Takin' Care of Business

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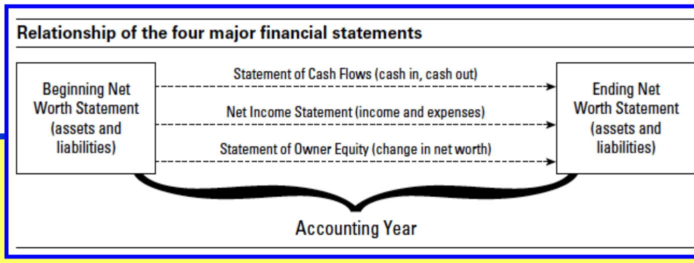
Financial Statements



GAAP requires businesses to periodically report the following four financial statements:

- **Balance Sheet:** Statement of financial position at a given point in time.
- **Income Statement:** Revenues minus expenses for a given time period ending at a specified date.
- **Statement of Owner's Equity:** Also known as Statement of Retained Earnings or Equity Statement, shows the changes in the capital account due to contributions, withdrawals, and net income or net loss.
- **Statement of Cash Flows:** Summarizes sources and uses of cash; indicates whether enough cash is available to carry on routine operations.

Financial statements present the results of operations and the financial position of the company. Four main statements are commonly prepared by publicly-traded companies: balance sheet, income statement, cash flow statement and statement of changes in equity.

Balance Sheet (Statement of Financial Position)

The balance sheet tells you whether the company can pay its bills on time, its financial flexibility to acquire capital and its ability to distribute cash in the form of dividends to the company's owners. In short, it is a view of the company's financial positions as of the date it is prepared.

The balance sheet shows the company's assets, liabilities and shareholders' equity. Think of a balance sheet as a snapshop -- a single picture taken at a specific period of time -- that illustrates the financial status and health of a company. It illustrates the financial equation:

Assets = Liabilities + Owners Equity

Income Statement

An income statement is a financial statement that reports a company's financial performance over a specific accounting period. Financial performance is assessed by giving a summary of how the business incurs its revenues and expenses through both operating and non-operating activities. It also shows the net profit or loss incurred over a specific accounting period.

Unlike the balance sheet, which covers one moment in time, the income statement provides performance information about a time period. It begins with sales and works down to net income and earnings per share (EPS). Think of it as a video or moving of a company's revenues, expenses, and earnings over a period time.

Statement of Owner's Equity

The statement of owner's equity is a financial statement that reports the changes in the equity section of the balance sheet during an accounting period. In other words, it reports the events that increased or decreased stockholder's equity over the course of the accounting period.

The statement of owner's equity is one of the shorter financial statements because there aren't many transactions that actually affect the equity accounts. It typically lists the net income or loss for the period along with the owners' contributions or withdrawals during the period.

Statement of Cash Flows

A cash flow statement is one of the quarterly financial reports publicly traded companies are required to disclose to the U.S. Securities and Exchange Commission (SEC) and the public. The document provides data regarding all cash inflows a company receives from its ongoing operations and external investment sources, as well as all cash outflows that pay for business activities and investments during a quarter.

There are two forms of accounting: *cash* and *accrual*. Most public companies use accrual accounting, which means the income statement in the annual report is not the same as the company's cash position. For example, if a company lands a major contract, this contract is recognized as revenue, and therefore income, but the company may not receive cash until a later date. The accountant says the company is earning a profit on the income statement and paying income taxes on it, but the company may have less cash on hand. The cash flow statement is split between operations, investing and financing.

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