans, maintaining the operating capability, pay dividends and make new investment without recourse to. External sources of financing. Information about the specific components of cash flows for the period is

useful in forecasting future cash flows and preparation of budgets. Cash flows from operating activities are primarily derived from the principal revenue producing activities of the enterprise. However, as the income and profits, and losses and expenses from other ordinary and extraordinary activities influence the determination of the net profit or loss, these items are classified in the section of operating activities.

#### **2.4.1. Operating Activities**

The operating activities section shows the cash effects of revenue and expense transactions. Stated another way, the operating activities section of the statement of cash flows includes the cash effects of those transactions reported in the net income statement. In this concept, consider the effects of credit sales. Credit sales are reported in the income statement in the period when the sales occur. But the cash effects occur later when the receivables are collected in cash. If these events occur in different accounting periods, the income statements of cash flows differ. Similarly differences may exist between the recognition of an expense and the related cash payments. (Mark Bettner & Ray Whittington & Robert F. Meigs & Mary A. Meigs 1996)

In the long run, a business must generate positive net cash flows from its operating activities. If its to survive. A business with negative cash flows from operations will not be able to raise cash from other sources indefinitely. In fact, the ability of a business to raise cash through financing activities is highly dependent on its ability to generate cash from its normal business operations. Creditors and stockholders are reluctant to invest in a company that does not generate enough cash from operating activities to ensure prompt payment of maturing liabilities, interest, and dividends. Neither can a company expect to survive indefinitely on cash provided by investing activities. At some point, plant assets, investments, and other assets available for sale will be depleted. (Mark Bettner & Ray Whittington & Robert F. Meigs & Mary A. Meigs 1996)

Cash flows from operating activities are the cash effects revenue and expense transaction that are include in the income statements. The operating activities section shows the cash effects of

revenue and expense transactions. Stated another way, the operating activities section of the statement of cash flows includes the cash effects of those transactions reported in the income statement. For example, the expense postretirement benefits earned by employees during the current period. If this expense is not funded with a trustee, the cash payments may not occur from many years. One might argue that interest and dividend receipts are related to investing activities, and that interest payments are related to financing activities. The fasb considered this point of view decided instead to classify interest and dividend receipts and interest payments as operating activities. The fasb wanted net cash flows from operating activities to reflect the cash effects to the revenue and expense transactions entering into the determination of net income. Because dividend and interest revenue and interest expense enter into the determination of net income, the fasb decided to classify the related cash flows as operating activities. Payments of dividends, however, do not enter into the determination of net income. Therefore dividends payment is classified as financing activities.

#### **2.4.2. Investing Activities**

Investing Activities include (1) acquiring and selling or otherwise disposing of (a) securities that are not cash equivalents and (b) productive assets that are expected to benefit the firm for long periods of time and (2) lending money and collecting on loans

The separate disclosure of cash flows arising from investing activities is important because the expenditures have been made for resources intended to generate future income and cash flows. Cash flows from investing activities are the cash effects of purchasing and selling assets. Cash flows relating to investing activities present the cash effects of transactions involving plant assets, intangible assets, and investments. Investing activities can be obtained simply by looking at the changes in the related assets accounts during the year. Debit entries these accounts represent purchases of the assets, or cash outlays. Credit entries represent sales of the assets, or cash receipts.

However, credit entries in assets accounts represent only the cost (or book value) of the assets sold. To determine the cash proceeds from these sales transactions, we must adjust the amounts of credit entries for any gains or losses recognized on the sales.

### **2.4.3. Financing Activities**

Financing Activities include borrowing from creditors and repaying the principal and obtaining resources from owners and providing them with a return on the investment. (Lyn Fraser & Aileen Ormiston 2001)

The separate disclosure of cash flows arising from financing activities is important because it is useful in predicting claims on future cash flows by providers of capital to the enterprise. Examples of cash flows arising from investing activities are;

- a) Cash proceeds from issuing shares and other equity instruments
- b) Cash payments relating to capital decrease
- c) Cash repayments of amounts borrowed
- d) Cash receipts from advances and other loans from the money and capital markets.
- e) Cash payments for loan repayments arising from financial leasing contracts.

(Mark Bettner & Ray Whittington & Robert F. Meigs & Mary A. Meigs 1996)

### **III. RESEARCH METHODOLOGY**

These business organizations prepare classified financial statements, meaning that items with certain characteristics are placed together in a group, or classification. The purpose of these classifications is to develop usefully subtotals that will assist users of the statements in their analysis.

The financial statements amounts several years appear side by side in vertical columns this assist investor in identifying and evaluating significant changes and trends.

Consolidated financial statements present the financial position and operating results of the parent company and it's subsidiaries as if they were single business organizations. (Mark Bettner & Ray Whittington & Robert F. Meigs & Mary A. Meigs 1996)

#### **3.1. Tools Of Analysis**

Significant changes in financial data are easier to see when financial statements amount for two or more years are placed side by side in adjacent columns. Such a statement is called a comparative financial statement.

Analysis is largely a matter of establishing significant relationships an identifying changes and trends. For widely used analytical techniques are (1) dollar and percentage changes (2) trend percentages (3) component percentages (4) ratios.

##### **3.1.1. Dollar And Percentage Changes**

The dollar amount of change from year to year is significant, and expressing the change in percentage adds perspective. The dollar amount of any change is difference between the amount for a comparison year and the amount for a base year. The percentage change is computed by dividing the amount of the dollar change between years by the amount for the base year.

Computing the percentage changes in sales, gross profit, and net income from one year to the next gives insight in to a companies rate of growth. If a company is experiencing growth in its economic activities, sales and earning should increase at more than the rate inflation. (Mark Bettner & Ray Whittington & Robert F. Meigs & Mary A. Meigs 1996)

### **3.1.2. Component Percentage (Vertical Analysis)**

Component percentage indicates the relative size of each item included in a total. For example Bridgestone Co. Each item on a balance sheet could be express as a percentage of total assets this shows quickly the relative importance of current and non-current assets as well as the relative amount of financing obtained from current creditors, long-term creditors, and stockholder. By computing component percentages for several successive balance sheets, we can see which items are increasing in importance and which are becoming less significant. (Mark Bettner & Ray Whittington & Robert F. Meigs & Mary A. Meigs 1996)

Another Application of component percentage is to express all items in an income statement as a percentage of net sales. Such a statement is called a common size income statement. (James Van Horne & John M.Wachowicz 1992)

### **3.1.3. Trend Percentage (Horizontal Analysis)**

The changes in financial statement items from base year to following years are often express as trend percentages to show the extent and direction of change. Two steps are necessary to compute trend percentages. (1) Base year is selected and each items in the financial statements for the base year is given a weight 100%. (2) Step is to express each item in the financial statements for following years as a percentage of its base-year amount.

This computations consists of dividing an item such as sales in the years after the base year by the amount of sales in the base year. (Mark Bettner & Ray Whittington & Robert F. Meigs & Mary A. Meigs 1996)

### **3.1.4. Ratio Analysis**

An other way of avoiding the problems involved in comparing companies of different sizes is to calculate and compare financial ratios. Such ratio are ways of comparing and investigating the relationships between different pieces of financial information. Using ratio eliminates the size problem because the size effectively divides out we are then left with percentage, multiples, or time periods. (Mark Bettner & Ray Whittington & Robert F. Meigs & Mary A. Meigs 1996)

There is a problem in discussing financial ratios. Because a ratio is simply one number divided by another, and because there is a substantial quantity of accounting numbers out there, there is a huge number of possible ratios we could examine. Everybody has a favorite, we will restrict ourselves to a representative sampling.

Financial ratios are traditionally grouped into the following categories;

1. Short-term solvency or liquidity ratios
2. Long-term solvency or financial leverage ratios
3. Assets Management or turnover ratios
4. Profitability ratios
5. Market value ratios.

#### **3.1.4.1. Measures Of Short-Term Liquidity**

Short-term solvency ratios as a group are intended to provide information about a firms liquidity and these ratios are sometimes called liquidity measures. The primary concern is the firms ability to pay its bills over the short run without undue stress. Consequently, these ratios focus on current assets and current liabilities.

Liquidity ratios are particularly interesting to short-term creditors. Because financial managers are constantly working with banks and another short-term lenders an understanding of these ratios is essential.

One advantage of looking at current assets and liabilities is that their book values and market values are likely to be similar. Often (though not always), these assets and liabilities just don't live long enough for to get seriously out of step. On the other hand like any type of near-cash, current assets and liabilities can and do change fairly rapidly, so today amounts may not be reliable guide to the future. (James Van Horne & John M.Wachowicz 1992)

The current ratio is commonly used measure of short-run solvency, the ability of a firm to meet its debt requirements as they come due. Current liabilities are used as the denominator of the ratio because they are considered to represent the most urgent debts, requiring retirement with in one year or one operating cycle. The available cash resources to satisfy these obligations must come primarily from cash or the conversion to cash of other current assets. (Lyn Fraser & Aliene Ormiston 2001)

To a creditor, particularly short-term creditor such as a supplier, the higher the current ratio, the better. To the firm a high current ratio indicates liquidity, but it also may indicate an in efficient use of cash and other short-term assets. Absent some extraordinary circumstances, we would expect to see a current ratio of at least 1, because a current ratio of less than 1 would mean that net working capital (current assets less current liabilities) is negative. This would be unusual in a healthy firm at least for most types of business. (James Van Horne & John M.Wachowicz 1992)

$$\text{Current Ratio} == \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

The quick or (acid test) ratio is inventory is often the least liquid current as set. Its also the one for which the book values are least reliable as measures of market value, because the quality of the inventory isn't considered. Some of the inventory may later turn out to be damaged, obsolete or lost. More to the point, relatively large inventories are often sign of short-term trouble. The firm

may have overestimated sales and overbought or overproduced as a result. In this case, the firm may have a substantial portion of its liquidity tied up in slow-moving inventory.

Notice that using cash to buy inventory does not affect the current ratio, but it reduces the quick ratio. Again the idea is that inventory is relatively illiquid compared to cash. (James Van Horne & John M. Wachowicz 1992)

$$\text{Quick Ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilities}}$$

Cash Flow Liquidity ratio is another approach to measuring short-term solvency is the cash flow liquidity ratio, which considers cash flow from operating activities (from the statement of cash flows). The cash flow liquidity ratio uses in the numerator, as an approximation of cash resources cash and marketable securities, which are truly liquid current assets and cash flow from operating activities, which represents the amount of cash, generated from the firms operations such as the ability to sell inventory and collect the cash. (Lyn Fraser & Alieen Ormiston 2001)

$$\text{Cash Flow Liquidity Ratio} = \frac{\text{Cash} + \text{Marketable Securities} + \text{CFO}}{\text{Current Liabilities}}$$

Working capital; is a measurement often used to express the relationship between current assets and current liabilities. Working capital is the excess of current assets over current liabilities.

Working capital measures a company's potential excess source of cash over its up coming uses of cash.

$$\text{Working Capital} = \text{Current Assets} - \text{Current Liabilities}$$

Cash Flow From Operations To Current Liabilities; This measure provides evidence of the company's ability to cover its currently maturing liabilities from normal operations.

$$\text{Cash Flow From Operations To Current Liabilities} = \frac{\text{Cash Flow From Operating Activities}}{\text{Current Liabilities}}$$

Account Receivables Turnover Rate; the account receivable turnover rate indicates how quickly a company converts its accounting receivables into cash.

$$\text{A/R turnover rate} = \frac{\text{Net Sales}}{\text{Average Account Receivables}}$$

Days to Collect Average Account Receivables; the number of days required (on average) to collect account receivables then may be determined by dividing the number of days in a year (365) by the turnover rate.

$$\text{Days to Collect Average A/R} = \frac{365 \text{ days}}{\text{Receivables Turnover Rate}}$$

Inventory Turn Over Rate; the inventory turnover rate indicates how many times during the year the company is able to sell a quantity of goods equal to its average inventory

$$\text{Inventory Turnover Rate} = \frac{\text{C.O.G.S.}}{\text{Average Inventory}}$$

Days to Sell The Average Inventory; Measures of average days taken to sell inventory, indicates in days how quickly inventory sells.

$$\text{Days To Sell The Average Inventory} = \frac{365 \text{ days}}{\text{Inventory Turnover Rate}}$$

Operating Cycle; the period of time required for merchandising company to convert its inventory into cash is called the operating cycle.

$$\text{Operating Cycle} = \text{Days To Sell Inventory} + \text{Days To Collect Receivables}$$

Free Cash Flow; excess of operating cash flow over basic needs.

$$\text{F.C.F.} = \text{Net Cash From Operating Activities} - \text{Cash Used For Investing Activities and Dividend}$$

Net Working Capital Turnover; this ratio measures how much “work” we get out of our working capital.

$$\text{Net Working Capital Turnover} = \frac{\text{Sales}}{\text{Net Working Capital}}$$

Fixed Assets Turnover; the fixed assets turnover considers only the firms investment in property, plant and equipment and is extremely important for a capital intensive firm.

$$\text{Fixed Asset Turnover} = \frac{\text{Net Sales}}{\text{Net Fixed Asset}}$$

Total Assets Turnover; the total assets turnover measures the efficiency of managing all of a firms assets.

$$\text{Total Assets Turnover} = \frac{\text{Net Sales}}{\text{Total Assets}}$$

### 3.1.4.2. Measures Of Long-Term Credit Risk

Measures of long term credit risk measures the extent of the firm's financing with debt. The amount and proportion of debt in a company's capital structure is extremely important to the financial analyst because of the trade-off between risk and return. Use of debt involves risk because debt carries a fixed commitment in the form of interest charges and principal repayment. Failure to satisfy the fixed charges associated with debt will ultimately result in bankruptcy. (Lyn Fraser & Aileen Ormiston 2001)

**Debt Ratio;** the debt ratio considers the proportion of all assets that are financed with debt. The smaller the portion of total asset financed by creditors, the smaller risk that business may become unable to pay its debt.

