



HOW TO READ & UNDERSTAND FINANCIAL STATEMENTS

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Introduction	1
PART 1	3
The Profit & Loss Statement	3
Widget Profit & Loss Statements (2015&2016).....	8
The Balance Sheet (2015&2016)	9
The Addendum	18
Profit & Loss Statement with board strategies	19
The Balance Sheet with board strategies	20
PART 2	24
Analyzing the P&L Statement	24
Analyzing the Balance Sheet.....	27
PART 3	36
The Cash Flow Statement	36
Widget Cash Flow Statement (2015& 2016).....	40

INTRODUCTION

This document is prepared for those who need to understand how to use financial reports in their climb up the corporate ladder or for those entrepreneurs who are trying to grow their business.

In order to move into middle management and then corporate management, you must be able to read, understand and use financial reports. Also, entrepreneurs who want to grow their businesses must be able to read, understand and use financial reports. If you are an accountant, then you do not need to read this document. However, if you need to understand a financial statement, then this document can help you grasp the details of the financial statement without taking accounting courses. This concept is called The Stevens Method.

The Stevens Method was developed as I moved up the corporate ladder. The Stevens Method grew out of my desire to learn more about financial statements and progressed from scribbled notes to an early and a very basic computer program, which was formalized as I moved from division president to CEO. I applied this concept in the classroom as an Adjunct Professor in the University of Maryland University College (UMUC) MBA program. It was then that I realized that students who had taken graduate financial courses did not understand the contents of the Profit & Loss (P&L) Statement, could not spell Balance Sheet, and thought that Cash Flow was a hole in their pocket. The Stevens Method developed into its final form when I began teaching online in 2010. Students can now assimilate skills for financial management and control through financial statements over a 15-to-20-hour time frame by using The Stevens Method. Regardless of your career path, I assure you this will be a very useful tool.

The entrepreneur, the person climbing the corporate ladder, and the service member transitioning from the military all need to develop the thought process and vocabulary that is used in the corporate world. There is a vocabulary that managers—line and staff—use when communicating financial results, either in a written report or in conversation. Our purpose with this document is to provide the reader with the basic knowledge necessary to ask meaningful questions in business meetings and social gatherings. The use of proper vocabulary is a key to being recognized by your peers and superiors as one who understands the financial statement. If you absorb what is in this document and complete The Stevens Method online training program, you will leap frog the accounting courses—and differentiate yourself from the crowd. Then the whole tangled business will make sense and you will be on your way.

TOTAL ASSETS

The total assets are the sum of the fixed assets and intangible assets less accumulated depreciation and accumulated amortization.

	2016	2015
TotalAssets	\$11,255,100	\$7,977,000

LIABILITIES

CURRENT LIABILITIES

This item generally includes all debts that fall due within the coming year. It can be said that the current assets item is a companion to current liabilities because current assets are the source from which payments are made on current debts (cash). Both of these items have a one-year time span.

ACCOUNTS PAYABLE

The accounts payable item represents the amounts that Widget owes to its regular business creditors from whom it has bought goods primarily for the manufacturing of the product that Widget sells. The company usually has 30, 60, or 90-days in which to pay. Sometimes, as an inducement to pay promptly, the suppliers give a cash discount of, say 2%. Therefore, if an account payable is \$1,000 with terms of "2% in 10 days, net in 30 days," payment of the debt within 10 days earns \$20 (2% of \$1,000), and \$980 will settle the invoice for \$1,000.

If Widget is delinquent in paying its creditors, then the suppliers may put Widget on a Cash on Delivery (C.O.D) status. This means that the invoice must be paid before goods are delivered to Widget.

	2016	2015
Accounts Payable	\$164,300	\$145,000

SHORT-TERM LOANS

Short-term loans are usually those loans that are intended to be repaid with 12 months. This may include short term loans made to employees, or to purchase a specific piece of equipment that is needed for a special production process. If the money is owed to a bank or other lender, it will appear on the Balance Sheet under loan or loans payable.

ACCRUED EXPENSES

Widget also owes, on any given day, salaries and wages to its employees, interest on funds borrowed from banks and from bondholders, fees to attorneys, insurance premiums, pensions, and similar items. To the extent that the amounts accrued are unpaid at the date of the Balance Sheet, these expenses are grouped as a total under accrued expenses payable. Dividend payments will fall into this category.

TAXES PAYABLE

This includes state and Federal taxes that are unpaid by the date of the Balance Sheet.

	2016	2015
Taxes Payable	\$1,487,500	\$991,200