Balance Sheet Analysis

Learning Objectives:

After completing this Module

you will be able to:

- Define the balance sheet equation
- Evaluate assets in terms of liquidity and their value
- Explain the difference between current, fixed and non-current assets
- Identify liabilities and their types

Balance Sheet Analysis

Learning Objectives:

After completing this Module

you will be able to:

- Explain the components of equity
- Define key balance sheet terms

Balance Sheet Analysis

Balance Sheet Analysis/
Business Consideration

Asset Analysis

Liability Analysis

Equity (Net Worth)

STARBUCKS CORPORATION
CONSOLIDATED BALANCE SHEETS
(in millions, except per share data)

	Oct 2, 2016	Sep 27, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,128.8	$ 1,530.1
Short-term investments	134.4	81.3
Accounts receivable, net	768.8	719.0
Inventories	1,378.5	1,306.4
Prepaid expenses and other current assets	350.0	334.2
Total current assets	4,760.5	3,971.0
Long-term investments	1,141.7	312.5
Equity and cost investments	354.5	352.0
Property, plant and equipment, net	4,533.8	4,088.3
Deferred income taxes, net	885.4	1,180.8
Other long-term assets	417.7	415.9
Other intangible assets	516.3	520.4
Goodwill	1,719.6	1,575.4
TOTAL ASSETS	$ 14,329.5	$ 12,416.3
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 730.6	$ 684.2
Accrued liabilities	1,999.1	1,755.3
Insurance reserves	246.0	224.8
Stored value card liability	1,171.2	983.8
Current portion of long-term debt	400.0	—
Total current liabilities	4,546.9	3,648.1
Long-term debt	3,202.2	2,347.5
Other long-term liabilities	689.7	600.9
Total liabilities	8,438.8	6,596.5
Shareholders' equity:		
Common stock ($0.001 par value) — authorized, 2,400.0 shares; issued and outstanding, 1,460.5 and 1,485.1 shares, respectively	1.5	1.5
Additional paid-in capital	41.1	41.1
Retained earnings	5,949.8	5,974.8
Accumulated other comprehensive loss	(108.4)	(199.4)
Total shareholders' equity	5,884.0	5,818.0
Noncontrolling interests	6.7	1.8
Total equity	5,890.7	5,819.8
TOTAL LIABILITIES AND EQUITY	$ 14,329.5	$ 12,416.3

Balance Sheet Analysis

Balance Sheet Analysis

- Provides like a snapshot or photo a financial picture of the company on a given day at a given time.
- The basic balance sheet equation is:

Assets = Liabilities + Equity

Balance Sheet Analysis

Balance Sheet Analysis:

Assets = Liabilities + Equity

- The equation is always in balance

Balance Sheet Analysis

Assets = Liabilities + Equity

- The assets are listed on descending order of liquidity
- The balance sheet evaluation is an assessment of the value and liquidity of the assets.

Balance Sheet Analysis

Assets = Liabilities + Equity

- A change on one side must be offset by an equal change on the same or other side to maintain the balance.

Balance Sheet Analysis

Assets = Liabilities + Equity

Assets: (Conversion to Cash)

- Any right which has value to its owner
- Every asset is expected to be converted to cash, directly or indirectly

Balance Sheet Analysis

The balance sheet evaluation is an assessment of the value and liquidity of the assets.

How do we assess the Company's liquidity?

Assets: Listed on descending order of liquidity

Balance Sheet Analysis

Assets = Liabilities + Equity

Classification of Assets:

1. Current:
2. Non-Current

Balance Sheet Analysis

Assets = Liabilities + Equity

Classification of Assets:

1. Current:

- Assets which under the normal course of business will convert into cash.
- Time period is usually one (1) year

Balance Sheet Analysis

Assets = Liabilities + Equity

Classification of Assets: Current:

The four (4) primary current assets are:

- Cash
- Marketable Securities also called short term investments
- Accounts receivable
- Inventory

Balance Sheet Analysis

Assets = Liabilities + Equity

Classification of Assets: Current:

Cash:

- Companies maintain cash in different forms
- In certain situations the cash be restricted and used for a specific purpose
- The time elapsed between the disbursement and collection of cash assist in determining the company's cash requirements

Balance Sheet Analysis

Assets = Liabilities + Equity

Classification of Assets: Current:

Cash:

- It is represented often by deposits in a bank's checking account available to be used in a company's operations
- Deposits could also be maintained in interest bearing accounts

Balance Sheet Analysis

Assets = Liabilities + Equity

Classification of Assets: Current:

Cash:

- Cash overdrafts are not considered cash but unsecured loans and should be treated as a current liability.

