

Case: Maria Hernandez & Associates

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- Understand the financial condition of a start-up enterprise.
 - Has Maria made a profit? Does it matter?
 - Why has the cash level declined significantly?
 - Should Maria be worried?
 - What are the risks?

Analyze financial information

- Two phases
 - **Phase #1** Prior to beginning of operations
 - Prior to July 1, 2004
 - Go through the transactions prior to July1 to prove balance sheet shown on page 1 of case.
 - **Phase #2** First two months of operation
 - July 1, 2004 through August 31, 2004
 - Prepare required statement to know the financial performance
 - Prepare required statement to know the financial status of the business

- Two days later she added \$20,000 borrowed from her father to the account

Assets				Liability			EQUITY	
Cash in bank	Office Supplies	Equipment and Software	Prepaid rent			Loan	Capital	RE
30000							30000	
20000						20000		

- After that things moved quickly as she rented a second-floor office for \$3,000 a month, paying one month's rent in advance as a security deposit to apply to the end of the lease, and \$3,000 for July 2004.

Assets				Liability			EQUITY	
Cash in bank	Office Supplies	Equipment and Software	Prepaid rent			Loan	Capital	RE
30000							30000	
20000						20000		
-6000			6000					

- She purchased some used computer equipment with software from her last employer

Assets				Liability			EQUITY	
Cash in bank	Office Supplies	Equipment and Software	Prepaid rent			Loan	Capital	RE
30000							30000	
20000						20000		
-6000			6000					
-27000		27000						

Ordered stationery and office supplies that cost \$5,000 when they were delivered on June 29

Assets				Liability			EQUITY	
Cash in bank	Office Supplies	Equipment and Software	Prepaid rent			Loan	Capital	RE
30000							30000	
20000						20000		
-6000			6000					
-27000		27000						
-5000	5000							

▪ Balancing figure - Opening Balances

Assets				Liability			EQUITY	
Cash in bank	Office Supplies	Equipment and Software	Prepaid rent			Loan	Capital	RE
30000							30000	
20000						20000		
-6000			6000					
-27000		27000						
-5000	5000							
12000	5000	27000	6000			20000	30000	0

In the first few days, Maria lined up two webpage design projects from local businesses. She spent part of each day working on the projects, and the remainder of her time was spent looking for new clients. By early August she had four other designers at work and a steady stream of new work coming in by way of referrals. She also felt far too busy to attend to any financial aspects of the business. When clients paid, the money went into the bank account. The associates were paid weekly, and she paid rent and other bills when they were received. In the ninth week of operations, Maria's father telephoned her to ask how things were going, and she could not answer the question with any confidence. It was time for an accounting, and the end of August would be a good time to do it.

Phase #2



- Clients had paid \$40,000 for completed work, and two clients still owed a total of \$7,000 for work that had been completed and delivered to them. There were no projects underway as the office closed on August 31 for the Labor Day weekend

Assets					Liability			EQUITY	
Cash in bank	Office Supplies	Equipment and Software	Prepaid rent	A/R	Interest Payable	Accounts Payable	Loan	Capital	RE
12000	5000	27000	6000	0			20000	30000	0
40000				7000					47000

- Rent of \$6,000 for August and September was paid in cash. Utility bills, a repair of equipment, and the salaries paid to designers (including Maria Hernandez) were paid in cash totaling \$33,000.

Assets					Liability			EQUITY	
Cash in bank	Office Supplies	Equipment and Software	Prepaid rent	A/R	Interest Payable	Accounts Payable	Loan	Capital	RE
12000	5000	27000	6000	0			20000	30000	0
40000				7000					47000
-900	900								
-33000									-33000
			-3000						-3000
-6000			+3000						-3000

- Additional equipment and software was purchased on August 27 for \$11, 000, with half of that amount being paid in cash and the remainder due one month later.

Assets					Liability			EQUITY	
Cash in bank	Office Supplies	Equipment and Software	Prepaid rent	A/R	Interest Payable	Accounts Payable	Loan	Capital	RE
12000	5000	27000	6000	0			20000	30000	0
40000				7000					47000
-900	900								
-39000									-39000
-5500		11000				5500			

- She had agreed to pay her father interest on his loan of 6% per year, but no interest had been paid so far.

