

Prof. Aida R. Lozada Rivera, CPA, MBA, Ph.D.

aida.lozada@upr.edu

**University of Puerto Rico
Río Piedras Campus
Business School**



INFORMATION PROVIDED BY ACCOUNTING

This presentation contains information, in addition to the material prepared and provided by the professor, from:

1. Financial Accounting, David Spiceland, 6th Ed., McGraw-Hill
2. Intermediate Accounting, David Spiceland, 11th Ed., McGraw-Hill
3. Intermediate Accounting, Donald Kieso, 18th Ed., Wiley
4. Other: Official Websites

ANNUAL REPORT

FINANCIAL REPORTS

- **10 K**
- **INCOME STATEMENT**
- **BALANCE SHEET**
- **CASH FLOWS**
- **STOCKHOLDERS EQUITY**

ANNUAL REPORT

1. A formal report on a company's performance in the preceding year.
2. A public company produces an annual report for its stockholders, the people and other institutions.
3. The Securities and Exchange Commission (SEC), a U.S. government agency, requires a public company to keep stockholders informed regularly on the state of its business.
4. It reports how the company did financially and often explains the scope of its business mission and management philosophy.

10 K

Report filed annually by a publicly-traded company about its financial performance and is required by the U.S. Securities and Exchange Commission

1. Financial Statements
2. Notes to Financial Statements

ANNUAL REPORT

FINANCIAL REPORTS

- **INCOME STATEMENT**
- **BALANCE SHEET**
- **CASH FLOWS**
- **STOCKHOLDERS EQUITY**

INCOME STATEMENT

- Reports the result of the operations of a company for a period.

Elements:

- Revenues: inflows from operations and increase equity
- Expenses: outflows or cost to generate revenues and decrease equity
- Gains: incidental activity (e.g. sale of non current asset) and increase equity
- Losses: incidental activity (e.g. sale of non current asset) and decrease equity

INCOME STATEMENT

Purposes

- Reports the result of the operations of a company for a period.
- Determine revenues and expenses
- Determine Income from operations
- Determine Net Income/Loss
- Determine Earning per share

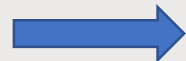
Limitations

- Historical Data
- Uses of Estimates
- Uses different methods for similar transactions
- Omits information that cannot be quantified (e.g. employee efficiency)

INCOME STATEMENT

Form and Content

INCOME STATEMENT: Multiple Steps



INCOME STATEMENT: Single Step



ABC INC.
INCOME STATEMENT
FOR THE PERIOD ENDED DECEMBER 31, 2000

Revenues	
Sales/Service revenue	\$20,000
Expenses	
Rent expense	1,000
Salaries expense	1,000
Advertising Expense	1,000
Utilities expense	1,000
Interest expense	1,000
Total expenses	<u>5,000</u>
Net income	\$15,000

ABC INC.
INCOME STATEMENT
FOR THE PERIOD ENDED DECEMBER 31, 2000

Net Revenues	400,000	
Less: Cost of Goods Sold	<u>(316,000)</u>	
Gross Profit		\$ 84,000
Operating Expenses		
<u>Selling:</u>		
Salaries	22,000	
Advertising	1,000	
Traveling	1,000	
Rent	1,000	
Depreciation	1,000	
Property Tax	1,000	
Bad debt Expense	0	
Insurance	1,000	
Telephone	1,000	
Repairs and Maintenance	0	
Internet	1,000	
Miscellaneous	<u>200</u>	(30,200)
<u>Administrative:</u>		
Salaries	30,000	
Traveling	1,000	
Rent	1,000	
Depreciation	2,000	
Property Tax	1,000	
Insurance	1,000	
Telephone	1,000	
Repairs and Maintenance	0	
Internet	130	
Miscellaneous	130	(37,260)
RESEARCH & DEVELOPMENT	<u>0</u>	
OPERATING INCOME		\$16,540
<u>Other Revenues and Gains</u>		
Interest Revenue	100	
Dividend Revenue	100	
Rent revenue	100	
Gain on sale Equipment	<u>500</u>	800
<u>Other Expense and Losses</u>		
Interest Expense	1,000	
Loss on sale Land	<u>700</u>	(1,700)
INCOME BEFORE TAX		15,640
Income Tax Expense		<u>(3,440)</u>
INCOME FROM CONTINUING OPERATIONS		\$12,200
<u>Discontinuing Operations:</u>		
Operating Loss from Segment X		(0)
Loss on Disposal Segment X		(0)
NET INCOME		<u>\$12,200</u>
<u>Earnings Per Share</u>		
Basic		\$.14
Diluted		\$.12