Balance Sheet Analysis

Assets = Liabilities + Equity

Classification of Assets: Current:

Marketable Securities:

- Also defined as short term investments
- Its value is an important component in the lending decision especially if the investments will be considered as collateral for a loan

Balance Sheet Analysis

Assets = Liabilities + Equity

Classification of Assets: Current:

Marketable Securities:

- Companies temporarily invest their excess cash in US government securities or high grade commercial paper

Balance Sheet Analysis

Assets = Liabilities + Equity

Classification of Assets: Current:

Marketable Securities:

- When lenders are assessing the quality of short term investments they must check if:
- They are readily available
- Have short term maturity
- Pose limited risk of losing principal

Balance Sheet Analysis

Assets = Liabilities + Equity

Classification of Assets: Current:

Accounts Receivable:

- Generated when a company sells merchandise or provides a service on credit.
- A company may provide credit terms to customers to allow the purchasers to pay within some specific time

Balance Sheet Analysis

Assets = Liabilities + Equity

Classification of Assets: Current:

Accounts Receivable:

- Companies also provides discounts as an incentive for early payment
- As such credit sales are recorded as trade accounts receivable on the balance sheet

Balance Sheet Analysis

Assets = Liabilities + Equity

Classification of Assets: Current:

Accounts Receivable:

- Are unpaid amounts due to sales of products or services provided as part of the company's operations

Balance Sheet Analysis

Assets = Liabilities + Equity

Classification of Assets: Current:

Accounts Receivable:

- The size of the Company's accounts receivable is impacted by:
- 1. Amount of credit sales
- 2. The Company's credit terms and collections policies

Balance Sheet Analysis

Assets:

Accounts Receivable

- In evaluating receivables we should consider….
  - Extent of auditors verification
  - Liberal credit terms may result in larger accounts receivable

Balance Sheet Analysis

Assets:

Accounts Receivable

- In evaluating receivables we should consider….
  - Extent of auditors verification
  - Aging of receivables with respect to credit terms
  - A/R Agings are listings of the Company's customers showing the amount owed by each client

Balance Sheet Analysis

Assets: Accounts Receivable

- In evaluating receivables we should consider….
    - Amounts owed are associated to merchandise shipped or services performed and the length of time the amount is outstanding since the original billing date

Balance Sheet Analysis

Assets: Accounts Receivable

- In evaluating receivables we should consider….
  - The accounts receivable are usually listed by days: current, 30, 60 and more than 90 days old, by account.

Balance Sheet Analysis

Assets:Accounts Receivable

- In evaluating receivables we should consider….
  - Lenders use this report to evaluate the quality of receivables, success of the company's collection efforts and the quality of the accounts receivable

Balance Sheet Analysis

In an aging accounts receivable are classified as follows:

Current - due within the month

30 days - a month overdue

60 days - two months overdue

90 days... Slow and if not paid in the verge of delinquency.

Balance Sheet Analysis

Assets: Accounts Receivable

- In evaluating receivables we should consider….
  - Extent of auditors verification
  - Aging of receivables with respect to credit terms
  - Liberal credit terms may result in larger accounts receivable

Balance Sheet Analysis

Assets: Accounts Receivable

- In evaluating receivables we should consider….
  - The class of customers and conditions in their line of business
  - The competitive pressures on the terms of sale

Balance Sheet Analysis

Assets: Accounts Receivable

- In evaluating receivables we should consider….
  - Degree of concentration among a few customers or in a specific geographical region.
  - Lenders use the A/R aging also to identify any concentration on one or a few accounts.

