

HOW TO READ FINANCIAL STATEMENTS? (Part 1)



What Are Financial Statements?

Financial statements are written records that tell about the business activities and the financial performance of a company.

Financial statements are often audited by government agencies, accountants, firms, etc. to ensure accuracy and for tax, financing, or investing purposes.



For-profit primary financial statements include the balance sheet, income statement, statement of cash flow, and statement of changes in equity.

Non-profit entities use a similar but different set of financial statements.



Investors and financial analysts rely on financial data to analyze the performance of a company and make predictions about the future direction of the company's stock price.

One of the most important resources of reliable and audited financial data is the annual report, which contains the firm's financial statements.



The financial statements are used by investors, market analysts, and creditors to evaluate a company's financial health and earnings potential.

The three major financial statement reports are:

- Balance sheet,
- Income statement, and
- Statement of cash flows.

Today we are going to learn about Balance Sheet.



BALANCE SHEET

The balance sheet provides an overview of a company's assets, liabilities, and shareholders' equity as a snapshot in time. The date at the top of the balance sheet tells you when the snapshot was taken, which is generally the end of the reporting period.

Let's breakdown the items of a balance sheet.



Assets

- Cash and cash equivalents are liquid assets, which may include cash and money market securities.
- Accounts receivables are the amount of money that company will receive from its customers for the sale of its product and service.
- Inventory is the goods a company has, which are to be sold. Inventory may include finished goods, work in progress, or raw materials that have yet to be worked.

- Prepaid expenses are costs that have been paid in advance of when they are due.
- Property, plant, and equipment are capital assets owned by a company for its long-term benefit.
- Investments are assets held for speculative future growth. They are simply held for capital appreciation.
- Trademarks, patents, goodwill, and other intangible assets can't physically be touched but have future long-term economic benefits for the company.

Liabilities

- Accounts payable are the bills due as part of the normal course of operations of a business. This includes utility bills, rent invoices, and obligations to buy raw materials.
- Wages payable are payments due to staff for time worked.
- Notes payable are recorded debt instruments that record debt agreements including the payment schedule and amount.

- Dividends payable are dividends that have been declared to be awarded to shareholders but have not yet been paid.
- Long-term debt can include a variety of obligations including mortgages, or other loans that are due in their entirety in longer than one year.

Note that the short-term portion of this debt is recorded as a current liability.

Shareholders' Equity

- Shareholders' equity is a company's total assets minus its total liabilities.
Shareholders' equity (also known as stockholders' equity) represents the amount of money that would be returned to shareholders if all of the assets were liquidated and all of the company's debt was paid off.
- Retained earnings are part of shareholders' equity and are the amount of net earnings that were not paid to shareholders as dividends.

Example of a Balance Sheet

CONSOLIDATED BALANCE SHEET

| | Note Reference Number | December 31, 2021 | December 31, 2020 |
|--------------------------------------------------------------------------------------------------|-----------------------------|----------------------|----------------------|
| <i>(millions of dollars)</i> | | | |
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | | 6,802 | 4,364 |
| Notes and accounts receivable - net | 6 | 32,383 | 20,581 |
| Inventories | | | |
| Crude oil, products and merchandise | 3 | 14,519 | 14,169 |
| Materials and supplies | | 4,261 | 4,681 |
| Other current assets | | 1,189 | 1,098 |
| Total current assets | | 59,154 | 44,893 |
| Investments, advances and long-term receivables | 8 | 45,195 | 43,515 |
| Property, plant and equipment, at cost, less accumulated depreciation and depletion | 9 | 216,552 | 227,553 |
| Other assets, including intangibles - net | | 18,022 | 16,789 |
| Total assets | | 338,923 | 332,750 |
| Liabilities | | | |
| Current liabilities | | | |
| Notes and loans payable | 6 | 4,276 | 20,458 |
| Accounts payable and accrued liabilities | 6 | 50,766 | 35,221 |
| Income taxes payable | | 1,601 | 684 |
| Total current liabilities | | 56,643 | 56,363 |
| Long-term debt | 14 | 43,428 | 47,182 |
| Postretirement benefits reserves | 17 | 18,430 | 22,415 |
| Deferred income tax liabilities | 19 | 20,165 | 18,165 |
| Long-term obligations to equity companies | | 2,857 | 3,253 |
| Other long-term obligations | | 21,717 | 21,242 |
| Total liabilities | | 163,240 | 168,620 |
| Commitments and contingencies | 16 | | |
| Equity | | | |
| Common stock without par value (9,000 million shares authorized, 8,019 million shares issued) | | 15,746 | 15,688 |
| Earnings reinvested | | 392,059 | 383,943 |
| Accumulated other comprehensive income | | (13,764) | (16,705) |
| Common stock held in treasury (3,780 million shares in 2021 and 3,786 million shares in 2020) | | (225,464) | (225,776) |
| ExxonMobil share of equity | | 168,577 | 157,150 |
| Noncontrolling interests | | 7,106 | 6,980 |
| Total equity | | 175,683 | 164,130 |
| Total liabilities and equity | | 338,923 | 332,750 |

Source: ExxonMobil balance sheet
for fiscal year 2021



**PART 2 (INCOME
STATEMENT)
WILL BE OUT
TOMORROW. HIT
THE BELL ICON
SO YOU DO NOT
MISS IT!**





**LEARNED SOMETHING
NEW?**

**LIKE, COMMENT AND
FOLLOW ME FOR
SUCH FINANCE AND
VALUATION-RELATED
CONTENT**