INCOME STATEMENT

RELATED KEY CONCEPTS

Cash Basis

- Includes revenues received **only** in cash
- Includes expenses that are paid **only** in cash

Accrual Basis

- Includes income received in cash and pending to receive (earned)
- Includes income received in cash and pending to paid (incurred)

Tax Basis

- Objectives of Financial Reporting (provide useful information) and Tax Reporting differ (collect funds).
- The time to recognize income and expenses differs.

BALANCE SHEET

- Reports a company's financial position at specific date.
- Informs about assets, liabilities, and shareholders' equity.

Elements:

- **Assets:** company resources
 - ❖ current and non current
 - ❖ Tangible and intangible
 - ❖ Liquidity order (descending)
- **Liabilities:** obligations
 - ❖ current and non current
- **Equity:** residual interest
 - ❖ Capital stock (shares)
 - ❖ Retained Earnings

BALANCE SHEET

Purposes

- Reports a company's financial position at specific date.
- Informs about assets, liabilities, and shareholders' equity.
- Liquidity: the ability of a company to convert its assets to cash
- Long-term solvency—whether a company will be able to pay its long-term debts

Limitations

- Historical Data
- Uses of Estimates
- Uses different methods for similar transactions
- Omits information that cannot be quantified (e.g. employee efficiency)

BALANCE SHEET

Form and Content

ABC INC.
BALANCE SHEET
DECEMBER 31, 2000

ASSETS:

CURRENT

Cash & Equivalents	\$30,000	See Cash Flows
Short Term Investment (Trading) (Market Value)	10,000	
Trade Account Receivable	10,000	
(Allowance for Uncollectible Accounts)	(1,000)	
Non Trade Account Receivable (net)	0	
Inventory (FIFO, LIFO, Average)	40,000	
Prepaid Assets (Expenses)	8,040	

TOTAL CURRENT ASSETS **\$97,040**

NON CURRENT ASSETS

<u>Investments</u>		
Long Term Investment in XYZ (Bonds)	\$5,000	
Long Term Investment in XYZ (Shares)	5,000	
<u>Property, Plant and Equipment</u>		
Land	10,000	
Building	50,000	
(Accumulated Depreciation)	(49,000)	
Equipment	200,000	
(Accumulated Depreciation)	(199,000)	
<u>Intangibles (Net)</u>		
Patent	1,000	
Copyrights	1,000	
Trade Name	1,000	
Trade Mark	1,000	
Franchises	1,000	
Goodwill	2,000	
<u>Natural Resources (net)</u>		
Gold Mine	10,000	
Timberland	9,300	

TOTAL NON CURRENT ASSETS **\$48,300**

TOTAL ASSETS

\$145,300

LIABILITIES:

CURRENT

Notes Payable (% months)	\$10,000
Account Payable	1,000
Salaries Payable	1,000
Rent Payable	1,000
Income Tax Payable	1,000
Interest Payable	1,000
Accrued Expenses (Liabilities)	1,000
Deposit from Clients (Unearned Revenue)	22,940

TOTAL CURRENT LIABILITIES **\$38,940**

NON CURRENT

Notes Payable (% years)	\$10,000
Bonds Payable (% years)	20,000
Lease Payable	0
Deferred Income Tax	0