Balance Sheet Analysis

Assets: Accounts Receivable

In evaluating receivables we should consider….

- Liberal extensions of credit to customers that are not creditworthy and lax collection policies can impact the quality of receivables

Balance Sheet Analysis

Assets: Accounts Receivable

In evaluating receivables we should consider….

- The Company's bad debt policies
- The adequacy of the allowance

Balance Sheet Analysis

Assets: Accounts Receivable

- Uncollectible accounts are registered as an expenses in the income statement as "Bad debt expense" OR
- Deducted from the allowance for doubtful account thereby decreasing net profit from operations

Balance Sheet Analysis

Assets: Accounts Receivable

- The Company's liquidity is reduced when its receivable convert to cash less quickly

Balance Sheet Analysis

Example: Accounts Receivable

(In millions)	**2015**	**2016**
Accounts receivable	$2,640	$3,191
Allowance for doubtful accounts	(93)	(88)
Net Accounts Receivable	$2,547	$3,103

Balance Sheet Analysis

Allowance for Doubtful Account:

- Receivables that are uncollected constitute a loss or bad debt
- In these cases the Company will calculate the percentage of bad debt over recent year and as such creates the allowance.

Balance Sheet Analysis

Allowance for Doubtful Account:

- This amount is deducted from accounts receivable
- The Company increases the allowance by expensing to bad debts through income statement

Balance Sheet Analysis

Allowance for Doubtful Account:

- The calculation of bad debt losses is as follows:
- Beginning allowance for doubtful accounts

\+ current year bad debt expense from income statements

\- <u>Ending allowance for doubtful accounts</u>

= Bad debt expense

Balance Sheet Analysis

Allowance for Doubtful Account:

- If the Company does not have an allowance for doubtful accounts, bad debts are expensed directly to the income statement
- This impacts the quality of the Company's profit generation

Balance Sheet Analysis

Accounts Receivable

Evaluating receivables (Strategies)….

Determine average collection period

(Ratio analysis)

A/R Days on Hand (DOH) =

Accounts Receivable Net/Net Sales X 365

Balance Sheet Analysis

Assets: Accounts Receivable

- Evaluating receivables (Strategies)….
  - Compare with company's regular credit terms

Balance Sheet Analysis

Assets:

Inventory

- Careful analysis of the amount and valuation of inventory is essential to financial analysis
- The valuation of inventory has a direct and very important impact on the profitability reported by the company

Balance Sheet Analysis

Assets:

Inventory

- Inventory account has three (3) components:
- 1. Raw materials
- 2. Work in Progress
- 3. Finished Goods

Balance Sheet Analysis

Assets:

Inventory

- 1. Raw materials: Type of inventory used in the manufacturing process.
- 2. The end use of raw materials determines its marketability
- 3. Raw materials that have multiple uses can be liquidated and sold to other industries

Balance Sheet Analysis

Assets:

Inventory

- A large level of raw materials inventory could be the results of anticipation due to an expected price increases or a potential loss if future purchases have to be completed at higher prices.
- This is usually pursued when companies buy in bulk at low prices.

Balance Sheet Analysis

Assets:

Inventory

- Holding on high level of inventory could be expensive for a company, especially if inventory purchases are financed with bank debt and in periods of high interest rates.
- The Company can also use trade credit to fund the inventory. In these cases trade credit (accounts payable) may move in the same direction as inventory

Balance Sheet Analysis

Assets:

Inventory: Work in Progress

- Manufacturing companies are the only businesses that carry work in progress inventory.
- In lending scenarios this inventory is the most problematic when it calls for liquidating this inventory.
- Partially completed products will require an additional capital investment to be converted into a finished products and marketable.

Balance Sheet Analysis

Assets:

Inventory: Work in Progress

- The levels of inventory depend on the length of the manufacturing cycle and usually purchased by wholesalers and retailers.
- For a manufacturing company this type of inventory is the one not yet shipped or sold.

Balance Sheet Analysis

Assets:

Inventory: Finished Goods

- For lending activity the Bank will assess finished good inventory with respect of how marketable is at present and in the future.
- Specialized inventory, subject to obsolescence could be impacted by sudden drop in market demand and this will impact price.

