

MODULE 03: FINANCIAL ANALYSIS

Lecture Title 09: Revision Session No. 2



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Date: 18 February 2023

**Undergraduate Diploma in
Business Administration**

Self-Assessment Results

- Session 01 – Average 7 / 20
- Session 02 – Average 19 / 20

Total Average – 26 / 40

Total % Success – 64%



Answers to MCQ

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
A	0	1	15	6	11	17	1	11	17	0	1	18	15	1	1	8	16	16	5	13
B	0	3	2	11	2	1	0	4	1	1	6	0	2	1	3	1	1	0	6	0
C	19	1	1	1	5	0	0	4	1	11	10	1	2	1	3	0	1	3	7	4
D	0	14	1	1	1	1	18	0	0	7	2	0	0	16	12	10	1	0	1	2

Self-Assessment Questions

1. **Financial accountancy is governed by**
 - A. local standards only
 - B. international standards
 - C. local as well as international accounting standards**
 - D. company's internal top management only

2. **Which is not a limitation of financial accounting?**
 - A. Inadequate information to fix up the price of products manufactured
 - B. Lack of data for comparison of cost of operation of the firm with other firms in the industry
 - C. The data available is historical in nature
 - D. Complies with the various legal requirements**

Self-Assessment Questions

3. Financial accounting reports lay greater emphasis on the
- A. **objectivity of data**
 - B. Flexibility of data
 - C. Relevancy of data
 - D. Subjectivity of data
4. is used to analyse the pattern of movement or activity during the period to identify the way the enterprise has generated cash and the way they have been used in an accounting period.
- A. Balance sheet
 - B. **Cash flow**
 - C. Profit & Loss a/c
 - D. Income statement

Self-Assessment Questions

5. Which of the following factor is not considered while selecting accounting policies?
- A. Accountancy
 - B. Prudence
 - C. Substance over form
 - D. Materiality
6. Which of the following is not the main objective of accounting?
- A. Solving tax disputes with tax authorities
 - B. Systematic recording of transactions
 - C. Ascertaining profit or loss
 - D. Ascertainment of financial position

Self-Assessment Questions

7. In which of the following cases, accounting estimates are needed?
- A. Inventory obsolescence
 - B. Impairment of losses
 - C. Employs benefit schemes
 - D. **All of the above**
8. A trader purchases goods for €2,500,000; of these 70% of goods were sold during the year. At the end of 31st December 2022, the market value of such goods was €500,000. But the trader recorded them in his books for €750,000. Which of the following concept is violated.
- A. **Conservatism**
 - B. Money measurement
 - C. Consistency
 - D. None of these

Self-Assessment Questions

9. Human resources will not appear in the balance sheet according to which concept?
- A. Money measurement concept
 - B. Accrual
 - C. Going concern
 - D. None
10. Roberto's Mobile Accessory Shop started the year with total assets of €210,000 and total liabilities of €120,000. During the year the business recorded €330,000 in revenues, €165,000 in expenses, and dividends of €60,000.

The net income reported by Roberto's Mobile Accessory Shop for the year was

- A. € 120,000
- B. € 150,000
- C. € 195,000
- D. € 165,000



Self-Assessment Questions

11. Comparison of actual ratios of one period with those of earlier periods for the same enterprise is known as
- A. Cross-sectional analysis
 - B. Time-series Analysis**
 - C. Inter-firm Analysis
 - D. None of these
12. Why is a creditor interested in the analysis of financial statements?
- A. To decide whether or not the borrower has the ability to repay interest and principal on borrowed funds.**
 - B. To determine the concern's capital structure.
 - C. To determine the concern's future earnings stream
 - D. To decide whether or not the concern has operated profitably in the past

Self-Assessment Questions

- 13. What are common-size financial statements?**
- A. Statements that express each account on the balance sheet as a percentage of total assets and each account on the income statement as a percentage of net sales.**
 - B. Statements that standardize financial data in terms of trends
 - C. Statements that relate the firm to the industry in which it operates.
 - D. Statements based on common sense and judgment.
- 14. The ratio which depicts the relationship between two items, one of which is drawn from the Balance Sheet and the other from the revenue account**
- A. Current ratio
 - B. Equity Ratio
 - C. Net Profit ratio
 - D. Debtors Turnover Ratio**