**Trend in next cash provided by operating activities,** indicator of company ability to generate cash necessary to meet its obligations. (Liabilities)

Appears in comparative statement of cash flow.

$$\text{Debt Ratio} = \frac{\text{Total Liabilities}}{\text{Total Assets}}$$

**Interest Coverage Ratio;** indicator of company's ability to generate the cash necessary to meet its interest payment obligations.

$$\text{Interest Coverage Ratio} = \frac{\text{Operating Incomes}}{\text{Annual Interest Expenses}}$$

**Long-term Debt To Total Capitalization;** the ratio of long-term debt to total capitalization reveals the extent to which long-term debt is used for the firm's permanent financing. (both long-term debt and equity)

$$\text{Long-term Debt To Total Capitalization} = \frac{\text{Long-term Debt}}{\text{Long-term Debt} + \text{Stockholders Equity}}$$

Debt To Equity; the debt to equity ratio measures the riskness of the firms capital structure in terms of the relationship between the funds supplied by creditors (debt) and investors (equity).

$$\text{Debt To Equity} = \frac{\text{Total Liabilities}}{\text{Stockholders Equity}}$$

### 3.1.4.3. Measures Of Profitability

Measures of company's profitability are of interest primarily to equity investors and management, and are drawn from the income statement. Measures of profitability include percentage changes in key measurements, gross profit rates, operating income, net income as a percentage sales, earning per share, return on assets, and return on equity. Many people believe that most businesses earn a profit equal to 30% or more of the sales price of their merchandise. Actually, this is far from true. Most successful companies earn a net income of between 5% and, perhaps, 15% of sales revenue. Measures of a company's profitability are of interest to equity investors and management and are drawn primarily from the income statement. (Mark Bettner & Ray Whittington & Robert F. Meigs & Mary A. Meigs 1996)

Percentage changes; the rate at which a key measure is increasing or decreasing the "growth rate "

$$\text{Percentage Changes} = \frac{\text{Dollar Amount Of Change}}{\text{Financial Statement Amount in The Earlier Year}}$$

Gross Profit Rate; measures of profitability of the company's products

$$\text{Gross Profit Rate} = \frac{\text{Gross Profit}}{\text{Net Sales}}$$

Operating Expense Ratio; measures of management ability to control expenses.

$$\text{Operating Expense Ratio} = \frac{\text{Operating Expense}}{\text{Net Sales}}$$

Operating Income ; profitability of a companies basic business activities.

$$\text{Operating Income} = \text{Gross Profit} - \text{Operating Expenses}$$

Net Income As a Percentage Of Net Sales; an indicator of management ability to control costs.

$$\text{Net Income As a Percentage of Net Sales} = \frac{\text{Net Income}}{\text{Net Sales}}$$

Earning per share; to assist individual stockholders in relating the corporations net income to their ownership shares, large corporation compute earning per share and show these amounts at the bottom of their income statement.

$$\text{Earning Per Share} = \frac{\text{Net Income} - \text{Preferred Dividend}}{\text{Average Number of Common Shares Outstanding}}$$

Net income applicable to each share of common stock.

Return on asset; this ratio is used in evaluating whether management has earned a reasonable return with the assets under its control. In this computation, return usually defined as operating income, since interest expense and income taxes are determined by factors other than the manner in which assets are used.

$$\text{Return On Assets} = \frac{\text{Operating Income}}{\text{Average Total Assets}}$$

A measure of the productivity of assets regardless of how the assets are financed.

Return on Equity ; the return on equity looks only at the return earned by management of the stockholders investment that is on owners equity. The return to stockholders is net income, which represents the return from all sources both operating and non-operating.

$$\text{Return On Equity} = \frac{\text{Net Income}}{\text{Average Total Equity}}$$

Return on common stockholders equity ; the rate of return earned on the common stockholders equity appropriate when company has both common and preferred stock.

$$\text{Return on Common Stock Holders Equity} = \frac{\text{Net Income} - \text{Preferred Dividend}}{\text{Average Common Stockholders Equity}}$$

#### 3.1.4.4. Measures For Evaluating The Current Market Price Of Common Stock

Price Earning Ratio; a measure of investors expectations about the company future prospects.

$$\text{Price Earning Ratio} = \frac{\text{Current Stock Price}}{\text{Earning Per Share}}$$

Dividend Yields; dividend yields is especially important to those investors whose objectives is to maximize the dividend revenue from their investments.

$$\text{Dividend Yields} = \frac{\text{Annual Dividend}}{\text{Current Stock Price}}$$

Book value per share; the recorded value of net assets underlying each share of common stock

$$\text{Book Value Per Share} = \frac{\text{Common Stockholders Equity}}{\text{Shares of Common Stock Outstanding}}$$

## IV. FINANCIAL STATEMENT ANALYSIS OF BRIDGESTONE AND GOODYEAR CORPORATIONS

### 4.1. Findings Of Bridgestone

#### 4.1.1. Component Percentages (Vertical Analysis)

Component percentage indicate the relative size of each item as percentage of gross sales in income statement. Net sales, cost of the sales, operating expenses have been used during the calculations. The income statement of Bridgestone is included in Appendix 1.

<b>Table 4.1.1.1.</b>	<b>1999</b>	<b>1998</b>	<b>1999</b>	<b>1998</b>
Gross Sales	113.368.936	91.499.138	100%	100%
Sales Deduction (-)	(22.813.356)	(19.936.799)	(20.1) %	(21.8) %
Net Sales	90.555.580	71.562.339	79.9%	78.2%
Cost of Sales (-)	(54.771.142)	(44.154.247)	(48.3) %	(48.3) %
Gross Profit or Losses	35.784.438	27.408.092	31.6%	29.9%
Operating Expenses (-)	(16.115.823)	(11.780.722)	(14.2) %	(12.9) %
Operating Profit or Losses	19.668.615	15.627.370	17.3%	17.1%
Income and Gains from other Opr.	9.574.751	4.821.055	8.4%	5.3%
Expenses and Losses from other Opr. (-)	(2.567.055)	(1.138.358)	(2.3) %	(1.2) %
Financial Expenses (-)	(1.371.577)	(1.341.246)	(1.2) %	(1.5) %
Operating profit or Losses	25.304.734	17.968.821	22.1%	19.6%
Extraordinary Income or Profits	11.493.135	520.203	10.1%	0.6%
Extraordinary Expense and Losses (-)	(17.721.598)	(2.893.338)	(15.6) %	(3.2) %
Income before Taxes	19.076.271	15.595.736	16.8%	17 %
Taxation and other legal liabilities	(5.938.941)	(3.699.167)	(5.2) %	(4.0) %
Net Income	13.137.330	11.896.569	11.6%	13.1%

In the analysis of component percentage in table 4.1 we can analyses that the companies net income had decreased by 1.4% from year 1998 to 1999, this decrease might be the effect of the increase extraordinary expenses which was increase of 12.4% from year 1998 to 1999. And also the operating expenses also increased by 1.3% from the same interval.

<b>Table 4.1.1.2.</b>	<b>2000</b>	<b>1999</b>	<b>2000</b>	<b>1999</b>
Gross Sales	188.202.327	113.368.936	100%	100%
Sales Deduction (-)	(38.360.289)	(22.813.356)	(20.4) %	(20.1) %
Net Sales	149.842.038	90.555.580	79.6%	79.6%
Cost of Sales (-)	(102.231.235)	(54.771.142)	(54.3) %	(48.3) %
Gross Profit or Losses	47.610.803	35.784.438	25.3%	31.6%
Operating Expenses (-)	(27.261.821)	(16.115.823)	(14.5) %	(14.2) %
Operating Profit or Losses	20.348.982	19.668.615	10.8%	17.3%
Income and Gains from other Opr.	8.873.379	9.574.751	4.7%	8.4%
Expenses and Losses from other Opr. (-)	(1.735.565)	(2.567.055)	(0.9) %	(2.3) %
Financial Expenses (-)	(20.316)	(1.371.577)	(0.01) %	(1.2) %
Operating profit or Losses	27.466.480	25.304.734	14.6%	22.1%
Extraordinary Income or Profits	8.035.685	11.493.135	4.3 %	10.1%
Extraordinary Expense and Losses (-)	(6.965.447)	(17.721.598)	(3.7) %	(15.6) %
Income before Taxes	28.536.718	19.067.271	15.2%	16.8%
Taxation and other legal liabilities	(10.593.408)	(5.938.941)	(5.6) %	(5.2) %
Net Income	17.943.310	13.137.330	9.5%	11.6%

In the analysis of table 4.2 we can see that the net income had decrease by 2.1% from year 1999 to 2000. This fall is due to an increase in cost of sale of which is 6% and an increase of 11.9% in extraordinary expresses and losses

<b>Table 4.1.1.3.</b>	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
Gross Sales	260.497.386	188.202.327	100%	100%
Sales Deduction (-)	(58.209.375)	(38.360.289)	(22.3) %	(20.4) %
Net Sales	202.288.011	149.842.038	77.7%	79.6%
Cost of Sales (-)	(124.769.970)	(102.231.235)	(47.9) %	(54.3) %
Gross Profit or Losses	77.518.041	47.610.803	29.7%	28.3%
Operating Expenses (-)	(42.400.938)	(27.261.8/21)	(16.3) %	(14.5) %
Operating Profit or Losses	35.117.103	20.348.982	13.5%	10.8%
Income and Gains from other Opr.	20.725.177	8.873.379	7.9%	4.7%
Expenses and Losses from other Opr.(-)	(7.862.445)	(1.735.565)	(3.0) %	(0.9) %
Financial Expenses (-)	(355.531)	(20.316)	(0.14) %	(0.01) %
Operating profit or Losses	47.624.304	27.466.480	18.3%	14.6%
Extraordinary Income or Profits	1.032.044	8.035.685	0.4 %	4.3%
Extraordinary Expense and Losses (-)	(9.172.686)	(6.965.447)	(3.5) %	(3.7) %
Income before Taxes	39.483.662	28.536.718	15.2%	15.2%
Taxation and other legal liabilities	(13.549.343)	(10.593.408)	(5.2) %	(5.6) %
Net Income	25.934.319	17.943.310	9.9%	9.5%

In the analysis of Table 4.3 we observed that net income slightly increased from 2000 to 2001 by 0.4% and this is an effect of a 6.4% decrease in cost of sales and 1.8% increase in operating expenses.