Balance Sheet Analysis

Assets:

Inventory: Finished Goods Inventory

In lending the banker must also consider if finished goods include obsolete inventory.

This type of inventory if not written up may overstate inventory values, thereby distorting the company's liquidity.

Balance Sheet Analysis

Assets:

Inventory: Finished Goods

- This type of inventory is easily marketable is replaced at current value.
- Inventory reported on the balance sheet is reported at the oldest value, usually lower value.
- For lending purposes the banker should review the footnotes of financial statements to determine the difference between LIFO and FIFO valuations

Balance Sheet Analysis

Assets:

Inventory

- There are two (2) major methods to value inventory:
- - Last In First Out (LIFO)
- - First In First Out (FIFO)

Balance Sheet Analysis

Assets:

Inventory: Last In First Out (LIFO):

- Charges to expenses the most recent cost of inventory because used inventory

Balance Sheet Analysis

Assets:

Inventory: LIFO versus FIFO

- Differences between LIFO and FIFO valuations, after taxes is known as the "LIFO reserve".
- This type of inventory issues is usually best described in CPA prepared , audit statements in the footnote section.

Balance Sheet Analysis

Assets:

Inventory

- Determine how efficiently is management using the inventory
- Is the Company selling? (Ratio Analysis)

Inventory Days on Hand (DOH)

Inventory/Cost of goods sold X 365

Balance Sheet Analysis

Assets: Non-Current Assets:

- These assets are converted into cash after 12 months
- Primary non-current asset is fixed assets

Balance Sheet Analysis

Assets: Other Receivables

- Notes receivable
- Due from Officers/Directors
- Due from subsidiaries or affiliates

Balance Sheet Analysis

Assets: Non-Current Assets: The following are the most common assets classified as non-current:

- Fixed assets
- Cash Value Life insurance
- Prepaid expenses

Balance Sheet Analysis

Assets: Non-Current Assets: The following are the most common assets classified as non-current:

- Accounts receivable officers and others
- Long term investments
- Deferred charges
- Intangible assets

Balance Sheet Analysis

Assets: Non-Current

Fixed Assets: These assets include….

- Land
- Buildings
- Machinery and equipment
- Leasehold improvements
- Vehicles
- Furniture

Balance Sheet Analysis

Assets: Non-Current

Fixed Assets:

- According to GAAP (General Accepted Accounting Principles) fixed assets will be registered on the balance sheet at ***book value***.
- **Book Value**: Is calculated taken the asset original historical cost (purchase price) minus the allowance for depreciation.

Balance Sheet Analysis

Assets: Non-Current

Fixed Assets:

- In lending transactions the Bank must assess the capacity, efficiency and specialization of the fixed assets in order to determine its value as collateral and upon liquidation.
- The adequacy and efficiency of the plant is of major consideration to lenders as he fixed assets will produce the inventory in sufficient quantity and quality to be converted into cash to repay outstanding debt

Balance Sheet Analysis

Assets: Non-Current

Fixed Assets:

- **Capacity**: Described as additional sales volume that can generate the existing level of fixed assets
- **Efficiency**:
  - Describes how cost effective are the fixed assets
  - Old equipment may be obsolete when there are new production methods

Balance Sheet Analysis

Assets: Non-Current

Fixed Assets:

- **Capacity**: Described as additional sales volume that can generate the existing level of fixed assets
- **Efficiency**:
  - A company with inefficient equipment will incur in additional costs for repairs, maintenance and upgrade thereby impacting the pricing of good sold

Balance Sheet Analysis

Assets: Non-Current

Fixed Assets:

- Marketability of fixed assets determine its value in collateral for a loan.
- Multi-use fixed assets usually have more buyers and as such higher collateral value in liquidation. (Examples: furniture)

Balance Sheet Analysis

Assets: Non-Current

Fixed Assets:

- **Capitalized Expenses**: Expenses incurred to improve the operation of the equipment and the cost recovery takes a number of years. These expenses are capitalized.
- These expenses are added to the cost of the equipment and allocated through the years via depreciation.

