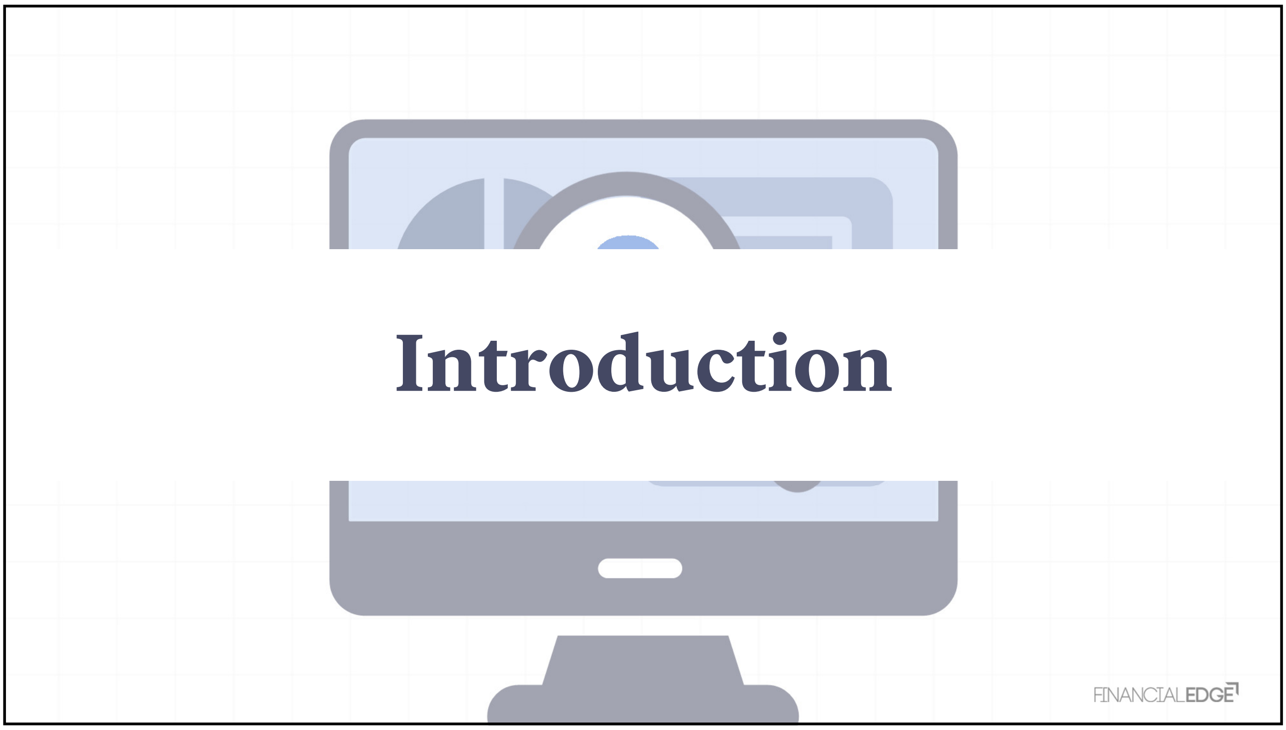
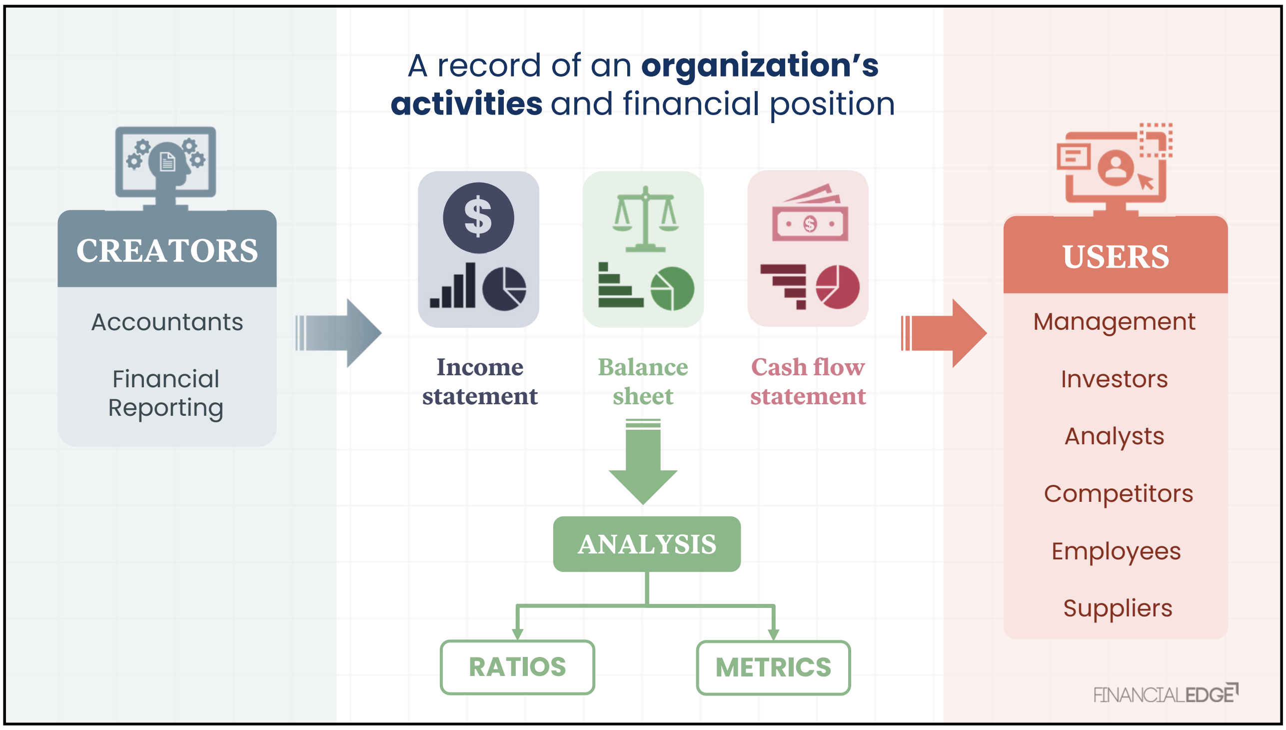

