

Financial Statement Review Checklist

Reviewing financial statements is crucial for ensuring accuracy and compliance and providing a clear picture of a company's financial health. This comprehensive checklist will guide you through the essential steps and components of the review.

1. Preliminary Review

- **Verify Completeness:**
 - Ensure all financial statements (balance sheet, income statement, cash flow statement, and statement of changes in equity) are included.
 - Check that all periods are covered and consistent with previous reports.
- **Initial Overview:**
 - Skim through the statements to get a general sense of the company's financial health.
 - Look for any glaring errors or inconsistencies in the numbers.

2. Balance Sheet Review

- **Assets:**
 - Verify the classification of assets into current and non-current.
 - Ensure accurate valuation of inventory, receivables, and other assets.
 - Check for proper depreciation and amortization of fixed and intangible assets.
- **Liabilities:**
 - Confirm the classification of liabilities into current and non-current.
 - Review all recorded liabilities for accuracy and completeness.
 - Ensure the proper treatment of contingent liabilities.
- **Equity:**
 - Validate the entries for common stock, additional paid-in capital, retained earnings, and other equity items.
 - Review any changes in equity and confirm they are properly documented.

3. Income Statement Review

- **Revenue:**

- Verify the accuracy and recognition of revenue according to applicable accounting standards.
- Check for consistency in revenue reporting across periods.
- **Expenses:**
 - Review all expense categories for accuracy and completeness.
 - Ensure proper allocation of costs and overheads.
 - Check for any unusual or non-recurring expenses that need to be highlighted.
- **Net Income:**
 - Confirm the calculation of net income and compare it with previous periods.
 - Analyze significant variances and investigate their causes.

4. Cash Flow Statement Review

- **Operating Activities:**
 - Ensure all cash inflows and outflows from operating activities are accurately reported.
 - Compare net cash provided by operating activities with net income to identify any discrepancies.
- **Investing Activities:**
 - Verify the recording of all cash flows related to investment in assets.
 - Ensure gains and losses from the sale of assets are correctly reported.
- **Financing Activities:**
 - Review cash flows from financing activities, including issuance and repayment of the debt and equity transactions.
 - Confirm the accuracy of dividend payments.

5. Statement of Changes in Equity Review

- **Equity Movements:**
 - Check the accuracy of recorded equity movements, including issuance of shares, dividends, and other transactions.
 - Verify the reconciliation of opening and closing balances for each equity component.

6. Notes and Disclosures Review

- **Compliance:**

- Ensure all required notes and disclosures are included according to GAAP or IFRS standards.
- Review the notes for completeness and clarity.
- **Significant Accounting Policies:**
 - Verify the disclosure of significant accounting policies and any changes in these policies.
 - Ensure consistency with prior periods.
- **Contingencies and Commitments:**
 - Review disclosures of contingencies, commitments, and subsequent events.
 - Confirm the completeness and accuracy of these disclosures.

7. Ratio Analysis

- **Liquidity Ratios:**
 - Calculate and review current and quick ratios to assess the company's short-term financial health.
- **Profitability Ratios:**
 - Analyze gross profit margin, operating profit margin, and net profit margin.
 - Compare ratios with industry benchmarks.
- **Solvency Ratios:**
 - Calculate the debt-to-equity ratio and interest coverage ratio to evaluate long-term financial stability.
- **Efficiency Ratios:**
 - Review inventory turnover, accounts receivable turnover, and accounts payable turnover.

8. Comparative Analysis

- **Period Comparison:**
 - Compare current financial statements with those from previous periods.
 - Analyze trends and identify significant changes or anomalies.
- **Budget vs. Actual:**
 - Compare actual financial performance against the budget or forecast.
 - Investigate and explain variances.

9. Final Review

- **Cross-Verification:**
 - Cross-verify figures between statements (e.g., net income on the income statement should match net income on the cash flow statement).
 - Ensure all inter-company transactions are properly eliminated in consolidated statements.
- **Management and Auditor Review:**
 - Submit the reviewed financial statements to management for final review.
 - Ensure that external auditors have reviewed the statements and provided their opinion.
- **Sign-off:**
 - Document the completion of the review process and obtain necessary approvals and sign-offs from relevant parties.

Conclusion

This detailed checklist ensures a thorough review of financial statements, aiding in identifying and correcting errors, compliance with accounting standards, and providing stakeholders with accurate financial information.