Balance Sheet Analysis

Assets: Non-Current

Fixed Assets: Leasehold Improvements

- Improvements to a leased building such as carpet, lighting, decorations etc. and capitalized in the balance sheet and amortized.
- **Amortization:** Fixed assets costs of leasehold improvements expensed to the income statement through the life of the asset.

Balance Sheet Analysis

Assets: Non-Current

Fixed Assets: Leasehold Improvements

- Usually in lending the value of leasehold improvements is not considered as collateral.
- As such when assessing the client's financial performance leasehold improvements are discounted from the company's tangible net worth.

Balance Sheet Analysis

Assets: Non-Current

Fixed Assets: Depreciation Methods:

- Distribution of the cost of tangible capital assets of the estimated useful life.
- Depreciation in the manufacturing plant is registered in the cost of sales account in the income statement.
- Depreciation is general office furniture is recognized as an operational expense

Balance Sheet Analysis

Assets: Non-Current

Fixed Assets: Depreciation Methods:

- Different from land, fixed assets lose their economic value through the years
- A fixed asset is valued at cost at time purchase and depreciated over the estimate useful life

Balance Sheet Analysis

Assets: Non-Current

Fixed Assets: Depreciation Methods:

- After a fixed asset has been purchased, it is depreciated every year, via an operating expense in the income statement and its value will progressively reduced in the balance sheet

Balance Sheet Analysis

Assets: Non-Current

Fixed Assets: Depreciation Methods:

- GAAP provides several methods to account for depreciation as follows:
- 1. Straight Line
- 2. Declining balance
- 3. Sum of the Years Digit

Balance Sheet Analysis

Assets: Non-Current

Fixed Assets: Depreciation Methods:

- The accounting method to record depreciation is:
- - Debit depreciation expense
  - Credit accumulated depreciation

Balance Sheet Analysis

Assets: Non-Current

Fixed Assets: Depreciation Methods:

- GAAP provides several methods to account for depreciation as follows:
- 1. **Straight Line**: Calculated by dividing the cost of the fixed assets minus its salvage value and dividing it by the estimated useful life.

Balance Sheet Analysis

Fixed Assets: Depreciation Methods:

Straight Line Depreciation

- Example: Fixed asset of $40,000
- Estimated Salvage Value: $10,000
- Estimated Useful Life: 5 years
- $40,000 - $10,000 = $30,000/5 years = $6,000 per year

Balance Sheet Analysis

Fixed Assets: Depreciation Methods:

Declining Balance Method

- A technique of accelerated depreciation in which the amount of depreciation that is charged to an asset declines over time
- More depreciation is charged during the beginning of the life time and less is charged during the end.

Balance Sheet Analysis

Declining Balance Method: Example:

Cost of asset = $100,000

Estimated residual value = $10,000

Estimated useful life of asset = 5 years

Depreciation rate = (1/useful life) x 200%

= 1/5 x 200% = 20% x 2 = 40%

Balance Sheet Analysis

Declining Balance Method: Example:

Year	Cost	Depreciation Rate	Depreciation	Accumulated Depreciation	Book Value
1	$100,000	40%	$40,000	$40,000	$60,000
2		40%	$24,000	$64,000	$36,000
3		40%	$14,400	$78,400	$21,600
4		40%	$8,640	$87,040	$12,960
5		40%	$2,960 (*)	$90,000	$10,000

Balance Sheet Analysis

Assets: Non-Current

Fixed Assets: Depreciation Methods:

- Accelerated depreciation methods intent to recover substantial amounts of costs in the earlier useful life of the fixed assets.
- Accelerated depreciation methods contributes to defer taxes or postpone them indefinitely allowing more funds to be retained in the business.

Balance Sheet Analysis

Assets: Non-Current

Fixed Assets: Depreciation Methods:

- Declining Balance and Sum of the Years Digits are considered accelerated methods of depreciation.

