



Financial Warnings: Detecting Earning Surprises, Avoiding Business Troubles, Implementing Corrective Strategies

By Charles W. Mulford, Eugene E. Comiskey

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A comprehensive, accessible, and innovative approach to a potentially devastating problem.

When a firm's actual earnings fall significantly short of expectations, it's not just the company that suffers. Lenders, equity investors, accountants, auditors, and consultants can also take a hit from this "earnings surprise."

Financial Warnings is designed for one purpose--to make sure that such a shortfall never undermines your financial security. Clearly and systematically, this unique practical guide helps you:

- * Understand the many causes of earnings surprises, including fraud, overstated revenues, undervalued liabilities, and many more
- * Identify the early warning signals associated with particular earnings surprises, so you can take prompt corrective action
- * Prevent earnings surprises from happening in the first place by improving the quality of earnings forecasts

Financial Warnings comes complete with a unique early warning system to put you on the alert for potential trouble, foolproof checklists to help you spot those "yellow flags," a convenient sustainable earnings worksheet to sharpen your earnings forecasts, and plenty of vivid case histories to show you how to anticipate and avoid earnings surprises--not just on paper, but in the real world.

A material difference between a corporation's expected and actual earnings, otherwise known as an earnings surprise, can spell big trouble for lenders and equity investors, to say nothing of the company in question. The failure to anticipate a negative result can threaten a lender's prospects for loan repayment, cause investors to absorb heavy losses, and trigger substantial losses on positions in equity securities.

Dedicated to the principle that "forewarned is forearmed," this book provides accountants and other users of financial statements with the resources needed to avoid these damaging financial discrepancies. Charles Mulford and Eugene Comiskey employ numerous case studies to examine and define these discrepancies and classify earnings surprises according to their major causes: changing economics, fraud, and aggressive application of GAAP. They then examine the results of a survey of bankers and develop a system for rating earnings surprise potential. This Earnings Reversal Score concisely categorizes cautionary signals, such as profitability, liquidity, and management-related early warnings, enabling accountants to recognize problems and take timely corrective measures.

Financial Warnings helps improve the quality of earnings forecasts as well. With the aid of a detailed worksheet and a pair of extended case studies, you'll learn how to locate material nonrecurring items--a major cause of earnings surprises--and determine a firm's sustainable earnings base more accurately. You'll discover how to pinpoint differences in the book and market values of assets and liabilities, which, if undetected, can also result in earnings surprises. In addition, you'll learn the early warning indicators of fraudulent financial reporting, as well as crucial information on the role and responsibility of auditors in detecting such fraud.

An important resource for accountants, executives, CFOs, and company auditors, Financial Warnings is an indispensable guide for investors and others who depend on the accuracy of earnings projections. Even if you have only a tentative understanding of basic accounting issues, this easily accessible presentation will help you develop the knowledge and skills you need to formulate more accurate earnings expectations and avoid the potential disasters caused by earnings surprises.

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Financial Warnings: Detecting Earning Surprises, Avoiding Business Troubles, Implementing Corrective Strategies By Charles W. Mulford, Eugene E. Comiskey Bibliography

- Sales Rank: #265320 in Books
- Published on: 1996-05-03
- Ingredients: Example Ingredients
- Original language: English
- Number of items: 1
- Dimensions: 9.49" h x 1.72" w x 6.26" l, 1.85 pounds
- Binding: Hardcover
- 496 pages

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Editorial Review

From the Publisher

The authors identify the financial traits of firms which precede unanticipated and typically disastrous reductions in corporate earnings and forecasted cash flow to help users of financial information recognize these potentially catastrophic financial characteristics. Explains how to understand and implement corrective tactics to reverse sizable reductions in earnings and cash flow as well as blunt their accompanying impact. Includes illustrative case studies, numerical examples, and sample debt restructuring agreements.

From the Back Cover

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About the Author

CHARLES W. MULFORD is Professor of Accounting and EUGENE E. COMISKEY is the Callaway Professor of Accounting in the School of Management at the Georgia Institute of Technology in Atlanta. Both professors have doctorates in accounting and are professionally qualified as Certified Public Accountants. In addition to their work at Georgia Tech, they actively consult with lenders at several commercial banks in the United States and abroad. Professors Mulford and Comiskey regularly publish articles on financial reporting and analysis issues in leading academic journals in the accounting and finance fields as well as in such widely read professional journals as the *Commercial Lending Review*, the *Journal of Commercial Lending*, and the *Financial Analysts' Journal*.

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