Self-Assessment Questions

15. Extremes Company Limited compiled the following financial information as of 31 December, 2021:

Sales revenue	€1,120,000
Share Capital	240,000
Buildings	320,000
Operating expenses	1,000,000
Cash	280,000
Dividends	80,000
Inventory	40,000
Accounts payable	160,000
Accounts receivable	120,000
Retained earnings, 1/1/2021	600,000

Extremes Company Limited's assets on 31 December, 2021 are

- A. € 1,880,000
- B. € 1,360,000
- C. € 640,000
- D. € 760,000



Self-Assessment Questions

16. Current ratio is 4:1, the amount of current liabilities is €12,000 the amount of working capital is
- A. € 48,000
 - B. € 36,000
 - C. € 30,000
 - D. € 60,000
17. Market price per share divided by earnings per share is
- A. Price Earnings ratio
 - B. Return on equity
 - C. Market test ratio
 - D. Book value per share

Self-Assessment Questions

18. By computing current ratio, which type of solvency of a concern is assessed
- A. Short term
 - B. Long term
 - C. Liquidity
 - D. Profitability
19. In a sound business, which Acid Test Ratio is considered satisfactory
- A. 1:2
 - B. 2:1
 - C. 1:1
 - D. 0.5:1



Self-Assessment Questions

20. The efficiency of the management can be measured with the help of
- A. Activity ratio
 - B. Leverage ratio
 - C. Liquidity ratio
 - D. Profitability ratio





Recap of Lectures 01 - 07

Accounting Environment & Users



Accounting Environment

- Accounting has been defined as the language of business
- Accounting enables organizations to determine how much profits or losses have been made in a particular period (financial year)
- Accounting provides statistical benchmarks against which an organization's overall performance is measured
- Accounting provides a universal explanation of the financial strength of an organization



Users of Accounting Information

- Owners / Shareholders / Partners
 - (Current Profitability, Capital Growth, Dividend Returns)
- Investors
 - (Future Profitability, Risks of Investment)
- Government
 - (Profitability, Taxation payments)



Users of Accounting Information

- Creditors/Suppliers
 - (Liquidity, Ability to repay debts, Time taken to pay debts)
- Employees
 - (Profitability, Organisation Growth, Organisational Stability, Security of Employment)
- Management
 - (Profitability, Return on Capital, Capital Growth, Owners' Satisfaction)
- General Public
 - (Profitability, Organisational Stability and Growth, Market Share)



Accounting Principles



Accounting Principles

- All users will see the same financial statements
- Principles – to provide consistent usable financial statements
 - Relevance
 - Reliability
 - Comparability
 - Understandability



Business Set- Ups



Business Organisations

- Self-Employed – Sole Trader
- Self-Employed – With employees
- Partnership
- Limited Liability Company
- Public Company
- Government & Parastatal
- Group Structure
- VO's and Associations
- Trusts



Accounting Concepts



Accounting Concepts

- Concepts represent the rules that are applied in recording transactions and preparing the Financial Statements
 - **Business Entity Concept**
 - **Money Measurement Concept**
 - **Historic Cost Concept**
 - **Realisation Concept**
 - **Dual Aspect Concept**
 - **Consistency Concept**
 - **Materiality Concept**
 - **Accruals Concept**
 - **Prudence Concept**
 - **Going Concern Concept**
 - **Substance over Form**




Double Entry



Double Entry

['dɑ-bəl 'en-trē]

A fundamental concept underlying present-day bookkeeping and accounting which states that every financial transaction has equal and opposite effects in at least two different accounts.

