

MAKING SENSE OF FINANCIAL STATEMENTS

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TYPES OF FINANCIAL STATEMENTS

TAX RETURNS

- ▶ Provides the least amount of relevant data; most labor to find key data

COMPANY PREPARED/COMPILED

- ▶ Minimal information; some small firms confuse general ledger for statements

REVIEWED

- ▶ Presented by an outside CPA

AUDITED

- ▶ Most trustworthy version of financial data

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BALANCE SHEET

Current Assets

- ▶ Cash
- ▶ Prepaids
- ▶ A/R
- ▶ Other
- ▶ Inventory
- ▶ Right-of-Use Assets (Financial/Operational)

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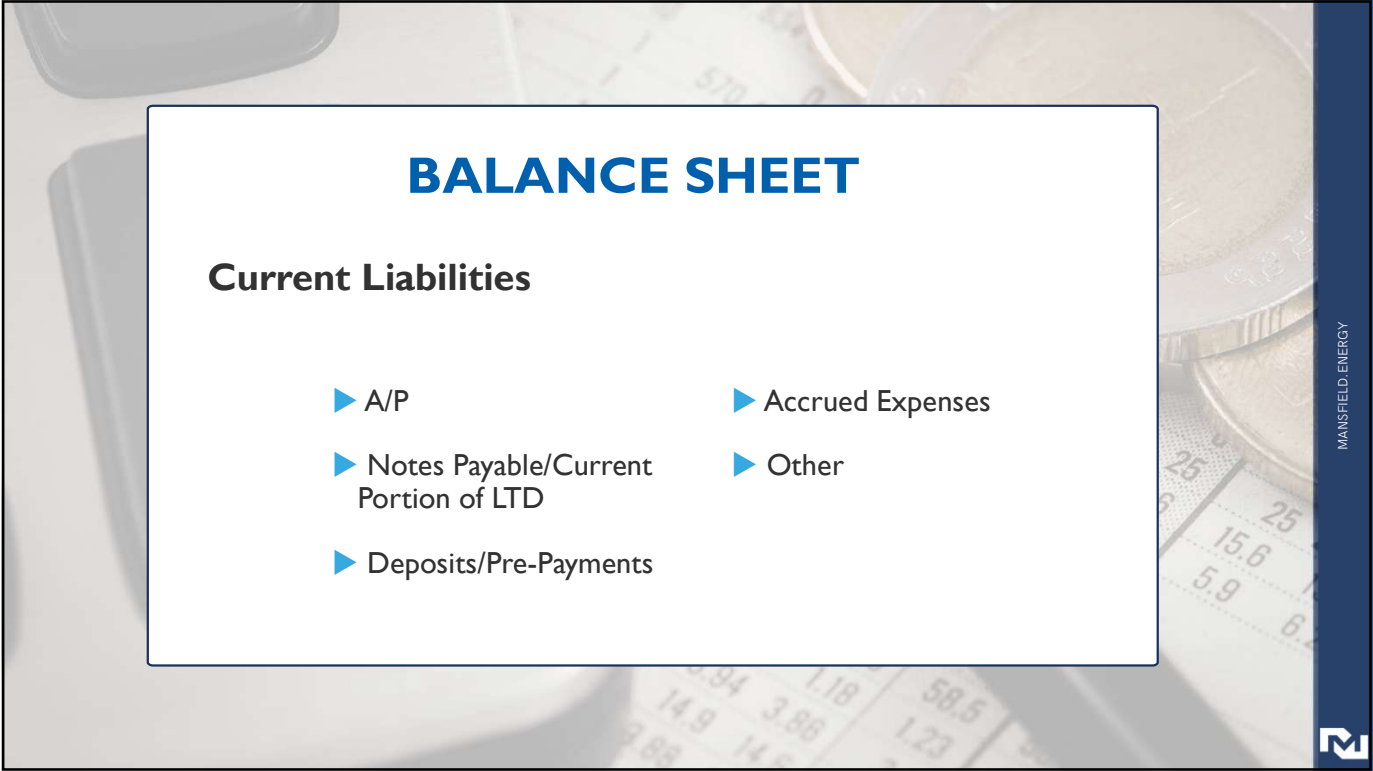
BALANCE SHEET

Long-Term Assets

- ▶ Property, Plant, & Equipment
- ▶ Right-of-Use Assets (Financial/Operational)
- ▶ A/R
- ▶ Other
- ▶ Goodwill/Intangibles

