

MEASURING CASH CREATION AND FLOW

Brief Overview of the Financial Statements

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THE MAIN FINANCIAL STATEMENTS

Balance Sheet

Income Statement (P&L)

Cash Flow Statement

BALANCE SHEET

- ▶ What does the firm own?
- ▶ How was it paid for?
- ▶ $\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$

ASSETS ON THE BALANCE SHEET

- ▶ Current Assets
 - ▶ Cash and marketable securities
 - ▶ Accounts receivable
 - ▶ Inventories
- ▶ Property, Plant, and Equipment
 - ▶ Land, buildings
 - ▶ Machinery
 - ▶ Accumulated depreciation
- ▶ Other Assets (e.g. Intangibles)

THE OTHER SIDE OF THE BALANCE SHEET

- ▶ Liabilities

- ▶ Short-term (payables, current debt, etc.)
- ▶ Long-term (deferred taxes, long-term debt)

- ▶ Shareholders equity

- ▶ Preferred and common stock (par value)
- ▶ Retained earnings

INCOME STATEMENT

Net Sales (Revenue)

minus Cost of goods sold

minus SG&A expense

= **EBITDA**

minus Depreciation and Amortization

= **EBIT** (“pre-tax operating profit”)

minus Interest expense

= Taxable income

minus Income tax

minus Dividends (if any) =

Net Income (Profit or “earnings”)

STATEMENT OF CASH FLOWS

- ▶ Accrual method of accounting
- ▶ Reports on cash movements across activities:
 - ▶ Operating (net income, depreciation)
 - ▶ Investing (capital expenditures, sale of assets)
 - ▶ Financing (dividends, new debt)
- ▶ Reconciles balance sheet/income statement

SUMMARY: ACCOUNTING STATEMENTS

- ▶ Report the financial condition
 - ▶ Balance Sheet
 - ▶ Income Statement
 - ▶ Statement of Cash Flows
- ▶ Apples-to-apples
- ▶ GAAP rules
- ▶ Treasure map for real cash!