

### **Chapter 1: Pricing, Sales, and Advertising Miss Margins**

Potential Problems:

- Sales Do Not Support Advertising Expenditures
- Revenue Base Erosion
- Increased Product Pricing Causes a Reduction In Sales
- Lowered Price Shrinks Margins
- High Level of Merchandise Returns

### **Chapter 2: Inventory and Production Shortfalls**

Potential Problems:

- Low Turnover of Merchandise
- Deficient Inventory Balances
- Excessive Inventory Ordering and Carrying Costs
- Ordering Incorrect Quantities of Inventory
- High Rate of Inventory Stockout
- Theft of Inventories
- Miscounted Inventory
- Inaccurate Inventory Records
- High Rate of Product Obsolescence
- Manufacturing Schedules Missed
- Poor-Quality Goods Produced
- Lack of Inventory Storage Space
- Delayed Receipt of New Inventory

### **Chapter 3: Profit Targets Are Off**

Potential Problems:

- Unrealistic Break-Even Point
- Product or Service Does Not Break-Even
- Excessive Cost-To-Production Volume
- Weak Sales Mix
- Unprofitable Profit Centers
- Potential Loss of A Contract
- Product Refinement Generates a Loss

### **Chapter 4: Risk-Return Unbalance**

Potential Problems:

- Disproportionate Risk to Return
- Risk in the Industry
- Risk in Corporate Operations
- Lack of Diversification
- Inflationary Risk
- Political Risk
- Foreign Exchange Risk
- Social and Environmental Risks
- Management Unaware of Financial Potential Problems:

### **Chapter 5: Inability to Finance Weakens Business Development**

Potential Problems:

- Market Price of Stock Falls
- Bond Rating Drops
- Inability to Obtain Financing
- Inability to Issue New Securities
- Dividends Are Restricted
- Restrictive Loan Agreements Are Breached

### **Chapter 6: Business Control Threatened**

Potential Problems:

- Bankruptcy Looms
- Inability to Curb Financial Potential Problems:
- Inability to Repay Debt
- Takeover Threat
- Costs Increase after Acquisition
- Financial Inconsistencies after Acquisition

### **Chapter 7: Cash Flow Disturbances**

Potential Problems:

- Inadequate Cash Position
- Surplus Funds
- Delayed Customer Payments
- Paying Cash Too Soon
- Cash Outflows Exceed Cash Inflows
- Going Broke While Maintaining Profits
- Inefficient Use of Cash

### **Chapter 8: Mess in Accounts Payable and Receivable**

Potential Problems:

- Vendor's Price Increases
- Hidden Discount Costs
- Poor Credit Rating
- Check Fraud and Improper Payments
- Stringent Credit Requirements

### **Chapter 9: Lackluster Financial Statements**

Potential Problems:

- Inadequate Working Capital
- Inadequate Liquidity
- Insolvency
- Excessive Debt

- Off-Balance-Sheet Liabilities
- Deficient Asset Use and Turnover
- Low Rate of Return
- Lack of Residual Income
- High Cash-Realization Risk in Assets
- Poor Profitability and Growth
- Poor-Quality Earnings
- Unstable Operations and Earnings
- Unstable Income
- Low Price/Earnings Ratio

#### **Chapter 10: Costs Out Of Control**

Potential Problems:

- Excessive Labor Costs
- Excessive Operating Leverage
- Inadequate Cost Controls
- Lack of Cost Information
- Distorted Cost Information
- Supplies Increase in Cost or are Unavailable
- Cost Reductions Hamper Development
- Reduced Discretionary Costs Hurt the Business
- Up-Front Costs Impede Project Authorization
- Pricing Lowers Profits

#### **Chapter 11: Budgeting and Cost Control Potential Problems:**

Potential Problems:

- Actual Costs Exceed Budgeted Costs
- Actual Costs Exceed Standard Costs
- Actual Revenue below Standard Revenue
- Inaccurate Sales and Expense Estimates
- Lack of the Right Product at the Right Time
- Poor Use of Production Capacity
- Expansion Exceeds Financial Resources

#### **Chapter 12: Fragile Internal Controls**

Potential Problems:

- Costs Not Closely Tracked
- Assets Not Monitored
- Recordkeeping Errors
- Credit Card Fraud
- Cumbersome Accounting Procedures

#### **Chapter 13: Tax Planning and Preparation**

Potential Problems:

- Incomplete and Inaccurate Tax Recordkeeping
- Underpayment of Taxes
- Double Taxation
- Avoiding Tax on the Transfer of Property
- Incorrect Classification of Employees
- Fringe Benefits Not Recorded As Income
- Excessive Compensation to Employee Shareholders
- Funds Insufficient to Purchase a Deceased Shareholder's Stock