Financial
Accounting Review


Introduction



A record of an organization's activities and financial position
CREATORS
Accountants
Financial Reporting
Income statement
Balance sheet
Cash flow statement
ANALYSIS
RATIOS
METRICS
USERS
Management
Investors
Analysts
Competitors
Employees
Suppliers
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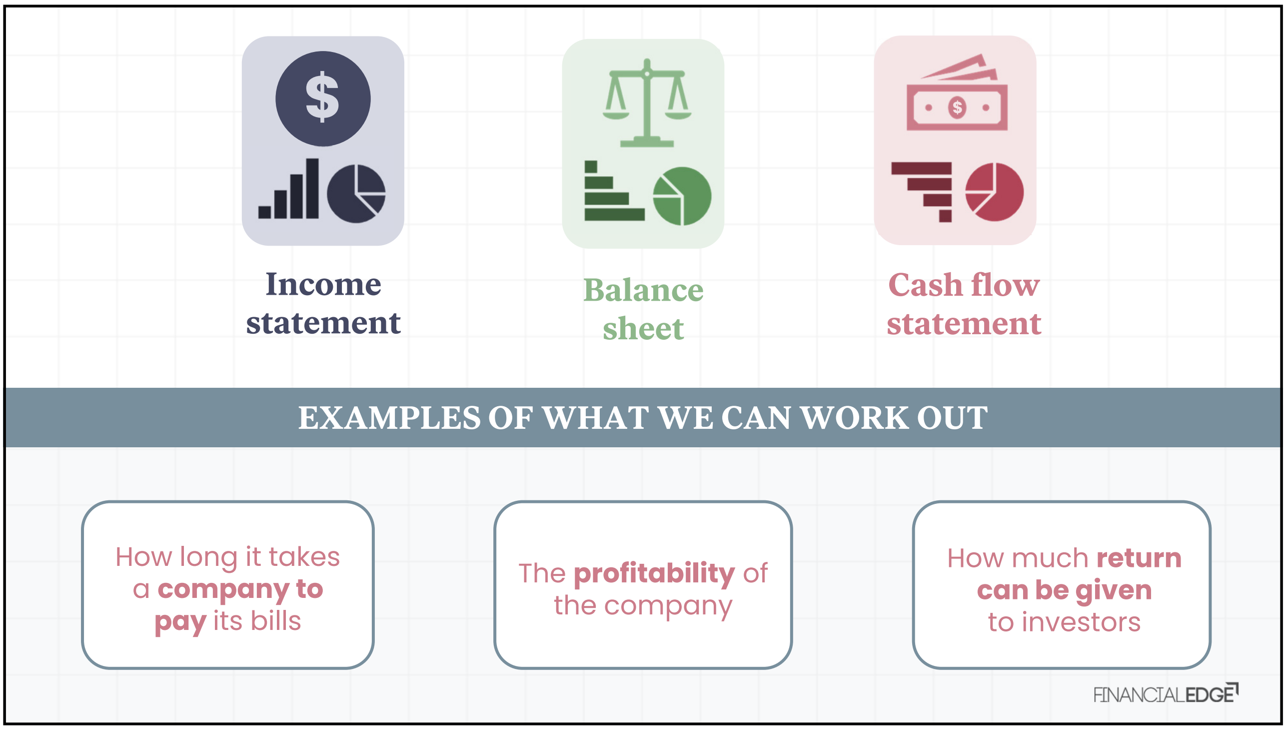