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BALANCE SHEET

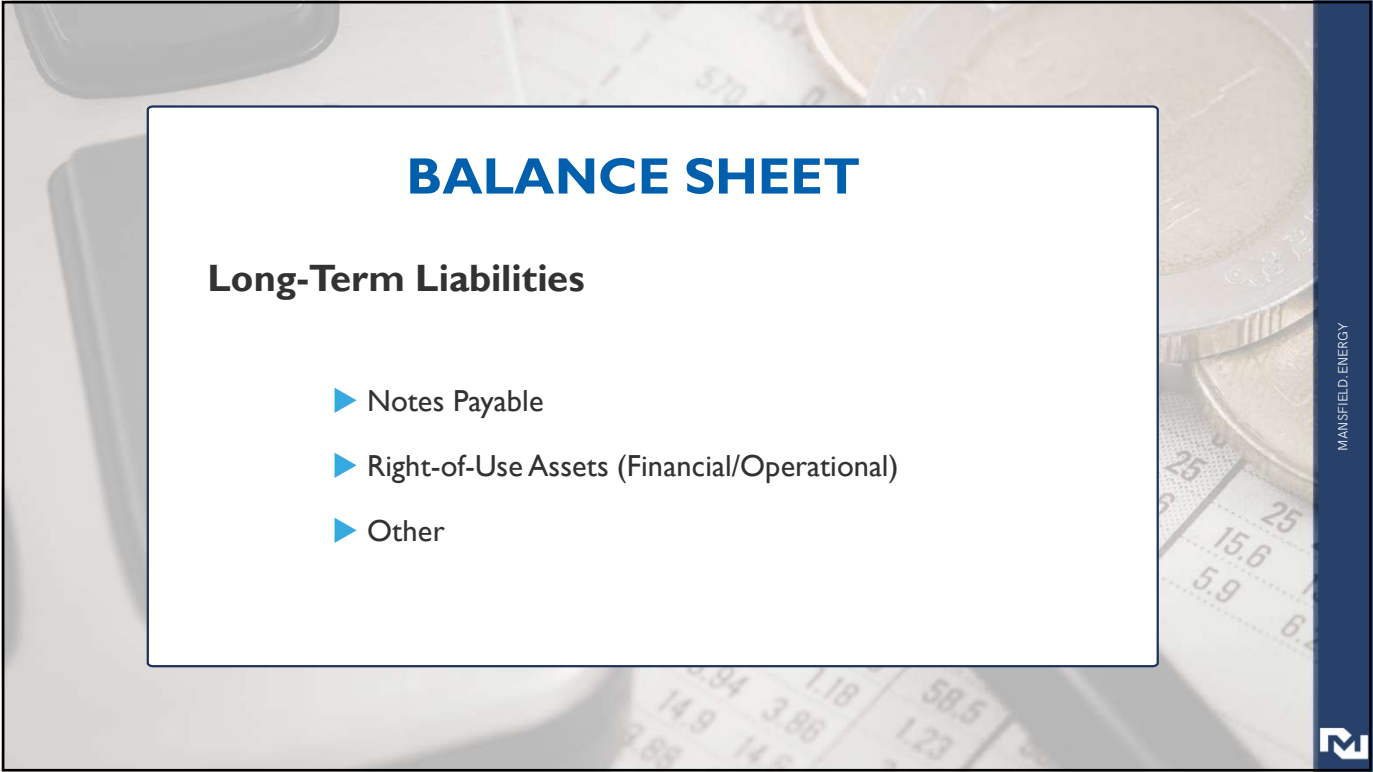
Current Liabilities

- ▶ A/P
- ▶ Notes Payable/Current Portion of LTD
- ▶ Deposits/Pre-Payments
- ▶ Accrued Expenses
- ▶ Other

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BALANCE SHEET

Long-Term Liabilities

- ▶ Notes Payable
- ▶ Right-of-Use Assets (Financial/Operational)
- ▶ Other

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BALANCE SHEET

Equity

- ▶ Common Stock
- ▶ Additional Paid-In Capital
- ▶ Retained Earnings
- ▶ Accumulated Other Loss/Gain
- ▶ Treasury Stock

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BALANCE SHEET: THINGS TO LOOK FOR

