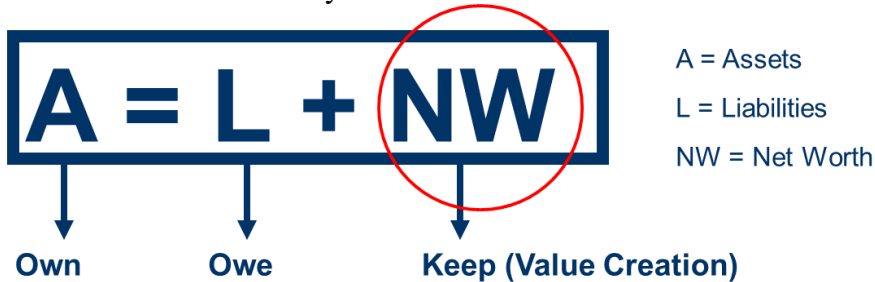


LECTURE 2

INSTRUCTOR'S NOTES:

CONCEPTS:

- Accounting Definitions, Terms and Concepts
- Using Financial Statements
- Financial Ratio Analysis

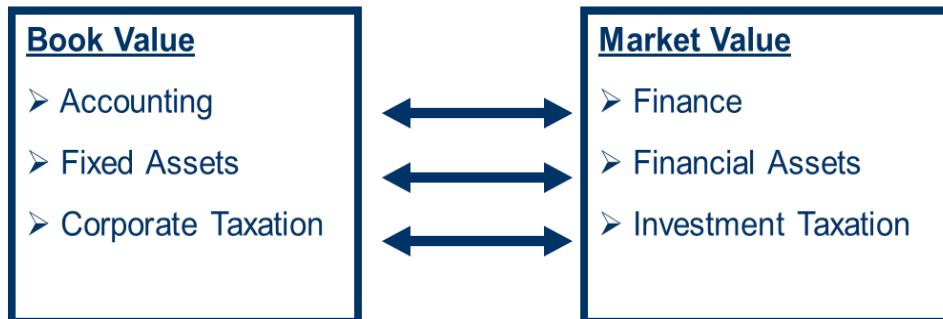


How did you pay for the Assets that you own

Government

• Deficit or Surplus

Book Value Vs Market Value



The Balance Sheet (see Celerity Company spreadsheet):

- Asset: The Left Side
- Liabilities and Owner's Equity: The Right Side

- Net Working Capital
- Liquidity
- Debt Vs Equity
- Market Value Vs Book Value

The Income Statement (see Celerity Company spreadsheet):

- Revenue – Expenses = Income
- GAAP and Income Statement
- Noncash Items
- Time and Costs
- Taxes
 - Corporate Tax Rates
 - Average Vs Marginal Tax Rates

The Cash Flow Statement (see Celerity Company spreadsheet):

- Cash Flow from Assets
 - Operating Cash Flow
 - Capital Spending
 - Change in Net Working Capital
- Cash Flow to Creditors and Stockholders
 - Cash Flow to Creditors
 - Cash Flow to Stockholders

Income Vs Cash

The Perfect World:

Every business is run like a lemonade Stand



Income Statement	
Lemonade Sales	
Sold 100 cups @ \$1 each	\$ 100.00
Expenses	
Box of 100 Cups	\$ 5.00
Lemonade concentrate	\$ 5.00
4 Gallons of Water	\$ 10.00
Total Expenses	\$ 20.00
Net Income (Profit)	\$ 80.00

Cash Flow Statement	
Profit	\$ 80.00
Plus Money that we owe	\$0.00
Less Money owed to us	\$0.00
Net Working Capital	\$0.00
Cash	\$ 80.00

Income Vs Cash

Not So Perfect World:

The world of IOUs



Income Statement	
Lemonade Sales	
Sold 100 cups @ \$1 each	\$ 100.00
Expenses	
Box of 100 Cups	\$ 5.00
Lemonade concentrate	\$ 5.00
4 Gallons of Water	\$ 10.00
Total Expenses	\$ 20.00
Net Income (Profit)	\$ 80.00

Cash Flow Statement	
Profit	\$ 80.00
Plus Money that we owe	\$0.00
Less Money owed to us	-\$1.00
Net Working Capital	-\$1.00
Cash	\$ 79.00

CHAPTER 3

Working with Financial Statements (Celerity Company example):

THE THREE QUESTIONS:

1. How is the company performing vs last year or years' past
 2. How is the company performing vs their peers, market
 3. How is the company performing vs expectation
- Cash Flow and Financial Statements – a Closer Look
 - Sources and Uses of Cash
 - The Statement of Cash Flows
 - The Standardized Financial Statements
 - Common Size Statements (Balance Sheets / Income & CF Statements)
 - Common Base Year Financial Statements: Trend Analysis
 - Combined Common-size and Base Year Analysis
 - Ratio Analysis
 - Short-Term Solvency, or liquidity, Measures
 - Long-Term Solvency Measures
 - Asset Management, or Turnover, Measures
 - Profitability Measures
 - Market Value Measures