TOTAL NON CURRENT LIABILITIES **\$30,000**

TOTAL LIABILITIES **\$68,940**

STOCKHOLDERS EQUITY

<u>Preferred Stock</u>		
5%, Cumulative, 1,000, Authorized, Issue and Outstanding, Par value \$10	10,000	
Additional Paid in Capital in Excess of Par Value	30,000	
<u>Common Stock</u>		
1,000,000, Authorized, Issue 100,000 and 90,000 Outstanding, Par value \$1	9,000	
Additional Paid in Capital in Excess of Par Value	11,000	
Retained Earnings	\$26,400	
Treasury Stock (10,000 x Cost \$1)	(10,000)	

TOTAL STOCKHOLDERS EQUITY **\$76,400**

TOTAL LIABILITIES AND STOCKHOLDERS EQUITY

\$145,300

BALANCE SHEET

© PROF. AIDA LOZADA, CPA, MBA, Ph.D.

CASH FLOWS

- Informs about the uses and sources of cash

Activities:

➤ Operating:

- ❖ Received cash from clients: sales and services (+)
- ❖ Paid cash: (-)
 - Inventory
 - Expenses
 - Taxes
 - Interest

➤ Investing

- ❖ Cash received from sale of non current assets (+)
- ❖ Cash paid from purchased of non current assets (-)

➤ Financing

- ❖ Cash received from sale of shares (+)
- ❖ Cash received from loans (+)
- ❖ Cash paid to buy own shares (-)
- ❖ Cash paid for payment of loans (-)
- ❖ Cash paid for dividends (-)

Non Cash Transaction

- Investing and Financing
- Activities that do not involve cash
- Reported on the face of the statement of cash flows

Direct Method

➤ Direct Cash Effect is reported

ABC INC.
CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2000
(Direct Method)

OPERATING ACTIVITIES:

Cash received from customers	+	
Cash paid for:		
Inventory	-	
Expenses:	-	
<small>Employees, interest, income tax</small>		
Net cash from operating activities		\$

INVESTING ACTIVITIES:

Sale of Property, Plant and Equipment	+	
Purchases of Property, Plant and Equipment	-	
Sale of Investment	+	
Purchases of Investment	-	
Loan to other entity (Bonds)	-	
Net cash from investing activities		\$

FINANCING ACTIVITIES:

Make loan from bank , Sale of Bonds	+	
Paid loan to bank (Principal)	-	
Paid dividends	-	
Sale own shares	+	
Purchases own shares (Treasury Stock)	-	
Net cash from financing activities		\$

Cash increase or decrease for this period _____

Beginning Balance of Cash _____

Ending Balance of Cash **\$30,000** See B/S

Note: Purchases of Land in exchange of Common Stock.

CASH FLOWS

Indirect Method

➤ Cash effect is derived from Net Income

ABC INC.
CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2000
(Indirect Method)

OPERATING ACTIVITIES:

	Net Income	\$12,200
Increase in Account Receivable	-	
Decrease in Account Receivable	+	
Increase in Account Payable	+	
Decrease in Account Payable	-	
Increase in Inventory	-	
Decrease in Inventory	+	
Depreciation Expense	+	
Gains	-	
Losses	+	
Net cash from operating activities	\$	

INVESTING ACTIVITIES:

Sale of Property, Plant and Equipment	+	
Purchases of Property, Plant and Equipment	-	
Sale of Investment	+	
Purchases of Investment	-	
Loan from other entity	+	
Loan to other entity	-	
Net cash from investing activities	\$	

FINANCING ACTIVITIES:

Make loan from bank	+	
Paid loan to bank	-	
Paid dividends	-	
Sale own shares	+	
Purchases own shares (Treasury Stock)	-	
Net cash from financing activities	\$	

Cash increase or decrease for this period _____

Beginning Balance of Cash _____

Ending Balance of Cash **\$30,000** See B/S

CASH FLOWS

Purposes

- Reports about the uses and sources of cash
- Reports activities: operating, investing and financing

Limitations

- Does not present the liquidity of the company
- Does not provide projections on future cash flows

