NOTES TO THE FINANCIAL STATEMENTS

Reviewing the notes to the financial statements, or "footnotes," can yield very important information that can be used in an analysis of a company. This is so because the financial statements do not elsewhere report important details and other information that are included in this section. You could say the notes serve as a means of clarification to the summary information contained in the statements. As a result, some of these notes can be relatively long. While this may be the case, it is imperative that investors read the notes to the financial statements so as not to miss the important information contained therein.

Some important items contained in the notes to the financial statements include, but are not limited to, the following. Take note of any significant observations you come across in your review.

- Significant accounting policies

- Depreciation of long-lived assets

- Valuation of inventory

- Derivatives and hedging

- Intangibles

- Investment

- Contingencies

- Debt

- Leases

- Subsequent events

- Any other significant items

EXTERNAL AUDITOR'S REPORT

It is imperative you review the external auditor's report. It is based on the opinion of the auditor, and should provide reasonable assurance as to whether the company is operating in accordance with appropriate accounting standards. It should also reveal whether or not the company is a going concern.

The report should take one of the following forms:

1. **Unqualified (unmodified) opinion** – This is generally referred to as a clean opinion. This type of report is issued when the auditor believes the company is free from any material misrepresentations and the accounting records have been prepared in accordance to generally accepted accounting principles (GAAP) or the international financial reporting standards (IFRS).
2. **Qualified opinion** – This report is very similar to the unqualified opinion. The reason for this type of report is generally because the accounting records have not been prepared according to GAAP or IFRS. An additional paragraph explaining the reason for the unqualified opinion is included.
3. **Adverse opinion** – This type of report suggests that the accounting records have not been prepare in accordance with GAAP or IFRS and there is gross misrepresentation in the financial reports.
4. **Disclaimer of opinion** – There are times when the auditor is unable to perform the necessary tasks and therefore unable to issue a report. If this happens, the auditor issues a disclaimer of opinion.

Who are the auditors for this company? ____

Which of the opinions above was provided by the auditors? ____________________________

DECISION TIME

Now that you have spent much time reviewing and analyzing the selected company, its competitors, and the industry to which it belongs, it is time for you to make some decisions.

1. How does this company compare to its competitors? Explain.

2. How does this company compare to the industry in which it operates? Explain.

3. What do analysts have to say about this company?

4. What do analysts have to say about this industry?

5. Would you invest in this company? Why?