

# The Basics of Financial Statements

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# Four Main Financial Statements

- Balance Sheet
- Income Statement
- Cash Flow Statement
- Statement of Shareholder's Equity

# Balance Sheet

- Balance Sheets show what a company owns and what it owes at a fixed point in time.
- 3 Main Parts:
  - Assets
  - Liabilities
  - Shareholder's Equity
- Accounting Equation:
  - $\text{Assets} = \text{Liabilities} + \text{Equity}$

Apple Inc.

CONSOLIDATED BALANCE SHEETS

(In millions, except number of shares which are reflected in thousands and par value)

	September 24, 2022	September 25, 2021
<b>ASSETS:</b>		
Current assets:		
Cash and cash equivalents	\$ 23,646	\$ 34,940
Marketable securities	24,658	27,699
Accounts receivable, net	28,184	26,278
Inventories	4,946	6,580
Vendor non-trade receivables	32,748	25,228
Other current assets	21,223	14,111
Total current assets	135,405	134,836
Non-current assets:		
Marketable securities	120,805	127,877
Property, plant and equipment, net	42,117	39,440
Other non-current assets	54,428	48,849
Total non-current assets	217,350	216,166
Total assets	\$ 352,755	\$ 351,002
<b>LIABILITIES AND SHAREHOLDERS' EQUITY:</b>		
Current liabilities:		
Accounts payable	\$ 64,115	\$ 54,763
Other current liabilities	60,845	47,493
Deferred revenue	7,912	7,612
Commercial paper	9,982	6,000
Term debt	11,128	9,613
Total current liabilities	153,982	125,481
Non-current liabilities:		
Term debt	98,959	109,106
Other non-current liabilities	49,142	53,325
Total non-current liabilities	148,101	162,431
Total liabilities	302,083	287,912
Commitments and contingencies		
Shareholders' equity:		
Common stock and additional paid-in capital, \$0.00001 par value: 50,400,000 shares authorized; 15,943,425 and 16,426,786 shares issued and outstanding, respectively	64,849	57,365
Retained earnings/(Accumulated deficit)	(3,068)	5,562
Accumulated other comprehensive income/(loss)	(11,109)	163
Total shareholders' equity	50,672	63,090
Total liabilities and shareholders' equity	\$ 352,755	\$ 351,002

# Income Statement

- Income statement shows revenue earned over a specific period of time
- Also shows costs and expenses associated with earning that revenue
- May also show earnings per share (EPS)
- Formula:
  - Revenue
  - - Cost Of Goods Sold
  - - Operating Expense
  - = Net Income

Apple Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except number of shares which are reflected in thousands and per share amounts)

	Years ended		
	September 24, 2022	September 25, 2021	September 26, 2020
Net sales:			
Products	\$ 316,199	\$ 297,392	\$ 220,747
Services	78,129	68,425	53,768
Total net sales	394,328	365,817	274,515
Cost of sales:			
Products	201,471	192,266	151,286
Services	22,075	20,715	18,273
Total cost of sales	223,546	212,981	169,559
Gross margin	170,782	152,836	104,956
Operating expenses:			
Research and development	26,251	21,914	18,752
Selling, general and administrative	25,094	21,973	19,916
Total operating expenses	51,345	43,887	38,668
Operating income	119,437	108,949	66,288
Other income/(expense), net	(334)	258	803
Income before provision for income taxes	119,103	109,207	67,091
Provision for income taxes	19,300	14,527	9,680
Net income	\$ 99,803	\$ 94,680	\$ 57,411
Earnings per share:			
Basic	\$ 6.15	\$ 5.67	\$ 3.31
Diluted	\$ 6.11	\$ 5.61	\$ 3.28
Shares used in computing earnings per share:			
Basic	16,215,963	16,701,272	17,352,119
Diluted	16,325,819	16,864,919	17,528,214

See accompanying Notes to Consolidated Financial Statements.

# Cash Flow Statement

- Reports inflows and outflows of cash over a certain period of time
- Uses and reorders items from company's balance sheet and income statement
- 3 Main parts:
  - Operating Activities
  - Investing Activities
  - Financing Activities

