



## Here's Why You Should Probably Avoid Badger Daylighting Ltd.

### Description

**Badger Daylighting Ltd.** (TSX:BAD) is one of Mr. Cohodes's shorts that I'm not sold on. Shares of BAD recently soared 13% following improved results, but Mr. Cohodes is still extremely bearish on the company and its accounting practices, claiming that the company is "...counting revenues they don't even have invoices for" and that Badger reported \$60 million in non-cash revenue, approximately half of Badger's quarterly revenues, as "trade receivables" in the single month of June. Badger CEO Paul Vanderberg responded by stating that the company had a "right to claim this revenue for non-invoiced work."

What does this all mean?

For the average investor, the details behind the matter sound intricate or overwhelming, especially if you're not familiar with accrual accounting and the specific rules for revenue recognition. Accrued revenue is revenue recognized before cash is received and is not considered fraud as long as the proper conditions are met. Intentionally overstating revenue is fraud, but has Badger actually done such?

Revenue recognition can occur independently of cash movements, according to IFRS (international financial reporting standards), as long as the amount of revenues can be reliably measured, costs incurred can be reliably measured, economic benefits flow to the client, and the stage of completion of the transaction at the balance sheet date can be measured reliably.

While companies are allowed some freedom in the accounting process, the problem is that Badger reported \$9 million in revenues without an invoice, which ensures the terms to a transaction are agreed upon and serve as evidence that the prices for services rendered are "reliable."

Reliability is a subjective term, and Mr. Cohodes as well as other skeptics are demanding answers to Badger's strange accounting procedures which may not align with IFRS. Why didn't Badger issue invoices to clients? It definitely sounds like something's being covered up.

Is it incompetence or intentional fraud? Either way, I'm not a big fan of Badger, even after its top-notch quarter. I wouldn't short Badger either since shares could possibly rally if it turns out Badger isn't

actually performing fraudulent activities. The safe bet would be to just to avoid the stock completely because of the incredible amount of risk brought forth by accusations of fraud.

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1. Investing

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1. Investing

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## Author

joefrenette

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