- 

LARGE GROWTH OR RETREAT SWINGS IN RECEIVABLES
- 

HIGH DEBT-TO-EBITDA RATIO
- 

CLIMBING INVENTORY LEVELS
- 

INSUFFICIENT LIQUIDITY

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- ▶ **INCOME STATEMENT**
- ▶ **STATEMENT OF OPERATIONS**
- ▶ **PROFIT & LOSS STATEMENT**

- 
Operating Revenues
- 
Operating Expenses
 - ▶ Cost of goods/services sold
 - ▶ General/administrative expenses
 - ▶ Depreciation and amortization
 - ▶ Interest expense
 - ▶ Tax liability/benefit
 - ▶ Discontinues operations

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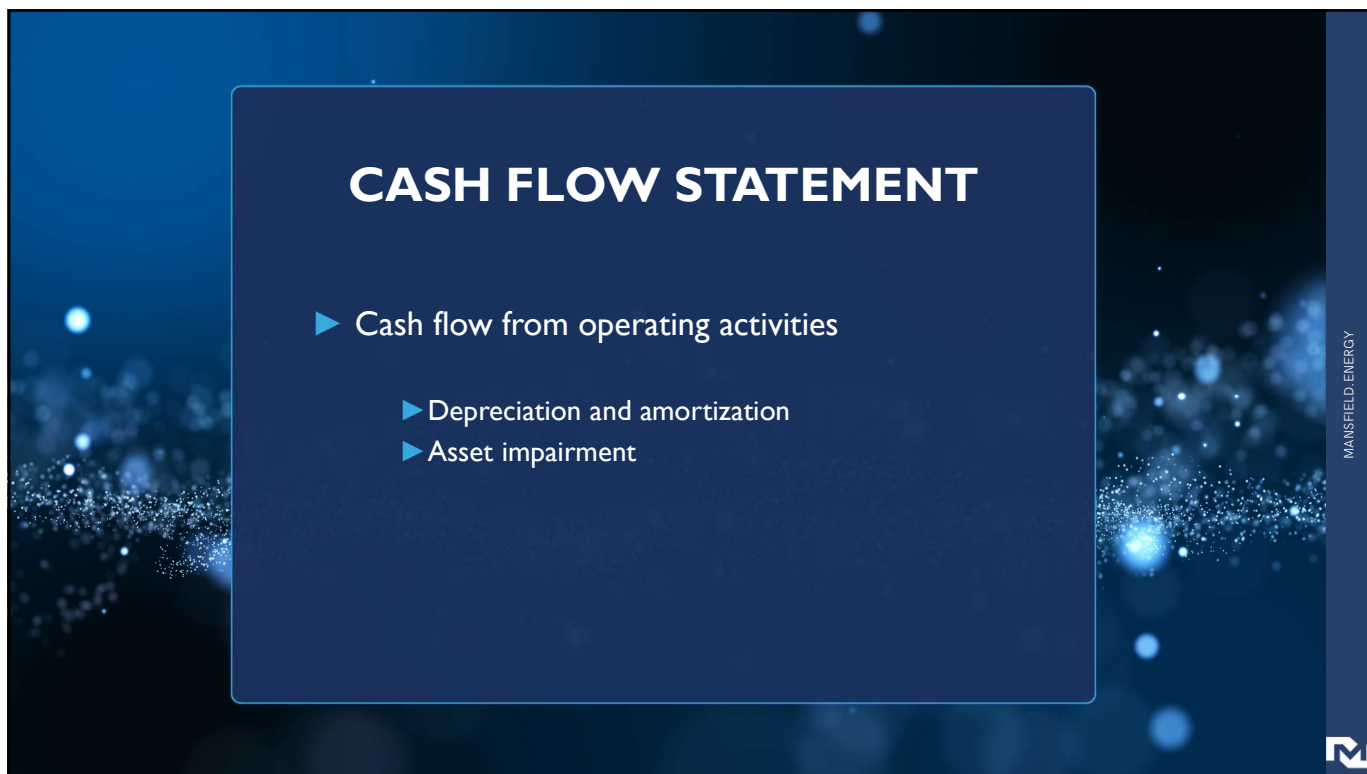
INCOME STATEMENT: THINGS TO LOOK FOR

- 
Continually declining revenues
- 
Non-recurring revenues to drive net income
- 
Declining profit margins
- 
Unusually large revenue or expense recognition