<b>Table 4.1.1.4</b>	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
Gross Sales	428.516.678	260.3497386	100%	100%
Sales Deduction (-)	(77.818.472)	(38.360289)	(18) %	(120.4) %
Net Sales	350.698.206	149.842.038	82%	77.7%
Cost of Sales (-)	(223.539.472)	(424.769.970)	(52.2)%	(47.9) %
Gross Profit or Losses	127.158.734	77.518.041	29.7%	29.7%
Operating Expenses (-)	(56.934.738)	(42.400.938)	(13.3)%	(16.3) %
Operating Profit or Losses	70.223.996	35.117.103	16.4%	13.5%
Income and Gains from other Opr.	20.011.740	20.725.177	4.7%	7.9%
Expenses and Losses from other Opr.(-)	(14.780.774)	(7.826.445)	(3.9) %	(3.0) %
Financial Expenses (-)	(217.348)	(355.531)	(0.05)%	(0.14) %
Operating profit or Losses	75.237.614	47.624.304	17.5%	18.3%
Extraordinary Income or Profits	4.000.115	1.032.044	0.2%	0.4%
Extraordinary Expense and Losses (-)	(7.255.632)	(9.172.686)	(1.7) %	(3.5) %
Income before Taxes	71.982.097	39.483.662	16.8%	15.2%
Taxation and other legal liabilities	(24.076.780)	(13.549.343)	(5.6) %	(5.2) %
Net Income	47.905.317	25.934.319	11.2%	9.9%

In the table 4.4 it can be seen that there is a slightly increase in net income from year 2001 to 2002 which is around 1.3%. Although there is an increase of 4.3% in net sales from 77.7% in 2001 82% in 2002 this amount couldn't be kept constant as there was an increase in the cost of sales and therefore the net income amount only, ended with 1.3% increase.

#### 4.1.2. Trend Percentages (Horizontal Analysis)

The Trend Percentage (Horizontal Analysis) is technique for evaluating a series of financial statement data over a period of time. The trend percentages are used to show the extent and direction of change in financial statements items from a base year to following years. During the calculation of trend percentages; net sales, cost of goods sold and gross profit have been taken from income statements which appear in appendix 1.

	1998	1999	2000	2001	2002
Net Sales	71.562.339	90.555.580	149.842.038	202.288.011	350.698.206
C.O.G.S.	44.154.247	54.771.142	102.231.235	124.769.970	223.539.472
<b>Gross Profit</b>	27.408.092	35.784.438	47.610.803	77.518.041	127.158.734

	1998	1999	2000	2001	2002
Net Sales	100%	126%	209%	283%	490%
C.O.G.S.	100%	124%	231%	283%	506%
<b>Gross Profit</b>	100%	130%	174%	283%	464%

Net sales, Cost of Goods Sold and Gross Profit parameters are increasing from one year to the next. And this shows us the company is performing well in the market, which means that the company performs profitable activities and reaches success.

#### 4.1.3. Dollar and Percentage Changes

The dollar amount of change is the difference between the amount for a comparison year and the amount for a base year. This analysis shows dollar and percentage changes for important item each year. During the calculation of dollar and percentage changes; net sales and net income have been taken from income statement of Bridgestone`s financial statements which appear in appendix:1

	2000	1999	1998	2000 Over 1999 Amount	2000 Over 1999 %	1999 Over 1998 Amount	1999 Over 1998 %
<b>Net Sales</b>	149.842.038	90.555.580	71.562.339	59.286.458	65%	18.993.211	26%
<b>Net Income</b>	17.943.310	13.137.330	11.896.569	4.805.980	37%	1.240.761	10%

In this table, the net sales shows 26% increase between 1999 over 1998 and also an increase between the years of 2000 over 1999 of which is 65%. In this case the amounts shows us that the amount of sales increased almost tripled comparing to the previous year. The percentage changes in net income 1999 over 1998 was 10% and 2000 over 1999 was 37% which shows us an increase of 27% over a year.

	2002	2001	2000	2002 Over 2001 Amount	2002 Over 2001 %	2001 Over 2000 Amount	2001 Over 2000 %
<b>Net Sales</b>	350.698.206	202.288.011	149.842.038	148.410.195	73%	52.445.973	35%
<b>Net Income</b>	47.905.317	25.934.319	19.943.310	21.970.998	85%	5.991.009	30%

The table shows that there was an increase in net sales of 35% between the years 2001 over 2000 and also net sales over years 2002 to 2001 was 73% which is double of the previous years. The percentage changes in net income 2001 over 2000 was 30% and this amount increased

tremendously about three times comparing to previous years, which come up to 2002 over 2001 was 85%.

#### 4.1.4. Ratio Analysis

Ratios are important in understanding financial statements because they permit us to compare information from one financial statement with information from other financial statement. In order to calculate ratios we will deal with three kind of ratios. They are; short-term liquidity, long-term credit risk and profitability ratio. The date used in calculation of ratios has been taken from Bridgestone financial statements which appear in Appendix 1.

	1998	1999	2000	2001	2002
Current Assets	38.483.975	60.120.402	80.714.990	120.729.302	173.282.079
Current Liabilities	18.333.555	27.426.152	34.557.931	52.581.453	63.906.231
<b>Current Ratio</b>	2.1	2.19	2.33	2.30	2.71

From the year 1998 to 2002, the company have at least 2.1% current ratio, which is believed by the creditors and bankers that the company should at least have current ratio 2 to 1 or higher to qualify as good credit risk. This shows that the short-term debt paying ability is quite well. Also it can be seen from the table that the current ratio is steadily increasing thus making the company stronger in the market.

	1998	1999	2000	2001	2002
Quick Assets	22.941.949	35.373.243	44.570.107	66.511.698	103.475.733
Current liabilities	18.333.535	27.426.152	34.557.931	52.581.931	63.906.231
<b>Quick Assets</b>	1.25	1.29	1.28	1.26	1.62

From the year 1998 to 2002 quick ratio is between the rates of 1.25%-1.29 % which shows that it in balance but in year 2002 it increased to 1.62 which shows that the company is in a stronger

position is short –term debt paying ability. If the quick ratio is 1:1 and above it is believed by the banks and creditors that the company is in a stronger position in short-term debt paying ability.

	1998	1999	2000	2001	2002
Current Assets	38.483.975	60.120.402	80.714.990	120.729.302	173.282.079
Current Liabilities	18.335.535	27.426.152	34.557.931	52.581.453	63.906.231
<b>Working Capital</b>	20.150.440	32.694.250	46.197.059	68.147.849	109.375.848

From the table it can be seen that from year 1998 to 2002 the current assets are increasing steadily:

The current liabilities are also increasing, but not as much as the current assets therefore the working capital amount increases and this shows the company's short-term debt paying ability is in a stronger position.

	1998	1999	2000	2001	2002
Net Sales	71.562.339	90.555.580	149.842.038	202.288.011	350.698.206
Average Account Receivables	10.984.601	11.461.233	18.471.749	30.567.374	40.281.622
<b>Receivables Turn over Rate</b>	6.5	7.9	8.11	6.61	8.70

Receivables turnover rate indicates how quickly the company converts its accounts receivables into cash. The higher rate is more preferable for the company. In 1999 this rate was 6.5 and it increased steadily from year to year and finally it was 8.70.

	1998	1999	2000	2001	2002
Days	365	365	365	365	365
Receivables Turn Over Rate	6.5	7.9	7.11	6.61	8.70
<b>Days To Collect Account Receivables</b>	56.1	46.2	51.3	55.2	41.9

Days to collect average account receivables shows in how many days to company converts its receivables into cash. At the beginning in year 1999 the company needed 56.1 days but later in 2003 company only need 41.9 days to convert its accounts receivables into cash.

	1998	1999	2000	2001	2002
C.O.G.S.	44.154.247	54.771.142	102.231.235	124.769.970	223.539.472
Average Inventory	9.637.488	13.338.333	19.887.775	28.760.466	39.997.520
<b>Inventory Turnover Rate</b>	4.58	4.09	5.14	4.34	5.60

Means how many times a year the companies sell its inventory. In this situation, in year 1998 the company's inventory turnover rate was 4.58 and then the next year this rate decreased to 4.09 and it started to increase in year 2000. It decreased again in 2001 to 4.34 and finally in year 2002 it went up to 5.60 that were the highest rate over the five years.

	1998	1999	2000	2001	2002
Days	365	365	365	365	365
Inventory Turnover	4.58	4.09	5.14	4.34	5.60
<b>Days to sell Avg. Inventory</b>	79.70	89.24	71.01	84.10	65.18

This ratio shows how many times a year does the company can sell its inventory and converts into cash or accounts receivables. On the table, it can be seen that the number of days to sell the average inventory was 79.70 days in year 1998, 65.18 days in 2002.

	1998	1999	2000	2001	2002
Days To Collect Account Receivables	56.1	46.2	51.3	55.2	41.9
Days To Sell Avg. Inventory	79.7	89.24	71.01	84.1	65.18
<b>Operating Cycle</b>	135.8	135.44	122.31	139.32	107.08

Operating cycle refers to the time past to convert the inventory into cash. Operating cycle refers to the time past to convert the inventory into cash, the company`s operating cycle was 135.8 days in year 1998, and this time reduced to 107.08 days in 2002 which was in favors of the organization. It`s inventory and collected cash in more quicker time.

	1998	1999	2000	2001	2002
Total Liabilities	21.936.030	32.447.723	43.460.499	64.645582	79.878.816
Total Assets	66.380.744	96.893.214	138.086.478	196.237.543	276.073.317
<b>Debt Ratio</b>	33%	33.5%	31.5%	32.9%	28.9%

Debt ratio indicates the proportion of total assets is converted by debts therefore higher that proportion higher the debts of the company. Company would prefer a lower rate. Debt ratio should be under 50%. In the situation of Bridgestone the company is performing well, its debt ratio varies between 28.9% to 33.5% which is under the 50% level.

	1998	1999	2000	2001	2002
Operating Sales	11.780.722	16.115.823	27.261.821	42.400.938	56.934.738
Net Sales	71.562.339	90.555.580	149.842.038	202.288.011	350.698.206
<b>Operating Expense Ratio</b>	16.49	17.80	18.20	20.9	16.23

Operating expense ratio refers to the proportion of expenses in the net sales so lower the ratio lower the expenses. Lower expenses are more preferable to the company. From the table it can be seen that the operating expense ratio in the year 1999 was at 16.49% and in year 1999, 2001 and 2002 this ratio increased steadily and finally in year 2002 this ratio increased steadily and finally in year 2002 this ratio decreased to 16.23% which was the lowest rate during the five year period.

	1998	1999	2000	2001	2002
Net Income	11.896.569	13.137.330	17.943.310	25.934.319	47.905.317
Net Sales	71.562.339	90.555.580	149.842.038	202.288.011	350.698.206
<b>Net Income as a Percentage of Net Sales</b>	16.62%	14.5%	12%	12.8%	13.66%

This ratio shows the proportion of sales converted into net income. If the percentage is higher means that the company is generating more profit and it will be better for the company. In 1998 the ratio was 16.62% which was at the highest level but than this ratio decreased to 12% in 2000 and than started to increase in 2001 and in 2002 and finally come up to 13.66%

	1998	1999	2000	2001	2002
Operating Income	15.627.370	19.665.615	20.348.982	35.117.103	70.223.996
Avg. Total Assets	55.879.794	81.636.979	117.489.846	167.162.011	236.155.430
<b>Return On Assets</b>	27.9%	24.1%	17.32%	21%	29.74%

Return on assets is used if management has earned a reasonable return with the assets under its control. The general agreement among the financial analysts is that 15% or more return on average total assets is successful.

In year 1998 the ratio was 27.9% and there was an up and down fluctuations in year 1999, 2000 and 2001 and finally in year 2002 this ratio was 29.74% which was a high percentage. According to the agreement, as this ratio was above 15.00% then the company seems to be successful.

	1998	1999	2000	2001	2002
Net Income	11.896.569	13.137.330	17.943.310	25.934.319	47.905.317
Avg. Total Equity	36.433.817	54.445.104	79.535.735	113.108.970	163.893.231
<b>Return On Equity</b>	32.65%	24.13%	22.6%	22.93%	29.23%

Return on equity is one of the measurements of profitability and it looks at the return earned by management on stockholders investments and stockholders expects to earn an average of annual return of 12% or more each year. The return on equity in year 2002 was 29.23% which was the above the average of 12% and this ratio was at its lowest level of 22.6% in year 2000, which still it was above the average value.

	1998	1999	2000	2001	2002
Gross Profit	11.896.569	11.137.330	17.943.310	25.934.319	47.905.317
Net Sales	71.562.339	90.555.580	149.842.038	202.288.011	350.698.206
<b>Gross Profit Rate</b>	16.6%	12.3%	12%	12.8%	13.6%

Gross profit rate is the expression of gross profit in terms of the percentage of net sales. It measures the profitability of the company products. The rates between 20% and 50% or more preferable.