Income statement
Balance sheet
Cash flow statement
EXAMPLES OF WHAT WE CAN WORK OUT
How long it takes a company to pay its bills
The profitability of the company
How much return can be given to investors
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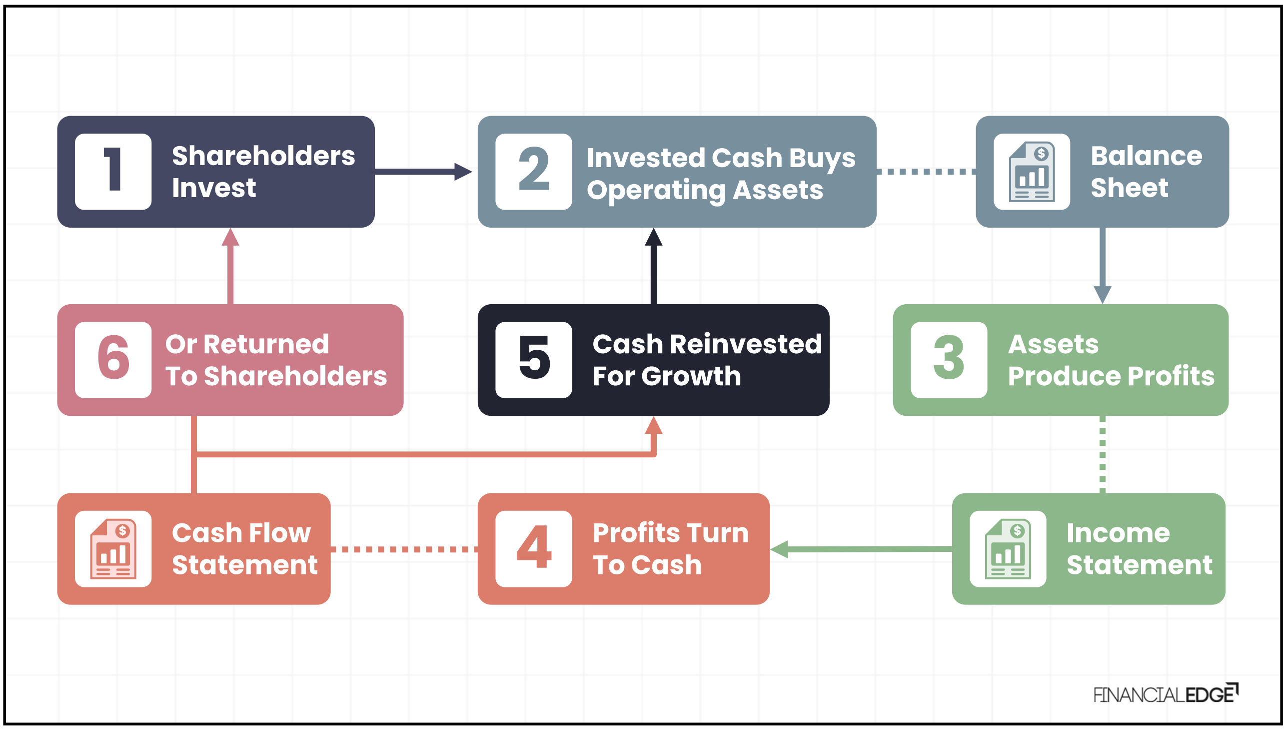
1
Shareholders Invest
2
Invested Cash Buys Operating Assets
Balance Sheet
3
Assets Produce Profits
Income Statement
4
Profits Turn To Cash
Cash Flow Statement
5