 Investopedia

Examples of Double Entry Transactions

Purchase of machine by cash

- **Debit** Machine Account Increase in Asset
- **Credit** Cash Account Decrease in Asset

Payment of utility bills

- **Debit** Utility Expense Increase in Expense
- **Credit** Cash Account Decrease in Asset



The Accounting Equation



The Accounting Equation is the following:

- $ASSETS = CAPITAL + LIABILITIES$

&

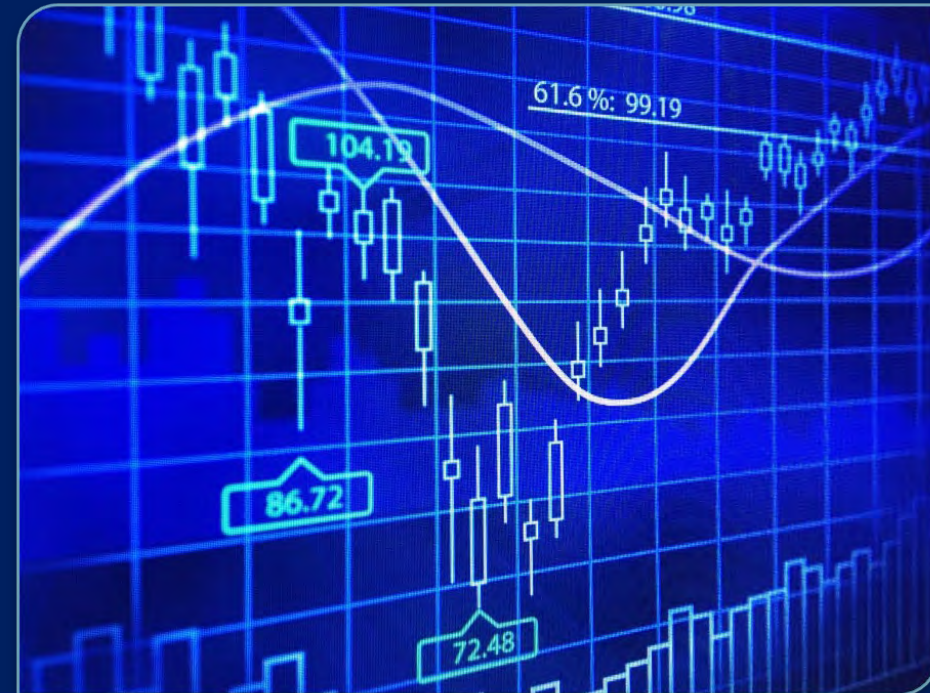
- $Net\ Current\ Assets = Current\ Assets - Current\ Liabilities$
- Net Current assets or Working Capital is the amount that indicates how much capital is being generated or used up by day-to-day activities. If net current assets are negative, the company may have difficulty financing its day-to-day operations.

Trial Balance

Trial balance for George's Catering on the 31 st of May 2010			
	FOLIO	DEBIT \$	CREDIT \$
Baking equipment	100	12,000	
Debtors	101	0	
Bank	102	14,800	
Capital	300		15,000
Drawings	301	600	
Loan	200		1,000
Creditors	201		0
Services rendered	400		15,500
Salaries	500	4,000	
Telephone expense	501	200	
		<u>31,600</u>	<u>31,500</u>

Statutory financial statements

- Income Statement
- Statement of Financial Position
- Cashflow Statement
- Audited Financial Statements
- Tax Returns
- VAT Returns



Profitability



Financial Items: Sales, Purchases, Expenses Paid, Incomes Received.



Non-Financial Items: Depreciation, Revaluations, Accruals, Prepayments, Provisions.



Both have a direct affect on the business profitability. Why?