In year 1998 the ratio was 16.6% that shows that the companys gross profit rate was below the average of 20% and finally this rate decreased to 13.6% in year 2002 which again showed that company is still in an unfavorable situation.

## 4.2. Findings Of Goodyear

Starting with this page different tables including income statement of Goodyear company reported for the year 1998, 1999, 2000, 2001 and 2002 are available. Under the light of those tables, I will try to make the financial statement analysis of Goodyear. This analysis will give us the general information about the company whether it is performing well and profitable or unprofitable.

### 4.2.1.Component Percentage (Vertical Analysis)

Component percentage indicate the relative size of each item as percentage of gross sales in income statement. Net sales, cost of the sales, operating expenses have been used during the calculations. The income statement of Goodyear is included in Appendix 2.

<b>Table 4.2.1.1.</b>	<b>1999</b>	<b>1998</b>	<b>1999</b>	<b>1998</b>
Gross Sales	100.283.260	73.019.072	100%	100%
Sales Deduction (-)	(8.862.710)	(7.404.100)	(8.8) %	(10.1) %
Net Sales	91.420.550	65.614.972	91.2%	89.2%
Cost of Sales (-)	(69.276.095)	(49.519.438)	(69.1) %	(68) %
Gross Profit or Losses	22.144.455	16.095.534	22.1%	22%
Operating Expenses (-)	(14.280.454)	(8.190.955)	(14.2) %	(11.2) %
Operating Profit or Losses	7.864.001	7.904.579	7.8%	10.8%
Income and Gains from other Opr.	727.223	549.481	0.2%	7.5%
Expenses and Losses from other Opr. (-)	(22.396)	(100.195)	(0.02) %	(1.4) %
Financial Expenses (-)	(11.571.837)	(4.151.308)	(11.5) %	(5.7) %
Operating profit or Losses	3.003.009	4.202.557	3.0%	5.8%
Extraordinary Income or Profits	395.030	499.458	5.9%	6.8%
Extraordinary Expense and Losses (-)	(2.228.129)	(458.421)	(2.2) %	(6.3) %
Income before Taxes	4.636.105	4.243.594.	4.6%	5.8 %
Taxation and other legal liabilities	—	(1.006.558)	—	(1.4) %
Net Income	4.636.105	3.237.036	4.6%	4.4%

In year 1998 Net income was 4.4% of which net sales was 89.9% and the cost of sales was 68%. In year 1999 the net income increased by 0.2% and this was due to an increase in net sales of 1.2% and also loss from financial expenses.

<b>Table 4.2.1.2.</b>	<b>2000</b>	<b>1999</b>	<b>2000</b>	<b>1999</b>
Gross Sales	171.788.623	100.283.260	100%	100%
Sales Deduction (-)	(17.970.475)	(8.862.710)	(10.5)%	(8.8)%
Net Sales	53.818.148	91.420.550	31.3%	81.2%
Cost of Sales (-)	(132.896.347)	(89.276.095)	(77.4)%	(69.1)%
Gross Profit or Losses	20.921.801	22.144.455	12.2%	22.1%
Operating Expenses (-)	(21.515.141)	(14.280.454)	(12.5)%	(14.2)%
Operating Profit or Losses	593.340	7.864.001	0.3%	7.8%
Income and Gains from other Opr.	1.103.602	727.223	0.6%	0.2%
Expenses and Losses from other Opr. (-)	(9.283)	(22.396)	0.0%	(0.02)%
Financial Expenses (-)	(7.932.013)	(11.571.837)	(4.6)%	(11.5)%
Operating profit or Losses	(7.431.034)	(3.003.009)	(4.3)%	(3.0)%
Extraordinary Income or Profits	759.281	595.030	0.4%	5.9%
Extraordinary Expense and Losses (-)	(1.129.157)	(4.228.129)	0.7%	2.2 %
Income before Taxes	(7.800.910)	4.636.105	4.3	4.6
Taxation and other legal liabilities	—	—	—	—
Net Income	7.800.910	4.636.105	4.5	4.6

Net income in year 2000 dropped by 0.1% and also net sales for that year decreased by 102%. The cost of the sales increased but the financial expenses decreased almost 7% and this is why there is not too much decrease in net income.

<b>Table 4.2.1.3.</b>	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
Gross Sales	286.354.081	171.788.623	100%	100%
Sales Deduction (-)	(18.466.763)	(17.970.475)	(6) %	(10.5) %
Net Sales	267.887.318	153.818.148	94%	89.5%
Cost of Sales (-)	(221.230.898)	(132.896.347)	(77) %	(77.4) %
Gross Profit or Losses	46.656.422	20.921.821	16%	12.2%
Operating Expenses (-)	(31.299.311)	(21.515.241)	(11) %	(12.5) %
Operating Profit or Losses	15.357.111	593.840	5%	0.3%
Income and Gains from other Opr.	1.309.398	1.103.602	0.46%	0.6%
Expenses and Losses from other Opr. (-)	46.656.422	20.921.821	16%	12.2%
Financial Expenses (-)	(31.299.311)	(21.515.241)	(11) %	(12.5) %
Operating profit or Losses	15.357.111	593.840	5%	0.3%
Extraordinary Income or Profits	1.309.398	1.103.602	0.46%	0.6%
Extraordinary Expense and Losses (-)	(436.231)	(1.129.157)	(0.15)%	(0.7) %
Income before Taxes	17.694.746	7.800.910.	6.18%	4.5 %
Taxation and other legal liabilities	—	—	—	—
Net Income	17.694.746	7.800.910.	6.18%	4.5 %

In year 2001 the net income decreased 10.70% and became as a loss for that year. The net sales for that year increased by 4.5%, operating expense decreased by 1.5% the main reason that made the net income to fall was the increase in the financial expense.

<b>Table 4.2.1.4.</b>	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
Gross Sales	416.384.466	286.354.081	100%	100%
Sales Deduction (-)	(29.676.272)	(18.466.763)	(7.1) %	(6) %
Net Sales	386.708.194	267.887.318	92.9%	94%
Cost of Sales (-)	(314.377.826)	(221.230.898)	(75.5) %	(77) %
Gross Profit or Losses	72.330.368	46.656.422	17.4%	16%
Operating Expenses (-)	(41.922.136)	(31.299.311)	(10.1) %	(11) %
Operating Profit or Losses	30.408.232	15.357.111	7.3%	5%
Income and Gains from other Opr.	213.939	1.309.398	0.05%	0.46%
Expenses and Losses from other Opr. (-)	(3.182.678)	(489.851)	(0.7) %	(0.17) %
Financial Expenses (-)	(11.452.569)	(33.440.203)	(2.75) %	(11.7) %
Operating profit or Losses	15.986.924	17.263.545	3.83%	6.03%
Extraordinary Income or Profits	444.781	5.050	0.1%	0.002%
Extraordinary Expense and Losses (-)	0	(458.421)	0 %	(0.015) %
Income before Taxes	16.431.705	17.694.746	3.95%	6.18 %
Taxation and other legal liabilities	(2.756.413)	—	(0.67)%	—
Net Income	13.675.292	17.694.746	3.3%%	6.18%

The net sales for the year 2002, decreased by 1.1%, also there was a 1.5% decrease in cost of sales.

The operating expenses decreased by 1% and also financial expenses decrease almost 7.5% and the company paid 0.67% tax and these were the reasons why net income eventually went down.

#### 4.2.2. Trend Percentages (Horizontal Percentages)

The Trend Percentage (Horizontal Analysis) is technique for evaluating a series of financial statement data over a period of time. The trend percentages are used to show the extent and direction of change in financial statements items from a base year to following years. During the calculation of trend percentages; net sales, cost of goods sold and gross profit have been taken from income statements of Goodyear which appear in appendix 2.

	1998	1999	2000	2001	2002
<b>Net Sales</b>	65.614.972	91.420.550	153.818.148	267.887.318	386.708.194
<b>C.O.G.S.</b>	49.519.438	69.276.095	132.896.347	221.230.896	314.377.826
<b>Gross Profit</b>	16.095.534	22.144.455	20.921.801	46.656.422	72.330.368

	1998	1999	2000	2001	2002
<b>Net Sales</b>	100%	139%	234%	408%	589%
<b>C.O.G.S.</b>	100%	139%	268%	446%	634%
<b>Gross Profit</b>	100%	138%	130%	299%	449%

Net sales, cost of goods sold and gross profit parameters are increasing from one year to the next but the amount of increase in C.O.G.S is more than the net sales. Therefore this had an effect on the increasing amount of gross profit. That is why the gross profit had not increased as much as net income.

#### 4.2.3. Dollar and Percentage Changes

The dollar amount of change is the difference between the amount for a comparison year and the amount for a base year. This analysis shows dollar and percentage changes of important item each year. During the calculation of dollar and percentage changes; Net sales and net income have been taken from income statement of Goodyear's financial statements that appear in Appendix 2.

	2000	1999	1998	2000 Over 1999 Amount	2000 Over 1999 %	1999 Over 1998 Amount	1999 Over 1998 %
Net Sales	153,818,148	91,420,550	65,614,972	62,397,598	68%	25,805,578	39%
Net Income	(7,800,910)	(4,636,108)	3,237,036	(3,164,802)	—	(7,873,144)	(243)%

From the table it can be seen that the net sales increase by 39.33% in year 1999 over 1998 and also net sales continued increase in the next term of which it become 68.25% in year 2000 over 1999. Net income decreased by 243% in the years 1999 over 1998 and in 2000 over 1999 this decrease continued and the total was 3.164.802 loss. According to the rules if the base year is negative amount we can not do the percentage calculation for that year. Therefore in this situation we couldn't calculate the percentage change in year 2000 over 1999.

	2002	2001	2000	2002 Over 2001 Amount	2002 Over 2001 %	2001 Over 2000 Amount	2001 Over 2000 %
Net Sales	386,708,194	267,887,318	153,818,148	118,820,876	44%	114,069,170	74%
Net Income	13,675,292	(17,694,746)	(7,800,910)	31,370,038	—	(9,893,836)	—

Net sales increased by 74% in the years between 2001 and 2000 but this increase decreased to 44% in years 2002 over 2001.

Net income in the years 2001 over 2000 decreased by 9.893.836 and the next year 2002 over 2001 net income increased by 31.370.038. But as I mentioned above if the base year of the calculation is negative number, we don't calculate the percentage changes. From the table it can be seen that the base years of 2000 and 2001 were negative numbers so we couldn't calculate the percentage changes.

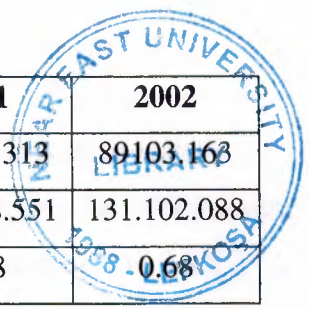
#### 4.2.4. Ratio Analysis

Ratios are important in understanding financial statements because they permit us to compare information from one financial statement with information from other financial statement. In order to calculate ratios we will deal with three kind of ratios. They are; short-term liquidity, long-term credit risk and profitability ratio. The date used in calculation of ratios has been taken from Goodyear financial statements which appear in Appendix 2.

	1998	1999	2000	2001	2002
Current Assets	25.752.722	38.051.817	58.156.994	100.227.982	139.729.377
Current Liabilities	24.582.074.	47.288.606	54.481.421	100.888.551	131.102.088
<b>Current Ratio</b>	1.12	0.8	1.1	0.99	1.1

The current ratio was 1.12 in the year 1998 which was its highest rate, then the ratio went down to 0.8 and the next year in 2001 it increased 1 and then it went down and come up again to 1.1

It is believed by the creditors and bankers that the company should at least have a current ratio 2:1 or higher to qualify as a good credit risk in the situation of the company it can be seen from the table that the short term debt paying ability of the company is not good enough.



	1998	1999	2000	2001	2002
Quick Asset	16.480.982	20.954.547	32.560.529	58.422.313	89.103.163
Current Liabilities	24.582.074	47.288.606	54.481.421	100.888.551	131.102.088
<b>Quick Ratio</b>	0.67	0.44	0.60	0.58	0.68

There was an up and down fluctuations in quick ratio. In year 1998, it was 0.67 and then it decreased to 0.44 in year 1999 and increased again and finally in 2002 it was 0.68. These ratios showed that the company position is not strong enough to pay its short term debts, because the quick ratio has to be 1:1 and above, as it believed by the banks and the creditors, that the company is in a stronger position in short term debt paying ability.