Balance Sheet Analysis

Assets: Non-Current

Cash Value Life insurance:

- This is the portion of insurance premium paid and available to the policyholder.
- It is the amount that may be borrowed from the insurance against the policy

Balance Sheet Analysis

Assets: Non-Current

Prepaid Expenses:

- Payment in advance for services to be rendered by another party to the Company in the future
- Examples include rent, insurance, taxes, royalties etc.
- Once the service is rendered that portion of the prepaid expenses will be charged as an operating expense in the income statement.
- Accountants register prepaid expenses as a current asset while in banking it is classified as non-current as provides little liquidity

Balance Sheet Analysis

Assets: Non-Current

Notes Receivable:

- Outstanding indebtedness with an specific repayment agreement.
- It is not part of the company’s normal operation and
- Does not constitute a significant asset account
- Some business may accept notes in lieu of payment for merchandise purchases

Balance Sheet Analysis

Assets: Non-Current

Notes Receivable:

- An evaluation of the quality of the notes begins with the payment status
- The built in interest rate charged in this note to the customer is also important
- At times notes receivable are used as collateral. In this case financial statements of the debtor is requested.

Balance Sheet Analysis

Assets: Non-Current/Due from Related Parties

Accounts Receivable Officers or Owners:

- This non-current asset represents a loan to its Officers or owners.
- In terms of liquidity this assets is not considered easily convertible to cash and available for its operations
- Repayment of these loans is not considered a priority for the business owners.

Balance Sheet Analysis

Assets: Non-Current/Due from Related Parties

Accounts Receivable Officers or Owners:

- In lending bankers discount these types of loans from net worth when considering tangible net worth.

Balance Sheet Analysis

Assets: Non-Current/Due from Related Parties

Due to affiliate companies:

- Affiliates are related via common ownership
- This receivable is classified as non current and non-liquid due to the nature of the affiliation and the absence of pressure to pay the debt.

Balance Sheet Analysis

Assets: Non-Current/Due from Related Parties

Due to affiliate companies:

- In order to consider this asset in the lending process the lender must find out:
- 1, If normal sales exist between the companies
- 2. One company has lent money to the other and;
- 3. The ability of the affiliate to repay the receivable

Balance Sheet Analysis

Assets: Non-Current/Due from Related Parties

Due to affiliate companies:

- If the Company wants to borrow money from the Bank and lend the proceeds to the affiliate, financial statements from the affiliate are required to obtain financial statements from the company and its affiliate to determine repayment capacity.

Balance Sheet Analysis

Non-Current Assets: Intangibles

- The account is included as a non-current asset and discounted from net worth to determine tangible net worth.
- Intangible may have significant value in liquidation
- Some of the intangibles include goodwill, patents, trademarks and operating rights

Balance Sheet Analysis

Non-Current Assets: Intangibles

- Goodwill, patents, trademarks and operating rights
- **Goodwill**: An accounting term used to capitalized acquisitions. Represents payments in consideration for an established customer base, reputation and future earnings potential.
- **Patent**: Gives the company exclusive right to manufacture a product

Balance Sheet Analysis

Non-Current Assets: Intangibles

- Goodwill, patents, trademarks and operating rights
- **Trademark:** A registered name of a product or service
- **Patent**: Gives the company exclusive right to manufacture a product

Balance Sheet Analysis

Liabilities:

- Lenders evaluate liabilities in terms of:
  - Repayment requirements
  - Availability as a source of financing
  - Present and future interest costs and impact to the income statement
  - Potential pledge of assets to secure them
  - When obtaining financial information the lender must request from the Borrower a detailed breakdown of short term and long term liabilities with details on maturities, repayment schedules and interest rates.