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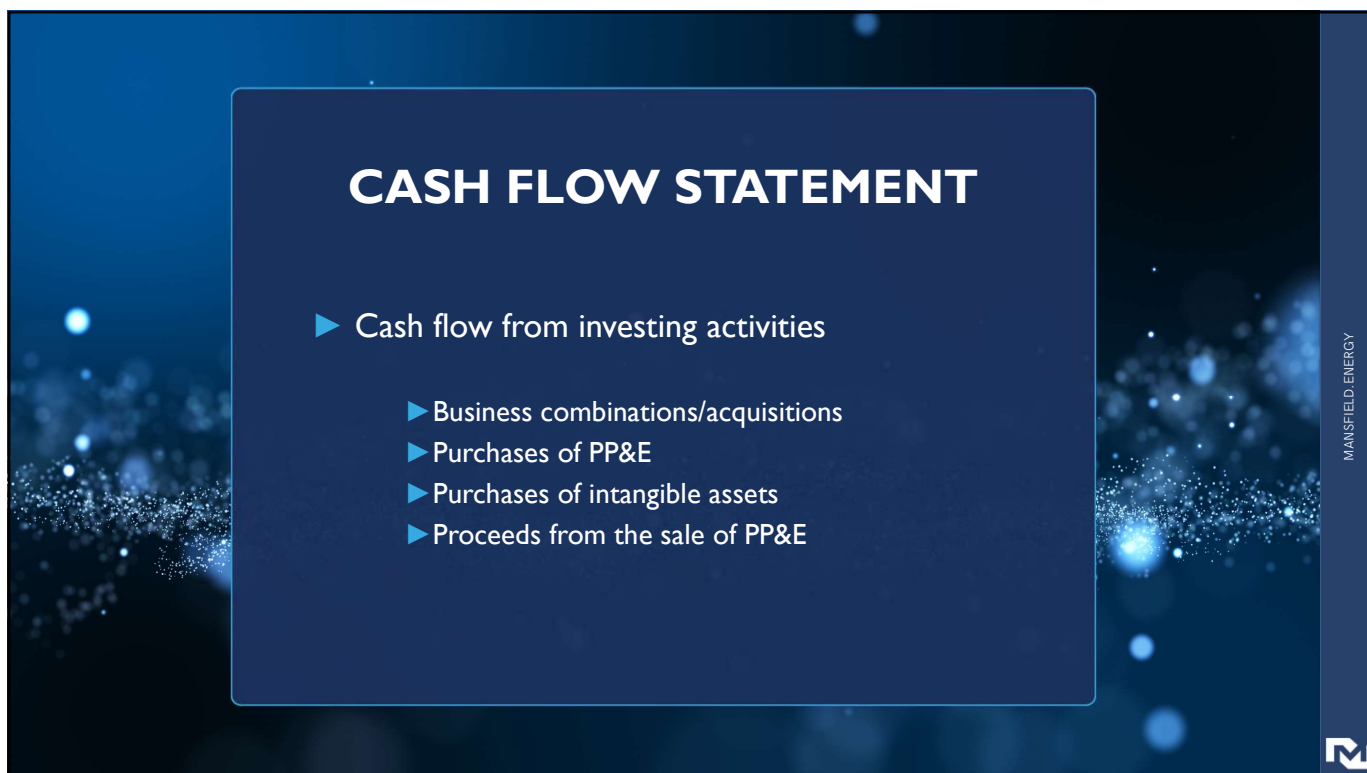
CASH FLOW STATEMENT

- ▶ Cash flow from operating activities
 - ▶ Depreciation and amortization
 - ▶ Asset impairment

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CASH FLOW STATEMENT

- ▶ Cash flow from investing activities
 - ▶ Business combinations/acquisitions
 - ▶ Purchases of PP&E
 - ▶ Purchases of intangible assets
 - ▶ Proceeds from the sale of PP&E

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CASH FLOW STATEMENT

- ▶ Cash flow from Financing activities
 - ▶ Proceeds from borrowings/credit facilities
 - ▶ Payments to loans/credit facilities
 - ▶ Purchases of Treasury stock
 - ▶ Payment of dividends



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CASH FLOW STATEMENT: THINGS TO LOOK FOR

- ▶ Negative operating cash flow; especially if there is high net income
- ▶ Continuous negative operating cash flow
- ▶ Reliance on borrowing or financing for liquidity
- ▶ Non-traditional sources of outside capitalization



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THANK YOU

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