b/s

'snapshot' of a business' assets, liabilities and equity at a single point in time

assets: (resources the company owns and uses)

current assets: cash and other assets espected to be turned into cash within next 12 months (short-term)

→ cash → accounts receivable → prepaid expenses

non-current: things company needs to run the business (long-term)

→ tangible (can touch) → intangible (can't touch)

liabilities (money owed to others)

current liabilities: everything expected to be paid within the next 12 months

→ accounts payable → taxes payable → accrued expenses → deferred revenue

non-current liabilities:

→ long-term loans/debt

equity: (difference between assets and liabilities, what is leftover after all assets & paying all obligations)

→ common stock (capital contributions, money invested in business by owners)

other comprehensive income (OCI): foreign currency hedge gains and losses, cash flow hedge gains and losses, and unrealised gains and losses for securities that are available for sale.

retained earnings (accumulated profits held for future use)

income statement

summary of a business revenues and expenses over a period of time.

revenue	product sales, services rendered
expenses	direct (cost of services, cogs) increase in direct proportion to sales made
	indirect variable costs (loosely correlate with business' sales however cant be traced back to production of goods or provision of services)
	advertising, comissions, utilities
	indirect fixed (overhead expenses)
	rent, salaries, insurance, admin, legal, accounting, marketing, deprecation, amortisation (bare no correlation to the sales business made)
operating profit (EBIT)	*interest* and *expenses* and tax fall below operating profit
gross profit margin	how efficiently the business is producing and selling their products

*most important on profit and loss/ income statement is **net cash provided by operating activities****

p/e

p/e = net income (profit) - dividends / average outstanding shares of common stock

free cash flow (fcf)

the money a company has left over after paying its operating expenses (OpEx) and capital expenditures (CapEx).

*the more free cash flow a company has, the more it can allocate to dividends, paying down debt, and growth opportunities.**

d/e

<1:	safe
1-1.5:	general good
2 or higher:	high
technology and a lot of r&d:	2 and below
large manufacturing and publicly traded:	between 2 - 5
banking and finance based business':	10 - 20 is fairly common

*anything above 5 or 6 = problem**

link between CX and RevOps

if are driving the best experience(s) =	**growing**

link between CX and RevOps (cont)

investing in right opportunities (both with current accounts and other avenues) =	**right healthy(sustainable) revenue**

it is not investment alone that drives CX, its also the whole infrastructure that has been built up around the operation, as one has to make the same decisions are you are scaling the business, where are you going to put that one dollar of investment when you are growing fast, scaling, define the market and operations - where are you going to get the highest value? *

capital expenditure (CX)/(CapEx)

funds used to acquire or upgrade assets such as buildings or equipment.

benefits:

capital assets are depreciated over their estimated useful lives unless they are inexhaustible

capital expenditure (CX)/(CapEx) (cont)

inexhaustible: assets whose value is depleted so slowly that the estimated useful life is extraordinarily long. they may include assets that are essentially permanent in nature, assets that do not become obsolete, or assets cared for using methods intended to preserve them in perpetuity.

capital expenditures are purchases made by a company and capitalised on a balance sheet rather than being fully expensed at the time of purchase. Assets that are capitalised can be accounted for over their useful lifetime and depreciated. CapEx can tell you how much a company invests in existing and new fixed assets to maintain or grow its business*

core principles

assets **(stuff a business owns)** = liabilities (for third parties) + equity (for owners) **(stuff that a business owes)**

adjusted trial balance: bookkeeping worksheet in which the balances of all ledgers are compiled into debit and credit account column totals that are equal.

important metrics

- fixed assets
- profit and loss account reserve + security in b/s
- amount of debt
- >**10% EBITDA margin** (10-14% is benchmark)

trouble

company voluntary agreement (CVA)

high amount of owners draw

using mark to market (MTM) for real life assets and static business contracts

*nature of the business sector should be taken into consideration**

big 3

- income statement (p&l)
- balance sheet
- cash flow statement
- statement of owners equity / statement of retained earnings

boosting cash efficiency

- reducing the cost base
- divestment
- outsourcing = contracting tasks to external companies
- offshoring = relocating business process to another country
- cost accounting
- purchasing power parity (PPP)
- promissory notes

detecting financial fraud in accounts

- aggressive accounting / creative accounting
- income smoothing
- earnings management
- accounts payable (invoices, ghost companies, round numbers)
- listing inventory and receivables as one line item (inventory + receivables)

detecting financial fraud in accounts (cont)

- multiple restatements are a problem
- cumulative adjustments instead of restatements
- use of Non-GAAP measures is bad
- be wary of EBITDA
- cooking the books = falsifying accounts
- off-book accounts
- round tripping

