

STEP 1 · POSITION INFORMATION

Company Name / Ticker	
10-K Filing Period (FY_____) <i>Annual report year used for this diagnostic</i>	
Position Size (\$)	
Time Horizon (years)	

STEP 2 · FIVE-SIGNAL ACCRUAL-QUALITY DIAGNOSTIC

#	Signal + What to Measure	Healthy	Warning	PASS?
1	Revenue Growth vs. OCF Growth <i>YoY % — income stmt vs cash flow stmt</i>	✓ OCF growth \geq revenue growth	■ OCF trails revenue 2+ quarters	
2	AR Growth vs. Revenue Growth <i>YoY % — balance sheet vs income stmt</i>	✓ AR growth \leq revenue growth	■ AR grows faster by 5%+	
3	DSO Trend <i>(AR \div Revenue) \times 365 — compare YoY</i>	✓ Stable or declining	■ Rising 10%+ year-over-year	
4	Deferred Revenue Direction <i>YoY change in contract liabilities</i>	✓ Growing with revenue	■ Declining while revenue rises	
5	Allowance-to-AR Ratio <i>Allowance \div Gross AR — notes to financials</i>	✓ Stable or rising with AR	■ Declining while AR grows	

Sources: Sloan (1996) TAR · Richardson et al. (2005) JAE · Nissim (2022) · ASC 606 · Mulford EQI

STEP 3 · KEY CALCULATIONS (from 10-K)

Revenue — This Year (\$) <i>Income statement, top line</i>	
Revenue — Prior Year (\$) <i>Income statement, prior period</i>	
Revenue YoY Growth % <i>(This – Prior) \div Prior \times 100</i>	

Operating Cash Flow — This Year (\$) <i>Cash flow statement, operating activities</i>	
OCF YoY Growth % <i>(This – Prior) ÷ Prior × 100</i>	
Accounts Receivable — This Year (\$) <i>Balance sheet, net AR</i>	
AR YoY Growth % <i>(This – Prior) ÷ Prior × 100</i>	
DSO (days) <i>(AR ÷ Revenue) × 365</i>	
Deferred Revenue / Contract Liabilities (\$) <i>Balance sheet, liabilities section</i>	
Allowance for Doubtful Accounts (\$) <i>Notes to financial statements</i>	
Allowance-to-AR Ratio % <i>Allowance ÷ Gross AR × 100</i>	

STEP 4 · COMPOUND REPRICING COST

<p>Path A (Cash-Confirmed): $FV = \text{Position} \times (1 + r)^t$</p> <p>Path B (Accrual-Inflated): $FV = \text{Position} \times (1 - \text{Repricing}\%) \times (1 + r)^t$</p> <p>30-Year Gap: Path A FV – Path B FV</p>
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Position Size (\$)	
Expected Annual Return (%) <i>Default: 7.0%</i>	
Time Horizon (years) <i>Default: 30</i>	
Repricing % (DELTA-NOA) <i>Default: 18.0% — Richardson et al. (2005)</i>	

Path A Terminal Value (\$)	Path B Terminal Value (\$)	30-Year Gap (\$)
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STEP 5 · DIAGNOSTIC VERDICT

Signals passed (out of 5):		Action:	
5 / 5 PASS	All signals clear. Position passes accrual-quality screen. Proceed with allocation.		
3–4 / 5 WATCH	Partial risk. Monitor closely next quarter. Do not add capital until resolved.		

0-2 / 5 RISK

High accrual risk. Defer position or reduce size. Re-run after next 10-K filing.

NOTES