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Course Information

Course Title: Interpretation of Financial Statements #3636

Number of continuing education credit hours recommended for this course:

In accordance with the standards of the CFP Board and the National Registry of CPE Sponsors, CPE credits have been granted based on a 50-minute hour.

CFP: 5.5 (CFP Board Course ID # 233683)

CPA: 11 (All states)

National Registry of CPE Sponsors ID Number: 107615.

Sponsor numbers for states requiring sponsor registration

Florida Division of Certified Public Accountancy: 4761 (Ethics #11467)

Hawaii Board of Accountancy: 14003

New York State Board of Accountancy: 002146

Ohio State Board of Accountancy: M0021

Texas State Board of Accountancy: 009349

Program Delivery Method: NASBA QAS Self-Study (interactive)

Subject Codes/Field of Study: NASBA (CPA):Finance; CFP Board: Financial Planning

Course Description:

Level: NASBA (CPA):Overview; CFP Board: Advanced

Prerequisites: None

Advance Preparation: None

This course describes the structure of the financial statements, notes a number of tools for extracting information from the statements, and provides a wealth of additional insights into the reasons for the presence of or changes in certain numbers within the statements.

Course Content

Publication/Revision date: 3/11/2015.

Author: Steven M. Bragg, CPA.

Final exam (online): Fifty-five questions (multiple-choice).

Instructions for taking this course

In order to receive CPE credit for this course, you must complete the course within one year of the date of purchase. This includes achieving a passing grade of at least 70% on the final exam. The exam may be retaken if not passed on first attempt (no charge).

Complete the course by following the learning assignments and objectives listed below and studying the review questions at the end of each chapter. Once you have completed each learning assignment and you are confident that the learning objectives have been met, answer the final exam questions. (online).

Instructions for Taking the Final Exam Online

- Login to your account online at www.bhfe.com.
- Go to "My Account" and view your courses.
- Select "Take Exam" for this course and follow instructions.

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Learning Assignment & Objectives

Learning Objectives:

- Recognize the accrual basis of accounting concept and how it functions, as well as the accounting equation concept.
- Note the business situations indicated by different cash levels and cash designations.
- Cite the uses of the contribution margin and days sales outstanding measurements, as well as the situations in which they can be misleading.
- Note the industry situations in which an investment in inventory is considered to be more or less critical, as well as the reasons for different inventory turnover levels.
- Cite the calculations used for the different depreciation methods, and the effects on profitability of the various depreciation rules.
- State the contents of the prepaid expenses line item, as well as the situations that can change this balance. Also note the circumstances under which goodwill is considered to be impaired.
- Identify the business conditions that can alter the balances in the current liabilities line items.
- Identify the circumstances causing a change in debt classification, as well as the situations in which the debt level can be considered minor.
- Note the effects of debt-to-equity conversions on measurements, as well as the contents of the book value and tangible book value measurements.
- Recognize the situations causing reliable sales, as well as the types of investors attracted to rapid sales growth.
- Identify the contents of the cost of goods sold, and the methods used to improve the gross margin percentage.
- Define the contents of operating expenses, and the business situations that can cause these line items to change.
- Recognize the situations in which net operating losses may be generated, and the techniques used to improve the net profit margin and earnings per share.
- Note the contents of the different classifications within the statement of cash flows.
- Identify the types of audit examinations, the uses to which the margin of safety can be put, and the contents of the dividend analysis formulas.
- Note the required contents of the different sections of the Form 10-K.

About the Author

Steven Bragg, CPA, has been the chief financial officer or controller of four companies, as well as a consulting manager at Ernst & Young. He received a master's degree in finance from Bentley College, an MBA from Babson College, and a Bachelor's degree in Economics from the University of Maine. He has been a two-time president of the Colorado Mountain Club, and is an avid alpine skier, mountain biker, and certified master diver. Mr. Bragg resides in Centennial, Colorado. He has written the following books:

Accountants' Guidebook	Credit & Collection Guidebook
Accounting Controls Guidebook	Financial Analysis
Accounting for Inventory	Fixed Asset Accounting
Accounting for Investments	GAAP Guidebook
Accounting for Managers	Human Resources Guidebook
Accounting Procedures Guidebook	IFRS Guidebook
Bookkeeping Guidebook	Inventory Management
Budgeting	Investor Relations Guidebook
Business Ratios	Lean Accounting Guidebook
CFO Guidebook	Mergers & Acquisitions
Closing the Books	New Controller Guidebook
Constraint Management	Nonprofit Accounting
Corporate Cash Management	Payroll Management
Cost Accounting Fundamentals	Public Company Accounting
Cost Management Guidebook	Revenue Recognition

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Preface

When someone asks for information about a business, they are likely to receive its financial statements. These statements quantify the results, financial position, and cash flows of a business. However, these documents only provide information at quite a high level, and so may obscure more than they reveal. *The Interpretation of Financial Statements* is designed to cut through this obscurity, describing a number of tools for dissecting financial statements, as well as a wealth of additional insights into the reasons for the presence of or changes in certain numbers.

The bulk of the book covers three topics, which are the interpretation of the balance sheet, income statement, and cash flows. Eight chapters address the various parts of the balance sheet, another four chapters cover the income statement, and a separate chapter examines the statement of cash flows. There is also a lengthy chapter pertaining to the contents and interpretation of additional public company information. In these chapters, we describe the accounts that make up the various line items in the financial statements, demonstrate the use of applicable analysis tools, and also discuss specific operational and financial issues that may be causing certain results to appear in the financial statements.

You can find the answers to many questions about the interpretation of financial statements in the following chapters, including:

- What are the circumstances under which a business can report a cash balance of exactly zero?
- What policy decisions can lead to an increase in the amount of accounts receivable?
- What might cause a spike in the cost of goods sold just prior to the end of the year?
- Are there any valid reasons for a decline in the proportion of depreciation to fixed assets?
- What is the implication of accounts payable being converted into debt?
- What are the circumstances under which a business might elect to buy back shares?
- What techniques can be used to evaluate the quality of sales?
- How can the capitalization limit impact the supplies expense?
- What are the possible reasons for an unusually large dividend?
- Which discussion topics in the Form 10-K can be used to evaluate the compensation of the management team?

The Interpretation of Financial Statements is designed for someone reviewing the financial statements of a business from the outside. This may be a lender, supplier, investor, or financial analyst. It can also be used by students to gain a deeper understanding of how to examine financial statements.

Centennial, Colorado
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