**8TH WEEK ASSIGNMENT**

Explain the major red flags when considering the financial statements of you company.

Several red flags can be identified when considering the financial statements of the company:

1. \*\*Fluctuating Revenue and Operating Profit:\*\* The significant fluctuation in revenue from operation and operating profit between 2021 and 2022 raises concerns. Such fluctuations could indicate instability in the company's business operations, market conditions, or management decisions.

2. \*\*Large Changes in Inventory Levels:\*\* The drastic changes in inventory levels, particularly the negative changes in 2022 and 2023, suggest potential issues with inventory management, such as overstocking or obsolescence. This could impact the company's liquidity and profitability.

3. \*\*High Debt Levels:\*\* The substantial increase in borrowings from 2021 to 2022 and 2023, coupled with high financial liabilities, raises concerns about the company's debt burden. High debt levels can strain the company's financial resources, increase interest expenses, and negatively impact its creditworthiness.

4. \*\*Declining Profit Margins:\*\* While the company experienced significant growth in net profit in 2022, the sharp decline in net profit margin in 2023 is alarming. A declining profit margin could indicate challenges in controlling costs, pricing pressure, or declining efficiency, which may adversely affect the company's overall profitability.

5. \*\*Negative Cash Flow from Operations:\*\* The negative cash flow generated from operating activities in 2022 and 2023 is a red flag, indicating that the company's core business operations are not generating sufficient cash to cover its expenses. Negative cash flow from operations may signal liquidity issues or inefficiencies in the company's operations.

6. \*\*Inconsistent Cash Flow from Financing Activities:\*\* The inconsistency in cash flow from financing activities, particularly the large negative cash flow in 2020 and 2022 followed by positive cash flow in subsequent years, suggests irregularities in the company's financing activities. Such fluctuations may indicate dependency on external financing sources or challenges in managing capital structure.

7. \*\*Unexplained Changes in Equity and Liabilities:\*\* The substantial fluctuations in equity and liabilities, especially between 2021 and 2022, without clear explanations or corresponding changes in the company's operations or business strategy, raise concerns about the accuracy and transparency of the financial reporting.

8. \*\*Unusual Items in Other Expenses:\*\* Any unusual or unexplained items in the other expenses category, such as significant one-time charges or write-offs, should be thoroughly investigated as they could impact the company's financial performance and distort its true profitability.

Overall, these red flags suggest potential financial challenges, operational inefficiencies, and risks that warrant further investigation and scrutiny by investors, stakeholders, and financial analysts.

**8TH WEEK ACTIVITY**

Use solvency ratio to analyze the company