Company Financial Statements
QuickSheet[1]

A firm's financial statements aid managers in running efficient and effective businesses

1. Balance Sheet

a. Snapshot of the firm's assets & liabilities at a point in time

b. Assets – what the firm owns

i. Current – one year or less expected utility

1. Convertible to cash in relatively short period of time - value at conversion is "known"
2. Examples:
   i. Cash and securities
   ii. Inventory
   iii. Accounts receivable

ii. Fixed (Long-Term) – greater than one year expected utility

a. Convertible to cash in relatively long period of time - value at which conversion takes places is uncertain and subject to market forces

2. Subject to depreciation or amortization

a. Depreciation is the reduction of a tangible asset's value as the result of wear & tear, obsolescence of other depletion of value over time

b. Amortization is the reduction of an intangible asset's value over time

3. Can be separable based on how they're used by the firm

a. Operating – essential to the firm's operations and revenue generation

b. Non-Operating – not a part of the firm's operations, but may still generate non-operating revenue

c. Liabilities – what the firm owes

1. Current – one year or less expected duration - rarely includes interest expense

a. Accounts payable – amounts owed to the firm's suppliers for which invoices have been received

b. Wages payable – amounts owed to firm's employees after end of pay period but not yet paid

c. Taxes payable – known tax amounts not yet paid

d. Accrued liabilities – amounts owed to others but for which formal accounting processes have not been completed (payroll note run, invoices not received, etc)

2. Fixed (Long-Term) – greater than one year expected utility - routinely includes interest expense

a. Examples include
   i. Mortgages
   ii. Credit lines
   iii. Bonds
   iv. Bank Loans

d. Owners Equity – the firm's net worth

i. Paid in capital amounts received by the firm at time it sold common and/or preferred stock

1. Subsequent market transactions do not effect original paid in capital amounts

ii. Accumulated Retained Earnings

1. Accumulated annual profits reinvested in the firm
2. Changes each year as the Retained Earnings amount from the current year is added to those of all prior years

e. Assets = Liabilities + Owners Equity

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[1] This information set was provided by Richard Haskell, PhD, Associate Professor of Finance, Bill and Vieve Gore School of Business, Westminster College, Salt Lake City, Utah (2020), rhaskell@westminstercollege.edu.

2. Income Statement (aka Profit & Loss or P&L)

a. Statement of revenues (incomes) and expenses (costs) covering a set period of time coinciding with firm reporting requirements

b. Fiscal or annual

1. Month, quarter, year

ii. Order of entries

1. Total Revenues = all firm revenues earned
2. Net Revenues = Total Revenues less discounts and returns
3. Gross Income (aka Gross Margin)= Net Revenues less Cost of Goods Sold (COGS)
4. Operating Expenses = all required expense in support of the operation
   i. Examples include salaries, administration, sales & marketing, leases & rents, utilities, etc.
   ii. Includes Depreciation and Amortization of Operating Assets
5. Operating Income = Gross Margin less Operating Expenses
   i. Aka Earnings Before Interest and Taxes (EBIT)

b. Non-Operating Expenses
   i. Examples include Interest and other expenses in support of a firm's non-operating activities

6. Taxable income = Operating Income less Non-Operating Expenses
7. Taxes Paid
   i. Examples include Federal Income Tax, State Income Tax, adjustments for tax credits, etc
8. Net Income = Taxable Income less Taxes Paid
9. Distribution of Earnings
   i. Includes Dividends paid to common and preferred shareholders and other shareholder/owner distributions
10. Retained Earnings = Net Income less Distributed Earnings
   i. Transferred to balance sheet as an increase in Accumulated Retained Earnings

3. Cash Flow Statement

a. Covering a set period of time coinciding with firm reporting requirements

b. Operating Income

i. Operating income is the same as EBIT and is referenced from the Income Statement

c. Additions (subtractions) to Cash

i. Depreciation and Amortization are non-cash expenses and must be added to EBIT

ii. Changes in various Accounts Payable and Accrued Liabilities are additions to cash if positive (increases) as they represent expenses the firm has yet to pay.

