

# Introduction to Financial Engineering

ENMG 602

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## Financial Statements – Income Statement [Voice over Slides Video] (Chapter 1, Antle)

## Financial statements: Income statement

- An organization's income statement lists the economic resources acquired (revenues) and consumed (expenses) through operations over a period of time.

**Union Plaza Hotel and Casino, Inc. and Subsidiaries**  
**Income Statement for the Year Ended December 31, 2001**  
(dollars in thousands)

REVENUES	
Casino	\$37,807
Food and beverage	10,351
Rooms	11,110
Other	2,524
	<u>61,792</u>
GROSS REVENUES	61,792
Less promotional allowances	(6,922)
NET REVENUES	<u>54,870</u>
OPERATING EXPENSES	
Casino	\$22,865
Food and beverage	8,997
Rooms	4,294
General and administrative	5,155
Entertainment	591
Advertising and promotion	1,329
Utilities and maintenance	6,712
Depreciation and amortization	4,130
Provision for doubtful accounts	44
Other costs and expenses	1,246
	<u>55,363</u>
TOTAL OPERATING EXPENSES	\$55,363
OPERATING INCOME (LOSS)	\$ (493)
OTHER INCOME (EXPENSE)	
Interest income	3
Loss on sale of assets	(159)
Interest expense	(2,265)
	<u>(2,421)</u>
TOTAL OTHER INCOME (EXPENSE)	(2,421)
NET LOSS	<u>\$ (2,914)</u>

## Financial statements: Income statement

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- The income statement reports success or failure of company's operations during the period.
- Relative to the balance sheet, the income statement explains the *change in retained earnings* between the beginning and end of the period.

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**Financial Statements – Statement of Cash Flow**  
**[Voice over Slides Video]**  
**(Chapter 1, Antle)**

## Financial statements: Cash flow statement

- An organization's cash flow statement describes flow of cash into and out of organization during a period.
  
- The cash flows are classified as one of three types
  - *Operating activities*. Intended to generate net income.
  - *Investing activities*. Resulting from acquiring or disposing of productive company assets.
  - *Financing activities*. Payments to or receipts from suppliers of money (e.g., shareholders or debt holders).
  
- Relative to the balance sheet, the income statement explains the *change in cash* between the beginning and end of period.

## Financial statements: Cash flow statement

**Union Plaza Hotel and Casino, Inc. and Subsidiaries**  
**Consolidated Statements of Cash Flows for the Year Ended December 31, 2001**  
**(dollars in thousands)**

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$54,761
Cash paid to suppliers and employees	(51,314)
Interest received	3
Interest paid	(2,384)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ 1,066</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sale of property and equipment	\$ 42
Purchase of property and equipment	<u>(1,173)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>\$ (1,131)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Principal payments on short-term contracts	\$ (158)
Proceeds from long-term debt	2,000
Principal payments on long-term debt	(641)
Principal payments on capital leases	<u>(919)</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>\$ 282</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	
	\$ 217
CASH AND CASH EQUIVALENTS, at beginning of the year	<u>3,335</u>
CASH AND CASH EQUIVALENTS, at end of the year	<u><u>\$ 3,552</u></u>

