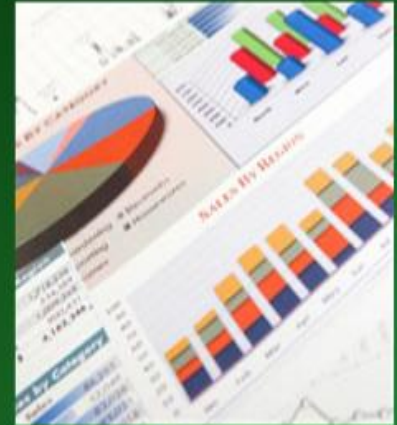


HOW TO INTERPRET AND ANALYSE

FINANCIAL STATEMENT

& CASH FLOW ANALYSIS

FOR BETTER DECISIONS MAKING



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An Overview of Understanding Keys Financial Statements

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Profit and Loss Account and Balance Sheet

Profit and Loss
Account



*Company's
Performance and Achievements*

Balance
Sheet



*Company's
Financial Health*

Statement of Financial Position (Balance Sheet)



Reveals the financial health of a company

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$

Long term and short term balances

Assets (Owned and Used by Business)	Liabilities (Amounts Owed & Fund Sources)
Fixed Assets (Long Term in Nature) Machinery Computer Equipment	Owners Funds - Capital Issued Stock Retained Earnings
Current Assets (Short Term in Nature) Inventory (stock) Accounts Receivable Cash in the bank	Long Term Liabilities - Loans etc Bank Loans Mortgage
	Current Liabilities - (short term) Accounts Payable Taxes Due

Balance Balance



How can you increase the assets with out corresponding increase in liabilities ???

Financial health checkup ratios

Operational Ratios:

- Profitability Ratios
 - Assess profits relative to amount of resources used
- Activity (Turnover) Ratios
 - Assess amount of activity relative to amount of resources used

Financial Ratios:

- Liquidity Ratios
 - Assess ability to cover current obligations
- Leverage Ratios
 - Assess ability to cover long term debt obligations

Valuation Ratios:

- Assess market price relative to assets or earnings

Profitability Ratio – ROCE (Return On Capital Employed)

- Measure the returns that a Company is realizing from its Capital
- Calculated as PBIT divided by the difference between total assets and current liabilities
- Represents the efficiency with which capital is being utilized to generate revenue

$$\text{ROCE} = \frac{\text{PBIT}}{\text{Capital Employed}}$$



AR COLLECTION PERIODS

Average account receivable collection periods :

Trade receivable

----- X 365 days

Credit Sales



LIQUIDITY RATIO : CURRENT RATIO

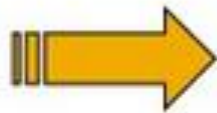
- An indication of a company's ability to meet its short term debt obligations.
- Calculate how much money the current asset could be converted to cash within a year to pay the debt that due within a year
- The higher the ratio, the more liquid the company is



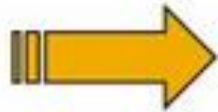
$$\text{Current Ratio} = \frac{\text{Current Asset}}{\text{Current Liability}}$$

HOW CASH FLOWS DURING AN ACCOUNTING PERIOD

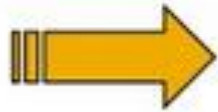
Inflows



Operating Activities

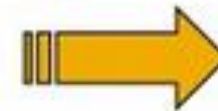
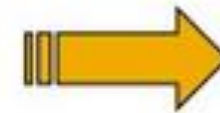


Investing Activities



Financing Activities

Outflows



Total Inflows **less** Total Outflows =
Change in cash for the accounting period

Break Even Point (BEP) analysis

- The level of sales at which profit is zero
- A marginal costing technique to find the break-even point in term of units and value of sales



$$\text{BEP (units)} = \frac{\text{Fixed Cost}}{\text{Contribution / unit}}$$

Break even analysis.

Model speciality Pens				
No.of sales	9,259	18,519	27,778	37,073
Unit sale price	27	27	27	27
Variable cost /Pen	19	19	19	19
Contribution/Pen	8	8	8	8
Fixed costs	80,000	80,000	80,000	80,000
Profit	(2,502)	75,004	152,502	230,301
Break even point				
Fixed costs/ Contribution	9,558		Pens	



DIFFERENT BUDGETING TECHNIQUES

Incremental budgets

- Based on actual previous year expenditure, with a percentage added for inflationary increase for the next year.
- Easy method that saves time but often inaccurate.
- Suitable for similar activities from year to year.
- Very few dynamic organisations or projects are so stable



Zero based budgets

- Past figures are not used as the starting point.
- Starts from “scratch” with the proposed activities for the year.
- Result is more detailed and accurate, but takes more time and energy.
- Essential for new organisations and projects, also probably the best route to go in dynamic organisation that is proactive in new challenges.

PUTTING IT ALL TOGETHER



Available for In house / Public program for:

- Finance for Non Finance Managers
- Interpreting Financial Statements
- Budgeting and Cashflow Forecasting and Reporting
- GST – Business Implication & Tax Submission

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