

Understanding Financial Statements

UTRF Seminar Series

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Understanding Financial Statements

Four That Really Matter:

<i>Balance Sheet</i>	What's <u>owned</u> and <u>owed</u> at a point in time
<i>Income Statement</i>	Money <u>made</u> and <u>spent</u> over time
<i>Cash Flow Statement</i>	Exchange of money between a company and the outside world over time
<i>Statement of Shareholders' Equity</i>	Changes in the interests of the company's shareholders over time

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Balance Sheet Review – Only 3 Sections

<i>Assets</i>	Things a company owns that have value	Tangible & intangible; current and non-current
<i>Liabilities</i>	Money or value a company owes to others	Includes obligations to provide goods and services; current and non-current
<i>Shareholder Equity</i>	Money left if company sold all assets and paid all liabilities; belongs to shareholders	Also called “capital” or “net worth”; represents investments made in stock +/- earnings over time

Remember – a “snapshot in time”

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“Typical” Balance Sheet

ASSETS	LIABILITIES
Cash	Accts Payable
Accts Receivable	Billings > Earnings
Inventory	Short-Term Debt
Earnings > Billings	Total Current Liabilities
Total Current Assets	Long-Term Debt (Bonds)
	TOTAL LIABILITIES
Fixed Assets	
Less: Depreciation	
Total Long-Term Assets	
	EQUITY
	Stock
	Retained Earnings
TOTAL ASSETS	TOTAL LIAB & EQUITY

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Balance Sheet Nuances Abound!

Assets

- Current
- Long-Term

Total Assets

Liabilities

- Current
- Long-Term
- Stockholder Equity

Total Liab & Equity

- Moment in time, not period
- Cost vs. Value (*judgment*)
 - Historical Cost
 - Current Market Value

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Income Statement – A “Matching Concept”

- Matches revenue with costs associated with earning that revenue
- Revenues and costs are “accrued” to accomplish this matching
 - Customers may not have paid yet
 - Vendors/contractors may not have been paid yet
- Revenue is recognized when earned, not always when collected
- Expenses are recognized when incurred, not always when paid

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“Typical” Income Statement

Revenue (*or Sales*)

– Cost of Sales (*COGS*)

= Gross Profit (*Gross Margin*)

– SG&A (*GASE*)

= Income from Operations

– Income Tax & Interest

= Net Profit (*Net Margin*)

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Income Statement Nuances Abound

Revenue

- Cost of Sales
- = Gross Profit
- SG&A
- = Income from Ops
- Tax & Interest
- = Net Profit

- “For the Period”, not “As Of”
- Revenues can be:
 - Collected or accrued
- Expenses can be:
 - Direct or indirect
 - Cash or non-cash
 - Paid or accrued

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“Typical” Cash Flow Statement

Beginning Cash

+ / – Cash from Operating Activities

+ / – Cash from Investing Activities

+ / – Cash from Financing Activities

= Ending Cash

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Cash Flow Statement Nuances Abound!

Beginning Cash
+/- Cash from Ops
+/- Cash from Investing
+/- Cash from Financing
= Ending Cash

- “For the Period”, not “As of”
- Must adjust other statement balances for:
 - Depreciation & other non-cash expenses
 - Changes in balance sheet assets & liabilities
 - Sales & purchases of stock

Understanding Financial Statements

How Do We Understand the Nuances?

- Footnotes – packed with information!
- Management's Discussion and Analysis (MD&A)
 - Management's opportunity to tell users what the FS show and do not show
 - Trends & risks affecting the past & future
 - Required disclosure by SEC for anything material
 - Intended to help users see the company through the eyes of management