Balance Sheet Analysis

Classification of Liabilities:

1. **Current:**

- Expected to be satisfied or liquidated within the normal course of business (12 months or less)

Balance Sheet Analysis

Classification of Liabilities:

2. Non-Current:

- Expected to be satisfied or liquidated in a longer period of time

Balance Sheet Analysis

Liabilities: (Current)

- Accounts Payable: Also called "Trade credit".
- Review the normal credit terms obtained from vendors and compared against assessment
  (Ratio Analysis)

Balance Sheet Analysis

Equity:

- Considered owners' investment in the business
- Stockholders, like debtors have a claim against the company's assets
- In a bankruptcy scenario the owners usually have a residual claim

Balance Sheet Analysis

Liabilities:

- A way to measure this participation is via leverage ratio (Ratio Analysis)

  Leverage ratio= Total liabilities/Total Net Worth

Balance Sheet Analysis

Classification of Liabilities:

1. Current:

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Balance Sheet Analysis

Classification of Liabilities:

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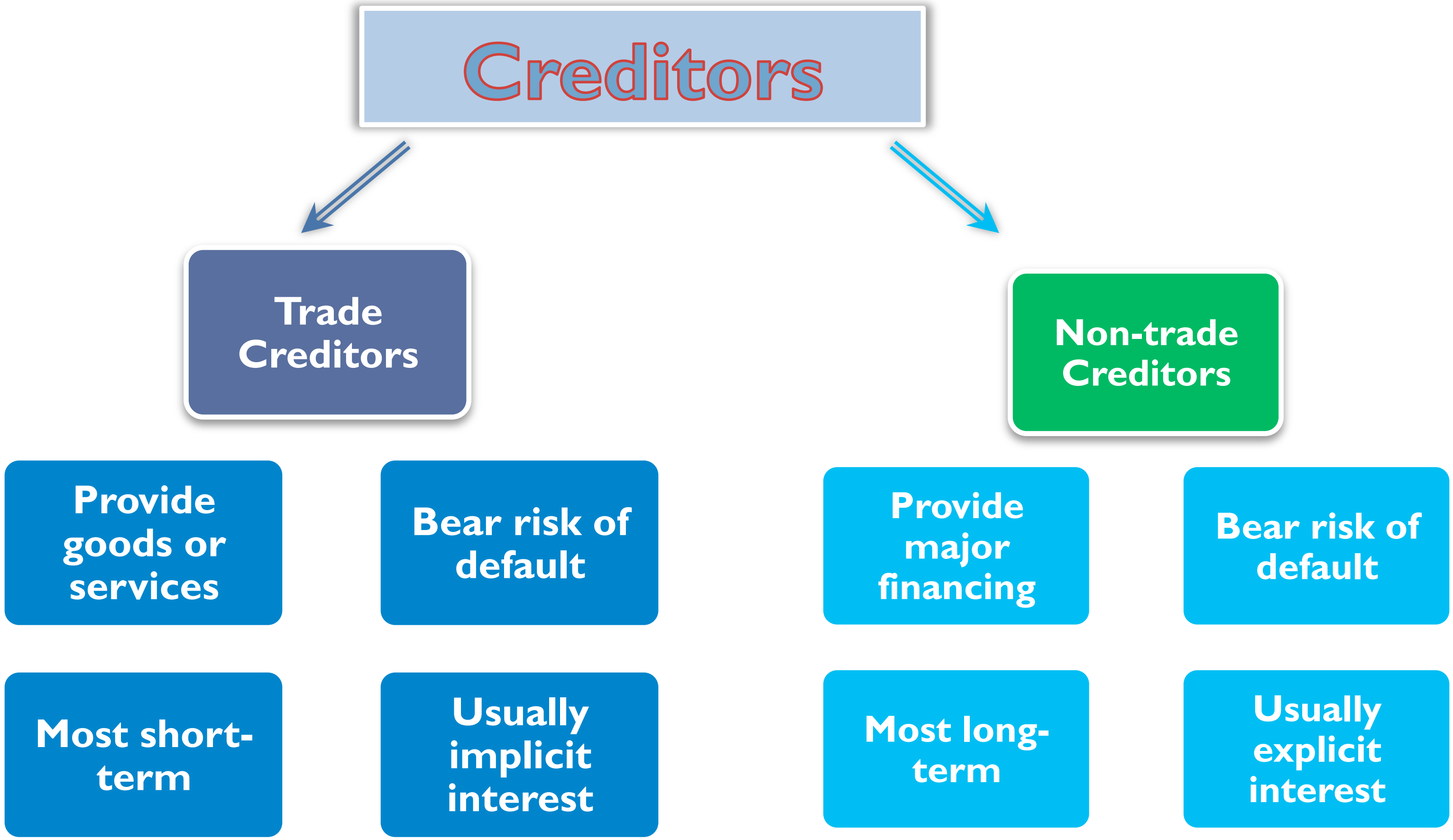
Balance Sheet Analysis