Cash Reinvested For Growth
6
Or Returned To Shareholders
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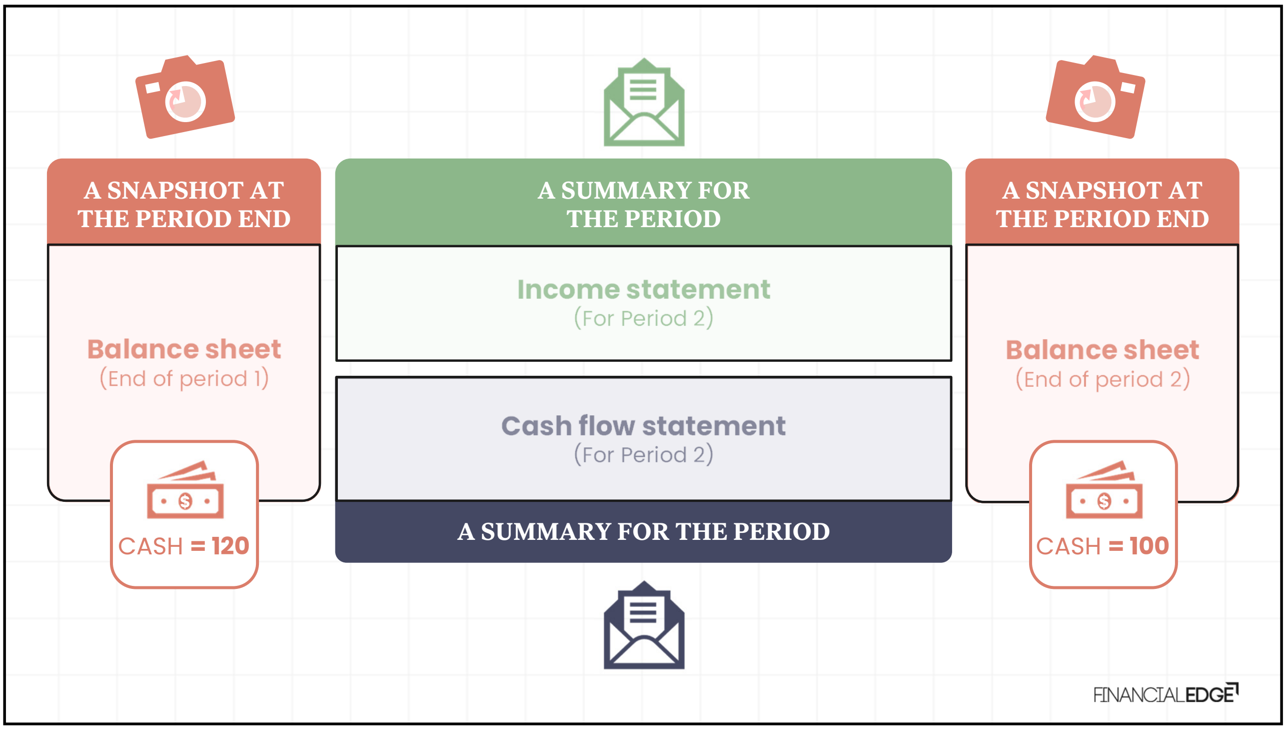
A SNAPSHOT AT THE PERIOD END
Balance sheet
(End of period 1)
CASH = 120
A SUMMARY FOR THE PERIOD
Income statement
(For Period 2)
Cash flow statement
(For Period 2)
A SUMMARY FOR THE PERIOD
A SNAPSHOT AT THE PERIOD END
Balance sheet
(End of period 2)
CASH = 100
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Balance Sheet

