

CHAPTER 3 FINANCIAL STATEMENTS, CASH FLOW □ BALANCE SHEET □ INCOME STATEMENT □ RETAINED EARNINGS □ STATEMENT OF CASH FLOWS □ FREE CASH FLOWS (FCF) 2-2 THE ANNUAL REPORT • Balance sheet – provides a snapshot of a firm's financial position at one point in time. (assets= liabilities + equity) • Income statement – summarizes a firm's revenues and expenses over a given period of time. • Statement of retained earnings – shows how much of the firm's earnings were retained, rather than paid out as dividends. • Statement of cash flows – reports the impact of a firm's activities on cash flows over a given period of time.

2-3 BALANCE SHEET Assets 2022 Liabilities 2022 Cash on hand 150,000 Account payables 80,000 Account receivables 100,000 Notes payables 70,000 Ending inventories 50,000 Accruals 50,000 Current assets 300,000 Current liabilities 200,000 Net fixed assets 700,000 Long term debts (LTD) 300,000 Total assets 1,000,000 Total liabilities 500,000 Paid in capital 100,000 Common stock 300,000 Retained earnings 100,000 Total equity 500,000 DEPRECIATION: THE USED UP OF TANGIBLE ASSETS BY USING SLM AMORTIZATION: THE USED UP OF INTANGIBLES ASSETS (COPY RIGHTS, BRANDS) FINANCIAL RESOURCES: LTD + CS + RE + PAID IN CAPITAL TOTAL CURRENT ASSETS = WORKING CAPITAL NET WORKING CAPITAL = CURRENT ASSETS – CURRENT LIABILITIES = 350,000 – 200,000 = 150,000 2-4 BALANCE SHEET: ASSETS Cash Account receivables End Inventories Current assets Gross FA Less: Dep. Net FA Total Assets 2009 7,282 632,160 1,287,360 1,926,802 1,202,950 263,160 939,790 2,866,592 2010 85,632 878,000 1,716,480 2,680,112 1,197,160 380,120 817,040 3,497,152 2-5 BALANCE SHEET: LIABILITIES AND EQUITY Accts payable Notes payable Accruals Total CL Long-term debt Common stock Retained earnings Total Equity Total L & E 2010 436,800 300,000 408,000 1,144,800 400,000 1,721,176 231,176 1,952,352 3,497,152 2009 524,160 636,808 489,600 1,650,568 723,432 460,000 32,592 492,592 2,866,592 2-6 ASSETS = LIABILITIES + TOTAL EQUITY Assets: Current assets (CA) + net fixed assets (NFA) CA = Cash + Account receivables + Ending inventories Liabilities: Current liabilities (CL) + Long term debts (LTD) CL: Accounts payables + Notes payables + accruals Total owners equity : Common stock + Preferred stocks + retained earnings Example: assume ABC company has the following financial data: Total assets = LTD + A/P+ Common stock+ Retained earnings = 500,000+300,000+ 600,000+ 300,000 = 1,700,000 Total assets = CA + Net fixed assets = 1,700,000 – 1200,000 = 500,000 Item Value Current assets 1200000 Long term debts 500000 Accounts payable 300,000 Common stocks 600,000 Retained earnings 300,000 2-7 INCOME STATEMENT Items 2022 Sales revenues 4,000,000 Operating costs 2,000,000 EBITDA 2,000,000 D+A (non cash expenses) 100,000 EBIT (operating income) 1,900,000 I (interest expenses) 200,000 EBT (Earning before tax) 1,700,000 T (30%) taxable income 510,000 Net income 1,190,000 EBITDA = EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND AMORTIZATION NET INCOME = EBT*(1-T) = 1700,000* (1-30%) = 1,190,000 2-8 Dividends ratio = 60% Dividends = Net income* Ratio = 1,190,000 * 60% = 714,000 Retention ratio = 40% Retained earnings = 40% = 476,000 Net income = Dividends + Retained earnings = 714,000 + 476,000 = 1,190,000 2-9 INCOME STATEMENT Sales COGS Other expenses EBITDA Depr. & Amort. EBIT Interest Exp. EBT Taxes Net income 2010 7,035,600 5,875,992 550,000 609,608 116,960 492,648 70,008 422,640 169,056 253,584 2009 6,034,000 5,528,000 519,988 (13,988) 116,960 (130,948) 136,012 (266,960) (106,784) (373744)

2-10 INCOME STATEMENT 2022 2021 Sales revenues 2,000,000 1,500,000 Cost of good sold
 1,700,000 1,300,000 Selling and administrative 100,000 50,000 EBITDA 200,000 150,000 D+A 20,000
 20,000 EBIT) Operating income) 180,000 130,000 Interest expense (I) 30,000 25,000 EBT 150,000
 105,000 Tax (20%) 30,000 21,000 Net income 120,000 84,000 EARNING BEFORE INTEREST, TAX,
 DEPRECIATION, AMORTIZATION (EBITDA)