Financial Accounting & Analysis

Read financial statements, follow transactions, and ask better questions of the numbers.

CLARAFIS | INTERMEDIATE COURSE

Connect accounting records to statements, cash flow, and practical analysis.

Before you start
No specialist background is required beyond the stated level. Work through one module at a time, write down your assumptions, and try each exercise before reading its explanation.

Course map: Accounting equation; statements; accruals and adjustments; cash flow; ratios and trends; analysis limits and communication.

How to learn from this course

Read in order and connect each idea to a realistic example. Keep a small notebook of definitions, calculations, and questions. When numbers appear, show the steps and label assumptions. The examples use simplified fictional situations so you can focus on the method.

What you will be able to do

Connect accounting records to statements, cash flow, and practical analysis.

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Important
This course provides general education. It is not individualized financial, tax, legal, accounting, or investment advice. Laws, products, standards, and protections differ by jurisdiction and can change. Verify current details with qualified local sources.

1. The accounting equation and records

MODULE 1

Key idea

The basic equation is Assets = Liabilities + Equity. Transactions affect at least two accounts; the double-entry system keeps the equation in balance. A debit or credit is an account-side convention, not automatically a good or bad change. Use a chart of accounts and source documents to make records traceable.

Worked example
A business buys equipment for 6,000 cash. Equipment (asset) rises by 6,000 and cash (asset) falls by 6,000; total assets remain unchanged at purchase.

Try it yourself

Classify five transactions as affecting assets, liabilities, equity, revenue, or expenses. Explain why each stays balanced.

Key terms

Review the glossary at the end and add any new terms you encounter.

2. Read the three core statements

MODULE 2

Key idea

The income statement reports performance over a period: revenue less expenses produces profit or loss. The balance sheet reports assets, liabilities, and equity at a date. The cash flow statement explains cash changes by operating, investing, and financing activities. The statements connect but answer different questions.

Worked example
A company can report profit while cash falls if customers have not paid yet or inventory has increased. Profit and cash are related, not interchangeable.

Try it yourself

Choose a public company’s annual report and locate the reporting period, balance sheet date, and cash flow statement sections.

Key terms

Review the glossary at the end and add any new terms you encounter.

3. Accruals, timing, and adjustments

MODULE 3

Key idea

Accrual accounting records economic activity when earned or incurred, subject to the applicable framework, rather than only when cash moves. Adjustments can include depreciation, accrued expenses, prepaid costs, and unearned revenue. Estimates require judgment and should be explained in notes.

Worked example
A 12,000 annual insurance policy paid on 1 October covers 12 months. At 31 December, three months (3,000) are expense and 9,000 remain prepaid, assuming even coverage.

Try it yourself

For a service delivered in December but paid in January, identify the period of revenue and the later cash receipt under accrual accounting.

Key terms

Review the glossary at the end and add any new terms you encounter.

4. Follow cash, working capital, and quality

MODULE 4

Key idea

Operating cash flow starts from business operations and adjusts for non-cash items and working capital movements under the selected reporting method. Receivables, inventory, and payables can explain why operating cash differs from profit. One period is rarely enough to assess recurring performance.

Worked example
If receivables rise faster than sales, investigate collection timing, customer terms, and possible credit losses. The change may have several explanations; it is not proof of a problem by itself.

Try it yourself

Compare operating cash flow with net income for three years. Note one pattern and one question for the notes.

Key terms

Review the glossary at the end and add any new terms you encounter.

5. Ratios and trend analysis

MODULE 5

Key idea

Ratios summarize relationships: current ratio compares current assets with current liabilities; gross margin compares gross profit with revenue; debt measures compare obligations with a chosen base. Definitions can vary. Use consistent periods, understand accounting policies, and compare with relevant peers cautiously.

Worked example
Current assets of 240 and current liabilities of 160 give a current ratio of 1.5. This does not prove liquidity; asset quality, timing, and industry context matter.

Try it yourself

Calculate gross margin when revenue is 500 and cost of sales is 325. State one limitation of the result.

Key terms

Review the glossary at the end and add any new terms you encounter.

6. Explain findings and limitations

MODULE 6

Key idea

Good analysis separates facts, calculations, interpretation, and uncertainty. Read footnotes for commitments, related parties, segments, estimates, and subsequent events. Accounting standards and filings differ across jurisdictions. A ratio is a signal to investigate, not a verdict.

Worked example
A margin decline may reflect higher input costs, changed product mix, pricing, or accounting presentation. Check segment data and management discussion before explaining it.

Try it yourself

Write a short analyst note with two observed facts, one calculation, two possible explanations, and one missing piece of evidence.

Key terms

Review the glossary at the end and add any new terms you encounter.

Practice case

Try the problem before reading the explanation below. Show each step and state any assumptions you make.

Case
A company reports revenue 1,000, cost of sales 620, operating expenses 250, and net income 80. Current assets are 360 and current liabilities 240. Calculate gross profit, gross margin, and current ratio. Give one caution for each ratio.

Worked answer

Gross profit = 1,000 - 620 = 380. Gross margin = 380/1,000 = 38%. Current ratio = 360/240 = 1.5. Margin definitions and classification can vary; compare consistent periods and peers. The current ratio does not show when cash is due or whether inventory and receivables can be converted to cash promptly. This exercise uses simplified figures.

Reflection
Which assumption matters most? What additional information would you want before applying this method to a real situation?

Glossary and next steps

Asset resource controlled by an entity.

Liability present obligation.

Equity residual interest after liabilities.

Revenue income from ordinary activities under the applicable framework.

Accrual recognition based on economic activity rather than cash timing alone.

Depreciation systematic allocation of a tangible asset’s depreciable amount.

Working capital commonly current assets less current liabilities.

Keep learning

Review the worked examples, then repeat the exercises using new fictional numbers. For real decisions, consult current primary documents and reliable local authorities. Keep a record of where information came from and when you checked it.

Financial education notice
No product, security, account, loan, or course example is a recommendation. This material does not consider an individual’s circumstances, objectives, or risk tolerance.

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