Financial Statement Overview:
Basic Financial Statements

- Income Statement
  - (or Statement of Changes in Net Assets)

- Statement of Owners’ Equity

- Balance Sheet
  - (or Statement of Financial Position)

- Statement of Cash Flows
Steps to Analyze Financial Statements

3. Run your thumb down the current asset side of the balance sheet and find the largest number

4. Whoever controls the largest asset controls the organization
Steps to Analyze Financial Statements

1. Review the numbers in the format presented
2. Look for large changes between the years
Steps to Analyze Financial Statements

• Read the Audit Opinion Letter
  • Unqualified Opinion
    • May contain additional paragraphs about uncertainties, consistency or emphasis of a matter
  • Qualified Opinion
    • Contains the words “Except for”
  • Disclaimer of Opinion
  • Adverse Opinion
Steps to Analyze Financial Statements

- Read the Footnotes to the Financial Statements
  - Descriptive notes for the organization (Note 1 or Notes 1 and 2)
  - Notes that provide additional disclosure about the accounts
  - Notes that provide additional information about the organization and its activities
Steps to Analyze Financial Statements

- Calculate the Financial Ratios
  - Liquidity Ratios
  - Leverage (or Solvency) Ratios
  - Activity Ratios
  - Profitability Ratios
Steps to Analyze Financial Statements

• Liquidity Ratios:
  • Measures the organization’s capacity to meet its short-term liabilities
  • Current Ratio
  • Quick (or Acid-Test) Ratio
Steps to Analyze Financial Statements

**Current Ratio:**

<table>
<thead>
<tr>
<th>Current Assets</th>
<th>Current Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>$33,076,109</td>
<td>$3,156,406</td>
</tr>
</tbody>
</table>

$$\frac{33,076,109}{3,156,406} = 10.48$$
Quick (or Acid-Test) Ratio:

\[
\frac{\text{Cash + Marketable Securities + Accounts Receivable}}{\text{Current Liabilities}} = \frac{25,166,688}{3,156,406} = 7.97
\]
Steps to Analyze Financial Statements

- Leverage (Solvency) Ratios:
  - Measures the extent to which the organization has been financed by debt
  - Debt to Assets Ratio
Debt to Assets Ratio:

\[
\frac{\text{Total Liabilities}}{\text{Total Assets}} = \frac{3,157,432}{41,612,712} = 7.6\%
\]
Steps to Analyze Financial Statements

- **Activity Ratios:**
  - Measures the organization’s use of its resources
  - Receivables Turnover
  - Inventory Turnover
Accounts Receivable Turnover:

\[
\text{Net Sales} \quad \frac{\$19,602,524}{\$4,140,816} = 4.73
\]
Days Sales in Receivables:

\[
\frac{365}{4.73} = 77 \text{ days}
\]
Inventory Turnover:

Cost of Goods Sold
Average Inventory

$10,309,484 = 1.29
$7,993,291
Steps to Analyze Financial Statements

Days Sales in Inventory:

\[
\frac{365}{1.29} = 283 \text{ days}
\]
Steps to Analyze Financial Statements

- **Profitability Ratios:**
  - Measure the organization’s ability to generate profit and return on investment
  - Return on Revenue (Sales)
  - Return on Assets
Steps to Analyze Financial Statements

Return on Revenue (Sales)

\[
\text{Net Income (or Change in Net Assets)} \div \text{Net Revenue (Sales)} = 4.3\% \\
\frac{635,972}{14,701,893} = 4.3\%
\]
Steps to Analyze Financial Statements

Return on Assets:

\[
\text{Net Income (or Change in Net Assets)} \div \text{Average Assets} = 2.0\%
\]

\[
\frac{635,972}{41,447,937} = 2.0\%
\]
Thank you very much!

Any comments or questions?