equalifi ACADEMY

CCRA™

CERTIFIED CREDIT RESEARCH ANALYST

Session 1- Financial statement Analysis (Part-1)

Types of financial statement

- Balance Sheet
- Income Statement
- Cash Flow Statement

Usage of financial statements for different stakeholders

Stakeholders:

- Management needs financial statement for understanding the performance of the business and thereby to take some major decisions for improvement
- Shareholders need financial statements, as they like to know the value of their money they have invested
- Prospective investors need financial statement as they look for a good company for investment

Usage of financial statements by non stakeholders

- Competitors are always keen to see financials to compare their performance
- Government require financial statement to see whether all legal compliances have been done

Audit & Auditor's report

An Audit is a method to check the financial statements, its validity and reliability.

Auditor's report consists of three paragraphs:

- First states the responsibilities of the auditor and directors for presentation of the financial statements
- The second is the scope, stating compliance to GAAP & IFRS
- The third paragraph defines the auditor's opinion about the conformity and genuineness of accounts.

Infosys Audit Report.pdf

Types of Audit Report

- Unqualified Report:

When Financial statements are appropriately presented and gives true & fair view

- Qualified Report:

When there is some inconsistency in the financial statements and is not completely free from material misstatement

- Adverse Report:

It is used when auditor believes the overall financial statement are misleading and they do not give a true and fair value of the financial statements

- Disclaimer of Opinion:

This is a case when auditor is unable to obtain sufficient appropriate audit evidence for forming an opinion on the financial statements of the company

Accounting Equations

Individual Business:

Assets=Liabilities + Owner's Equity

Company:

Assets=Liabilities + Shareholder's Equity

BUSINESS CONSULTING COMPANY
BALANCE SHEET
As at December 31, 2015

Assets		$	Liabilities & Stockholders' equity		$
Current assets:			Liabilities:		
Cash		85,550	Notes payable		5,000
Accounts receivable		4,700	Accounts payable		1,600
Prepaid building rent		1,500	Salaries payable		2,000
Unexpired insurance		3,600	Income tax payable		3,000
Supplies		250	Unearned service revenue		4,400
Total current assets		95,600	Total liabilities		16,000
Non-current assets:			Stockholders' equity:		
Equipment	9,000		Capital stock	50,000	
Acc. dep. - Equipment	3,600	5,400	Retained earnings	35,000	85,000
Total assets		101,000	Total liabilities & stockholders' equity		101,000

Income Statement Format

- **Income Statement Format**
- Revenue
- – Cost of Goods Sold Expense
- = Gross Profit (or Loss)
- – Operating Expenses (R&D, selling & adm., depreciation, etc)
- = Operating Income
- Other Income/Expenses
- + investment income
- – Interest Expense
- – Taxes
- +/- Non Recurring Events (Extraordinary items)
- = Profit or Net Income

Format of Cash Flow Statement

AMAZON.COM, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)

	Year Ended December 31,		
	2015	2016	2017
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	$ 14,557	$ 15,890	$ 19,334
OPERATING ACTIVITIES:			
Net income	596	2,371	3,033
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation of property and equipment, including internal-use software and website development, and other amortization, including capitalized content costs	6,281	8,116	11,478
Stock-based compensation	2,119	2,975	4,215
Other operating expense, net	155	160	202
Other expense (income), net	250	(20)	(292)
Deferred income taxes	81	(246)	(29)
Changes in operating assets and liabilities:			
Inventories	(2,187)	(1,426)	(3,583)
Accounts receivable, net and other	(1,755)	(3,367)	(4,786)
Accounts payable	4,294	5,030	7,175
Accrued expenses and other	913	1,724	283
Unearned revenue	1,292	1,955	738
Net cash provided by (used in) operating activities	12,039	17,272	18,434
INVESTING ACTIVITIES:			
Purchases of property and equipment, including internal-use software and website development	(5,387)	(7,804)	(11,955)
Proceeds from property and equipment incentives	798	1,067	1,897
Acquisitions, net of cash acquired, and other	(795)	(116)	(13,972)
Sales and maturities of marketable securities	3,025	4,733	9,988
Purchases of marketable securities	(4,091)	(7,756)	(13,777)
Net cash provided by (used in) investing activities	(6,450)	(9,876)	(27,819)
FINANCING ACTIVITIES:			
Proceeds from long-term debt and other	353	621	16,231
Repayments of long-term debt and other	(1,652)	(354)	(1,372)
Principal repayments of capital lease obligations	(2,462)	(3,860)	(4,799)
Principal repayments of finance lease obligations	(121)	(147)	(200)
Net cash provided by (used in) financing activities	(3,882)	(3,740)	9,860
Foreign currency effect on cash and cash equivalents	(374)	(212)	713
Net increase (decrease) in cash and cash equivalents	1,333	3,444	1,188
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 15,890	$ 19,334	$ 20,522

Thank You