

### 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:

<b>Balance sheet</b>	Shows assets owned, liabilities owed & shareholder equity at a point in time
<b>Income statement</b>	Summarizes operating transactions for a period of time
<b>Statement of Cash flows</b>	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

<b>Current Ratio</b>	Current assets / current liabilities	Ability to meet short term obligations
<b>Quick Ratio</b>	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
-----------------------------	----------------------------------	---

### 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