Financial Statements

Explanations, Suggestions, and Tips

This page displays complete annual financials for the company's operations across all four geographic regions, including an income statement, a balance sheet, a cash flow statement, and selected financial statistics.

Income Statement

Sales Revenue represents the net revenues (after promotional discounts and exchange rate adjustments) the company received from sales in each geographic region and worldwide.

Cost of Goods Sold represent total production costs of both AC cameras and UAV drones. A breakdown of total production costs for cameras and drones is shown in the bottom section the Assembly and Facilities Operations report (page 1 of your Company Operating Reports).

Delivery Costs represent the total of the delivery costs the company incurred for all four geographic regions, as reported on pages 2 and 3 of your Company Operating Reports (COR).

Marketing Costs represent the sum of all the various expenditures the company incurred for marketing cameras and drones. The marketing costs for cameras are detailed on page 2 of the COR showing Market Segment Performance for cameras; the marketing costs for drones are detailed on page 3 of the COR showing Market Segment Performance for drones.

Administrative Expenses consist of general corporate overhead, expenses associated with managing and overseeing the company's two assembly facilities, and expenses associated with managing and overseeing the company's PAT workforce.

Corporate Overhead — Your company incurs annual administrative expenses of $5 million for executive salaries and other general corporate expenses—this amount is not expected to change in upcoming years. There are potentially additional corporate overhead costs associated with various Corporate Social Responsibility and Citizenship initiatives that you and your co-managers may decide to undertake in upcoming years. These potential overhead costs can include $300k annually for various environmental initiatives, up to $1.1 million for efforts to improve working conditions in the company's two assembly facilities, and $500k annually for instituting and administering a supplier code of conduct. For accounting purposes, all corporate overhead expenses are allocated to AC Camera operations and to UAV drone operations based on the percentage of total units sold. In Year 5, the company sold 840,000 action-capture cameras and 140,000 UAV drones, a total of 980,000 units—cameras thus accounted for 85.7% of total unit sales and drones accounted for 14.3%. Consequently, the Year 5 corporate overhead expenses of $5 million resulted in corporate overhead allocations of $4,286,000 to AC Camera operations and $714,000 to UAV drone operations.

Facilities Administration — Administrative costs to oversee and maintain the company's two assembly facilities average $2,700 per workstation space. In Year 5, administrative costs for the 300 workstations spaces in the AC Camera facility totaled $810,000. Administrative costs for the 110 workstation spaces in the UAV drone facility totaled $297,000. Administration expenses for these two facilities will increase in future years as more workstation spaces are added.

Workforce Administration — The administrative cost to manage the company's assembly workforce is $5,500 per PAT employed. This translated into administrative costs of $1,540,000 for 280 camera PATs employed in Year 5 and $517,000 for the 94 drone PATs employed. In future years, workforce administration expenses will increase when more PATs are employed to assemble cameras/drones.

Operating Profit (Loss) equals sales revenues *less* all the above listed expenses.

Interest Income (Expense) represents interest earnings on the company's ending cash balance from the prior year minus interest payments on loans outstanding. It is possible at some point in the exercise that the company pays off most or all of its loans and accumulates sufficient cash such that interest income on its cash balances exceeds its interest payments, in which case the number for Interest Income (Expense) will be positive rather than negative.

Other Income (Expense) will usually be a negative number if your company makes charitable contributions—charitable contributions appear as an expense on this line. Other Income or expense can result should your instructor decide, for some whatever reason, to award your company a "refund" or assess your company a "fine".

Pre-tax Profit (Loss) equals Operating Profit (Loss) adjusted for Interest Income (Expense) and Other Income (Expense).

Income Taxes equal 30% of company-wide pretax profits. No income tax is owed if the company incurs a pre-tax loss on worldwide operations.

Net Profit equals Pre-Tax Profit (Loss) minus Income Taxes paid. Should the company have a Net Loss, the Net Loss can be carried forward for one year and offset some or all of the income taxes owed the following year.

Balance Sheet

Except where specified, all entries on the balance sheet represent end of period numbers.