d. Subtractions (additions) to Cash

i. Taxes Paid represent a decrease to cash flow when paid as they consume available cash and may not be easily avoidable below a certain level

ii. Changes in Accounts Receivables, if positive (increases) represent a reduction of cash as the firm has increased the amount not collected from customers though sales have been made. This is the result of extending credit terms to customers.

iii. Changes in Inventory, if positive (increase in inventory) represent deductions to a firm's cash as inventory must eventually be paid for out of a firm's cash resources.

e. Net Cash from Operations

i. If positive, is an increase to a firm's cash flow.

ii. Synonymous with Operating Cash Flow (OCF = EBIT + Dep&Am – Taxes Paid)

f. Cash Flow from Investing

i. If positive (increase in a firm's capital investment) represents a decrease in a firm's cash flow. This is synonymous with Net Capital Spending (NCS = $FA_1 - FA_0$ + Dep& Am)

g. Cash Flow from Financing
   i. If positive (increase in net financing from debt & equity) represents an increase in a firm's cash flow
   ii. Change in Long-Term Debt (LTD) and Interest Paid – this is also referred to as Cash Flow to Creditors (CF_{CR})
      1. Change in Long-Term Debt (LTD), if positive (increase in borrowing) represents an increase in a firm's cash flow through borrowing.
         i. This can be calculated as $LTD_1 - LTD_0$ as indicated on the firm's balance sheet.
         ii. LTD for any given period is measured as the sum of the firm's capital borrowing.
         iii. This includes long-term debt only and does NOT include current liabilities (accounts payable, accrued liabilities, etc.)
      2. Interest Paid – this is the sum of interest paid to the firm's debt holders and can be found on the firm's income statement under non-operating expenses. As the firm pays interest on debt it uses cash resources to do so and decreases the firm's available cash.
   iii. Change in Capital Stock (Common & Preferred) and Dividends Paid – this is also referred to as Cash Flow to Shareholders (CF_{CR})
      1. Change in Capital Stock (Common & Preferred), if positive (increase in paid in capital for common and preferred shares)
         i. This is calculated through values on the Balance Sheet as ($Common_1 - Common_0$) + ($Preferred_1 - Preferred_0$).
         ii. The values of Common and Preferred being the "paid in capital" the firm receives from those entities and individuals that purchase shares of stock from the firm itself.
         iii. This does NOT include market transactions in which investors buy and sell the firm's share in the open market.
      2. Dividends Paid – this is the sum of all dividends paid to common and preferred shareholders as most often noted at the very end of the firm's Income Statement under distribution of earnings. As the firm pays dividends to shareholders it uses cash resources to do so and decreases the firm's available cash.

h. Net Cash from Investing is the sum of Cash Flow to Creditors and Cash Flow to Shareholders

i. Net Cash Flow is the change in the firm's cash as reflected by the instruments discussed above. It is the same as the change in the firm's cash balances as indicated on the firm's Balance Sheet

j. Beginning Cash Balance – the sum of the firm's cash resources as stated on the firm's Balance Sheet as of the beginning of the assessed time frames

k. Ending Cash Balance - the sum of the firm's cash resources as stated on the firm's Balance Sheet as of the end of the assessed time frames

l. Variance – Net Cash Flow less the change in the firm's Cash balances as noted on the Balance Sheet. This is a check digit and serves to confirm all of the other accounting details have been correctly entered from the Income Statement and Balance Sheet.

4. Other Financial Statements (not detailed in this QuickSheet)
   i. Change in Financial Condition
   ii. Statement of Changes in Equity
5. Accounting Periods
   i. Typically month, quarter or annual
   ii. Fiscal versus Calendar
      1. Calendar Period is an accounting period that follows traditional calendar structures
      2. Fiscal Year/Period is an accounting year or period arbitrarily adopted by the firm
6. Financial Oversite

i. FASB – Financial Accounting & Standards Board: federal agency governing acceptable accounting and financial communications protocols
ii. GAPP – Generally Accepted Accounting Principles: those accounting protocols acceptable to use when communicating a firm's financial to the public and/or IRS; meets FASB guidelines
iii. Tax Accounting Rule: those accounting protocols required by the IRS when accounting for taxable income and income taxes; falls within the context of GAPP
iv. Firms must comply with GAPP when communicating financials to the public
v. All IRS accounting standards fall within GAPP but not all GAPP protocols are allowable by the IRS