	1998	1999	2000	2001	2002
Current Assets	27.572.722	38.051.817	58.156.994	100.227.982	139.727.377
Current Liabilities	24.582.074	47.288.606	54.481.421	100.888.551	131.102.088
<b>Working Capital</b>	2.990.648	(9.236.789)	3.675.573	(660.569)	8.627.289

From the table above, it can be seen that in year 1998 to 2002 current assets exceeds the current liabilities and working capital is a positive amount therefore in year 1998, 2000 and 2002 company do not have any problems in short term debt paying ability.

But in year 1999 and 2001 the current liabilities exceed current assets therefore the company is not in a good position in paying their short-term debt, as the working capital is a negative amount.

	1998	1999	2000	2001	2002
Net Sales	65.614.972	91.420.550	153.818.148	267.887.318	386.709.194
Average Account Receivables	13.763.544	157.796.291	21.975.168	35.879.786	56.477.628
<b>Receivable Turn Over Rate</b>	4.76	5.79	7.0	7.46	6.89

Accounts receivables turnover rate show how quickly the company converts its accounts receivables into cash. The higher this rate is, the more preferable for the company. In 1998 this rate was 4.76 and it increased up to 7.46 in year 2001 and in 2002 this rate decreased to 6.85.

	1998	1999	2000	2001	2002
Days	365	365	365	365	365
Receivables Turn Over Rate	4.76	5.79	7.0	7.46	6.85
Days To Collect Account Receivables	76.6	63	52.1	48.9	53.3

A day to collect average account receivable indicates in how many days the companies collect its accounts receivables. In year 1999 company needed 76.6 days, in year 2000 company only needed 48.9 days and then 2002 this amount increased and company needed 53.3 days to collect its account receivable.

	1998	1999	2000	2001	2002
C.O.G.S.	49,519,438	69,276,095	132,896,347	221,230,896	314,377,826
Avg. Inventory	14,670,724	14,094,492	21,346,854	33,701,067	46,215,942
Inventory Turnover Rate	3.37	4.91	6.22	6.56	6.80

Inventory turnover rate indicates how many times a year the company sells its inventory. The higher this rate is, the more preferable for the company. In year 1998 this rate was only 3.37 and increase up to 6.80 in year 2003.

	1998	1999	2000	2001	2002
Days	365	365	365	365	365
Inventory Turnover Rate	3.37	4.91	6.22	6.56	6.80
<b>Days To Sell Avg. Inventory</b>	108.3	74.3	58.68	55.64	53.68

Days to collect average inventory indicates how many days the company sells its inventory and converts it into accounts receivables or cash. In the year 1998 the company needed 108.3 days to sell its inventory. In year 2002 the company only needed 53.68 days.

	1998	1999	2000	2001	2002
Days To Collect Average A/R	76.6	63	52.1	48.9	53.3
Days To Collect Average Inventory	108.3	74.3	58.68	55.64	53.68
<b>Operating Cycle</b>	184.9	137.3	110.8	104.5	106.9

Operating cycle refers to the time passed to convert the inventory into cash. In year 1998 the company operating cycle was 184.9 days and with the improvements inside the company in year 2002 the operating cycle reduced to 106.9.

	1998	1999	2000	2001	2002
Total Liabilities	28.445.385	53.785.206	75.951.464	140.010.422	154.021.905
Total Assets	43.787.585	69.670.756	95.457.365	159.454.085	215.349.982
<b>Debt Ratio</b>	64.9%	77.2%	79.5%	88.1%	71.5%

Debt ratio shows what proportion of total assets is converts by debts. If this rate is high means that the company has high debt amounts. If this ratio is above 50% it is unfavorable for the creditors and banks. In year 1999 this ratio was 64.9% which was above the 50% level and the next years

this ratio keep increasing and in 2001 become 88.1% and then in 2002 this ratio decreased to 71.5%.

	1998	1999	2000	2001	2002
Dollar Gross Profit	16.095.534	21.144.455	20.921.801	46.656.422	72.330.368
Net Sales	65.614.972	91.420.550	153.818.1485	267.887.318	386.708.194
<b>Gross Profit Rate</b>	24.5	23.1	13.6	17.4	18.7

Gross profit rate is the expression of gross profit in terms of the percentage of net sales. It measures profitability of the company's products. This refers between 20% and 50% or more is preferable.

In year 1998 this rate was above the average of 20% and the company was in a preferable situation and then this ratio started to decrease. Finally in year 2002 this ratio increased up to 18.7% which is still below but near to the average of 20%.

	1998	1999	2000	2001	2002
Operating Expense	890.955	14.280.454	21.515.141	31.299.311	41.922.136
Net Sales	65.614.972	91.420.550	153.818.148	267.887.318	386.708.194
<b>Operating Expense Ratio</b>	1.35%	15.6%	13.9%	11.7%	10.8%

From the table it can be seen that in year 1998 the operating expenses ratio was very low and only 1.35% but this ratio increased to 15.62% in year 1999 and during the next year it steadily decreased to 10.84%

	1998	1999	2000	2001	2002
Net Income	3.237.036	(4.636.108)	(7.800.910)	(17.694.746)	13.675.292
Net Sales	65.614.972	91.420.550	153.818.148	267.887.318	386.708.194
<b>Net Income As a Percentage Of Net Sales</b>	4.93%	(5.07)%	(5.07)%	(6.6)%	3.53%

This ratio shows the proportion of sales converted into net income. If the percentage is higher

Means that the company is generating more profit and it will be favorable for the company.

In year 1998 this ratio was 4.93% and then it decreased by 10% and its decreasing trend keep up decreasing until year 2001 and then in year 2002 this ratio increased almost 10% to 3.53%.

	1998	1999	2000	2001	2002
Operating Income	7.904.579	7.864.001	(593.340)	15.357.111	30.408.232
Average Total Assets	37.217.268	56.729.171	82.564.060	127.455.725	267.129.076
<b>Return On Assets</b>	21.23%	13.86%	(0.71)%	12.05%	11.38%

Return on assets is used it management has earned a reasonable return with the assets under its control. The general agreement among financial analyst is that 15% and more return on average total asset is successful.

In year 1998 this ratio was 21.23% that was the above the average of 15% and in the next year this ratio started to decreased and in year 2001 the ratio started to increase. Finally in year 2002 this ratio was 11.38% that is still below the average but close to it.

	1998	1999	2000	2001	2002
Net Income	2.327.036	(4.636.108)	(7.800.910)	(17.694.746)	13.675.292
Average Total Equity	25.875.116	56.729.171	82.564.060	127.455.725	187.402.034
<b>Return On Equity</b>	9.0 %	(8.2) %	(9.5) %	(13.9) %	7.3 %

Return on equity is one of the measurements of profitability and it looks at the return earned by management on stockholders investments and stockholders expects to earn an average annual return of 12% or more each year.

The return on equity in year 1998 was 9% which was below the average but this ratio started to decline and in year 1999 it decreased by 17% and in the next two years this decreasing trend continued. Finally in year 2002 this ratio increased up to 7.30%

## V. LIMITATIONS

Goodyear and Bridgestone are both well-known companies in Turkey. They both trade tyre manufacturing sector and are competitors of each other. They both operate globally.

While conducting this analysis it has been found that there are certain difficulties in reaching the details of the companies. Bridgestone has better designed website than Goodyear financial details about the company. This restricted information is due to the security problems. For this reason the important relationships and explanations of the changes in the components of financial statements were difficult to find.

There are certain huge financial companies which provide some background information related to the financials about the companies but with this information it is still impossible to analyse some ratios, these ratios include such as earnings per share, dividend yield, book value per share.

Analysing the financial statements with other ratios except those one stated above will give us a detailed information about the position of the company but it will not show the exact position of the companies.

## CONCLUSION AND RECOMMENDATION

The world economy is a very dynamic process and all the companies must keep up this process in order to survive in their areas. They should make investment, and also increase their market share shortly they should be able to operate globally, with minimum risk. The investors want to make investment in the companies with minimum risk so that in return they want to earn something out of their investments.

These financial statement analysis have been done to see if those company are risky or not, they are worth of making some investments, as they provide useful information for the investors and creditors. The financial statement analysis of this project, have been done in three different parts. Financial statements, resource methodology and the analysis of both Bridgestone and Goodyear performance over the last five years to 2002.

Bridgestone and Goodyear are companies which produces all different sort of tyres in Turkey. Analyzing the performance of each company separately will not give us a detailed information about their current position, but after analyzing if we compare them with each other as their competitors in the tyre market in Turkey. It will give us a clear understanding of their position in the current market. These companies will be made in four different sections, dollar and percentage analysis, component percentages, trend percentages and finally ratio analysis which measures the short-term liquidity, profitability and evaluating the current market prices of common stock. The calculations of Bridgestone, appears in appendix 1 and calculations of Goodyear, appears in appendix 2.

This project made the vertical analysis of Bridgestone comparing with a Goodyear. The comparisons of the both companies will be made by inspecting the income statements. Net sales cost of the goods sold, operating expenses, financial expenses and net income will be analyzed in

this situation as they are the elements of the income statements of the income statement. The comparisons of year 2001 done firstly.

Starting with net sales we observe that Bridgestone has 77.7% of gross sales where Goodyear has 94% net sales. This indicates that the net sales of Goodyear is better than Bridgestone. The cost of the good sold Bridgestone was 47.9% which is lower than the Goodyear which was 77%, which means that the cost of production of Bridgestone was cheaper than the Goodyear. If the cost of production is lower than this means that the management is more capital intensive and this finally leads the company to more profitable situation.

When comparing the operating expenses, Bridgestone has 16.3% and Goodyear has 11%, where the operating expenses of Goodyear is cheaper than the Bridgestone. In this situation the management of Goodyear is performing better as it managed to keep its operating expenses lower than Goodyear.

Goodyear's financial expenses was 11.7% where Bridgestone only has 0.14%. In this case the Bridgestone's performance is better than Goodyear as it does not need any financial support to make new investment. Net income for Bridgestone at the end was 9.9% of gross sales where Goodyear had only 0.18%, which is showed that the overall performance of Bridgestone was better than the Goodyear and this was due to the affective cost and financial expense management of the company's management.

To be able to state the current performances of both companies the year 2002 analysis are needed. The net sales of Bridgestone increased by 5% comparing to the previous year but the net sales of Goodyear has decreased by 4.1% this indicates that in year 2002 the net sales performance of Bridgestone was better than Goodyear, but the cost of sales of Bridgestone increased by almost 5% and Goodyear decreased by 1.5% which shows, in year 2002 the management of Goodyear performed a better job and reduced their costs. Operating expenses for both companies decreased but Bridgestone's decrease was more than the Goodyear. The financial expenses for both companies again decreased which is in favor of the company and specially a decrease in Goodyear was very high which shows that the company is performing very good in this year. When comparing the net income, Bridgestone is performing much better than Goodyear.

The company managed to increase its net income by 1.3% where Goodyear's net income decreased in this year. In the overall performance, Bridgestone has performed better and also in a stronger

position than Goodyear in 2002. The horizontal analysis of Goodyear and Bridgestone will be done by using the income statement and its elements, including net sales Cost of goods sold and gross profit. In this analysis year 1998 is considered as the base year.

There is an steadily increase in net sales for both companies where Bridgestone has 4.9 times increased its sales but with an better performance Goodyear has increased its sales by 5.89 times more than its base year.

The Cost of goods sold for both companies have increased as well but the increase in Goodyear is more than the Bridgestone where Goodyear increased its cost of goods sold by 6.34 times and Bridgestone had 5.06 times increase. In this situation in cost effectiveness Bridgestone is better position than Goodyear. Finally, the gross profit for Bridgestone has increased 4.64 times and Goodyear achieved 4.49 times increase. Therefore Bridgestone has little better performance than the Goodyear and this better performance was due to the cost effectiveness of the company.

Another way of calculating the performance is by analyzing the dollar and percentage changes in both companies. When evaluating the dollar and percentage changes, the income statements components such as net sale and net income will be used and this comparison will be made by comparing two years with each other such as 2002 over 2001.

Bridgestone had 73% increase in its net sales in years 2002 over 2001 where Goodyear only had 44.35% increase in its net sales where this ratio expresses that Bridgestone's performance was very good in year 2002. Net income for Bridgestone had increased by 85% which was an outstanding performance but when we look at the Goodyear in year 2002 the company made a net income of 13.652.292 million TL. Even they made a profit in year 2002, we cannot calculate its changes in 2002 over 2001 as the company made a loss of 17.692.746 million TL in year 2001. Therefore overall performance of Bridgestone was better than.

