



Mu Sigma

Understanding Financial Statements

Introductory Session

Do The Math

Chicago, IL
Bangalore, India
www.mu-sigma.com

03 Dec 2013

Proprietary Information

"This document and its attachments are confidential. Any unauthorized copying, disclosure or distribution of the material is strictly forbidden"



We've all felt that pinch at the end of the month..

...Cash is useful sometimes for an immediate need...



...sometimes for a long term aspiration



YOUR FINANCIAL INTERACTIONS



To,
Loan Department,
State Bank of XYZ

I am a concerned mother of a son who is just graduating from his high school and wants to pursue an engineering degree from an esteemed university. In this regard, I would like to apply for an educational loan of Rs. 10 Lakhs to sponsor my son's education.

I have an inherited house in my native worth Rs 5 lacs in addition to jewelry worth Rs.2 lakhs and a bank balance of Rs 1 Lac.

Request to you grant the loan in order to secure my son's future. The EMIs will be paid as soon as he gets his employment post graduation

Kind Regards,
Mother India

To,
Loan Department,
State Bank of XYZ

My daughter who has just completed her engineering and wants to pursue an MBA from an esteemed university. In this regard, I would like to apply for an educational loan worth Rs. 10 Lakhs to sponsor my daughter's education.

I own a house worth Rs 8 lacs that has a mortgage loan worth Rs 4 lacs attached to it in addition to a bank balance of Rs 2 lacs. I work for Mu Sigma and have an annual salary of Rs. 6 lacs.

Request to you grant the loan in order to secure my daughter's future. The EMIs will be paid as soon as she gets her employment post the MBA.

Regards,
Paa

Are you financially healthy?



Monthly Statement

Bank of Barry
BARRY
BARRY COLLEGE COLEGY BARRI

Account Number: 0123 4567
Sort Code: 98-76-54
Account Name: Mr E.M. Cullen

Date: 01/02/11 - 28/02/11
Opening Balance: £1041.98 C
Closing Balance: £1587.26 C

TRANSACTION DETAILS

Date	Type	Description	Out	In	Bal
01 Feb		Balance brought forward			£1041.98C
05 Feb	VIS	Tesco Stores	£23.75		£1018.23C
05 Feb	ATM	Cash RBS FEB05 Tesco Barry	£30.00		£988.23C
07 Feb	DD	Car Insurance	£52.35		£935.88C
10 Feb	VIS	Texaco Petrol	£45.90		£889.98C
11 Feb	VIS	Debenhams Bristol	£147.85		£742.13C
12 Feb	ATM	Cash HSBC FEB12 Cardiff	£300.00		£442.13C
15 Feb	CR	Barry College		£1865.42	£2307.55C
16 Feb	DD	Phone Contract	£52.65		£2254.90C
17 Feb	ATM	Cash NATWEST FEB17 Barry	£320.00		£1934.90C
21 Feb	VIS	Texaco Petrol	£45.32		£1889.58C
22 Feb	VIS	iTunes	£9.97		£1879.61C
23 Feb	ATM	Cash HSBC FEB23 Cardiff	£20.00		£1859.61C
24 Feb	ATM	Cash HSBC FEB24 Cardiff	£30.00		£1829.61C
25 Feb	ATM	Cash RBS FEB05 Tesco Barry	£130.00		£1699.61C
28 Feb	VIS	Amazon	£112.35		£1587.26C

Companies need to be **healthy** too!



Who monitors financial health of companies?



COMPONENTS OF FINANCIAL STATEMENTS

Balance sheet, also known as the statement of financial position



Sample Balance Sheet

	At December 31,	
	2012	2011
Assets		
Current assets:		
Cash and cash equivalents	\$1,570,077	\$1,310,906
Short-term investments	1,293,681	1,121,358
Trade accounts receivable, net of allowances of \$25,816 and \$24,658, respectively	1,345,661	1,179,043
Unbilled accounts receivable	183,085	139,627
Deferred income tax assets, net	201,894	109,042
Other current assets	219,896	225,530
Total current assets	4,814,294	4,085,506
Property and equipment, net of accumulated depreciation of \$573,792 and \$455,506, respectively	971,486	758,034
Goodwill	309,185	288,772
Intangible assets, net	87,475	97,616
Deferred income tax assets, net	178,824	164,192
Other noncurrent assets	160,307	113,813
Total assets	<u>\$6,521,571</u>	<u>\$5,507,933</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 108,707	\$ 72,205
Deferred revenue	149,696	105,713
Accrued expenses and other current liabilities	1,118,927	1,031,787
Total current liabilities	1,377,330	1,209,705
Deferred income tax liabilities, net	2,777	3,339
Other noncurrent liabilities	287,081	342,003
Total liabilities	<u>1,667,188</u>	<u>1,555,047</u>
Commitments and contingencies (See Note 13)		
Stockholders' Equity:		
Preferred stock, \$.10 par value, 15,000 shares authorized, none issued	—	—
Class A common stock, \$.01 par value, 1,000,000 shares authorized, 301,680 and 303,106 shares issued and outstanding at December 31, 2012 and December 31, 2011, respectively	3,017	3,031
Additional paid-in capital	457,260	692,723
Retained earnings	4,633,789	3,582,526
Accumulated other comprehensive income (loss)	(239,683)	(325,394)
Total stockholders' equity	<u>4,854,383</u>	<u>3,952,886</u>
Total liabilities and stockholders' equity	<u>\$6,521,571</u>	<u>\$5,507,933</u>