NMM
Balance Sheet
as of December 31

	2018	2019		2018	2019
Current Assets			Current Liabilitites		
Cash	213,960	463,850	Accounts Payable	437,313	386,242
Accounts Receivable	651,552	768,318	Wages Payable	38,125	46,238
Inventory	621,807	726,630	Accrued Liabilties	89,544	91,505
Total Current Assets	**1,487,319**	**1,958,798**	Total Current Liabilities	**564,982**	**523,985**
Fixed Operating Assets			Long-Term Debt		
Buildings	722,862	757,328	Mortgages (interest only)	271,700	271,700
Equipment	378,000	447,499	Credit Line	99,022	99,916
Minority Interest	326,500	326,500	Bonds	628,000	628,000
Patents Held	231,504	208,353	Total Long-Term Debt	**998,722**	**999,616**
Technology	250,000	600,000			
Total Fixed Op Assets	**1,908,866**	**2,339,680**	Owners Equity		
			Common Stock	500,000	500,000
			Preferred Stock	200,000	200,000
			Accumulated Retained Earnings	1,132,481	2,074,877
			Total Owners Equity	**1,832,481**	**2,774,877**
Total Assets	**3,396,185**	**4,298,478**	Total Liabilities & Owners Equity	**3,396,185**	**4,298,478**
	-	-			

NMM
Income Statement
January 1 - December 31, 2019

Revenue	
Products	7,535,221
Royalties	62,450
Services	2,152,025
Total Revenue	**9,749,696**
COGS - Cost of Goods Sold	
Raw Materials	3,681,004
Production Labor	1,578,076
Total COGS	**5,259,080**
Gross Income	**4,490,616**
Operating Expenses	
Admin & Management	1,052,873
Ammortization	23,151
Depreciation	145,734
Rents, Leases & Maintenance	389,225
Sales & Marketing	1,453,894
Total Expenses	**3,064,877**
Operating Income	**1,425,739**
Non-Operating Expense	
Credit Line Interest Expense	44,579
Mortgage Interest Expense	11,412
Bond Interest Expense	35,001
Total Non-Operating Expense	**90,992**
Pre-Tax Income	**1,334,747**
Taxes Paid	347,034
Net Income	**987,713**
Distribution of Earnings	
Dividends (Common)	25,317
Dividends (preferred)	20,000
Retained Earnings	**942,396**

Cash Flow Statement
January 1 - December 31, 2019

Operating Income		1,425,739	**Net Cash From Operations**	985,004
Additions (Subtractions) to Cash			**Cash Flow from Investing**	
Depreciation		145,734	Purchase of Capital Assets (NCS)	(599,699)
Amortization		23,151	**Cash Flow from Financing**	
Δ Accounts Payable		(51,071)	Δ Long-Term Debt	894
Δ Wages Payable		8,113	Interest Paid (-)	(90,992)
Δ Accrued Liabilities		1,961	Δ Capital Stock (Common & Preferred)	-
Sub-Total Additions to Cash		**127,888**	Dividends Paid (-)	(45,317)
Subtractions from Cash			**Cash From Investing**	**(735,114)**
Taxes Paid	347,034		**Net Cash Flow**	**249,890**
Δ Accounts Receivable	116,766			
Δ Inventory	104,823		**Beginning Cash Balance**	213,960
Sub-Total Subtractions from Cash		**(568,623)**	**Ending Cash Balance**	463,850
Net Cash From Operations		**985,004**	**Variance**	-

Sample Balance Sheet, Income Statement and Cash Flow Statement – NMM, LLC[2]

[2] While NMM, LLC is an actual firm incorporated in the state of Utah, the figures shown are not an accurate representation of the firm's financial condition and are for illustrative purposes only.