Cash Flow Statement Format

Cash flows from **OPERATING** activities

PLUS or **MINUS**

Cash flows from **INVESTING** activities

PLUS or **MINUS**

Cash flows from **FINANCING** activities

EQUALS

NET increase (or decrease) in **cash equivalents** over the period





Ratio Analysis



Profitability Ratios

RETURN ON CAPITAL EMPLOYED	
Net Profit for the year	X 100
Equity + Liabilities	

RETURN ON EQUITY	
Net Profit for the year	X 100
Capital	

Gross Profit	X 100
Sales Revenue	

Gross Profit	X 100
Cost of Sales	

Efficiency Ratios

Sales	Sales
Net Assets	Fixed Assets

$$\frac{(\text{Opening Stock} + \text{Closing Stock}) / 2}{(\text{Cost of Sales}) / 365}$$

Average trade receivables	X 365
Credit Sales revenue	

Average trade payables	X 365
Cost of Sales	



Liquidity Ratios

- Liquidity refers to the availability of cash in the near future after taking account of immediate financial commitments
- Key ratios:

CURRENT RATIO		
CURRENT ASSETS		
<hr/>		
CURRENT LIABILITIES		

ACID TEST		
CURRENT ASSETS - INVENTORIES		
<hr/>		
CURRENT LIABILITIES		

Gearing Ratios

Non-Current Liabilities

Share Capital + Reserves + Non-Current Liabilities

X 100

Operating Profit before Interest

Interest Payable



Investment Ratios

Total Dividend Paid

Number of shares in issue

Profit after tax

Number of shares in issue

Market value per share

Earnings per Share



Group Presentation Choices

GROUP 1 - MAHINDRA & MAHINDRA

GROUP 2 - TAJ GVK HOTELS

GROUP 3 - SBI CARDS

GROUP 4 - INDIAN HOTELS COMPANY LIMITED

GROUP 5 - BURGER KING INDIA



Group Presentations

1	2	3	4	5
ANIL	VISHAL	DHEERAJ	ABHILASH	AJAY
ANKIT	JASPREET	GURPREET	MANEESH	LAVISH
JASKARAN	RAJAN	KARANDEEP	RAHUL	LOVISH
PRIYANKA	RAVINDER	SAHIL	ROMI	ROHAN

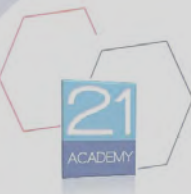
What am I expecting

- Show the annual reports chosen
- Snapshot of the annual reports
- Show question
- Slides on
 - Introduction
 - History of company
 - Ratios (5 – 7)
- Why did you choose this company
- How is it performing – industry, multi-year ?





Assignment Questions



Assignment Questions

- Assignment Deadline: **2 March 2023**
- Approx. 20 hours researching and writing
- Word count: **1,200 words**
- You are expected to use the Harvard referencing style
- Presentation is **VERY** important
- Choose any ONE of the questions



Assignment Questions

Question 1:

Outline the following financial ratios, covering in detail how to calculate the ratios, their importance, use and meaning, and the limitations of each of the ratios:

- Acid-Test Ratio
- Asset Turnover Ratio
- Average Inventories Turnover Period
- Average Receivables Settlement Period
- Current Ratio
- Earnings per Share
- Gearing Ratio
- Gross Profit Margin
- Interest cover ratio
- Return on Capital Employed
- Return on Equity



Assignment Questions

Question 2:

Explain the principles and concepts of Financial Accounting, giving details and examples of each; their relevance; and any limitations that the application of such principles and concepts have on businesses in today's world.

Question 3:

Identify the main internal and external users of accounting information of a business, with special emphasis on the type of information each group requires. Give detailed examples of why the users would require such information, and what limitations, if any, exist in providing such data



Referencing System

Citations	All cited works, both text and visual, are done in the correct format with no errors.
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Referencing System