Income statement, also known as Profit and Loss Statement



	Year Ended December 31,				
	2012	2011	2010	2009	2008
	(in thousands, except per share data)				
Consolidated Operations Data:					
Revenues	\$7,346,472	\$6,121,156	\$4,592,389	\$3,278,663	\$2,816,304
Cost of revenues (exclusive of depreciation and amortization expense shown separately below)	4,278,241	3,538,622	2,654,569	1,849,443	1,572,816
Selling, general and administrative expenses	1,557,646	1,328,665	972,093	721,359	652,021
Depreciation and amortization expense	149,089	117,401	103,875	89,371	74,797
Income from operations	1,361,496	1,136,468	861,852	618,490	516,670
Other income (expense), net:					
Interest income	44,514	39,249	25,793	15,895	22,188
Other, net	(18,414)	(6,568)	(9,065)	2,566	(23,648)
Total other income (expense), net	26,100	32,681	16,728	18,461	(1,460)
Income before provision for income taxes	1,387,596	1,169,149	878,580	636,951	515,210
Provision for income taxes	336,333	285,531	145,040	101,988	84,365
Net income	\$1,051,263	\$ 883,618	\$ 733,540	\$ 534,963	\$ 430,845

Statement of equity, also known as statement of retained earnings



	Class A Common Stock		Additional	Retained	Accumulated	
	Shares	Amount	Paid-in	Earnings	Other	Total
			Capital		Comprehensive	
					Income (Loss)	
Balance, December 31, 2009	297,231	\$2,972	\$ 664,560	\$1,965,368	\$ 20,277	\$2,653,177
Net income	—	—	—	733,540	—	733,540
Other comprehensive income	—	—	—	—	15,321	15,321
Comprehensive income						\$ 748,861
Common stock issued, stock-based						
compensation plans	7,529	75	107,009	—	—	107,084
Tax benefit, stock-based compensation						
plans	—	—	73,839	—	—	73,839
Stock-based compensation expense	—	—	56,984	—	—	56,984
Repurchases of common stock	(892)	(9)	(58,991)	—	—	(59,000)
Business combination (see Note 2)	73	1	3,485	—	—	3,486
Balance, December 31, 2010	303,941	3,039	846,886	2,698,908	35,598	3,584,431
Net income	—	—	—	883,618	—	883,618
Other comprehensive (loss)	—	—	—	—	(360,992)	(360,992)
Comprehensive income						\$ 522,626
Common stock issued, stock-based						
compensation plans	4,513	45	79,506	—	—	79,551
Tax benefit, stock-based compensation						
plans	—	—	39,778	—	—	39,778
Stock-based compensation expense	—	—	90,232	—	—	90,232
Repurchases of common stock	(5,511)	(55)	(374,092)	—	—	(374,147)
Business combination (see Note 2)	163	2	10,413	—	—	10,415
Balance, December 31, 2011	303,106	3,031	692,723	3,582,526	(325,394)	3,952,886
Net income	—	—	—	1,051,263	—	1,051,263
Other comprehensive income	—	—	—	—	85,711	85,711
Comprehensive income						\$1,136,974
Common stock issued, stock-based						
compensation plans	7,176	72	129,413	—	—	129,485
Tax benefit, stock based compensation						
plans	—	—	48,528	—	—	48,528
Stock-based compensation expense	—	—	107,355	—	—	107,355
Repurchases of common stock	(8,602)	(86)	(520,759)	—	—	(520,845)
Balance, December 31, 2012	301,680	\$3,017	\$ 457,260	\$4,633,789	\$(239,683)	\$4,854,383

Cash Flow: Shows movements in cash and bank balances



	Year Ended December 31,		
	2012	2011	2010
Cash flows from operating activities:			
Net income	\$ 1,051,263	\$ 883,618	\$ 733,540
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	156,588	124,175	110,172
Provision for doubtful accounts	5,076	4,582	5,950
Deferred income taxes	(117,908)	(8,599)	(51,909)
Stock-based compensation expense	107,355	90,232	56,984
Excess tax benefits on stock-based compensation plans	(48,373)	(39,141)	(71,919)
Other	2,499	46,036	(7,598)
Changes in assets and liabilities:			
Trade accounts receivable	(158,603)	(284,167)	(278,418)
Other current assets	(29,833)	(99,224)	(75,347)
Other noncurrent assets	(36,692)	(28,805)	(24,296)
Accounts payable	32,773	(8,593)	18,597
Other current and noncurrent liabilities	208,438	195,038	348,898
Net cash provided by operating activities	1,172,583	875,152	764,654
Cash flows from investing activities:			
Purchases of property and equipment	(334,465)	(288,221)	(185,512)
Purchases of investments	(1,428,508)	(1,338,664)	(934,185)
Proceeds from maturity or sale of investments	1,252,821	859,404	706,670
Business combinations, net of cash acquired	(59,894)	(82,800)	(33,863)
Net cash (used in) investing activities	(570,046)	(850,281)	(446,890)
Cash flows from financing activities:			
Issuance of common stock under stock-based compensation plans	129,484	79,551	107,084
Excess tax benefits on stock-based compensation plans	48,373	39,141	71,919
Repurchases of common stock	(520,845)	(374,147)	(59,000)
Net cash (used in) provided by financing activities	(342,988)	(255,455)	120,003
Effect of exchange rate changes on cash and cash equivalents	(378)	521	2,272
Increase (decrease) in cash and cash equivalents	259,171	(230,063)	440,039
Cash and cash equivalents, beginning of year	1,310,906	1,540,969	1,100,930
Cash and cash equivalents, end of period	\$ 1,570,077	\$ 1,310,906	\$ 1,540,969
Supplemental information:			
Cash paid for income taxes during the year	\$ 402,098	\$ 248,229	\$ 127,129

Match the following

Pay Slip	
Offer Letter	Asset
Bank Statement	Income Statement
Property	Liability
Education Loan	Expense
Housing Loan with EMI	

Match the following

Learning

Knowledge

River

Dam

ECG

Sugar Count

Balance Sheet

Income Statement