Balance Sheet Analysis

Ability to honor debt obligations:

Assess Liquidity: Ability to meet short term obligations:

- Concentrate on current cash flows
- Assess the make of current assets and current liabilities
- Evaluate the level of liquidity of the assets

Balance Sheet Analysis

Ability to honor debt obligations:

Assess Solvency: Ability to meet long term obligations:

- Focus on Long term profitability
- Evaluate the company's capital structure

Balance Sheet Analysis

Liabilities: (Current)

Review the normal credit terms

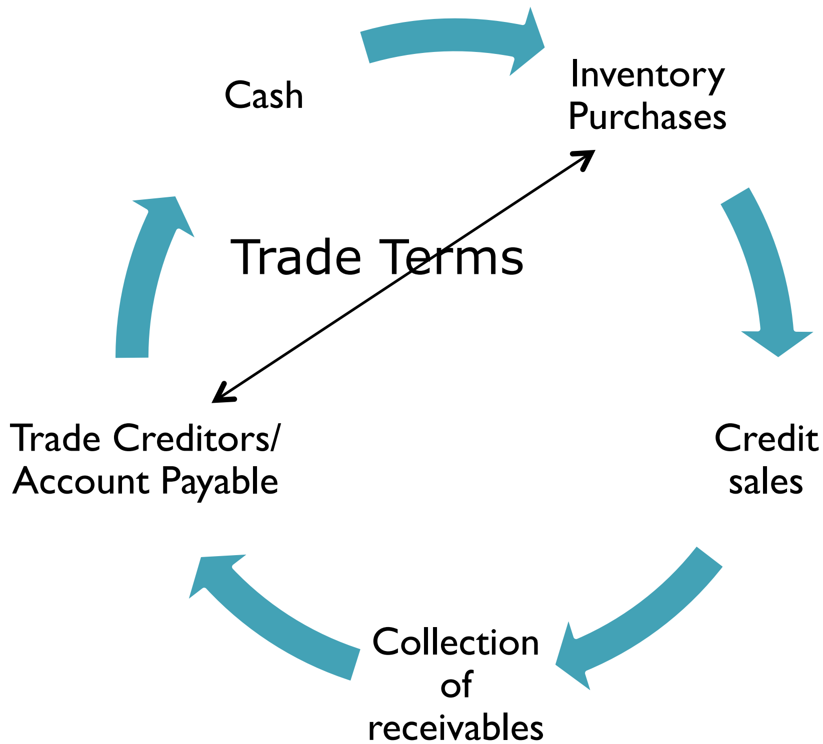
obtained from vendors and compared

against assessment (Ratio Analysis)

A/P Days on Hand (DOH) =

Accounts Payable/Cost of Good Sold X 365

Liquidity



Cash
Inventory Purchases
Trade Terms
Credit sales
Collection of receivables
Trade Creditors/ Account Payable

Balance Sheet Analysis

- Creditors lend funds to a company in return for a promise to pay.
- In most cases the payment of the obligation includes the principal and interest

Balance Sheet Analysis

- The content and focus of a credit analysis will vary depending on:
  - Terms of the loan as described in the credit application
  - Type of financing: Depending on the financing need, the lender will structure the loan in either a short term credit facility or a long term loan
  - Purpose: This answers the question.. What is the Company going to use the proceeds of loan?

Balance Sheet Analysis

In short term financing the focus of the credit analysis will be based on the Borrower's ….

- Current financial condition
- Cash Flows
- Assessment of the liquidity of current assets

Balance Sheet Analysis

In Long term financing the focus of the credit analysis will be based on the Borrower's ….

- Detailed Analysis and evaluation of the Company's
- a. Financial results for a minimum of three (3) years
- b. Liquidity Assessment
- Detailed Forward Analysis (Projections)