Financial Statement Overview:

1

FERRETING OUT THE SECRETS

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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

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

- Whoever controls the largest asset controls the organization

Steps to Analyze Financial Statements

- Review the numbers in the format presented
- 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:

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

$$\frac{\$33{,}076{,}109}{\$3{,}156{,}406} = 10.48$$

Steps to Analyze Financial Statements

Quick (or Acid-Test) Ratio:

Cash + Marketable Securities + Accounts Receivable

Current Liabilities

$25,166,688 = 7.97

$3,156,406

Steps to Analyze Financial Statements

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

Steps to Analyze Financial Statements

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

Steps to Analyze Financial Statements

Accounts Receivable Turnover:

$$\frac{\text{Net Sales}}{\text{Average Trade Accounts Receivable (net)}}$$

$$\frac{\$19{,}602{,}524}{\$4{,}140{,}816} = 4.73$$

Steps to Analyze Financial Statements

Days Sales in Receivables:

$$\frac{365}{\text{Receivables Turnover}}$$

$$\frac{365}{4.73} = 77 \text{ days}$$

Steps to Analyze Financial Statements

Inventory Turnover:

$$\frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}$$

$$\frac{\$10,309,484}{\$7,993,291} = 1.29$$

Steps to Analyze Financial Statements

Days Sales in Inventory:

$$\frac{365}{\text{Inventory Turnover}}$$

$$\frac{365}{1.29} = 283 \text{ days}$$

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)

$$\frac{\text{Net Income (or Change in Net Assets)}}{\text{Net Revenue (Sales)}}$$

$$\frac{\$635{,}972}{\$14{,}701{,}893} = 4.3\%$$

Steps to Analyze Financial Statements

Return on Assets:

$$\frac{\text{Net Income (or Change in Net Assets)}}{\text{Average Assets}}$$

$$\frac{\$635{,}972}{\$41{,}447{,}937} = 2.0\%$$

Thank you very much!

Any comments or questions?