Assets					Liability			EQUITY	
Cash in bank	Office Supplies	Equipment and Software	Prepaid rent	A/R	Interest Payable	Accounts Payable	Loan	Capital	RE
12000	5000	27000	6000	0			20000	30000	0
40000				7000					47000
-900	900								
-39000									-39000
-5500		11000				5500			
					200				-200

Assets					Liability			EQUITY	
Cash in bank	Office Supplies	Equipment and Software	Prepaid rent	A/R	Interest Payable	Accounts Payable	Loan	Capital	RE
12000	5000	27000	6000	0			20000	30000	0
40000				7000					47000
-900	900								
-39000									-39000
-5500		11000				5500			
					200				-200
		-1500							-1500
	-1700								-1700
6600	4200	36500	6000	7000	200	5500	20000	30000	4600

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- Prepare the Balance Sheet

Liability +Equity	Amount
Equity	30,000
R Earning	4600
Long term Liability	
Loan	20,000
Current Liability	
A/P	5500
Interest Payable	200
Total	60,300
Assets	
Long term Assets	
Software	36500
Current Assets	
Prepaid Rent	6000
AR	7000
Office Supplies	4200
Cash	6600
Total	60300

Cash Flow Statement

Dr. Monika Dhochak

Cash Flow Statement

Inflow

Outflow

Financial Position & Performance – Balance sheet & Income Statement

Decisions taken – Cash flow statement

Usefulness of Statement of Cash Flow

Provides information to help assess:

1. Entity's ability to generate future cash flows.
2. Entity's ability to pay dividends and meet obligations.
3. Reasons for difference between net income and net cash provided (used) by operating activities.
4. Cash investing and financing transactions during the period.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

	Years ended		
	September 24, 2022	September 25, 2021	September 26, 2020
Cash, cash equivalents and restricted cash, beginning balances	\$ 35,929	\$ 39,789	\$ 50,224
Operating activities:			
Net income	99,803	94,680	57,411
Adjustments to reconcile net income to cash generated by operating activities:			
Depreciation and amortization	11,104	11,284	11,056
Share-based compensation expense	9,038	7,906	6,829
Deferred income tax expense/(benefit)	895	(4,774)	(215)
Other	111	(147)	(97)
Changes in operating assets and liabilities:			
Accounts receivable, net	(1,823)	(10,125)	6,917
Inventories	1,484	(2,642)	(127)
Vendor non-trade receivables	(7,520)	(3,903)	1,553
Other current and non-current assets	(6,499)	(8,042)	(9,588)
Accounts payable	9,448	12,326	(4,062)
Deferred revenue	478	1,676	2,081
Other current and non-current liabilities	5,632	5,799	8,916
Cash generated by operating activities	122,151	104,038	80,674
Investing activities:			
Purchases of marketable securities	(76,923)	(109,558)	(114,938)
Proceeds from maturities of marketable securities	29,917	59,023	69,918
Proceeds from sales of marketable securities	37,446	47,460	50,473
Payments for acquisition of property, plant and equipment	(10,708)	(11,085)	(7,309)
Payments made in connection with business acquisitions, net	(306)	(33)	(1,524)
Other	(1,780)	(352)	(909)
Cash used in investing activities	(22,354)	(14,545)	(4,289)
Financing activities:			
Payments for taxes related to net share settlement of equity awards	(6,223)	(6,556)	(3,634)
Payments for dividends and dividend equivalents	(14,841)	(14,467)	(14,081)
Repurchases of common stock	(89,402)	(85,971)	(72,358)
Proceeds from issuance of term debt, net	5,465	20,393	16,091
Repayments of term debt	(9,543)	(8,750)	(12,629)
Proceeds from/(Repayments of) commercial paper, net	3,955	1,022	(963)
Other	(160)	976	754
Cash used in financing activities	(110,749)	(93,353)	(86,820)
Decrease in cash, cash equivalents and restricted cash	(10,952)	(3,860)	(10,435)
Cash, cash equivalents and restricted cash, ending balances	\$ 24,977	\$ 35,929	\$ 39,789

Cash Flow Statement

Inflow

Outflow

Cash Flow Statement For Quarter Ended June 2020	
Opening Cash Balance	Rs. 50
Closing Cash Balance	Rs. 40

Cash Flow Statement

Inflow

Outflow

Cash Flow Statement For Quarter Ended June 2020	
Opening Cash Balance	Rs. 50
Cash Flow from operating activities	
Closing Cash Balance	Rs. 40

Cash Flow Statement

Inflow

Outflow

Cash Flow Statement For Quarter Ended June 2020	
Opening Cash Balance	Rs. 50
Cash Flow from operating activities	
Cash Flow from investing activities	
Closing Cash Balance	Rs. 40

