# Contents

FOREWORD XU

PREFACE xvii

# chapter one

Introduction: the new versus the traditional approach to financial statement analysis  $\ 1$ 

PART ONE
THE MECHANICS OF
FINANCIAL STATEMENT ANALYSIS
9

chapter two

FINANCIAL RATIO ANALYSIS 11

# chapter three

ISSUES IN FINANCIAL RATIO ANALYSIS 33

#### chapter four

DECOMPOSITION ANALYSIS OF FINANCIAL STATEMENTS 47

# chapter five

STATISTICAL ISSUES IN FINANCIAL STATEMENT ANALYSIS 61

#### chapter six

ACCOUNTING ISSUES IN FINANCIAL STATEMENT ANALYSIS 75

PART TWO

APPLICATIONS OF FINANCIAL STATEMENT ANALYSIS 95

# chapter seven

FINANCIAL STATEMENT ANALYSIS AS AN INFORMATION SYSTEM 97

#### chapter eight

The prediction of corporate earnings and growth rates 109

# chapter nine

THE PREDICTION OF CORPORATE FAILURE 133

#### chapter ten

THE PREDICTION OF BOND RISK PREMIUMS AND RATINGS 152

#### chapter eleven

CREDIT EVALUATION BY BANKS 166

PART THREE

# RELATIONSHIP WITH MODERN FINANCE THEORIES 175

# chapter twelve

PRINCIPLES OF PORTFOLIO THEORY 177

# chapter thirteen

THE ROLE OF FINANCIAL STATEMENT ANALYSIS IN THE PORTFOLIO DECISION 201

#### chapter fourteen

EFFICIENT CAPITAL MARKETS 212

## chapter fifteen

THE ROLE OF FINANCIAL STATEMENT ANALYSIS IN EFFICIENT CAPITAL MARKETS 226

# chapter sixteen

SYNTHESIS 245

INDEX 255