FINANCIAL STATEMENTS

Income Statement

Revenues

Service revenue \$20,000

Expenses

Rent expense 1,000

Salaries expense 1,000

Advertising Expense 1,000

Utilities expense 1,000

Interest expense 1,000

Total expenses 5,000

Net income \$15,000

Cash Flows

Operating Activities

Cash inflows \$10,000

Cash outflows 5,000

Net Cash Flows 15,000

Investing Activities

Cash inflows 2,000

Cash outflows 1,000

Net Cash Flows 1,000

Financing Activities

Cash inflows 20,000

Cash outflows 16,000

Net Cash Flows 4,000

Cash at end of the period \$20,000

Balance Sheet

Current Assets

Cash \$20,000

Account Receivable 10,000

Inventory 20,000

Non-Current Assets

Land 50,000

Total Assets \$100,000

Current Liabilities

Account Payable 5,000

Salaries Payable 5,000

Non-Current Liabilities

Notes Payable 30,000

Total Liabilities \$40,000

Stockholder's Equity

Capital Stock 45,000

Retained Earnings 15,000

Total Stockholder's Equity \$60,000

FINANCIAL STATEMENTS

ABC CORP
Changes in Equity
For the period ended 12/31/xxxx

CHANGES IN STOCKHOLDER'S EQUITY

	Capital Stock	Retained Earnings	Total Stockholder's Equity
Beginning Balance	\$0	\$0	\$0
Issuance of Stock	\$45,000		\$45,000
Add: Net Income		\$15,000	\$15,000
Less: Dividends		(\$0)	(\$0)
Ending Balance	\$45,000	\$15,000	\$60,000

Statement of Stockholders' Equity

Common Stock (external capital)

+

Retained Earnings (internal capital)

Stockholder's Equity

Capital Stock	\$45,000
Retained Earnings (From Net Income)	15,000
	\$60,000

COMPREHENSIVE INCOME

Includes gains and losses excluded from the Income Statement.

Comprehensive Income

NET INCOME



OTHER COMPREHENSIVE INCOME



COMPREHENSIVE INCOME

NOTES TO FINANCIAL STATEMENTS

THE COCA-COLA COMPANY AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

When used in these notes, the terms “The Coca-Cola Company,” “Company,” “we,” “us” and “our” mean The Coca-Cola Company and all entities included in our consolidated financial statements.

Description of Business

The Coca-Cola Company is a total beverage company. We own or license and market numerous beverage brands, which we group into the following categories: Trademark Coca-Cola; sparkling flavors; water, sports, coffee and tea; juice, value-added dairy and plant-based beverages; and emerging beverages. We own and market five of the world’s top six nonalcoholic sparkling soft drink brands: Coca-Cola, Sprite, Fanta, Coca-Cola Zero Sugar and Diet Coke/Coca-Cola Light. Finished beverage products bearing our trademarks, sold in the United States since 1886, are now sold in more than 200 countries and territories.

We make our branded beverage products available to consumers throughout the world through our network of independent bottling partners, distributors, wholesalers and retailers as well as the Company’s consolidated bottling and distribution operations. Beverages bearing trademarks owned by or licensed to us account for 2.2 billion of the estimated 64 billion servings of all beverages consumed worldwide every day.

Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”). The preparation of our consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities in our consolidated financial statements and accompanying notes. Although these estimates are based on our knowledge of current events and actions we may undertake in the future, actual results may ultimately differ from these estimates and assumptions. Furthermore, when testing assets for impairment in future periods, if management uses different assumptions or if different conditions occur, impairment charges may result.

Role of an External Auditor

- Express an opinion on the veracity of the Financial Information and the compliance with US GAAP.

Types of Opinions

- Unqualified opinion
- Qualified opinion
- Disclaimer of opinion
- Adverse opinion

“Our responsibility is to express an opinion on these financial statements based on our audits”.

Certified Public Accountants (CPA)

- State License
- Independent professional

Accounting Scandals

Enron

WorldCom

Xerox

Sarbanes-Oxley Act (SOX 2002)

- U.S. law: set new requirements for all U.S. public company boards, management and public accounting firms.

PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD (PCAOB)

- Supervise the audits of public companies to protect the interests of stakeholders.