

Financial Statements and Cash Flow

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

The Balance Sheet

The Balance Sheet Identity:

Liquidity

- In the Balance Sheet
- Pros and Cons of Liquid Assets

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	<u>\$486</u>	<u>\$455</u>
Total Current Assets	<u>\$761</u>	<u>\$707</u>			
Fixed assets:			Long-Term Liabilities:		
Property, Plant, Equipment	\$1,423	\$1,274	Deferred Taxes	\$117	\$104
Less Accumulated Depreciation	(550)	(460)	Long-Term Debt	471	458
Net Property, Plant, Equipment	873	814	Long-Term Liabilities	<u>\$588</u>	<u>\$562</u>
Intangible assets and other	245	221	Stockholder's Equity:		
Total Fixed Assets	<u>\$1,118</u>	<u>\$1,035</u>	Preferred Stock	\$39	\$39
			Common stock (\$1 per value)	55	32
			Capital surplus	347	327
Total Assets	<u>\$1,879</u>	<u>\$1,742</u>	Accumulated Retained Earnings	390	347
			Less Treasury Stock	(26)	(20)
			Total Equity	<u>\$805</u>	<u>\$725</u>
			Total Liabilities and Stockholder's Equity	<u>\$1,879</u>	<u>\$1,742</u>

The Balance Sheet

Market Value vs. Book Value

- What are market value and book value?
- Where on the balance sheet can we find the true (market) value of the firm?
- How do we find the true (market) value of total stockholders' equity?
- What is the goal of the firm?

The Income Statement

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:	<u>\$43</u>
Dividends:	\$43

The Statement of Cash Flows

Cash Flow From _____ Activities

Cash Flow From _____ Activities

Cash Flow From _____ Activities

The Statement of Cash Flows

Sources and Uses of Funds

- Changes in Current Assets
- Changes in Current Liabilities

Examples:

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

Yost Rocks, Inc.
Statement of Cash Flows
For Year Ended December 31, 2018
(In \$ Millions)

Cash Flow from Operating Activities	
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	(8)
Cash Flow from Operating Activities	\$202
Cash Flow from Investing Activities	
Acquisition of Fixed Assets	(\$198)
Sale of Fixed Assets	25
Cash Flow from Investing Activities	(\$173)
Cash Flow from Financing Activities	
Change in Notes Payable	(\$3)
Net Change in Long-Term Debt	13
Dividends	(43)
Repurchase of Stock	(6)
Proceeds from New Stock Issues	43
Cash Flow from Financing Activities	\$4
Total Change in Cash	\$33

Some things to remember...

_____ is not a cash flow.

_____ is not a cash flow.

Financial statements are _____ looking, not forward looking.

The balance sheet shows _____ values, not _____ values.

2017 Corporate Tax Rates (Table 2.3)

<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

If a corporation has \$90,000 in taxable income, how much does it owe in taxes?

If a corporation has \$90,000 in taxable income, how much does it owe in taxes?

Corporate Taxes: 2018 and Beyond

Tax Cuts and Jobs Act of 2017

Flat corporate tax rate = _____

Marginal Tax Rate = _____

Average Tax Rate = _____

Suggested Problems

Concepts Review and Critical Thinking Questions:

- Chapter 2: 1 and 2

Questions and Problems:

- Chapter 2: 5, 6, 9, 13, 17, and 18
- Chapter 3: 9 and 16