- Balance sheet – a point in time
- Describes financial position
- Assets = liabilities + equity
- **Must always balance!**


Business enters
a transaction
Transactions have
2+ effects on A = L + E
What happens?
ASSETS
LIABILITIES
EQUITY
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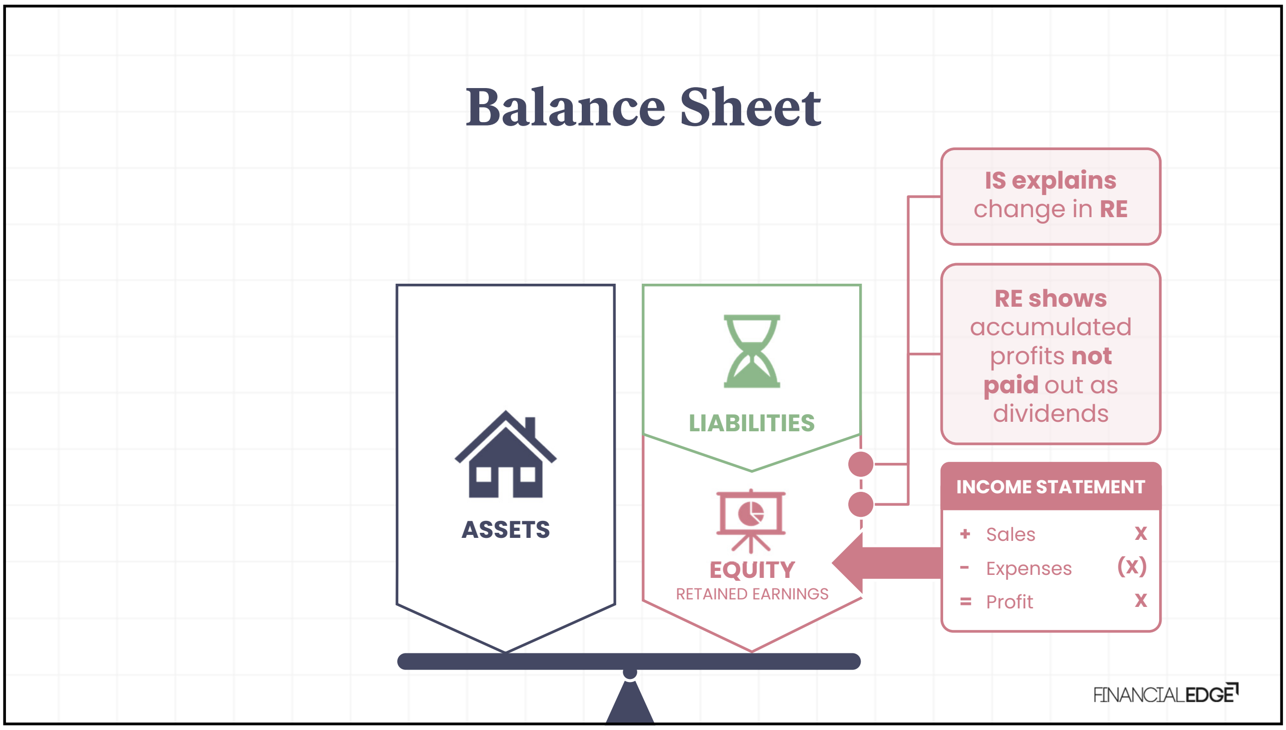
Balance Sheet
ASSETS
LIABILITIES
EQUITY
RETAINED EARNINGS
IS explains change in RE
RE shows accumulated profits not paid out as dividends
INCOME STATEMENT
+ Sales X
- Expenses (X)
= Profit X
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Forecasting

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Analysis

Analysis of past to **understand the business**, and forecast the future

Forecast

Key numbers are forecast in detail

Solve

Solve for other numbers, such as **retained earnings and cash**

EXAMPLE

Ratios such as gross margin

Gross Profit / Sales

Key numbers such as sales

Future = Prior x (1 + g)

