



LCBS-2022-009-22-HowToReadFinancialStatements-Part4of4-AnnualReports.pdf

DISCLAIMER - I am not a Financial Advisor and do not work for any Brokerage Firm. The opinions given are of my own and are not to be used as professional advice. These are my findings and can hopefully help you to make informed decisions on investing. Consult a Broker or Lawyer before making any investment.

How to Read Financial Statements - Part 4

The Annual Report

The year 2022 has proven that it is crucial for us to know what we are buying when purchasing Stocks. The markets are very negative right now meaning we must understand how we are investing our money very carefully.

We started our study on reading financial statements 3 weeks ago beginning with the balance sheet. We then covered the Income Statement, followed last week with the Cash Flow Statement. If you missed any of those articles, I suggest reading them before proceeding into part 4 which will be the Annual Report.

Article on reading the balance sheet which was part 1 of reading financial statements.

<https://lifecanbesimple.net/blog/how-to-read-financial-statements-part-1-of-4-balance-sheet>

Article on reading the Income Statement which was part 2 of reading financial statements.

<https://lifecanbesimple.net/blog/how-to-read-financial-statements-part-2-of-4-the-income-statement>

Article on reading the Cash Flow Statement which was part 3 of reading financial statements.

<https://lifecanbesimple.net/blog/how-to-read-financial-statements-part-3-the-cash-flow-statement>

I gave instructions on how to download the 10Q and 10K filings at sec.gov and their meanings in both part 1 and part 3. Refer to those articles on how to download the financial statements for specified companies.

THE ANNUAL REPORT

One of the important financial statements is the Annual Report. While this is more of a summary of the company's activities in the covered period, it does sometimes give an easier to understand view of what has been happening for the company, also the economy summary during the period (sometimes reflecting how this affected the company), and sometimes what earnings and changes they expect for the future. Remember this is all biased towards the company, but still must be factual. Note as mentioned below, the Annual Report is more of a summary and does not

fully reflect everything as does the 10-K report which is part of the SEC filings.

The annual report is a publication that public corporations are required by law to publish annually. It describes the company's operations and financial conditions so that current and potential shareholders can make informed decisions about investing in the company.

Most annual reports are divided into two sections.

Section 1 shows the narrative of the company's performance over the previous year.

Section 2 strips the narrative out of the picture and presents a variety of financial documents and statements.

In section 1, you find information regarding the company's performance over the previous year as well as some forward-looking statements. These may include a letter to the shareholders from the executive office, chief financial officer, or other key figures such as plus graphs, charts, and photos.

In section 2, you see more of the directly related financial documents and statements. (Balance Sheet, Income Statement, Cash Flow Statement, etc.)

Unlike other pieces of financial data (sometimes that include editorials and stories about the company), annual reports are typically designed and used as marketing collateral. Annual reports are sent to shareholders every year before the annual shareholder meeting when the election of the board of directors takes place. Sometimes these annual reports are posted on the company's website.

Annual Report in comparison to 10-K report

Annual reports aren't the only documents public companies are required to publish yearly. The US Securities and Exchange Commission (SEC) requires public firms to produce a 10-K report, which informs investors of a

business's financial status before they buy or sell shares. While the two reports share similar data, the two documents are separate.

10-K reports are organized per SEC guidelines and include full descriptions of a company's fiscal activity, corporate agreements, risks, opportunities, current operations, executive compensation, and market activity. You can also find detailed discussions of operations for the year, as well as a full analysis of the industry and workplace.

Because of this, 10-K reports are longer and denser than annual reports and have strict filing requirements—they must be filed with the SEC within 60 to 90 days after the end of the fiscal year. If you need the 10-K report, remember that it is available on the SEC website. (SEC.GOV)

Contents of the ANNUAL REPORT

An annual report consists of the following:

Management's Discussion and analysis which is the detailed analysis of the company's performance as conducted by its executives.

Audited financial statements: These are financial documents that detail the company's financial performance. These include the Balance Sheet, Cash Flow Statements, Income Statements, and Equity Statements.

Letters to the Shareholders: These give a broad overview of the company's activities and performance over the previous year. They typically will reflect on its general business environment. Letters may be included from the president, CEO, or Chief Financial Officer. (CFO)

A summary of financial data: This refers to any notes or discussions that are pertinent to the financial statements.

Auditor's Report: This report describes whether the company has complied with generally accepted accounting principles (GAAP) in preparing its financial statements.

Accounting Policies: An overview of the policies the company's leadership team relied upon in preparing the annual report.

WHAT TO LOOK FOR IN AN ANNUAL REPORT

Some information is more important than others in the annual report. The annual report provides data that is not obscured by any sort of narrative or opinion. Of course, the most important of the four reports that are crucial to the investor are the balance sheet, the income statement, and the cash flow statement.

In summary (refer to each article for greater information), the balance sheet shows the company's assets, liabilities, and owner's equity.

The Income Statement shows the revenue and expenses for the set period to gauge the financial performance. It shows all the activities for that period.

The Cash Flow Statement provides what happened to the business's cash during the accounting period. It reconciles the beginning and ending cash balances. It shows the liquidity for the period. It shows the sources of cash inflows and outflows.

On the annual report, you can learn more details about what type of company you work for and how it operates.

- Whether it's able to pay debts as they come due
- Its profits and/or losses year over year
- If and how it's grown over time
- What it requires to maintain or expand its business
- Operational expenses compared to generated revenues

The Annual report provides information for both investors and employees of the company. Being able to analyze annual reports helps you to gain a clearer picture of where a company sits in its industry and how it is doing during the current economy.

Reading and understanding financial information allows you to read without a certified accountant. If you are an investor, being able to read all the financial statements allows you to make good decisions about whether to invest in a company. (or sell your position if doing poorly).

I hope with all of the information given on all 4 of the financial statements, you can not begin looking at these

filings at SEC.gov and make better decisions when deciding whether to buy (or sell) a specific company's stock.

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