

Workshop I: Financial Accounting

Dina Model

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SEC Regulations

- GAAP – FASB
- Filings
 - Annual filings – 10K
 - Quarterly filings – 10Q
 - Major events – 8K
- Three kinds of financial statements
 - Balance sheet
 - Income statement
 - Statement of cash flows

The Balance Sheet

- Financial position at a moment in time
- Master Equation
 - $\text{Assets} = \text{Liabilities} + \text{Shareholders Equity}$
- Assets – anything of value, both current and future, that the company owns
- Liabilities – anything it owes to others
- Equity – anything that is owed

Sample – Balance Sheet as of 12/31/08

Assets:

Cash	50
Accounts Receivable	15
Inventory	15
PPE	<u>20</u>
<i>Total Assets</i>	100

Liabilities

Accounts Payable	50
Long Term Debt	10

Equity

Common Stock	<u>40</u>
<i>Total L + E</i>	100

Income Statement

- Shows revenues and expenses over a period of time
- Revenues – amount of money company gets from selling its products
- Expenses – costs of a company to earn revenue
 - COGS
 - SG&A
 - Depreciation

Sample – Income Statement for the Year Ended 12/31/08

Revenue	1,000
COGS	<u>500</u>
Gross Profit	500
Depreciation Expense	20
SG&A	<u>30</u>
Operating Income/EBIT	450
Interest Expense	<u>50</u>
Income Before Taxes	400
Taxes	<u>100</u>
Net Income	300

Cash vs Accrual Accounting

- Income earned over a period does not necessarily reflect the cash received
- Example: Company sells \$50 on credit and \$100 in cash during the first year. The firm recognizes \$150 of revenues but only receives \$100 in cash.
 - Cash based accounting = \$100
 - Accrual based accounting = \$150
- Depreciation expense

Statement of Cash Flows

- Can be constructed from balance sheet and income statement
- Cash flow from operations – movement of cash from everyday business transactions
- Cash flow from investing – cash changes in long term and fixed asset purchases
- Cash flow from financing – cash movement from raising capital from debt, equity, or other exotic means

CASH IS KING!!!

Sample – CF for the Year Ended 12/31/08

CF From Operations

Net Income	300
Depreciation	20
Increase in A/R	(5)
Decrease in A/P	<u>(10)</u>
Net Cash from Operating	305

CF From Investing

Purchase of PPE	(500)
Sale of PPE	<u>100</u>
Net Cash from Investing	(400)

CF From Financing

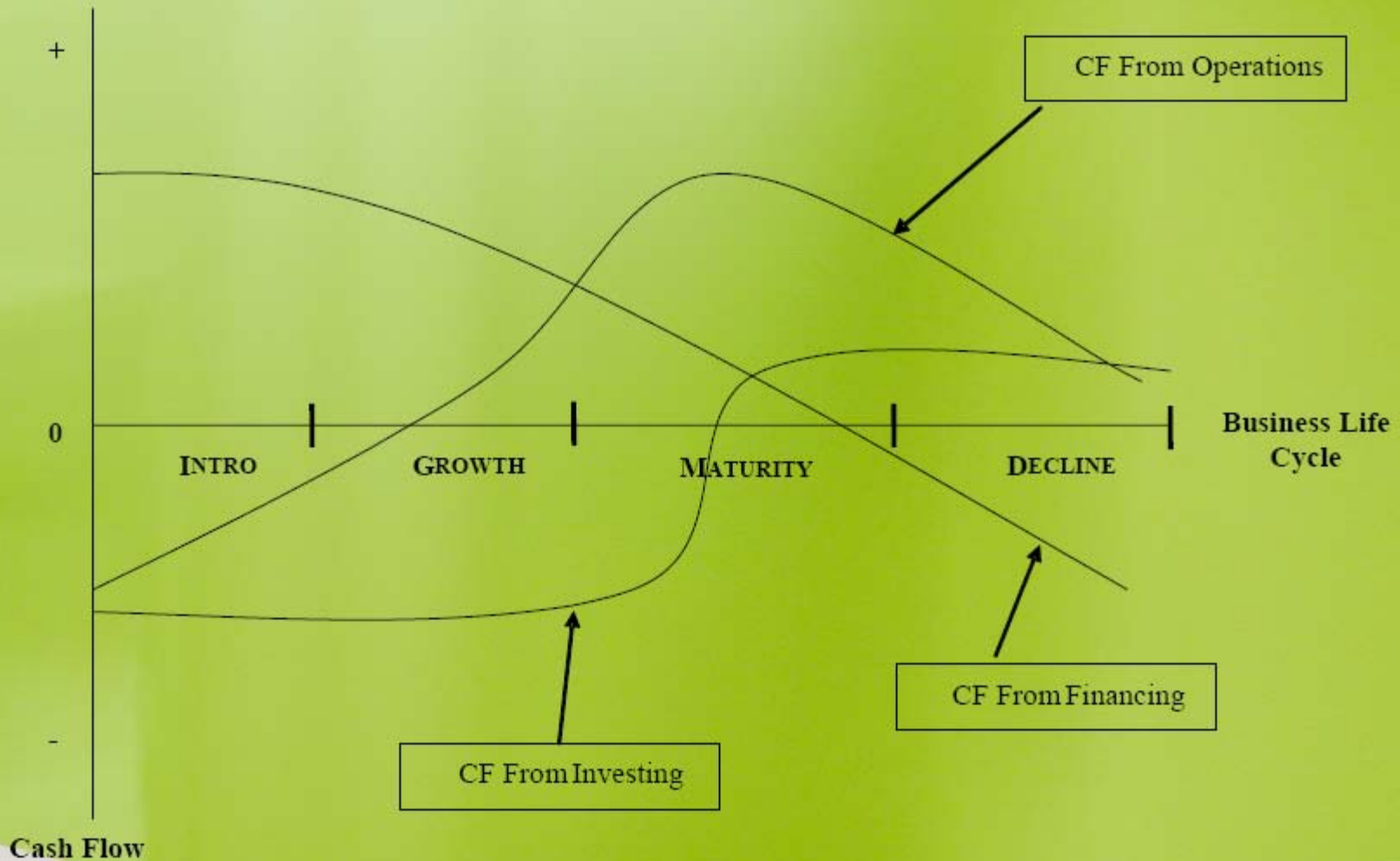
Borrowing from Banks	<u>100</u>
Net Cash from Financing	100

Net Increase (Decrease) in Cash **5**

Quick Tips When Looking at CFS

- Quality of income – compare NI with CFO, the closer they are, the higher quality of their earnings
- Is CFO high enough to cover CFI?
- Is CFO positive?
- What phase of the business cycle is the company in?

Business Cycles



Questions?