The strongest financial analysis can be done with the use of the ratios and these analysis and comparisons will be done by using the year 2001 as past performance and year 2002 as a current performance of the companies. In order to be clear and understandable first year 2001 ratios will be analyzed and then year 2002 for both companies. Measures of short-term liquidity are evaluated as follows.

In year 2001, the current ratio for Bridgestone was 2.30 where Goodyear had only 0.99 which is almost 2.32 more than Goodyear. Also Bridgestone had quick ratio of 1.26 and Goodyear had again lower rate which was 0.58.

In year 2001, the current ratio for Bridgestone was 2,30:1 where Goodyear had only 0,99:1, which Bridgestone is almost 2,32 times more than Goodyear. Also Bridgestone had a quick ratio of 1,26:1 and Goodyear again had a lower rate of 0,58:1, than Bridgestone. In this situation Bridgestone had 2.17 times more than Goodyear. The working capital of Bridgestone was better than the Goodyear. When measuring these short-term liquidity ratios it is observed that the most important measurements are current ratio, quick ratio and working capital. In this situation, it can be seen that the Bridgestone has at least twice as higher ratios than the Goodyear and this shows that the Bridgestone is stronger position in short-term liquidity than the Goodyear.

The receivables turnover rate of Bridgestone was 6,61 and where the Goodyear had 7,46. In this case the Goodyear has achieved a better performance as higher the rate, the quicker they collect their accounts receivable. Therefore Goodyear will collect its accounts receivable in a shorter period 48, 9 days which is in favor of the company.

The inventory turnover rate of Bridgestone was 4,34 where Goodyear had a better ratio of 6,56 thus this means Goodyear will replace its inventory with shorter time periods than Bridgestone related to this ratio, days to sell average inventory for Goodyear will be a shorter period. Goodyear needs only 55,64 days and Bridgestone needs 84,10 days. The operating cycle of Goodyear was 104,5 days, and Bridgestone's was 139,1 days. In this situation Goodyear sells its inventory and collects its cash in a shorter period.

The debt ratio measures the long-run term liquidity, and Bridgestone has only 32,9 debt ratio where Goodyear has 88,1. Therefore the percentages at total liabilities for total assets are lower in Bridgestone has stronger position than Goodyear in long-term debt paying ability.

The measurement of profitability will be done by analyzing gross profit ratio, operating expense ratio, return on assets, and also return on equity.

When comparing the gross profit rates of both companies it is observed that Bridgestone has 12,8% and Goodyear has 17,41% which showed that Goodyear has a better performance in 2001. Operating expense ratio measures the management capability to evaluate and control the expenses and in this situation Goodyear has 11,68% ratio, where Bridgestone has 20,9% therefore these

ratios proved that the management of Goodyear achieved better results. We will continue to analyze the profitability with the net income as a percentage of net sales ratio, in this case Bridgestone has a better performance than the Goodyear where it has 12,6% but Goodyear had a net loss in 2001.

The next step is to consider the return on assets; again Bridgestone has higher return assets than the Goodyear. In 2001 Bridgestone achieved 21% return on assets and Goodyear achieved 12,05%.

The last thing to analyze is the return on equity. Bridgestone was 22,93%, and return on equity of Bridgestone was better than Goodyear. Therefore Bridgestone has achieved a better performance than Goodyear. After conducting these analysis, the financial conclusion that has appeared that the Bridgestone has a better performance in profitability. After analyzing the past performance of the companies in year 2001, we will analyze the current positions in year 2002 by using the same ratios.

The current ratios for year 2002; Bridgestone has 2,71:1 and where Goodyear has 1,1:1 which is 2,46 times. This ratio has increased when compared to year 2001 which was 2,32 therefore in year 2002 Bridgestone's performance is still above than the Goodyear.

The quick ratio of Bridgestone was 2,17 times more than the Goodyear in year 2001. In year 2002 the quick ratio of Bridgestone was 1,62 and Goodyear's was 0,68 which is 2,38 times more. Therefore in year 2002 again Bridgestone is more stronger position than the Goodyear. The working capital is again higher in Bridgestone. The final conclusion is that, in year 2002 Bridgestone is still has a better performance than Goodyear and also the company has improved its performance comparing to the past performance.

The receivables turnover rate of Bridgestone was 8,70 where Goodyear has 6,89. In this year 2002 Bridgestone achieved a better performance and it can collect its receivables in shorter period. Bridgestone had increased its performance when comparing with year 2001, but Goodyear has reduced its performance comparing to year 2001, therefore in year 2002 Bridgestone was performing well again.

Days to collect account receivables is another measure of profitability and in 2002, Bridgestone managed to reduce its days from 55,2 days to 41,9 days but this is not same for Goodyear.

Goodyear has unfortunately increased its collection days from 48,9 to 53,3 days. This shows that the Bridgestone was performed better in this situation. Another measurement is inventory turnover rate of Bridgestone in year 2002 is 5,60 where it was 4,34 and Goodyear has 6,80 both are managed to increase their inventory turnover rate but in this case Goodyear still has a better performance than Bridgestone. Related with this ratio, the days to sell average inventory is still less than Bridgestone. The operating cycle of both companies are almost the same but when compared with the past performance there is an important in Bridgestone, In 2001 its operating cycle was 139,1 days and managed to reduce it to 107 days.

By using the debt ratio we can measure the company's long term debt paying ability and in year 2002, the Bridgestone has only 28,9% where Goodyear has 71,5%. In year 2002 they both lowered their ratios but still Bridgestone is in a stronger position.

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# APPENDIX 1

FIVE YEAR BALANCE SHEET OF BRIDGESTONE CO. (Milyon TL)					
	31.12.2002	31.12.2001	31.12.2000	31.12.1999	31.12.1998
<b>I. CURRENT ASSETS</b>	173.282.079	120.729.302	80.714.990	60.120.402	38.483.975
A. Liquid Assets	60.179.133	25.764.551	7.568.951	15.266.284	5.917.279
1. Cash	4.046	4.654	158	3.767	523
2. Banks	59.558.433	25.759.897	7.568.793	15.262.517	5.916.752
3. Cheque given and payment others (-)	616.654	0	0	0	4
B. Marketable Securities	0	3.480.504	13.140.052	7.031.566	7.177.597
1. Common stock	0	0	0	0	0
2. Private sector bonds, notes and debt securities	0	0	0	0	0
3. Public sector bonds, bills and notes	0	3.318.505	12.799.999	6.972.502	7.177.597
4. Other marketable securities	0	161.999	340.053	59.064	0
5. Provision for decline in value of marketable securities (-)	0	0	0	0	0
C. Trade Serviceable	40.826.148	36.718.808	22.558.277	12.158.748	9.621.476
1. Customers	33.035.049	31.674.190	14.395.532	6.794.103	5.248.471
2. Notes receivables	8.908.621	5.782.130	8.974.669	5.654.000	4.683.327
3. Deposits and guarantees given	2.319	2.319	2.319	50	50
4. Other trade receivables	29.458	60.939	65.092	174.900	116.576
5. Rediscount of notes receivables (-)	(327.937)	(197.677)	(448.703)	(252.002)	(332.844)
6. Provision for doubtful trade receivables (-)	(821.362)	(603.093)	(430.632)	(212.303)	(94.104)
D. Others Receivables	2.470.452	547.835	1.309.827	916.645	225.597
1. Receivables from shareholders	0	0	0	0	0
2. Receivables from subsidiaries	0	0	0	0	0
3. Receivables from associates	0	0	0	0	0
4. Others receivables	2.485.668	563.051	1.309.827	916.645	225.597
5. Rediscount of other notes receivables (-)	0	0	0	0	0
6. Provision for doubtful receivables (-)	(15.216)	(15.216)	0	0	0
E. Inventory	46.125.463	33.869.576	23.651.356	16.124.194	10.652.472
1. Raw materials	17.522.598	16.200.172	10.252.755	6.659.849	3.960.221
2. Half work in progres and production	4.146.433	2.823.610	1.494.347	950.859	648.911
3. Work in progres and production	0	0	0	0	0
4. Finished goods	16.467.469	11.796.316	8.990.185	4.330.169	4.148.920
5. Commercial goods	5.404.492	2.580.537	2.355.856	3.215.990	1.257.875
6. Others stocks	0	0	0	0	0
7. Provision for decline in value of inventories (-)	0	0	0	0	0
8. Others advances given	2.584.471	468.941	558.213	967.327	636.545
F. Other Current Assets	23.680.883	20.348.028	12.486.527	8.622.965	4.889.554
<b>II. Non-current assets</b>	102.791.238	75.508.241	57.371.488	36.772.812	27.896.769
A. Trade receivables	238.143	758.348	252.909	88.596	16.534
1. Customers	0	0	0	0	6
2. Notes receivables	246.194	570.599	129.949	22.215	18.946
3. Deposits and guarantees given	10.091	7.945	4.931	5.027	690
4. Others long-term trade recivables	0	229.155	146.199	74.508	8.416
5. Rediscount of notes receivables (-)	(18.142)	(49.351)	(28.170)	(13.154)	(11.524)
6. Provision for doubtful receivable (-)	0	0	0	0	0
B. Other receivables	0	0	0	0	0
1. Receivables from shareholders	0	0	0	0	0
2. Receivables from subsidiaries	0	0	0	0	0
3. Receivables from associations	0	0	0	0	0
4. Others long term receivables	0	0	0	0	0
5. Rediscount of other notes receivables (-)	0	0	0	0	0
6. Provision for doubtful receivables (-)	0	0	0	0	0
C. Financial Assets	3.483.039	2.340.167	2.340.167	702.050	702.050
1. Marketable securities	0	0	0	0	0
2. Provision for decline in value marketable securities (-)	0	0	0	0	0
3. Associates	3.483.039	2.340.167	2.340.167	702.050	702.050
4. Capital commitments for associates (-)	0	0	0	0	0
5. Provision for decline in value of associate shares (-)	0	0	0	0	0
6. Subsidiaries	0	0	0	0	0
7. Capital commitments to subsidiary companies (-)	0	0	0	0	0
8. Provision decline in value of subsidiary shares (-)	0	0	0	0	0
D. Tangible Assets	98.857.698	72.137.502	54.481.516	35.908.525	26.761.771
1. Land	97.768	97.768	97.768	132.769	26.269
2. Land improvements	1.950.301	1.398.235	1.181.209	960.881	664.401
3. Buildings	81.636.402	53.430.798	34.785.335	18.864.092	12.272.050
4. Plant, machinery and equipment	213.825.225	152.292.379	104.303.029	70.329.719	43.557.013
5. Motor vehicles	2.124.670	1.252.671	991.699	692.928	400.003
6. Furniture and fixtures	4.692.180	2.946.928	1.838.779	880.976	536.236
7. Other tangible assets	0	0	0	0	0
8. Accumulated depreciation (-)	(210.161.880)	(142.131.188)	(92.125.250)	(58.790.177)	(32.010.488)
9. Construction in progress	3.698.958	2.799.347	3.071.827	2.739.958	809.531
10. Advances given	994.074	50.564	337.120	97.379	506.756
E. Intangible assets	211.247	269.446	296.896	72.160	82.800
1. Goodwill	0	0	0	0	0
2. Rights	16.202	13.717	19.588	27.480	40.788
3. Reserch and development Expense	0	0	0	0	0
4. Other intangible assets	195.045	255.729	277.308	44.680	42.012
5. Advances given	0	0	0	0	0
F. Other non-current assets	1.111	2.778	0	1.481	333.614
<b>TOTAL ASSETS</b>	276.073.317	196.237.543	138.086.478	96.893.214	66.380.744