ASSETS

Cash on Hand equals the company's ending cash balance for the just completed year. In the event the cash on hand number is 0, then the Global Community Bank where your company does its banking business automatically loaned the company sufficient money to cover a year-end negative cash balance (the amount by which the company's checking account was overdrawn)—such "overdraft loans" are in an amount sufficient to bring your company's year-end cash balance to 0. Any such loans are due and payable at the end of the upcoming year. ***An overdraft loan carries a 2% interest penalty*** over and above what interest rate the bank would charge your company for a 1-year loan (which is based on your company's credit rating and the going interest rate for borrowers with your credit rating). To avoid such overdraft loans, you should always consider maintaining a year-end cash balance *cushion* of perhaps $10 to $15 million to cover any unexpected cash shortfalls. The Global Community Bank pays your company an annual interest rate on year-end cash balances; the agreed-upon interest rate is set at three percentage points below the prevailing interest rate for one-year loans to borrowers with an A+ credit rating.

Accounts Receivable are always equal to 25% of prior year worldwide net revenues from the sales of cameras to camera retailers and sales of drones to 3rd-party online retailers—the company grants such retailers 90-day payment terms on all orders. Customers buying UAV drones at the company's website pay for their purchases via credit card, so there are no accounts receivable on such purchases.

Component Inventories stem from the company's practice of maintaining a 10% reserve of camera and drone components at all times. This prevents disruptions of assembly operations in the event that components suppliers have unexpected delays (due to severe weather, transportation breakdowns, or other unusual circumstances) in delivering components on a just-in-time basis to the company's assembly plants.

Total Current Assets equal cash on hand plus accounts receivable plus component inventories.

Gross Investment in Plant and Equipment equals the amount the company has paid for its Taiwan facilities, workstations, robotics upgrades, and office furnishings and equipment in the both its corporate offices and sales offices it has in each of the four geographic regions. New gross investment occurs whenever facilities expansions for additional workstation space, new workstation installations, and robotics upgrades are undertaken.

Accumulated Depreciation equals the sum of all the amounts depreciated since the company commenced operations. The company's annual depreciation rate is 5% of gross investment, which equates to an *average* plant/equipment life of 20 years.

Total Fixed Asset Investment represents the still un-depreciated value of all of the company's gross investment in plant and equipment.

Total Assets are calculated by summing Total Current Assets and Total Fixed Asset Investment.

LIABILITIES

Accounts Payable represents the amounts owed suppliers for components used in assembling cameras and drones. Invoices submitted by suppliers for components are paid at the end of 90 days. So payments to components suppliers in any one year represent 25% of the components used in the last 90 days of the prior year and 75% of the components used in the just-completed year.

Overdraft Loan Payable represents the amount the Global Community Bank automatically loaned the company to cover any negative cash balance at the end of the most recent year—anytime such overdraft loans occur, the company's cash on hand at the beginning of the next year will be $0.

One-Year Bank Loan Payable is an entry that represents bank borrowing by company co-managers to finance company operations. The amount is scheduled for repayment in the following year. Note 6 to the balance sheet reports the interest rate on this 1-year loan.

Current Portion of Long-Term Loans represents the annual principal payments due in the coming year on 5-year and 10-years loans outstanding as explained in Note 7 below the Balance Sheet. Note 8 to the balance sheet shows the annual principal payments on each of the 5-year and 10-year loans outstanding; the sum of these annual payments equals the current-portion of long-term loans.

Total Current Liabilities equals the sum of the preceding liability entries.

Long-Term Bank Loans Outstanding equals the outstanding principal on all 5-year and 10-year loans that is *not* due and payable in the upcoming year. Note 8 to the balance sheet reports details of the company's long-term loans outstanding—the loan number, the year in which the loan was taken out, the initial principal, the interest rate, the term of the loan, the outstanding principal, the annual principal payment, and the annual interest payable. ***You will need to refer to Note 8 any time you and your co-managers opt to pay off a 5-year or 10-year loan in advance—decisions to prepay such loans require the entry of the loan numbers on the Finance and Cash Flow decision entry page***.

Total Liabilities equals the sum of Total Current Liabilities and Long-Term Bank Loans Outstanding.

SHAREHOLDER EQUITY

Common Stock represents the combined par value (at $0.50 per share) of all 20 million shares of common stock outstanding. Each new share of common stock that is issued will boost this balance sheet entry by $0.50. Each share of common stock that is repurchased will reduce this balance sheet entry by $0.50. Note 9 reports the number (in 000s) of shares of common stock outstanding at the end of the just completed year.