Cash Flow Statement

Inflow

Outflow

Cash Flow Statement For Quarter Ended June 2020

Opening Cash Balance	Rs. 50
Cash Flow from operating activities	
Cash Flow from investing activities	
Cash Flow from financing activities	
Closing Cash Balance	Rs. 40

Cash Flow Statement

Inflow

Outflow

Cash Flow Statement For Quarter Ended June 2020	
Opening Cash Balance	Rs. 50
Cash Flow from operating activities	120
Cash Flow from investing activities	200
Cash Flow from financing activities	(330)
Closing Cash Balance	Rs. 40

Classification of Cash Flows

Operating Activities

Income Statement
Items

Investing Activities

Changes in
Investments and
Long-Term Asset
Items

Financing Activities

Changes in Long-
Term Liabilities
and Stockholders'
Equity Items

Financial Statement Analysis

Dr. Monika Dhochak

Why Analysis is important?

The world would have been so beautiful

- If financial statement always reflect true economic reality of business.
- We can make our decision only using net profit and share price.
- Financial statements were comparable among companies.
- Consistent over time

How to read an annual report?

How to read the **Financial and Non-financial** Information of the company



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1. Balance Sheet
 2. Income Statement
 3. Statement of Cash flow
 4. FSA - Quantitative Tools



Quantitative

Qualitative



1. Management Discussion & Analysis
2. Auditor Report
3. Explanatory Notes to Financial Statements
4. Supplementary Information
5. **Non-Financial Metrics**

Annual Report



An **Annual report** is a comprehensive report of company's activities throughout the year

Annual reports are intended to give shareholders and other interested people information about the company's activities and financial performance.

Importance

It gives an opportunity to take a step back and look at the overall practical and financial health of the Company's business.

To understand the company **inside out**

You can know **how well the Company is doing.**

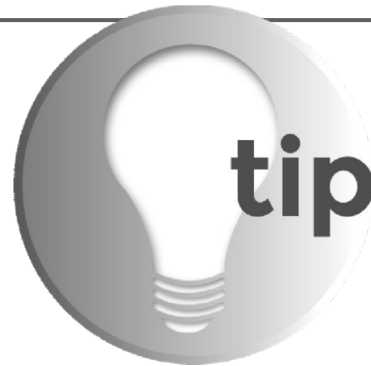
You can find out **whether the Company is making more money than it is spending.**

You can get an idea of **management's strategic plan** for the coming year.

Which Product/Service is making how much revenue

How much company owes to different stakeholders

Reasons for creating an Annual Report



People don't just share information, they tell stories.

Highlight your mission and results in stories that people want to tell and share.

Major Sections to focus on:

Management Discussion and Analysis

Overview of the Industry

Managements' opinion about the business

Key financial items effects and discussion

Risks & Mitigation Strategies

2. Auditor Report

- Who are the Auditors?
- Auditors comments – Key Audit Matters (KAM)

3. Explanatory Notes to Financial Statements

4 Disclosures/Supplementary Information

5. Non-Financial Metrics



EBITDA vs. Adjusted EBITDA

Unusual Metric/Non-financial metric example

Alphabet



Paid Click and cost per click



Number of aircraft; Passenger load factor; Fuel Consumption

Can you think of similar metrics for other companies ?



Unusual Metric/Non-financial metric example

Name of Company	Industry	Non-GAAP Metrics
Google	Technology	User engagement rate
Starbucks	Food & Beverage	Customer loyalty program membership
Nike	Apparel	Social media followers
Amazon	E-commerce	Prime membership growth
Tesla	Automotive	Number of supercharging stations
Netflix	Entertainment	Hours watched per subscriber
Airbnb	Hospitality	Number of nights booked
Apple	Technology	App Store revenue growth
Patagonia	Outdoor Apparel	Percentage of recycled materials used
Johnson & Johnson	Healthcare	Patient outcomes improvement rate
Southwest Airlines	Aviation	On-time departure rate
Coca-Cola	Beverage	Market share in emerging markets
Unilever	Consumer Goods	Sustainable living plan progress
Facebook (Meta)	Social Media	Daily active users (DAUs)
IBM	Technology Service	Cloud services revenue growth
Disney	Media & Entertainment	Theme park attendance
Uber	Ride-sharing	Ride completion rate
Walmart	Retail	Online sales growth
Microsoft	Technology	Azure usage growth
Pfizer	Pharmaceuticals	Number of clinical trials initiated