- overstating revenues by recording future expected sales
- inflating an asset's net worth by knowingly failing to apply an appropriate depreciation schedule
- concealing obligations and/or liabilities from a company's balance sheet
- Incorrectly disclosing related-party transactions and structured finance deals
- accounting anomalies, such as growing revenues without a corresponding growth in cash flows.
- a significant surge in a company's performance within the final reporting period of a fiscal year.
- consistent sales growth while competitors are struggling.
- depreciation methods and estimates of assets' useful life that don't correspond to those of the overall industry.
- weak internal corporate governance, which increases the likelihood of financial statement fraud occurring unchecked.
- outsized frequency of complex third-party transactions, many of which do not add tangible value, and can be used to conceal balance sheet debt.

detecting financial fraud in accounts (cont)

- the sudden replacement of an auditor resulting in missing paperwork.
- a disproportionate amount of management compensation derived from bonuses based on short-term targets, which incentivises fraud.
- using SPEs to conceal debts taken on from other loan providers and leaving it off the balance sheet

*alteration of a companies financial statements to manipulate a company's apparent health or to conceal profits or losses.**

*vertical analysis takes every item in the income statement as a percentage of revenue and comparing the year-over-year trends that could be a potential flag cause of concern.**

*horizontal analysis represents financial information as a percentage of the base years' figures.**

*one must always take into consideration that audits **DO NOT** find fraud**

analysing financial statements

complexity, by its nature, provides more opportunities to be fraudulent. Even more for financial institutions.

with banks, keep it simple -> check the **CF** and **ALM**

interpreting financial statements

consistency is king

earnings, < debt, sales > cost

areas where cost can be cut.

income statement

bottom line has increased over time.

interpreting financial statements (cont)

consistent and high gross margin(> 40% compare with competitors)

net margin must be higher than competitors (durable competitive advantage, >20% or higher)

balance sheet

strong growth in retained earnings.

ROE increase.

businesses with little to no long term debt (company must be able to pay off all of its long-term debt with less than 4 years off earnings).

cashflow statement

capital expenditure should be low relative to net income < 25% = good and < 50% is acceptable.

when to sell

need more money for an even better investment.

when a company may lose its competitive advantage.

during crazy bull markets (P/E > 40).

ideals

excellent working capital management

negative cash conversion cycle: inventory sold before we have to pay for it.

normal to low debt ratio

high liquidity

Positive NPV > Negative NPV

things to take into consideration

*cash is a liability**

good forma

- The more deals you look at, the better deals you do	- Risk management is key
- ***Interest*** + ***Taxes*** are an expense you get depreciation by laying out money ahead of time (worse kind of expense) due to buying an asset first and get the deduction later	- Offset with IP and avoidable taxable events

calculus

EBITDA margin = measure of a company's operating profit as a percentage of its revenue.

EBITDA margin = ebitda / total revenue

EBITDA = Measure of earnings potential of a business

EBITDA = I + Depreciation + Amortisation (where I = Operating Income)

EBIT = Operating Profit

operating profit/income = gross profit - operating expenses

gross profit = revenue - direct costs

net profit = operating profit or EBIT - tax

debt Ratio = If assets where financed debt or own money (if high bad)

non-current term debt/net income: (2-4 years good)

covariant

revenue produced by services arm > product revenue.

certified financial statement (cfs)

financial statements audited and certified by external, independent accountants.

models

beneish Model evaluates eight ratios to determine the likelihood of earnings manipulation, including asset quality, depreciation, gross margin, and leverage. After combining the variables into the model, an M-score is calculated. A value greater than -2.22 warrants further investigation, while an M-score less than -2.22 suggests that the company is not a manipulator.

benford's Law states "1" tends to occur more frequently as the first digit than other digits, providing a non-uniform distribution pattern. **(not strict mathematical rule / limitations - data characteristics and sample size)** *should be used in conjunction with other models*

shareholders equity v shareholders reserves

shareholders' equity is **the total ownership interest in a company**

shareholders' reserves (retained earnings) is one of the components of this equity.

other components, like common stock and additional paid-in capital, also contribute to the overall shareholders' equity. *shareholders' reserves specifically focus on the accumulated profits that have not been distributed to shareholders.**

cost of revenue (cor)

the total of all costs incurred directly in producing, marketing, and distributing the products and services of a company to customers.

cost of goods (cogs)

direct costs incurred in producing or acquiring goods, including the cost of raw materials, cost of labor, and manufacturing.

sg&a expense

all the costs of running a business that are not related to the production of the business' good or service.

selling expenses	general expenses	admin expenses
sales and marketing (s&m)	rent and utilities	salaries of employees
advertising	office supplies, technology costs, and equipment	accountants and it professionals
travel costs (in-person selling, trade shows)	insurance	legal and consulting fees

*selling, general and admin (sg&a) is expenditure due to supporting the business.**

arr (annual recurring revenue)

the value of the recurring revenue for the life of a subscription (or contract) generated within a year.