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Financial Statements: Reference Manual Income Statement, Balance Sheet and Cash Flow

Business people *could* make better economic decisions if they had the knowledge to read and analyze financial statements. This ability is a required skill for finance professionals; however, individuals in other fields, such as medical, engineering, technology or sales and marketing could also benefit from this expertise. Essentially, anyone responsible for financial results should have at the least a general understanding of these reporting documents.

Most finance books do not provide the underlying fundamentals before discussing budgeting, cash flow and business cycles. Contrarily, basic finance books provide information on accounting basics, such as debits, credits, invoicing and collections without discussing financial statements. Moreover, without a financial background the information can be hard to follow. Therefore, in spite of the abundance of books and classes on the subject of finance, many business people still lack a basic understanding of these crucial reports. In order to comprehend financial theories the underlying fundamentals must be completely understood. With this solid platform firmly in place, new financial models can be introduced and deductive reasoning can be used to uncover hidden trends or business concerns.

For several years I have been teaching business owners, managers, lenders, lawyers, real estate agents and investors how to read financial statements. My class has become known for its simplicity in presentation and thereby the ease in which the attendees grasp the difficult concepts. I follow a simple process to achieve this outcome—review each account in the order as they appear on the statements, provide an overview of the contents of each account, and define the relationships between the various accounts including possible differences based on management’s reporting choices.

Moreover, many words in finance have similar meanings, which is partially responsible for a novice’s confusion. For this reason, the synonyms for each account are included in the reference material. In addition to providing the skill required to read financial statements, a section called “Considerations” is included to alert the reader to specific areas that are subject to misunderstanding, misrepresentation or demonstrate inherent concerns within certain business models. The reader is also introduced to key business strategies, trends and their affect on the financial data.

From this understanding other financials methodologies such as ratio analysis has more meaning; otherwise it is simply a mathematical answer such as two times debt with no real relevance regarding *how* it affects the company and the implications for future decision making. By following a format similar to the classes and webinars, this *Business Simply Put Special Report*

aims to provide the reader with the underlying fundamentals enabling them to successfully read and understand financial statements.

Financial Statements: Reference Manual was developed to provide non-finance people with the basic fundamentals. It can be used as a stand-alone reference manual or in conjunction with other financials books, thereby providing the reader with the information needed to grasp more advanced financial concepts.