

### Financial Statements

Written records

Convey:

1. Business activity
2. Financial Performance

Audited by govt agencies, accountants, firms, etc. to ensure accuracy and for tax, financing, or investing purposes

#### Primary financial statements:

1. Balance Sheet
2. Income Statement
3. Statement of Cash Flow
4. Statement of Changes in Equity

#### Understanding Financial Statements

Investors/financial analysts rely on financial data to:

1. Analyze performance
2. Make predictions about the future directions of the company's stock price

Annual report (includes financial statements) - reliable and audited financial data source

Used by investors, market analysts, creditors, to evaluate:

1. Financial health
2. Earnings potential

### The Bottom Line

Financial statements are the ticket to external evaluation of a company's financial performance. The balance sheet reports a company's financial health through its liquidity and solvency, while the income statement reports a company's profitability. A statement of cash flow tie these two together by tracking sources and uses of cash. Together, financial statements communicate how a company is doing over time and against its competitors.

### Balance Sheet

Provides overview of assets, liabilities, and shareholders' equity as a snapshot in time (generally the end of the reporting period).

#### Assets

Cash and cash equivalents  
 Accounts receivable (A/R)  
 Inventory  
 Prepaid Expenses  
 Property, plant, and equipment (PPE)  
 Investments

### Balance Sheet (cont)

Trademarks, patents, goodwill, and other intangible assets

#### Liabilities

Accounts payable (A/P)  
 Wages payable  
 Notes payable (N/P)  
 Dividends  
 Long-term debt

#### Shareholders' Equity

Represents the amount of money that would be returned to shareholders if all of the assets were liquidated and all of the company's debt was paid off.  
 Retained earnings

### Cash Flow Statement

Measures how well a company generates cash to pay debt obligations, fund operating expenses and investments

Illustrates operations, cash inflows/outflows

Reconciles the income statement w/ the balance sheet in three major business activities

#### Operating Activities

Any sources and uses of cash from running the business and selling products/services

Can include any changes made in cash accounts receivable, depreciation, inventory, and accounts payable

Also includes wages, income tax payments, rent, cash receipts of product/service sales

#### Investing Activities

Any sources and uses from a company's investments in the long-term future

Purchase/sale of asset

Loans made to vendors or received from customers

Any payments related to merger/acquisition

Also, purchases of fixed assets (PPE)

#### Financing Activities

Sources of cash from investors or banks, uses of cash paid to shareholders

Can include debt issuance, equity issuance, stock repurchases, loans, dividends paid, and repayments of debt



### Income Statement

Covers a range of time  
Provides overview of revenues, expenses, net income, and earnings per share

Conveys:

1. Details of profitability
2. Financial results of business activities

Also illustrates how well a company's management is controlling expenses

#### Revenue

Operating revenue (generated from the core business activities)

Non-operating revenue (generated from the non-core business activities)

Other income (revenue earned from other activities), can include gains from sale of long-term assets

#### Expenses

Costs of goods sold (COGS)

Selling, general and administrative expenses (SG&A)

Depreciation/Amortization

Research and development (R&D)

Employee wages

Sales commissions

Utilities

Interest on loans or debt

Losses from sale of asset

### Statement of Comprehensive Income

Summarizes standard net income while also incorporating changes in other comprehensive income (OCI)

OCI includes all unrealized gains and losses not reported on the income statement

illustrates total change in income, even gains and losses that have yet to be recorded in accordance to accounting rules

Can include: net income (from income statement), unrealized gains or losses from debt securities or derivative instruments or retirement programs, unrealized translation adjustments due to foreign currency

### Statement of Changes in Shareholder Equity

Tracks total equity over time

The ending balance in statement of changes in shareholder equity is equal to the total equity reported on the balance sheet

**Beginning equity:** equity at the end of last period that simply rolls to the start of the next period

**(+) Net income:** amount of income earned in a given period. The proceeds from operations are automatically recognized as equity in the company, and this income is rolled into retained earnings at year-end

**(-) Dividends:** amount of money that is paid out to shareholders from profits. Instead of keeping all of a company's profits, the company may choose to give some profits away to investors

**(+/-) Other comprehensive income:** the period-over-period change in other comprehensive income. Depending on transactions, this figure may be an addition or subtraction from equity

