

# Financial Analysis Orientation: Financial Statements

## Financial Statements

### The Annual Report and Form 10-K

- Balance Sheet
- Income Statement
- Statement of Cash Flows
- Statement of Stockholders' Equity

### EDGAR

- [www.sec.gov](http://www.sec.gov)

## Things to Keep in Mind

- Backward Looking vs. Forward Looking
- Book Values vs. Market Values
- Accounting Numbers vs. Cash Flows
- Tax Deductible vs. Taxable
- Notes to Financial Statements

## The Balance Sheet

The Balance Sheet Identity:

Liquidity

Financial Analysis Orientation:  
Financial Statements

Yost Rocks, Inc. Balance Sheet December 31, 2018 and 2017 (In \$millions)					
Assets	2018	2017	Liabilities (Debt) and Stockholder's Equity	2018	2017
Current Assets:			Current Liabilities:		
Cash and Equivalents	\$140	\$107	Accounts Payable	\$213	\$197
Accounts Receivable	294	270	Notes Payable	50	53
Inventories	269	280	Accrued Expenses	223	205
Other	58	50	Total Current Liabilities	\$486	\$455
Total Current Assets	\$761	\$707	Long-Term Liabilities:		
Fixed assets:			Deferred Taxes	\$117	\$104
Property, Plant, Equipment	\$1,423	\$1,274	Long-Term Debt	471	458
Less Accumulated Depreciation	(550)	(460)	Long-Term Liabilities	\$588	\$562
Net Property, Plant, Equipment	873	814	Stockholder's Equity:		
Intangible assets and other	245	221	Preferred Stock	\$39	\$39
Total Fixed Assets	\$1,118	\$1,035	Common stock (\$1 per value)	55	32
Total Assets			Capital surplus	347	327
			Accumulated Retained Earnings	390	347
			Less Treasury Stock	(26)	(20)
			Total Equity	\$805	\$725
			Total Liabilities and Stockholder's Equity	\$1,879	\$1,742

## The Balance Sheet

### Market Value vs. Book Value

- What is market value?
- What is book value?

Where can we find the market value of the firm's assets?

Where can we find the market value of the firm's equity?

# The Income Statement

Revenues – Expenses = Income

The Bottom Line: \_\_\_\_\_

## GAAP

- The Timing of Cash Flows
- The Matching Principle
- Non-Cash Items (e.g., depreciation)

**Yost Rocks, Inc.**  
**Income Statement**  
**For Year Ended December 31, 2018**  
**(In \$ millions)**

Total Operating Revenues	\$2,262
Cost of Goods Sold	(1,655)
Selling, General, and Administrative Expenses	(327)
Depreciation	<u>(90)</u>
Operating Income	\$190
Other Income	<u>29</u>
Earnings Before Interest and Taxes	\$219
Interest Expense	<u>(49)</u>
Pretax Income	\$170
Taxes	(84)
Current: \$71	
Deferred: 13	
Net Income	<u>\$86</u>
Retained Earnings:	\$43
Dividends:	\$43

## The Statement of Cash Flows

Cash Flow From Operating Activities

Cash Flow From Investing Activities

Cash Flow From Financing Activities

## The Statement of Cash Flows

Sources and Uses of Funds

- Changes in Assets
- Changes in Liabilities & Equity

Examples:

- ↑ Accounts Payable
- ↓ Inventory
- ↑ Accounts Receivable
- ↑ Accrued Expenses

# Financial Analysis Orientation: Financial Statements

Yost Rocks, Inc. Statement of Cash Flows For Year Ended December 31, 2018 (In \$ Millions )	
<b>Cash Flow from Operating Activities</b>	
Net Income	\$86
Depreciation	90
Deferred Taxes	13
Change in Assets and Liabilities	
Accounts Receivable	(24)
Inventories	11
Accounts Payable	16
Accrued Expense	18
Other	<u>(8)</u>
Cash Flow from Operating Activities	\$202
<b>Cash Flow from Investing Activities</b>	
Acquisition of Fixed Assets	(\$198)
Sale of Fixed Assets	<u>25</u>
Cash Flow from Investing Activities	(\$173)
<b>Cash Flow from Financing Activities</b>	
Change in Notes Payable	(\$3)
Net Change in Long-Term Debt	13
Dividends	(43)
Repurchase of Stock	(6)
Proceeds from New Stock Issues	<u>43</u>
Cash Flow from Financing Activities	\$4
<b>Total Change in Cash</b>	<b>\$33</b>

## Corporate Taxes

### Capital Gains

- Taxed as ordinary income

### Dividends Received

- If own < 20%, can exclude 50% (*was 70%*)
- If own > 20% but < 80%, can exclude 65% (*was 80%*)
- If own > 80%, can exclude 100%

### Interest

## 2017 Corporate Tax Rates

<u>Taxable Income</u>	<u>Tax Rate</u>
\$0 - \$50,000	15%
\$50,001 - \$75,000	25%
\$75,001 - \$100,000	34%
\$100,001 - \$335,000	39%
\$335,001 - \$10,000,000	34%
\$10,000,001 - \$15,000,000	35%
\$15,000,001 - \$18,333,333	38%
\$18,333,334 +	35%

## Taxes

Average Tax Rate

Marginal Tax Rate

Assume a corporation has \$100,000 of taxable income from operations, \$5,000 of interest income, and \$10,000 of dividend income.

What is its tax liability?

## Corporate Taxes: 2018 and Beyond

### Tax Cuts and Jobs Act of 2017

Flat corporate tax rate =

### Dividend Exclusion

- If own < 20%, can exclude **50%** (*was 70%*)
- If own > 20% but < 80%, can exclude **65%** (*was 80%*)
- If own > 80%, can exclude 100%

## Chapter 2 Suggested Problems

### Concept Questions

- 2, 3, and 5

### Questions and Problems

- 3, 4, 7, and 13 (part a only)