



Module 1

The Language and Tools of Financial Analysis

The Balance Sheet 3: Equity (What the owners own)

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Who owns the firm?

Sole proprietorship / Partnership

Corporation:

- separation of ownership/management
- owners are shareholders
- limited liability



Equity

Assets = Liabilities + Equity

Kellogg's 2014 (\$USD millions)			
Assets	15,153	Liabilities	12,302
		Equity	2,851
	15,153		15,153

or as a residual claim:

Assets – Liabilities = Equity

Equity

A share certificate





Book value or market value?

Shareholders come and go...

Book value is not a good guide:

- depends on historical cost of assets
- does not capture future opportunities

Where do we get the Market value of equity?

Share Price x Number of Shares =

Market value of equity

Market value of equity

Stock market





Source list

- Slide 3: Balance Sheet, © University of Melbourne. Prepared by Indika Lovell & Thomas Szoka. Sourced from data contained within Item 8. Financial Statements and Supplementary Data – Consolidated Balance Sheet, p 39 Kellogg Company Annual Report 2014, 25 February 2015 (http://investor.kelloggs.com/files/doc_financials/annual_reports/K_2014-Annual-Report_v001_q725z5.pdf).
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