

# 3 Vendor Financial Statements to Review

Working with vendors can expose your organization to a variety of risks. Financial risk in particular can be difficult to understand because of the sheer volume of data that may need to be collected and reviewed.



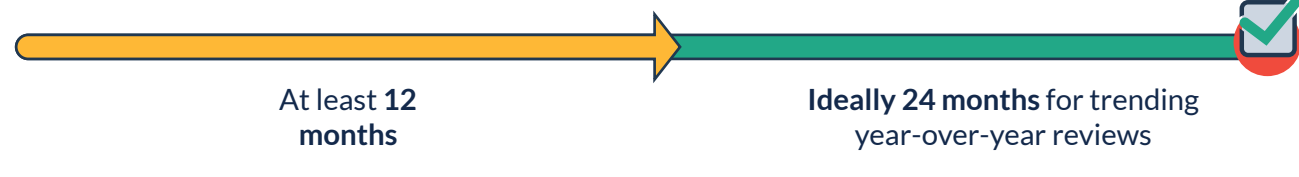
3 vendor financial statements that can give you better insight into the risks you may be facing:

## Income Statement – What is the vendor's financial position over a period of time?

Reviewing a vendor's income statements can reveal trends or patterns in its financial performance that may need more scrutiny. Income statements will ultimately show how the vendor generates revenue (i.e., makes money) and whether the vendor is efficient and sustainable in its operations (i.e., how profitable the vendor is).

Guidelines to use when reviewing an income statement:

How much data to collect:



What to review:



### Revenue

Total revenue, revenue by segment/product



### Profitability

Gross profit, operating profit, net income



### Margins and metrics

Gross profit margin, operating profit margin, net income margin

**Overall value:** An income statement is a good indicator of a vendor's financial performance and ability to generate sufficient revenue and profit through its operations. This information helps lay the foundation that can be bolstered by reviewing other financial documents.

## Balance Sheet – What is the quality of the vendor's finances during a point in time?

A balance sheet will provide a more detailed view on the vendor's financials during a specific point in time. This can be used to support the information found in the financial statements.

Guidelines to use when reviewing a balance sheet:

How much data to collect:



What to review:



### Assets

Cash and cash equivalents, accounts receivable, total current assets, total assets, total goodwill and intangible assets



### Liabilities

Accounts payable, accrued liabilities, current and total debt, total current liabilities, deferred revenue, total liabilities



### Ratios and other metrics

Retained earnings, current ratio (current assets divided by current liabilities), total net worth, total tangible net worth

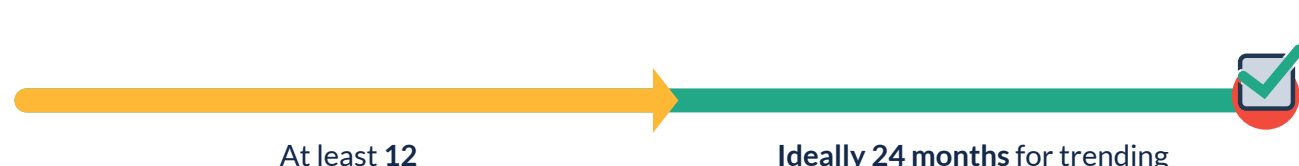
**Overall value:** A vendor's balance sheet will reveal key items, such as liquidity and whether a vendor has adequate assets to cover its liabilities and obligations. If a vendor has too much debt or liabilities and insufficient cash/assets, it may require new capital infusions to sustain its operations.

## Cash Flow Statement – Does the vendor generate cash through its business operations or rely on external sources of cash to fund operations?

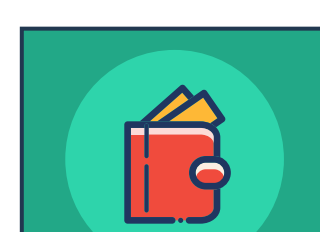
A cash flow statement will provide more context into where the vendor's cash is coming from and where it is being used in different areas of business.

Guidelines to use when reviewing a cash flow statement:

How much data to collect:

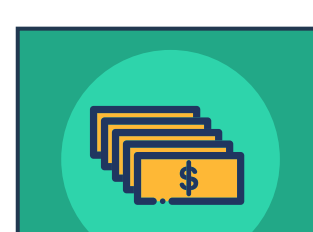


What to review:



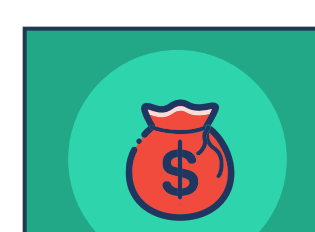
### Operating activities

Cash generated from or used in day-to-day operations



### Investing activities

Cash generated from or used in investing activities (such as investing in capital expenditures or mergers and acquisitions)



### Financing activities

Cash generated from or used by any equity or debt financing activities

**Overall value:** Reviewing a cash flow statement provides insight into a vendor's ability to generate (or inability to generate) cash across its internal and external activities. This statement provides key insight into the sustainability of a vendor's operating profile and also its ability to access external funding to sustain operations.



Remember that no single financial statement will provide a full picture of a vendor's financial health. **All three of these statements should be analyzed together to better understand the financial risks posed to your organization.**



Download a free sample vendor financial health assessment and see how Venminder can help reduce your third-party risk management workload.

[DOWNLOAD NOW](#)

[PRINTABLE VERSION](#)

**venminder**

Manage Vendors. Mitigate Risk. Reduce Workload.

Copyright © 2022 by Venminder, Inc.

+1 (888) 836-6463 | [venminder.com](https://venminder.com)