THE YEAR BALANCE SHEET OF BRIDGESTONE CO. (Milyon TL)	31.12.2002	31.12.2001	31.12.2000	31.12.1999	31.12.1998
<b>CURRENT LIABILITIES</b>	63.906.231	52.581.453	34.557.931	27.426.152	18.333.535
A. Financial Liabilities	687.230	1.097.004	0	753.000	2.689.310
1. Bank Loans	687.230	1.097.004	0	753.000	2.689.040
2. Current portions and interest payments of long-term loan	0	0	0	0	270
3. Principal installment and interest payment of bonds	0	0	0	0	0
4. Notes and shares issued	0	0	0	0	0
5. Other financial liabilities	0	0	0	0	0
B. Trade payables	25.183.106	9.823.607	9.091.682	10.597.336	4.449.440
1. Suppliers	12.145.749	5.159.817	6.323.010	7.454.194	4.311.060
2. Notes payable	0	0	508.765	0	0
3. Deposits and gurantees received	804.357	684.491	342.918	265.136	138.380
4. Others miscellaneous payables	12.233.000	3.979.299	1.925.354	2.878.006	0
5. Rediscount of other notes payable (-)	0	0	(8.365)	0	0
C. Other payables	12.274.917	14.238.238	14.711.186	10.090.717	7.444.202
1. Due to shareholders	66.659	106.662	79.514	20.657	15.188
2. Due to associates	0	0	0	0	0
3. Due to subsidiaries	0	0	0	0	0
4. Associate payable	383.385	125.781	284.634	187.334	1.595.536
5. Tax payable	3.838.244	2.612.598	2.116.498	703.187	2.266.450
6. Liabilities to the state (deferred or payable in installment)	1.196.649	977.572	4.386.022	3.720.523	0
7. Short term payables	6.789.980	10.415.625	7.844.518	5.459.016	3.567.028
D. Advances received	489.225	13.599.101	161.655	31.746	667
E. Other current liabilities	25.271.753	13.823.503	10.593.408	5.953.353	3.749.916
1. VAT calculated	24.076.780	13.549.343	10.593.408	5.938.941	3.699.167
2. Other VAT	1.194.973	274.160	0	14.412	50.749
<b>NON-CURRENT LIABILITIES</b>	15.972.585	12.064.129	8.902.568	5.021.571	3.602.495
A. Financial Payables	0	0	0	0	0
1. Bank loans	0	0	0	0	0
2. Bonds issued	0	0	0	0	0
3. Other marketable securities issued	0	0	0	0	0
4. Other financial liabilities	0	0	0	0	0
B. Trade Payables	0	0	0	0	0
1. Suppliers	0	0	0	0	0
2. Notes Payables	0	0	0	0	0
3. Deposits and gurantees received	0	0	0	0	0
4. Other trade payables	0	0	0	0	0
5. Rediscount of notes payable (-)	0	0	0	0	0
C. Other Liabilities	660.534	187.905	184.146	0	330.787
1. Due to shareholders	0	0	0	0	0
2. Due to associates	0	0	0	0	0
3. Due to subsidiaries	0	0	0	0	0
4. Other miscellaneous payable	660.534	187.905	184.146	0	330.787
5. Long-term liabilities	0	0	0	0	0
6. Rediscount of other notes payable (-)	0	0	0	0	0
D. Advances received	0	0	0	0	2.812
E. Provision for Liabilities and Expenses	15.312.051	11.876.224	8.718.422	5.021.571	3.268.896
1. Provision for employe termination benefit	15.312.051	11.876.224	8.718.422	5.021.571	3.268.896
2. Provision for other liabilities and expenses	0	0	0	0	0
<b>III. SHAREHOLDER'S EQUITY</b>	196.194.501	131.591.961	94.625.979	64.445.491	44.444.714
A. Capital	7.441.875	7.441.875	7.441.875	7.441.875	7.441.875
B. Capital reserves (-)	0	0	0	0	0
C. share premium	4.903	4.903	4.903	4.903	4.903
D. Revaluation fund of associates	114.274.635	75.201.626	48.314.778	28.388.964	15.254.893
1. Revaluation fund of tangible assets	111.493.646	73.563.509	46.676.661	28.388.964	15.254.893
2. Costs increasig fund	2.780.989	1.638.117	1.638.117	0	0
3. Profit from invalidation of shares	0	0	0	0	0
E. Reserves	26.567.771	23.009.238	20.921.113	15.472.419	9.846.474
1. Legal reserves	8.085.240	5.847.588	4.336.983	3.530.217	2.437.619
2. Statutory reserves	0	0	0	0	0
3. Private reserves	0	0	124.887	294.734	0
4. Extraordinary reserves	17.923.810	16.633.594	16.154.007	11.456.431	7.344.910
5. Special funds	558.721	528.056	305.236	191.037	63.945
6. Investment shares and immovable sales income added to capital	0	0	0	0	0
7. Previous period's profits	0	0	0	0	0
F. Net profit for the period	47.905.317	25.934.319	17.943.310	13.137.330	11.896.569
G. Net loss for the period (-)	0	0	0	0	0
H. Previous period's losses (-)	0	0	0	0	0
1. .... Year Loss	0	0	0	0	0
2. .... Year Loss	0	0	0	0	0
<b>TOTAL LIABILITIES</b>	276.073.317	196.237.543	138.086.478	96.893.214	66.380.744

**INCOME STATEMENT OF BRIDGESTONE CO. (Milyon TL)**

	31.12.2002	31.12.2001	31.12.2000	31.12.1999	31.12.1998
<b>A. Gross sales</b>	428.516.678	260.497.386	188.202.327	113.368.936	91.499.138
1. Domestic sales	300.042.485	173.936.935	151.760.531	89.506.073	77.744.408
2. Export sales	128.474.193	86.560.451	36.441.796	23.862.863	13.754.730
3. Other sales	0	0	0	0	0
<b>B. Sales deduction (-)</b>	(77.818.472)	(58.209.375)	(38.360.289)	(22.813.356)	(19.936.799)
1. Sales return (-)	(1.139.925)	(683.505)	(631.801)	(476.678)	(405.131)
2. Sales discounts (-)	(70.864.466)	(54.317.131)	(34.995.542)	(20.947.979)	(18.413.190)
3. Other discounts(-)	(5.814.081)	(3.208.739)	(2.732.946)	(1.388.699)	(1.118.478)
<b>C. Net Sales</b>	350.698.206	202.288.011	149.842.038	90.555.580	71.562.339
<b>D. Cost of sales (-)</b>	(223.539.472)	(124.769.970)	(102.231.235)	(54.771.142)	(44.154.247)
<b>Gross profit (Losses)</b>	127.158.734	77.518.041	47.610.803	35.784.438	27.408.092
<b>E. Operating expenses(-)</b>	(56.934.738)	(42.400.938)	(27.261.821)	(16.115.823)	(11.780.722)
1. Research and development expenses (-)	(3.895.865)	(2.779.738)	(1.959.142)	(1.495.888)	(981.912)
2. Marketing, selling and distribution expenses (-)	(34.258.948)	(20.588.495)	(16.153.508)	(8.288.145)	(6.879.511)
3. General and administrative expenses(-)	(18.779.925)	(19.032.705)	(9.149.171)	(6.331.790)	(3.919.299)
<b>OPERATING PROFIT (LOSS)</b>	70.223.996	35.117.103	20.348.982	19.668.615	15.627.370
<b>F. Incomes and gains from other operations</b>	20.011.740	20.725.177	8.873.379	9.574.751	4.821.055
1.Dividends from associates	0	0	0	0	0
2. Dividends from subsidiaries	0	0	0	0	0
3. Interest income	2.337.559	2.675.606	768.493	1.230.809	1.570.908
4. Other operating income and gains	17.674.181	18.049.571	8.104.886	8.343.942	3.250.147
<b>G. Expenses and losses from other operations(-)</b>	(14.780.774)	(7.862.445)	(1.735.565)	(2.567.055)	(1.138.358)
<b>H. Financial expenses(-)</b>	(217.348)	(355.531)	(20.316)	(1.371.577)	(1.341.246)
1. Short-term borrowing expenses (-)	(217.348)	(355.531)	(20.316)	(1.371.549)	(1.340.696)
2. Long -term borrowing expenses (-)	0	0	0	(28)	(550)
<b>Total Operating Profit or Loss</b>	75.237.614	47.624.304	27.466.480	25.304.734	17.968.821
<b>I. Extraordinary income and gain</b>	4.000.115	1.032.044	8.035.685	11.493.135	520.303
1. Micellaneous expenses	0	0	905.402	0	0
2. Prior period income and gains	3.638.219	728.951	264.477	378.042	335.139
3. Other extraordinary income and gains (-)	361.896	303.093	6.865.806	11.115.093	185.164
<b>J. Other extraordinary expense and losses(-)</b>	(7.255.632)	(9.172.686)	(6.965.447)	(17.721.598)	(2.893.388)
1. Idle time expense and losses (-)	(2.172.894)	(7.133.549)	(2.609.428)	(6.260.833)	(2.426.793)
2. Prior period expense and losses (-)	(4.671.524)	(1.508.876)	(519.661)	(337.109)	(191.955)
3. Other extraordinary expense and losses (-)	(411.214)	(530.261)	(3.836.358)	(11.123.656)	(274.640)
<b>PROFIT OR LOSS FOR THE PERIOD</b>	71.982.097	39.483.662	28.536.718	19.076.271	15.595.736
<b>K. Prevision for taxes payable and other statutory obligations (-)</b>	(24.076.780)	(13.549.343)	(10.593.408)	(5.938.941)	(3.699.167)
<b>NET PROFIT OR LOSS FOR THE PRIOD</b>	47.905.317	25.934.319	17.943.310	13.137.330	11.896.569



## YEAR BALANCE SHEET OF GOOD YEAR CO. (Milyon TL)

	31.12.2002	31.12.2001	31.12.2000	31.12.1999	31.12.1998
<b>CURRENT ASSETS</b>	139.729.377	100.227.982	58.156.994	38.051.817	27.572.722
<b>Liquid Assets</b>	14.264.731	10.248.685	3.684.239	977.102	202.723
1. Cash	5.921	4.323	5.389	4.216	5.852
2. Banks	547.129	641.531	409.548	80.013	81.023
3. Cheque given and payment others (-)	13.711.681	9.602.831	3.269.302	892.873	115.848
<b>Marketable Securities</b>	0	0	110.000	0	0
1. Common stock	0	0	0	0	0
2. Private sector bonds, notes and debt securities	0	0	0	0	0
3. Public sector bonds, bills and notes	0	0	110.000	0	0
4. Other marketable securities	0	0	0	0	0
5. Provision for decline in value of marketable securities (-)	0	0	0	0	0
<b>Trade Serviceable</b>	66.770.044	44.137.698	25.392.128	16.503.164	13.988.885
1. Customers	67.097.108	44.412.235	25.461.288	16.600.201	14.071.928
2. Notes receivables	0	0	0	0	0
3. Deposits and guarantees given	0	0	0	3.445	3.929
4. Other trade receivables	141.936	116.226	96.065	32.743	2.256
5. Rediscount of notes receivables (-)	(85.000)	(6.763)	0	0	0
6. Provision for doubtful trade receivables (-)	(384.000)	(384.000)	-165.225	(133.225)	(89.228)
<b>Others Receivables</b>	1.021.644	1.025.869	1.203.877	851.167	249.365
1. Receivables from shareholders	0	0	0	0	0
2. Receivables from subsidiaries	0	0	0	0	0
3. Receivables from associates	0	0	0	0	0
4. Others receivables	1.021.644	1.025.869	1.203.877	851.167	249.365
5. Rediscount of other notes receivables (-)	0	0	0	0	0
6. Provision for doubtful receivables (-)	0	0	0	0	0
<b>Inventory</b>	50.626.214	41.805.669	25.596.465	17.097.243	11.091.740
1. Raw materials	21.133.645	14.297.887	9.453.429	5.542.352	3.838.513
2. Half work in progres and production	3.718.573	2.081.564	1.901.492	1.782.606	958.787
3. Work in progres and production	0	0	0	0	0
4. Finished goods	17.536.189	20.858.747	11.287.066	7.962.078	5.355.620
5. Commercial goods	9.602.555	6.044.811	3.693.782	2.284.122	1.093.919
6. Others stocks	311.368	164.765	179.287	38.532	64.349
7. Provision for decline in value of inventories (-)	(1.925.613)	(1.653.764)	-982.281	(536.251)	(293.211)
<b>Others advances given</b>	249.497	11.659	63.690	23.804	73.763
<b>Other Current Assets</b>	7.046.744	3.010.061	2.170.285	2.623.141	2.040.009
<b>Non-current assets</b>	75.620.605	59.226.103	37.300.370	31.618.939	16.214.863
<b>Trade receivables</b>	99.623	434.476	10.091	9.373	9.775
1. Customers	98.070	431.871	0	0	0
2. Notes receivables	0	0	0	0	0
3. Deposits and guarantees given	3.102	15.653	10.091	9.373	9.775
4. Others long-term trade receivables	0	0	0	0	0
5. Rediscount of notes receivables (-)	(1.549)	(13.048)	0	0	0
6. Provision for doubtful receivable (-)	0	0	0	0	0
<b>Other receivables</b>	0	0	0	0	0
1. Receivables from shareholders	0	0	0	0	0
2. Receivables from subsidiaries	0	0	0	0	0
3. Receivables from associations	0	0	0	0	0
4. Others long term receivables	0	0	0	0	0
5. Rediscount of other notes receivables (-)	0	0	0	0	0
6. Provision for doubtful receivables (-)	0	0	0	0	0
<b>Financial Assets</b>	5.000	5.000	3.750	0	0
1. Marketable securities	0	0	0	0	0
2. Provision for decline in value marketable securities (-)	0	0	0	0	0
3. Associates	0	0	0	0	0
4. Capital commitments for associates (-)	0	0	0	0	0
5. Provision for decline in value of associate shares (-)	0	0	0	0	0
6. Subsidiaries	5.000	5.000	3.750	0	0
7. Capital commitments to subsidiary companies (-)	0	0	0	0	0
8. Provision decline in value of subsidiary shares (-)	0	0	0	0	0
<b>D. Tangible Assets</b>	74.973.666	57.674.798	35.598.875	29.360.608	15.847.549
1. Land	793.422	563.400	425.208	331.961	121.282
2. Land improvements	0	0	0	0	0
3. Buildings	33.645.766	21.362.940	13.786.359	8.966.567	4.305.834
4. Plant, machinery and equipment	192.760.034	130.180.438	78.039.580	41.745.750	20.005.684
5. Motor vehicles	264.811	312.275	285.330	218.392	178.984
6. Furniture and fixtures	12.799.215	7.279.280	3.664.031	1.131.081	720.853
7. Other tangible assts	0	0	0	0	0
8. Accumulated depreciation (-)	(167.196.791)	(105.815.763)	-62.724.718	(31.796.508)	(15.793.563)
9. Construction in progress	1.377.288	2.562.198	1.057.365	7.887.533	5.895.976
10. Advances given	529.921	1.230.030	1.065.720	875.832	412.499
<b>E. Intangible assets</b>	542.316	1.084.632	1.626.947	2.169.263	0
1. Goodwill	0	0	0	0	0
2. Rights	0	0	0	0	0
3. Reserch and development Expense	0	0	0	0	0
4. Other intangible assets	542.316	1.084.632	1.626.947	2.169.263	0
5. Advances given	0	0	0	0	0
<b>F. Other non-current assets</b>	0	27.197	60.707	79.695	357.539
<b>TOTAL ASSETS</b>	215.349.982	159.454.085	95.457.364	69.670.756	43.787.585

