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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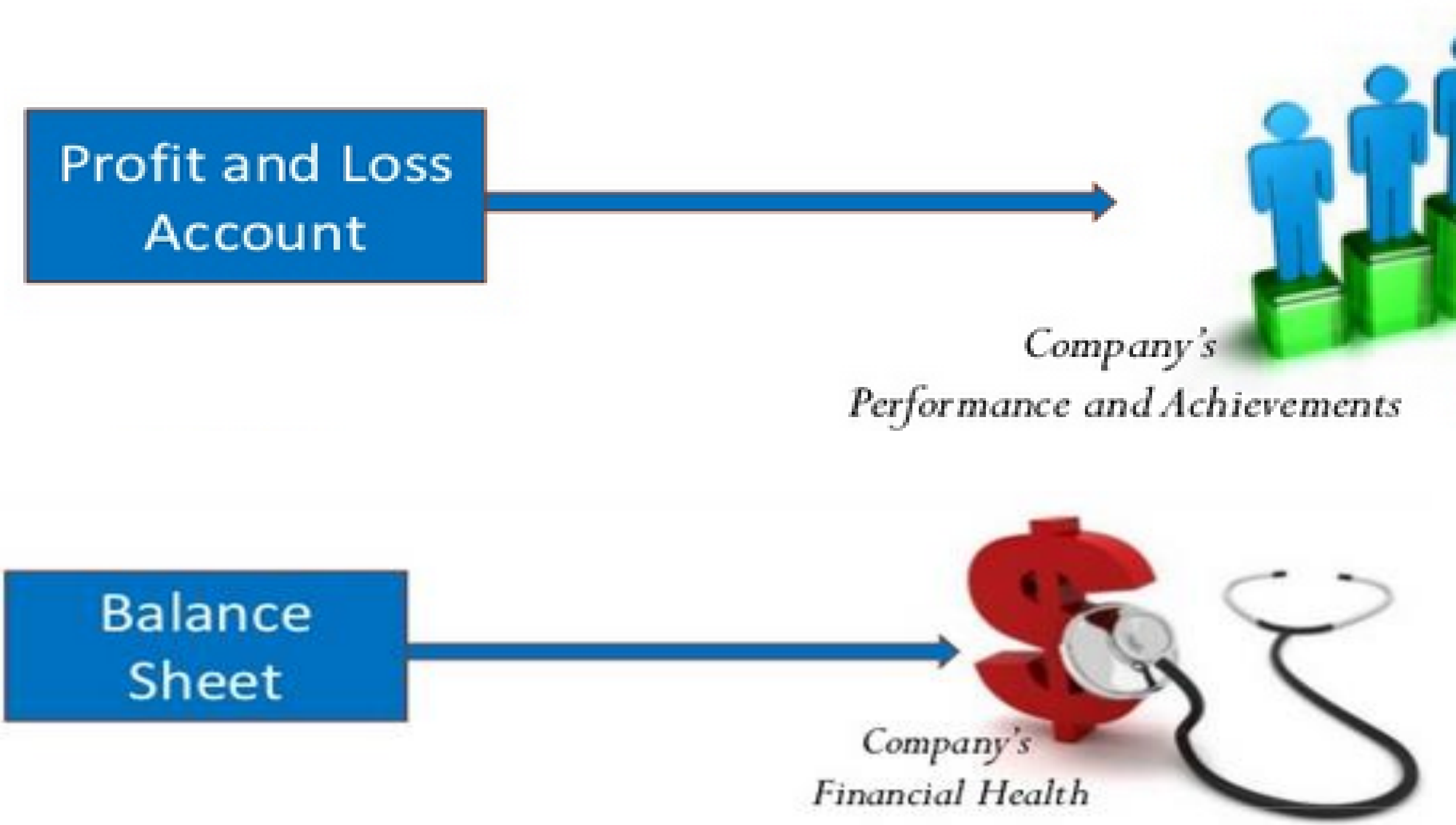
Profit and Loss Account and Balance Sheet

