Balance sheet fishiness

Warning signs of an overstated financial position

Excluded assets and liabilities

- Is the company using operating leases to a greater extent than similar companies?
- Is the company using the equity method of accounting for affiliates? How would their financials look if these affiliates are consolidated?
- Has the company shifted accounts receivable off the balance sheet in a transaction that would be better classified as borrowing?
- Does the company have insufficient assets on its balance sheet to support reported operations and revenues – particularly relative to other similar companies?

Off-balance sheet liabilities/financing

- Are there financing or guarantee arrangements disclosed in footnotes or reports not reflected on the balance sheet?
- Are there discussions about contingencies or losses that are not currently reported on the income statement and for which no current liability is accrued?

Overstated assets

- Does the company have significant assets that are subject to estimates or assumptions or where objective valuations are not available?
- Does the company have unusual changes in the quantity or valuation of intangible assets, commodities or biological assets (whether reported on the balance sheet or not)?
- Were any gains or revenue based on revaluation of assets, and what percentage of operating income comes from these activities?

Source: Asian Financial Statement Analysis, Tan Chin Hwee and Thomas R. Robinson