Balance Sheet

- C Failure to submit financial statements in a timely fashion
- C Slowdown in the collection period for receivables
- C Deterioration in customer's cash position
- C Share increases in dollar amounts or percentage of accounts receivable
- C Share increases in dollar amounts or percentage of inventory
- C Slowdown in inventory turnover
- C Decline in current assets as a percentage of total assets
- C Deterioration of the liquidity/working capital position
- C Marked changes in mix of trading assets
- C Rapidly changing concentrations in fixed assets
- C Large increase in reverses
- C Concentrations in noncurrent assets, other than fixed assets
- C High concentration of assets in intangibles
- C Disproportionate increases in current debt
- C Substantial increases in long-term debt
- C Low equity relative to debt
- C Significant changes in the structure of balance sheet
- C Presence of debt due to/from officer/shareholders
- C Qualified audit
- C Change of accountants

Income Statement

- C Declining sales/rapidly expanding sales
- C Major gap between gross and net sales
- C Rising cost percentages/narrowing margins
- C Rising sales and falling profits
- C Rising levels of bad debt losses
- C Disproportionate increases in overhead, relative to sales
- C Rising levels of total assets, relative to sales/profits
- C Operating losses

Receivables Aging

- Extended average age of receivables
- Changes in credit policies
- Extended terms
- Replacement of accounts receivable with notes receivable
- Concentrations of sales
- Compromise of accounts receivable
- Receivables from affiliated companies

Early Management Warning Signals

- Change in behavior/personal habits of key people
- Marital problems
- Change in attitude toward bank or banker, especially a seeming lack of cooperation
- Failure to perform personal obligations
- Changes in management, ownership, or key personnel
- Illness or death of key personnel
- Inability to meet commitments on schedule
- Recurrence of problems presumed to have been solved
- Inability to plan
- Poor financial reporting and controls
- Fragmented functions
- Venturing into acquisitions, new business, new geographic area, or new product line
- Desire and insistence to take business gambles and undue risk
- Unrealistic pricing of goods and services
- Neglect or discontinuance of profitable standard lines
- Delay in reacting to declining markets or economic conditions
- Lack of visible management succession
- One-person operations showing growth patterns that strain the capacity of the owner to manage and control
- Change in business, economy, or industry
- Labor problems
- Change in the nature of the company's business
- Poor financial records and operating controls
- Inefficient layout of plant and equipment

- Poor use of people
- Loss of key product lines, franchises, distribution rights, or sources of supply
- Loss of one or more major, financially secure customers
- Substantial jumps in size of single orders or contracts that would strain existing productive capacity
- Speculative inventory purchases that are out of line with normal purchasing practices
- Poor maintenance of plant and equipment
- Deferred replacement of outmoded or inefficient equipment
- Evidence of stale inventory, large levels of inventory, or inappropriate mix of inventory