

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)

Flash Report (optional) 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

A/R Days A/R / Sales * # days in period

Average collection period for sales

Inventory Days Inv / COGS * # days in period

Average days company holds inventory before selling it.

A/P Days AP / COGS * # days in period

Average number of days of credit company shows

Working capital cycle days Days in A/R + Days in Inv - A/P

days to convert working capital into revenue

LEVERAGE RATIOS

Debt to Equity Ratio Total Liabilities / Total Equity

Measure degree company is financing operations with debt rather than equity

LEVERAGE RATIOS (cont)

Interest Coverage Ratio EBIT / interest

Ability to meet interest obligations.

Debt Ratio Total liabilities / Total assets

Extent to which company uses external financing to finance assets

Funded debt to EBITDA Ratio Funded Debt / EBITDA

Ability to meet funded obligations before covering tax, depreciation, and interest expense

PROFITABILITY RATIOS

Gross profit margin (Sales - variable COGS - fixed COGS) / Sales

Margin after paying direct costs of doing business (labor, materials and direct production costs)

Operating profit margin Gross profit - SG&A expenses

Margin after paying SG&A expenses

Pretax profit margin Operating profit - interest +/- other income or expenses

Profit margin after paying all expenses of business (except income taxes)

EBITDA Margin NI + depr + Int + taxes / Sales

Margin before depr, interest, and taxes