Key Terms | Unit 6

1. **Common-size financial statement** - Statement that expresses each amount as a percent of a base amount. In the balance sheet, total assets is usually the base and is expressed as 100%. In the income statement, net sales is usually the base. Useful for comparison purposes.

2. **Direct method** - Presentation of net cash from operating activities for the statement of cash flows that lists major operating cash receipts less major operating cash payments.

3. **Efficiency** - Company’s productivity in using its assets; usually measured relative to how much revenue a certain level of assets generates.

4. **Extraordinary gains and losses** - Gains or losses reported separately from continuing operations because they are both unusual and infrequent.

5. **Financial statement analysis** - Application of analytical tools to general-purpose financial statements and related data for making business decisions.

6. **Financing activities** - Transactions with owners and creditors that include obtaining cash from issuing debt, repaying amounts borrowed, and obtaining cash from or distributing cash to owners.

7. **Horizontal analysis** - Comparison of a company’s financial condition/performance across time.

8. **Indirect method** - Presentation that reports net income and then adjusts it by adding and subtracting items to yield net cash from operating activities on the statement of cash flows.

9. **Investing activities** - Transactions that involve purchasing and selling of long-term assets, includes making and collecting notes receivable and investments in other than cash equivalents.

10. **Liquidity** - Availability of resources to meet short-term cash requirements.
11. **Operating activities** - Activities that involve the production or purchase of merchandise and the sale of goods or services to customers, including expenditures for administering the business.

12. **Profitability** - Company’s ability to generate an adequate return on invested capital.

13. **Ratio analysis** - Determination of key relations between financial statement items as reflected in numerical measures.

14. **Solvency** - Company’s long-run financial viability and its ability to cover long-term obligations.

15. **Vertical analysis** - Evaluation of each financial statement item or group of items in terms of a specific base amount.