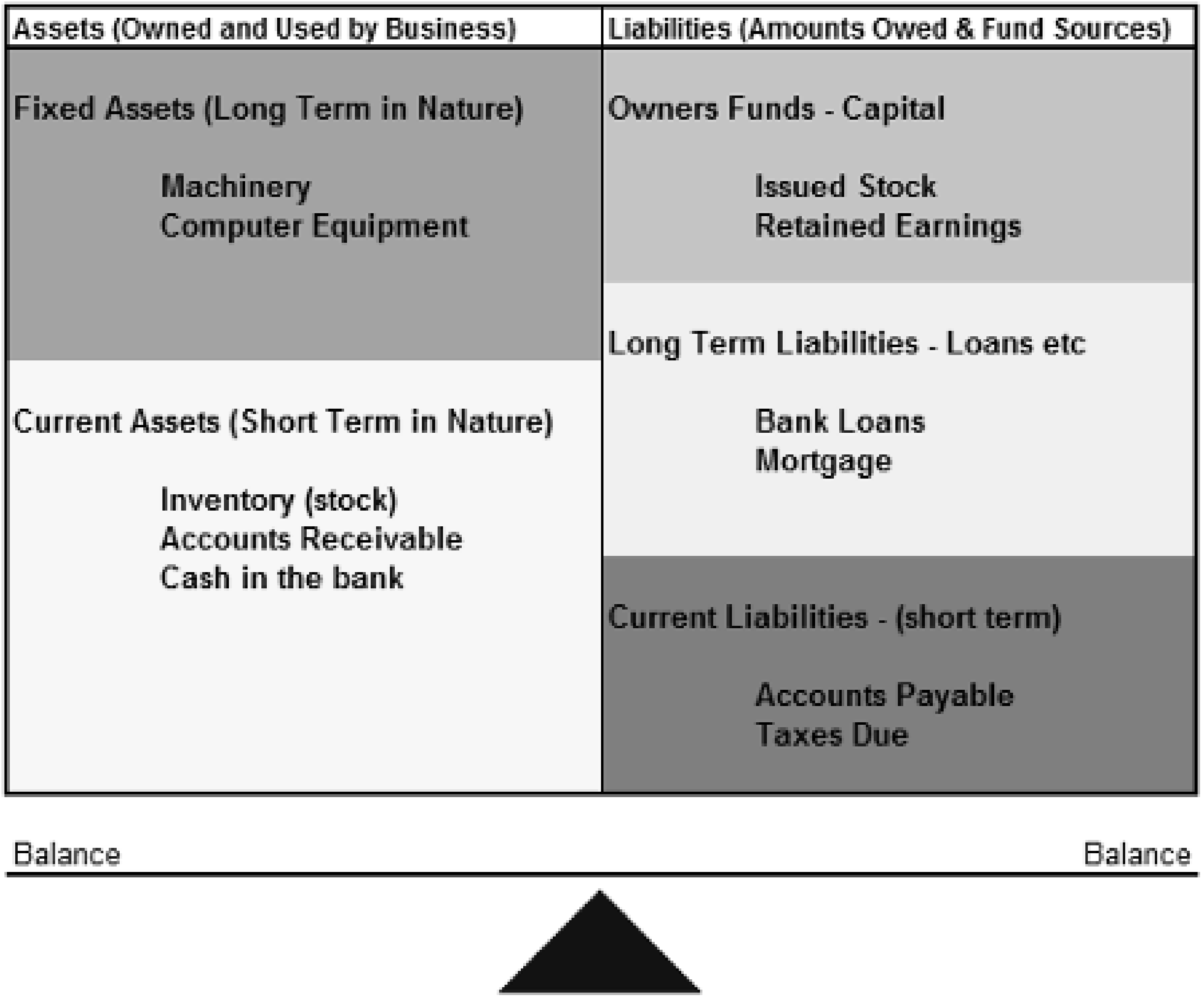


Statement of Financial Position (Balance Sheet)

Reveals the financial health of a company

Assets = Liabilities + Equity

Long term and short term balances



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

Financial health checkup ratios

Operational Ratios:	Financial Ratios:	Valuation Ratios:

• Profitability Ratios
  • Assess profits relative to amount of resources used
• Activity (Turnover) Ratios
  • Assess amount of activity relative to amount of resources used
	• Liquidity Ratios
	  • Assess ability to cover current obligations
	• Leverage Ratios
	  • Assess ability to cover long term debt obligations
		• Assess market price relative to assets or earnings

Profitability Ratio – ROCE (Return On Capital Employed)

- Measure the returns that a Company in 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 | **Outflows**

Operating Activities

Investing Activities

Financing Activities

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

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

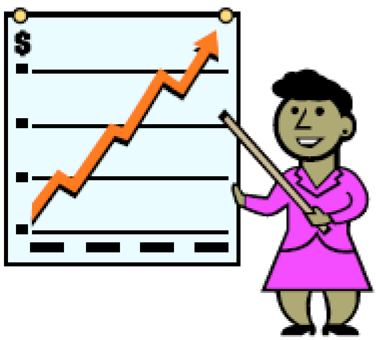
Break even analysis.

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 pervious 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

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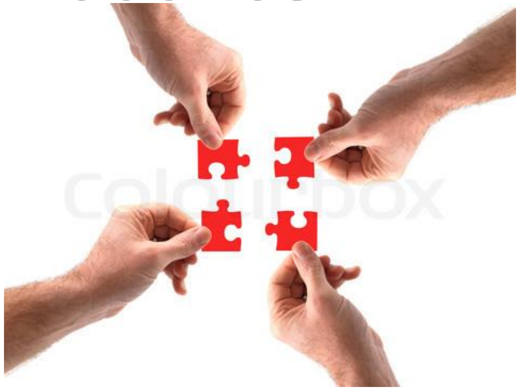

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