Additional Capital represents the amount that shareholders have paid for new shares over and above the par value of $0.50 per share. For example, if the company decides to raise additional capital by issuing 1 million shares of stock and the issue price is $25 per share, then the 1 million-share stock issue will generate $25 million in cash (1 million shares x $25 per share). In the stockholders' equity portion of the balance sheet, the Common Stock account will increase by $1 million ($1 par value x 1 million shares issued), and the Additional Capital account will increase by $24 million [($25 issue price – $1 par value) x 1 million shares issued].

Since the Additional Capital account represents the amount shareholders have paid for new shares over and above par value, this account is always debited for the full amount the company pays for repurchased shares in excess of par value. For instance, if the company decides to repurchase 1 million shares of outstanding stock at a buyback price of $38.50, then the 1 million-share stock repurchase will require $38.5 million in cash ($38.50 per share x 1 million shares retired). In the stockholders' equity section of the balance sheet, the Common Stock account will decrease by $1 million ($1 par value x 1 million shares retired) and the Additional Capital account will decrease by $37.5 million [($38.50 repurchase price – $1 par value) x 1 million shares retired].

Retained Earnings represents additional investment in the company on the part of shareholders. Your company's retained earnings represent all of the company's profits earned over all years of the company's operations that were not paid out to shareholders as dividends and thus were reinvested in growing the company's camera/drone business. The amount retained in any one year equals total net profits less dividend payments—in other words, ***any net profits not paid out to shareholders in the form of dividends are retained in the business*** and represent reinvestment of earnings in the business—such reinvestment is, in effect, additional money that shareholders have invested in company operations. As such, ***retained earnings represent stockholders' equity investment*** every bit as much as do the balance sheet entries for common stock and additional capital.

It is important for you to understand that ***retained earnings do not represent a hoard of cash that has been set away somewhere***. *All of the cash that is available to your company is shown on the balance sheet as Cash On Hand.* The amount of cash a company has on hand is something entirely different from the amount of retained earnings reported in the shareholder equity section of the balance sheet—the two are totally unrelated. You should view retained earnings as merely an accounting entry on the balance sheet that reports the company's cumulative reinvestment of net profits not paid out as dividends—further, retained earnings are also adjusted *downward* by the amount of net losses the company reports.

Total Shareholder Equity equals the sum of the entries for common stock, additional capital, and retained earnings. Note that there are numbers showing shareholder equity at the beginning of the year and the end of the year and the entries—common stock, additional capital, retained earnings—in which the changes occurred.

> **Important Note:** ***Your company's performance is judged on Return On Average Shareholder Equity—defined as net profit divided by the average of total shareholder equity at the beginning of the year and the end of the year—see Note 11. Your company's Return On Average Shareholder Equity is shown in the shaded line just under the Total Shareholder Equity.***

Cash Flow Statement

CASH AVAILABLE

Beginning Cash Balance represents cash on hand left over from the previous year. The beginning cash balance is never negative because your company's arrangement with Global Community Bank calls for the bank to automatically lend an amount sufficient to bring the cash balance to $0 in any year that your company runs short of cash. A beginning cash balance of $0 is a reliable signal that such an automatic loan was granted. Positive beginning cash balances are desirable and reflect better cash flow management. Moreover, the beginning cash balance is the amount on which your company will earn interest—the Global Community Bank pays the company an *annual* interest rate on cash balances equal to 3% below the "prime rate" it charges on loans to companies with an A+ credit rating.

Cash Inflows consist of monies coming in from some or all of six sources:

Receipts from Sales represent cash flowing in from the sales of cameras/drones during the just completed year. This is usually your company's biggest cash inflow component in the report year. Receipts from camera/drone sales consist of (1) 25 percent of the sales revenues in the previous year (which were not received from camera retailers and 3rd-party online retailers until the report year) and (2) 75% of the camera/drone sales revenues that your company reported this year. Cash inflows from calendar sales do not correspond to calendar year revenues because the company grants 90-day payment terms on the orders it receives from camera retailers across the world and 3rd-party online retailers of UAV drones.

Bank Loans constitute a cash inflow because all of the money your company borrowed in the report year via 1-year, 5-year, and 10-year loans is available for funding cash outlays in the year the loans are taken out.