**IVE YEAR BALANCE SHEET OF GOOD YEAR CO. (Milyon TL)**

	31.12.2002	31.12.2001	31.12.2000	31.12.1999	31.12.1998
<b>CURRENT LIABILITIES</b>	131.102.088	100.888.551	54.481.421	47.288.606	24.582.074
A. Financial Liabilities	62.464.227	54.964.850	19.212.602	23.200.948	10.537.540
1. Bank Loans	46.040.387	33.371.345	7.062.530	8.547.967	6.472.180
2. Current portions and interest payments of long-term loan	16.423.840	21.593.505	6.750.040	0	0
3. Principal installment and interest payment of bonds	0	0	0	0	0
4. Notes and shares issued	0	0	0	0	0
5. Other financial liabilities	0	0	5.400.032	14.652.981	4.065.360
B. Trade payables	51.139.682	35.794.096	30.092.405	21.185.922	10.491.901
1. Suppliers	51.155.126	35.801.090	30.475.553	21.268.839	10.498.730
2. Notes payable	0	0	0	0	0
3. Deposits and gurantees received	0	0	0	0	0
4. Others miscellaneous payables	0	0	0	0	0
5. Rediscount of other notes payable (-)	(15.444)	(6.994)	-383.148	(82.917)	(6.829)
C. Other payables	7.006.786	4.760.107	3.306.527	1.532.391	1.279.264
1. Due to shareholders	1.383.407	1.127.684	636.346	9.378	9.990
2. Due to associates	0	0	0	0	0
3. Due to subsidiaries	0	0	0	0	0
4. Associate payable	1.855.140	722.463	510.875	98.887	117.905
5. Tax payable	3.280.498	2.422.219	1.656.402	1.383.482	1.012.334
6. Ltabilities to the state (deferred or payable in installment)	487.741	487.741	487.741	0	0
7. Short term payables	0	0	15.163	40.644	139.035
D. Advances received	0	0	0	0	0
E. Other current liabilities	10.491.393	5.369.498	1.869.887	1.369.345	2.273.369
1. VAT calculated	2.756.413	0	0	0	1.006.558
2. Other VAT	7.734.980	5.369.498	1.869.887	1.369.345	1.266.811
<b>NON-CURRENT LIABILITIES</b>	22.919.817	39.121.871	21.470.042	6.496.600	3.863.311
A. Financial Payables	0	21.697.650	10.462.562	0	0
1. Bank loans	0	21.697.650	8.437.550	0	0
2. Bonds issued	0	0	0	0	0
3. Other marketable securities issued	0	0	0	0	0
4. Other financial liabilities	0	0	2.025.012	0	0
B. Trade Payables	0	0	0	0	0
1. Suppliers	0	0	0	0	0
2. Notes Payables	0	0	0	0	0
3. Deposits and gurantees received	0	0	0	0	0
4. Other trade payables	0	0	0	0	0
5. Rediscount of notes payable (-)	0	0	0	0	0
C. Other Liabilities	0	0	0	0	0
1. Due to shareholders	0	0	0	0	0
2. Due to associates	0	0	0	0	0
3. Due to subsidiaries	0	0	0	0	0
4. Other miscellaneous payable	0	0	0	0	0
5. Long-term liabilities	0	0	0	0	0
6. Rediscount of other notes payable (-)	0	0	0	0	0
D. Advances received	0	0	0	0	0
E. Provision for Liabilities and Expenses	22.919.817	17.424.221	11.007.480	6.496.600	3.863.311
1. Provision for employe termination benefit	22.919.817	17.424.221	11.007.480	6.496.600	3.863.311
2. Provision for other liabilities and expenses	0	0	0	0	0
<b>II. SHAREHOLDER'S EQUITY</b>	61.328.077	19.443.663	19.505.901	15.885.550	15.342.200
A. Capital	11.917.664	11.917.664	11.917.664	7.945.109	4.540.062
B. Capital reserves (-)	0	0	0	0	0
C.share premium	3.686	3.686	3.686	3.686	3.686
D. Revaluation fund of associates	59.678.936	32.025.315	14.392.806	6.944.100	3.724.215
1. Revaluation fund of tangible assets	59.678.936	32.025.315	14.392.806	6.944.100	3.724.215
2. Costs increasig fund	0	0	0	0	0
3. Profit from invalidation of shares	0	0	0	0	0
E. Reserves	555.501	0	5.628.763	5.628.763	3.837.201
1. Legal reserves	5.628.762	5.628.762	1.209.622	1.209.622	1.047.779
2. Statutory reserves	1.209.622	1.209.622	0	0	0
3. Private reserves	0	0	0	0	0
4. Extraordinary reserves	0	0	4.419.141	4.419.141	2.478.963
5. Special funds	4.419.140	4.419.140	0	0	0
6. Investment shares and immovable sales income added to capital	0	0	0	0	310.459
7. Previous period's profits	0	0	0	0	0
F. Net profit for the period	0	0	0	0	3.237.036
G. Net loss for the period (-)	13.675.292	0	-7.800.910	(4.636.108)	0
H. Previous period's losses (-)	0	(17.694.746)	-4.636.108	0	0
1. .... Year Loss	(30.131.764)	(12.437.018)	-4.636.108	0	0
2. .... Year Loss	(17.694.746)	0	0	0	0
	(12.437.018)	(12.437.018)			
<b>TOTAL LIABILITIES</b>	215.349.982	159.454.085	95.457.364	69.670.756	43.787.585

**INCOME STATEMENT OF BRIDGESTONE CO. (Million TL)**

	31.12.2002	31.12.2001	31.12.2000	31.12.1999	31.12.1998
A. Gross sales	416.384.458	288.354.081	171.788.623	100.283.260	73.019.072
1. Domestic sales	162.558.812	93.854.289	95.500.152	60.283.792	46.737.428
2. Export sales	251.410.943	190.986.471	75.481.631	39.999.468	26.246.373
3. Other sales	2.414.911	1.513.321	806.840	0	35.271
B. Sales deduction (-)	(29.878.272)	(18.466.763)	-17.970.475	(8.862.710)	(7.404.100)
1. Sales return (-)	(3.027.267)	(1.852.426)	-1.231.349	(1.829.258)	(505.362)
2. Sales discounts (-)	0	0	0	0	0
3. Other discounts(-)	(26.849.005)	(16.614.337)	-16.739.126	(7.033.452)	(6.898.738)
C. Net Sales	386.708.194	267.887.318	153.818.148	91.420.550	65.614.972
D. Cost of sales (-)	(314.377.825)	(221.230.896)	-132.896.347	(69.276.095)	(49.519.438)
<b>Gross profit (Losses)</b>	<b>72.330.368</b>	<b>46.656.422</b>	<b>20.921.801</b>	<b>22.144.455</b>	<b>16.095.534</b>
E. Operating expenses(-)	(41.922.136)	(31.299.311)	-21.515.141	(14.280.454)	(8.190.955)
1. Research and development expenses (-)	0	0	0	0	0
2. Marketing, selling and distribution expenses (-)	(26.894.382)	(16.982.092)	-10.997.717	(7.558.162)	(5.775.129)
3. General and administrative expenses(-)	(15.027.754)	(14.317.219)	-10.517.424	(6.722.292)	(2.415.826)
<b>OPERATING PROFIT (LOSS)</b>	<b>30.408.232</b>	<b>15.357.111</b>	<b>-593.340</b>	<b>7.864.001</b>	<b>7.904.579</b>
F. Incomes and gains from other operations	213.939	1.309.398	1.103.602	727.223	549.481
1.Dividends from associates	0	0	0	0	0
2. Dividends from subsidiaries	0	0	0	0	0
3. Interest income	204.000	37.123	15.056	16.804	15.095
4. Other operating income and gains	9.939	1.272.275	1.088.546	710.419	534.386
G. Expenses and losses from other operations(-)	(3.182.678)	(489.851)	-9.283	(22.396)	(100.195)
H. Financial expenses(-)	(11.452.569)	(33.440.203)	-7.932.013	(11.571.837)	(4.151.308)
1. Short-term borrowing expenses (-)	(11.403.269)	(25.494.682)	-6.904.210	(11.571.837)	(4.151.308)
2. Long -term borrowing expenses (-)	(49.300)	(7.945.521)	-1.027.803	0	0
<b>Total Operating Profit or Loss</b>	<b>15.986.924</b>	<b>(17.263.545)</b>	<b>-7.431.034</b>	<b>(3.003.009)</b>	<b>4.202.557</b>
Extraordinary income and gain	444.781	5.050	759.281	595.030	499.458
1. Miscellaneous expenses	236.810	0	0	0	0
2. Prior period income and gains	0	0	478.261	595.030	361.252
3. Other extraordinary income and gains (-)	207.971	5.050	281.020	0	138.206
I. Other extraordinary expense and losses(-)	0	(436.251)	-1.129.157	(2.228.129)	(458.421)
1. Idle time expense and losses (-)	0	0	-877.079	(1.149.835)	0
2. Prior period expense and losses (-)	0	(436.251)	-32.237	(205.345)	(458.421)
3. Other extraordinary expense and losses (-)	0	0	-219.841	(872.949)	0
<b>PROFIT OR LOSS FOR THE PERIOD</b>	<b>16.431.705</b>	<b>(17.694.746)</b>	<b>-7.800.910</b>	<b>(4.636.108)</b>	<b>4.243.594</b>
J. Provision for taxes payable and other statutory obligations (-)	(2.756.413)	0	0	0	(1.006.558)
<b>NET PROFIT OR LOSS FOR THE PRIOD</b>	<b>13.675.292</b>	<b>(17.694.746)</b>	<b>-7.800.910</b>	<b>(4.636.108)</b>	<b>3.237.036</b>