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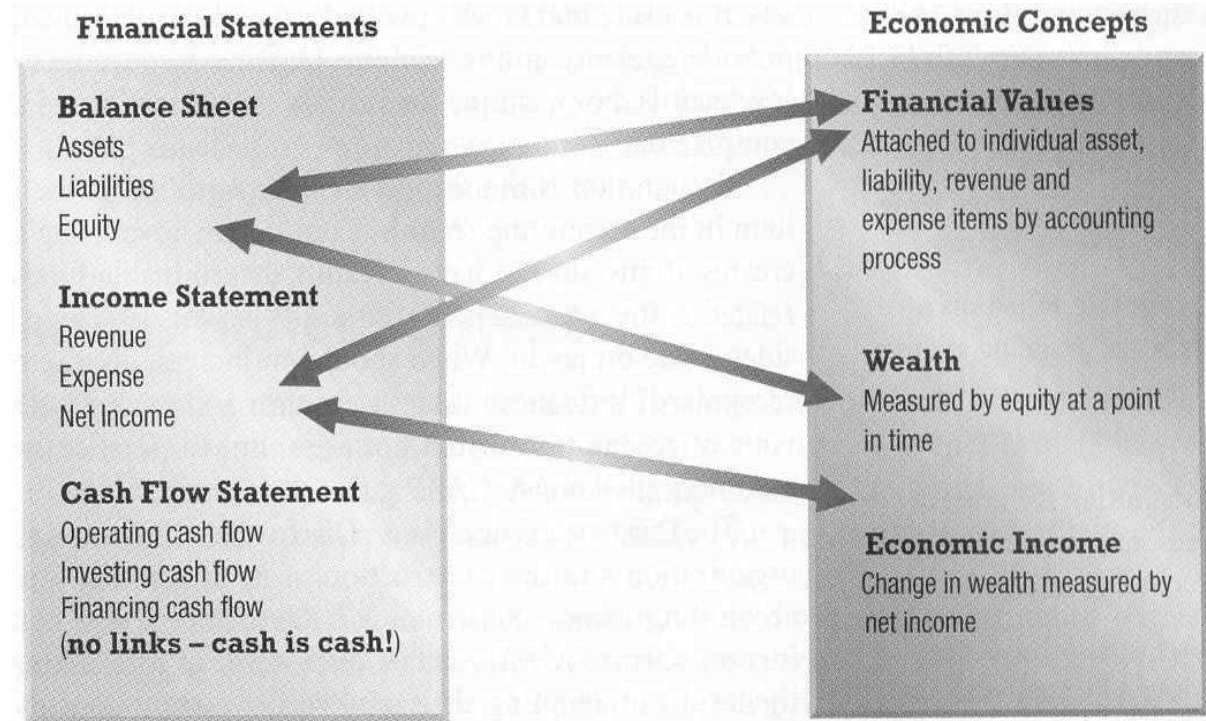
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**Mapping of Econ Concepts & Annual Report**  
**[Voice over Slides Video]**  
**(Chapter 1, Antle)**

## Financial statements & economic concepts

- Financial statements measure, to the extent possible, the economic status of an organization.
- Financial statements and economic concepts are related as shown on the right.





## Annual report

- The balance sheet, the income statement and the cash flow statement are part of a comprehensive financial report called annual report.
- The annual report contains other elements.
  - *Retained earnings statement.* Shows changes in retained earnings during the period covered by the statement.

FASTFORWARD Statement of Retained Earnings For Month Ended December 31, 2007	
Retained earnings, December 1, 2007 .....	\$ 0
Plus: Net income .....	4,400
	<u>4,400</u>
Less: Dividends .....	200
Retained earnings, December 31, 2007 .....	<u>\$ 4,200</u>

## Other elements of annual report

- *Management Discussion and Analysis*. Covers three aspects of an organization,
  - *Liquidity*. Ability to pay near-term obligations.
  - *Capital resources*. Ability to fund operations and expansions.
  - *Results of operation*. Profitability and efficiency.
  
- *Notes to financial statements*. Clarify and expand information included in the body of the statements.

### Union Plaza Hotel and Casino

#### (Excerpts from footnote 1: A Summary of Significant Accounting Policies)

Property and equipment are stated at cost. Depreciation is computed using the straight-line method.

The retail value of admissions, food and beverage and other complimentary items furnished to customers without charge is included in gross revenue and then deducted as promotional allowances.

## Other elements of annual report

- *Auditor's report.* The Auditor (an independent accountant) gives an opinion on whether the financial statements present the financial position, the results of operations, and the cash flows in accordance with GAAP.



### **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BANK AUDI sal**

#### **Adverse Opinion**

We have audited the consolidated financial statements of Bank Audi SAL (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, because of the significance of the matters discussed in the "Basis for Adverse Opinion" section of our report, the accompanying consolidated financial statements do not present fairly the consolidated financial position of the Group as at 31 December 2019 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).