Scenic Video Transcript

What Do I See on Balance Sheets: Reporting Dates and Periods

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Transcript

One of the first things you wanted to do when analyzing financial statements is determine the reporting dates for the balance sheets and the reporting periods for the income statement and cash flow statements.

This video will explain the distinction between a reporting date and a reporting interval or reporting period and it will also explain a related concept called fiscal year. Now the fiscal year is distinct from the calendar year and we'll make that difference clear here. The reason we're doing all this is to help you understand how to analyze three airlines, and in particular, when analyzing those three airlines, what the importance is of understanding fiscal year ends and we'll demonstrate that vividly by looking at the period 2007 through 2010. Let's get started.

Terms & concepts:

Dates & periods

Here we see Bischoff, our fictitious company, has two reporting dates. We have December 31, 2012 and we have December 31, 2013 and this is a statement of financial position, which is of course the balance sheet for Bischoff. Now let's look at a timeline that will help us understand some concepts here. On this timeline, I'm going to put the dates for the balance sheets: December 31, 2012 and December 31, 2013. These are reporting dates, one here and one over here. And that's when balance sheets are measured.

And that's distinct from the time period in between, which of course is an interval of time and that interval of time is known as a reporting period. For example, balance sheets are measured at a point in time and income statement and cash flows are measured over reporting periods. Let me try to make this intuitive for you. If I ask you how much money you have in the bank right now, your answer would be measured at a reporting date, namely, today, how much cash do you have.

On the other hand, if I asked you how much money you had earned during the prior year from your jobs or whatever, that would be measured over a reporting period. Now reporting period measures are generally called flows. How much cash, for example, flowed over the last period as you were bringing money in from your employment. And that's distinct from measurements at a point in time; which are called stocks. So how much cash do you have stockpiled currently?

So these important concepts, reporting period and reporting dates, are critical to keeping in mind as you're analyzing financial statements. One measures over a period, the other at a point in time.

Calendar and fiscal years

There's a related concept called a fiscal year end. Now to understand the concept of a fiscal year end, we first observe that for Bischoff, these are calendar year end dates in most countries. That is, in most countries the year ends December 31st outside the business world. Now businesses sometimes have year ends that differ from calendar year ends and those are called fiscal year ends or fiscal years. For Bischoff, we see that the fiscal year end is December 31st and that agrees with the calendar year end.

This is true actually for many companies, but we're going to see shortly that this is not true for all companies; and in fact quite a few companies have fiscal year ends that differ from their calendar year ends and when analyzing financial statements, you need to know this difference — in particular, when the economy is shifting as it has for the periods 2007 through 2009.

Company disclosures:
Southwest Airlines

Let's get started with some examples. Southwest Airlines has a balance sheet that's measured at December 31st and that means, like Bischoff, its calendar year and fiscal year is exactly the same. So that's not much to be observed here that was different from the prior slide. So let's move on to another example.

Qantas

Qantas Airlines is quite different than both Bischoff and Southwest because its fiscal year ends June 30th 2009. Let's look at what we can learn about the distinction between these fiscal year ends for these two airlines and why it's important.

Let's look first of all at Qantas. Its fiscal year goes from June 30th, let's say 2007, and I want to go back to 2007 to make a very important point, and it ends out here let's say June 30th

2008. And then we'll extend it out to 2009, which is what we have here in our balance sheet on the left. If we do that, this is going to be Qantas' fiscal year.

Southwest's fiscal year, you might recall, went from December 31, 2007 to December 31, 2008. Now let me explain with a very vivid example why it's important to make the distinction between these fiscal year ends. If I look at oil prices over this time period and I want to draw a curve here and I'm just going to try to rough it out for you. If I look at oil prices during 2007 they went up and then sometime in 2008 they began to drop. This was a huge increase and a huge decrease. So oil went from like $50 a barrel up to $150 a barrel. Now think of the consequences of that for airlines: one of their biggest costs of operating is their fuel prices.

And so this had a dramatic effect on the balance sheet, on the income statement, on the cash flow statement for airlines. And, if we look at fiscal year ends, we see that both the fiscal years and the fiscal year end consequences were different for these two companies.

So if we look at, for example, Qantas, Qantas' fiscal year went from here to here — and the graph could be off in terms of the timing of the increase and decrease in oil prices — but if we just take this picture, it looks like oil prices strictly went up and that's going to have a big effect, negative, on the balance sheet and on the income statement and cash flow statement for that period.

Now we can contrast that to Southwest. Remember this is Southwest's fiscal year, where prices went up and went down. If we look at this, what we see right away is that if we were to compare the end of Qantas' fiscal year to the end of the fiscal year for Southwest Airlines, that would not be a good comparison.

One is at the top of the oil prices and the other at the bottom and that's the critical point here. And, that point is made again if we went into the next year because as you went forward into 2008–2009, starting in late 2007 and extending right into 2009 was a gigantic economic crisis. That economic crisis had a big impact on businesses and on consumers because many people are unemployed and therefore, people were less inclined to want to fly airplanes. And the affect of that crisis was spread out from 2007 to 2008 and the consequences got progressively worse for the airlines and then improved when the oil prices came down, but not much.

The important point here is, you'd have to make adjustments when comparing these two airlines for the fact that they have different fiscal year ends. And, in fact, the way we do that is through something called interim reports.

Now interim reports, as the word would suggest, are reports that come out within the year. For example in America, Southwest Airlines would issue quarterly reports — every three months a report — and by looking at those quarterly reports we could adjust for differences between fiscal year ends by putting companies on comparable quarterly reports.

In many countries they don't have quarterly reports; but they have bi-annual reports. So interim reports are a way to adjust for these differences, but if you don't adjust for these differences and you're not aware of them, you could make some pretty disastrous conclusions about the financial conditions of these two companies because you'll be comparing them in dramatically different points of time.

British Airways

The third example that we have on an airline is British Airways and British Airways has a completely different fiscal year end, it's March 31st. So we have a March 31st, a June, and a December fiscal year end within the same industry.

So what should you know by now?

Take-aways

Well, here's some important takeaways.

First of all, reporting dates. Balance sheets are measured at reporting dates — at points in time.

Reporting periods — reporting periods are intervals between reporting dates and we measure income statements and cash flow statements over reporting periods.

The distinction between a calendar year and a fiscal year — calendar years are, in most countries, December 31st year ends; but fiscal years, we saw a difference for Southwest, Qantas and British Airways and the importance of those differences was that if we didn't adjust for those differences and there were huge changes going on in the economy, such as big swings in oil prices or the economic crisis, then we'd be comparing apples and oranges when we look at the balance sheets and compare the balance sheets and their income statements and cash flow statements.

So I hope you've enjoyed this video and I hope you found it instructive. Thank you.

Sources: Southwest Airlines Co., www.southwest.com. Qantas Airways Limited ABN, www.qantas.com. British Airways Plc, www.bashares.com.