

STATEMENT TYPE / BY / COMFORT LEVEL

Company prepared	Internal accountant	Lowest level
Compilation	3rd party preparer	More comfort
Review	CPA	Higher level of comfort
Audit	CPA	Highest level of comfort

SET OF FINANCIAL STATEMENTS:

Balance sheet	Shows assets owned, liabilities owed & shareholder equity at a point in time
Income statement	Summarizes operating transactions for a period of time
Statement of Cash flows	Shows cash inflows & outflows for period of time (operating, investment or financing)
<i>Flash Report (optional)</i>	1 page report showing key performance indicators

GOAL OF ACCOUNTING SYSTEM

Process all transactions completely & effectively	Report transactions accurately, reliably, in timely manner	Comply with laws and regulations
Faithful representation	Verifiable	Comparable with prior periods
Relevant	Understandable	Timely

TRANSACTION CLASSIFICATION

DEBIT	CREDIT
Assets	Liabilities
Expenses	Income / revenue
Distributions / owners drawing	Capital injection

ACCOUNTING METHODS

GAAP - generally accepted accounting principles (accrual basis, current regulations, subject to change)

Accrual basis - recognizes business revenue and matching transactions when they happen

Cash basis (not Gaap) - recognizes revenue and expenses when paid

LIQUIDITY RATIOS

Current Ratio	Current assets / current liabilities	Ability to meet short term obligations
Quick Ratio	CA - inventory / current liabilities	Ability to meet short term obligations with most liquid assets

ACTIVITY RATIOS

<i>A/R Days</i>	A/R / Sales * # days in period	Average collection period for sales
<i>Inventory Days</i>	Inv / COGS * # days in period	Average days company holds inventory before selling it.
<i>A/P Days</i>	AP / COGS * # days in period	Average number of days of credit company shows
<i>Working capital cycle days</i>	Days in A/R + Days in Inv - Days in A/P	# days to convert working capital into revenue

LEVERAGE RATIOS

<i>Debt to Equity Ratio</i>	Total Liabilities / Total Equity	Measure degree company is financing operations with debt rather than equity
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LEVERAGE RATIOS (cont)

<i>Interest Coverage Ratio</i>	EBIT / interest	Ability to meet interest obligations.
<i>Debt Ratio</i>	Total liabilities / Total assets	Extent to which company uses external financing to finance assets
<i>Funded debt to EBITDA Ratio</i>	Funded Debt / EBITDA	Ability to meet funded obligations before covering tax, depreciation, and interest expense

PROFITABILITY RATIOS

<i>Gross profit margin</i>	(Sales - variable COGS - fixed COGS) / Sales	Margin after paying direct costs of doing business (labor, materials and direct production costs)
<i>Operating profit margin</i>	Gross profit - SG&A expenses	Margin after paying SG&A expenses
<i>Pretax profit margin</i>	Operating profit - interest +/- other income or expenses	Profit margin after paying all expenses of business (except income taxes)
<i>EBITDA Margin</i>	NI + depr + Int + taxes / Sales	Margin before depr, interest, and taxes