Stock Issues during the report year are a source of cash available for use in the event you elect to raise additional equity capital by issuing shares of common stock. The full amount of the proceeds of new issues of common stock are available for use in the year the new shares are issued. The cash inflow that results from issuing additional shares equals the number of shares issued multiplied by the issue price per share.

Loan to Cover Overdraft brings your otherwise overdrawn checking account balance up to $0. Should the company run short of cash unexpectedly, an overdraft loan will be issued automatically.

Interest Income on Prior-Year Cash Balance is earned on any positive cash balance at the beginning of each year. The interest rate paid on cash balances is always 3 percentage points below the prevailing interest rate for a one-year loan to a borrower with an A+ credit rating. All interest earned on the company's prior-year's beginning cash balance is paid in the report year and thus is available for the company's use in paying its expenses and other cash obligations.

Cash refund represents a source of cash if your instructor believes special circumstances or some unusual event warrants awarding your company a cash refund. Any such refunds appear on this line, but normally the entry here will be $0.

CASH OUTLAYS

Payments to Components Suppliers represent the amounts owed for (1) 25% of the components used in assembling cameras/drones in the last 90 days of the prior year and (2) 75% of the components used in assembling cameras/drones in the report year (as explained in Note 2 to the Cash Flow Statement). Payments for components delivered from suppliers are not due and payable for 90 days following receipt of those components.

Production and Assembly Expenses represent cash outlays for all non-component production and assembly expenses except depreciation (which is a non-cash accounting charge); these payments cover worker compensation, PAT training and productivity improvement, product R&D, plant operations and maintenance, and allowances for warranty repairs.

Delivery, Marketing, and Administrative Expenses cover cash outlays for shipping fees, import duties, all marketing-related efforts (such as retailer support, advertising, and the costs of website operations), and general administrative expenses. Breakdowns of these expenses for each geographic region are reported on pages 2 and 3 of the Company Operating Reports.

Capital Outlays include payments for new workstations, robotics upgrades, assembly facilities expansions, and any capital expenditures incurred as part of the company's efforts to display corporate social responsibility and citizenship.

Principal Repayments on Bank Loans must be made as scheduled for 1-year, 5-year, 10-year, and overdraft loans (overdraft loans are treated as 1-year loans). The scheduled principal payments on each outstanding loan appear in Note 8 for the Balance Sheet.

Interest Payments include the interest due on overdraft loans and all other outstanding bank loans. The interest due on each bank loan is shown in Note 8 for the Balance Sheet.

Stock Repurchases reflect how much cash the company used to buy back shares of common stock during the report year. The cash outflow that results from repurchasing shares equals the number of shares repurchased multiplied by the repurchase price per share.

Income Tax Payments are based on a tax rate equal to 30% of pre-tax income as reported in the company's Income Statement. However, in the event your company loses money in a given year, the loss would be carried forward for one year. Thus, the taxes paid in any one year could turn out to be less than 30% of current-year pre-tax profits if your company lost money in the prior year.

Dividend Payments to Shareholders are always equal to the dividend declared per share multiplied by the number of shares outstanding (after the repurchase of any shares during the report year). For instance, if your company had 10 million shares of common stock outstanding and paid an annual dividend of $1.00 per share, then the cash outlay for dividend payments would be $10 million. An entry of $0 for this item indicates your company decided to declare no dividend in the report year.

Charitable Contributions may or may not be a part of your company's social responsibility strategy. If they are, then amount of the charitable contribution for the report year appears on this line.

Cash Fines may on rare occasions be assessed by your instructor for certain actions taken by your company that were deemed to be illegal or "out-of-line." The amount of any such fines appears as an entry on this line.

The total of all cash payments your company was obligated to make during the report year equals the sum of all the cash payments listed in the Cash Outlays section of the Cash Flow Statement.

NET CASH BALANCE

Your company's net cash balance at the end of the report year is shown on the shaded line at the bottom of the Cash Flow Statement.

CASH FLOW NOTES

It is recommended that you read the Notes at the bottom of the Cash Flow Statement. Why? To help ensure you have a strong grasp of company operations and how things work.

The Selected Financial Statistics

This section shows your company's standing on each of the three measures determining your credit rating, plus your company's overall operating profit margin and net profit margin across all operations, your dividend payout ratio (the percent of net profit paid out as dividends, and total market capitalization (which is equal to your company's year-end stock price times the number of shares of common stock outstanding).