B	Beginning
A	Add
S	Subtract
E	Ending

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Integrating the
Financial Statements
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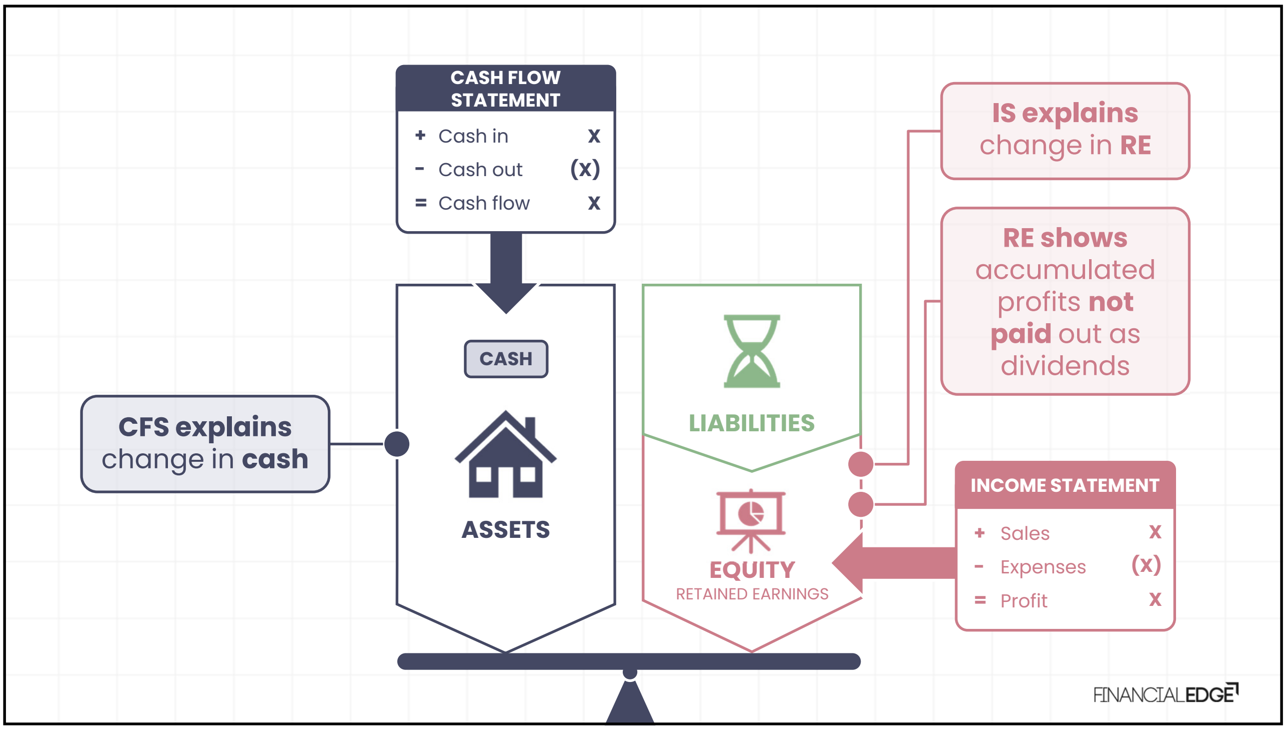
CASH FLOW STATEMENT
+ Cash in X
- Cash out (X)
= Cash flow X
CASH
ASSETS
LIABILITIES
EQUITY
RETAINED EARNINGS
CFS explains change in cash
IS explains change in RE
RE shows accumulated profits not paid out as dividends
INCOME STATEMENT
+ Sales X
- Expenses (X)
= Profit X
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Cash Flow Statement Introduction and Why is Cash important

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OPERATING ACTIVITIES	OPERATING CASH IN / OUT	x	Cash flows from our **regular business activities** in or out of the company.
+			
INVESTING ACTIVITIES	INVESTING CASH IN / OUT	(x)	**Money invested in long term** operating or financial assets.
+			
FINANCING ACTIVITIES	FINANCING CASH IN / OUT	(x)	**Money raised from or paid** to debt, and equity investors.
=			
NET CASH FLOW		(x)	

The **CFS reports** the cash generated or used in a period

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Why Is Cash So Important?

Cash Is King

An organization **can't run** without cash

Reward to investors

It **pays salaries** and many more items

Cash-in Greater Than Cash-out

Good for **all stakeholders**

Can include **shareholders** who **receive a reward**

Cash Generative

Encouraging sign for **employees**

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Real Financial Statements

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Real Financial Statements

Timing of 3 FS

Connectors of 3 FS

MD&A

Footnotes