Apple Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

	Years ended		
	September 24, 2022	September 25, 2021	September 26, 2020
Cash, cash equivalents and restricted cash, beginning balances	\$ 35,929	\$ 39,789	\$ 50,224
Operating activities:			
Net income	99,803	94,680	57,411
Adjustments to reconcile net income to cash generated by operating activities:			
Depreciation and amortization	11,104	11,284	11,056
Share-based compensation expense	9,038	7,906	6,829
Deferred income tax expense/(benefit)	895	(4,774)	(215)
Other	111	(147)	(97)
Changes in operating assets and liabilities:			
Accounts receivable, net	(1,823)	(10,125)	6,917
Inventories	1,484	(2,642)	(127)
Vendor non-trade receivables	(7,520)	(3,903)	1,553
Other current and non-current assets	(6,499)	(8,042)	(9,588)
Accounts payable	9,448	12,326	(4,062)
Deferred revenue	478	1,676	2,081
Other current and non-current liabilities	5,632	5,799	8,916
Cash generated by operating activities	122,151	104,038	80,674
Investing activities:			
Purchases of marketable securities	(76,923)	(109,558)	(114,938)
Proceeds from maturities of marketable securities	29,917	59,023	69,918
Proceeds from sales of marketable securities	37,446	47,460	50,473
Payments for acquisition of property, plant and equipment	(10,708)	(11,085)	(7,309)
Payments made in connection with business acquisitions, net	(306)	(33)	(1,524)
Other	(1,780)	(352)	(909)
Cash used in investing activities	(22,354)	(14,545)	(4,289)
Financing activities:			
Payments for taxes related to net share settlement of equity awards	(6,223)	(6,556)	(3,634)
Payments for dividends and dividend equivalents	(14,841)	(14,467)	(14,081)
Repurchases of common stock	(89,402)	(85,971)	(72,358)
Proceeds from issuance of term debt, net	5,465	20,393	16,091
Repayments of term debt	(9,543)	(8,750)	(12,629)
Proceeds from/(Repayments of) commercial paper, net	3,955	1,022	(963)
Other	(160)	976	754
Cash used in financing activities	(110,749)	(93,353)	(86,820)
Decrease in cash, cash equivalents and restricted cash	(10,952)	(3,860)	(10,435)
Cash, cash equivalents and restricted cash, ending balances	\$ 24,977	\$ 35,929	\$ 39,789
Supplemental cash flow disclosure:			
Cash paid for income taxes, net	\$ 19,573	\$ 25,385	\$ 9,501
Cash paid for interest	\$ 2,865	\$ 2,687	\$ 3,002

See accompanying Notes to Consolidated Financial Statements.



# Statements of Shareholder's Equity

- Shows changes in the interests of the company's shareholders over time
- Expanded version of the equity section of the Balance Sheet

Apple Inc.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In millions, except per share amounts)

	Years ended		
	September 24, 2022	September 25, 2021	September 26, 2020
Total shareholders' equity, beginning balances	\$ 63,090	\$ 65,339	\$ 90,488
Common stock and additional paid-in capital:			
Beginning balances	57,365	50,779	45,174
Common stock issued	1,175	1,105	880
Common stock withheld related to net share settlement of equity awards	(2,971)	(2,627)	(2,250)
Share-based compensation	9,280	8,108	6,975
Ending balances	64,849	57,365	50,779
Retained earnings/(Accumulated deficit):			
Beginning balances	5,562	14,966	45,898
Net income	99,803	94,680	57,411
Dividends and dividend equivalents declared	(14,793)	(14,431)	(14,087)
Common stock withheld related to net share settlement of equity awards	(3,454)	(4,151)	(1,604)
Common stock repurchased	(90,186)	(85,502)	(72,516)
Cumulative effect of change in accounting principle	—	—	(136)
Ending balances	(3,068)	5,562	14,966
Accumulated other comprehensive income/(loss):			
Beginning balances	163	(406)	(584)
Other comprehensive income/(loss)	(11,272)	569	42
Cumulative effect of change in accounting principle	—	—	136
Ending balances	(11,109)	163	(406)
Total shareholders' equity, ending balances	\$ 50,672	\$ 63,090	\$ 65,339
Dividends and dividend equivalents declared per share or RSU	\$ 0.90	\$ 0.85	\$ 0.795

See accompanying Notes to Consolidated Financial Statements.

# Financial Statement Analysis

## Public Corporations

- Key ratios
  - **Current Ratio:** Current Assets / Current Liabilities
  - **Debt to Equity Ratio:** Total Liabilities / Shareholder's Equity
  - **Inventory Turnover Ratio:** Cost of Sales / Average Inventory for the period
  - **Operating Margin:** Income from Operations / Net Revenues
  - **P/E Ratio:** Price per share / Earning per share

# Financial Statement Analysis

## Apple Sept 24, 2022 Year End

- **Current Ratio:** Current Assets \$135,405,000,000 / Current Liabilities \$153,982,000,000 = .8794
- **Debt to Equity Ratio:** Total Debt \$302,083,000,000 / Total Equity \$50,672,000,000 = 5.9615
- **Inventory Turnover Ratio:** Cost of Sales \$201,471,000,000 / Average Inventory  $((\$4,946,000,000 + \$6,580,000,000) / 2) = 34.96$
- **Operating Margin:** Operating Income \$119,473,000,000 / Net Revenues \$394,328,000,000 = .3030
- **P/E Ratio:** Stock Price \$142.53 / EPS \$6.15 = 23.17

# Financial Statement Analysis

## How Does Google Compare?

- Key ratios
  - **Current Ratio:** Current Assets / Current Liabilities
  - **Debt to Equity Ratio:** Total Liabilities / Shareholder's Equity
  - **Inventory Turnover Ratio:** Cost of Sales / Average Inventory for the period
  - **Operating Margin:** Income from Operations / Net Revenues
  - **P/E Ratio:** Price per share / Earning per share

# Financial Statement Analysis

## Small Business

- Have accounts been reconciled
  - Watch for duplicated transactions
  - Watch for missing transactions
- Consider cash basis versus accrual basis of accounting
- Tie out balance sheet to statements
- Consider classifications on P&L

**Which Financial Statement is Most Useful  
to Determine Financial Health and  
Accuracy?**

# The Basics of Financial Statements

## Questions

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