In text

Page 1	Page 2
<p>The Essay</p> <p>After determining an essay's topic, a student will need to analyse the topic, find information, evaluate these resources and present the information in essay format (TAFE SA 2014a). Requirements for essays can vary, but will generally include an introduction, body, conclusion and reference list (TAFE SA 2013). The completed essay will then provide evidence to the assessor of the student's research and learning (Hill Campbell 2014).</p> <p>The first step is to carefully analyse the topic in order to fully understand what is and is not required from the essay (Spurr n.d.). Usually a topic will be designed to give students an opportunity to develop an argument and the essay should generally agree or disagree with the central idea (Dawson 2013). Carrodus (2002) stresses to ensure relevance; 'answer the question, the whole question and nothing but the question'.</p> <p>Next, resources on the topic should be gathered from a variety of sources such as websites, books, newspapers or journal articles (Summers & Smith 2010). Lecture notes should only be referred to with the agreement of the lecturer (TAFE SA 2014b) and need only be given an in-text citation as these are considered a personal communication (TAFE SA 2013). A quick evaluation of each resource should be undertaken to establish that the information is up-to-date, relevant, and from a reputable author (Dawson 2013). The student should question whether the author's points are backed up by adequate and convincing evidence and why the author might have published this work (Hill Campbell 2014).</p> <p>After reading these resources, the student can form an educated opinion and begin to plan the flow of their essay (Jackson et al. 2000). The essay should be typed and include any specified formatting such as page numbering, appropriate headers, footers and a cover sheet (Spurr n.d.). Points made should be supported with quotes, statistics or records from the time (Carrodus 2002), which according to copyright law must all be referenced (<i>Commonwealth Amendment (Moral Rights) Act 2000</i>, Dawson 2013, p. 106). At TAFE SA the Harvard system of referencing is required (TAFE SA 2014b).</p> <p>The introduction should comprise about 10% of the essay's word count (TAFE SA 2014a) to establish an overall point and provide any background information.</p> <p>The body of the essay will contain several paragraphs, each paragraph dedicated to an argument or fact, and each subsequent paragraph building support for the point of view being suggested (Levin 2004). This section should take about 80% of the word count (TAFE SA 2013).</p> <p>The essay should end with a clear and concise statement (Dawson 2013) that sums up the argument and matches the point of view expressed in the introduction (TAFE SA 2014a).</p> <p>On completion of the draft essay, a student should proofread their work for spelling and grammar (Jackson et al. 2000) and re-read the topic to double check that the essay has not strayed from the points being assessed (Carrodus 2002).</p> <p>An appropriately formatted and well-researched essay serves not only as a tool for learning assessment, but develops ability to build an educated argument in a strong form of communication essential in many careers (Summers & Smith 2010).</p>	<p>References</p> <p>Carrodus, G 2002, 'How to write a great history essay', <i>The Age</i>, 21 March 2002, viewed 16 July 2014, <http://www.theage.com.au/articles/2002/03/21/1016660121034.html></p> <p><i>Copyright Amendment (Moral Rights) Act 2000</i></p> <p>Dawson, C 2013, <i>Basic study skills: a practical guide to learning for all students</i>, Constable & Robinson, ProQuest Ebook Central.</p> <p>Hill Campbell, K 2014, 'Beyond the five-paragraph essay', <i>Educational Leadership</i>, April 2014, vol. 71, issue 7, pp. 60-65, MasterFILE Premier.</p> <p>Jackson, J, Mohan, T, Saunders, H & Archee, R 2000, <i>Writing skills</i>, Dorling Kindersley, London.</p> <p>Levin, P 2004, <i>Write great essays: reading and essay writing for undergraduates and taught postgraduates</i>, Open University Press, Maidenhead, UK.</p> <p>Spurr, B n.d., <i>Successful essay writing for senior high school, college and university</i>, New Frontier Publishing, Epping, NSW.</p> <p>Summers, J & Smith, B 2010, 'Essay writing' in <i>Communication skills handbook</i>, 3rd edn, John Wiley & Sons Australia, Milton, Qld.</p> <p>TAFE SA 2013, 'Structure of an essay', <i>My information skills: how do I present it?</i>, viewed 16 July 2014, <http://tafesa.libguides.com/content.php?pid=421835&sid=3448787></p> <p>TAFE SA 2014a, 'Doing assignments: essay writing', <i>TAFE SA library guides</i>, viewed 15 July 2014, <http://tafesa.libguides.com/content.php?pid=272877&sid=2256230></p> <p>TAFE SA 2014b, <i>Essay writing: study guide</i>, TAFE SA, Adelaide.</p>

**End-text citations
in a reference list**

In-text citations



Referencing System

Reference & Bibliography

Reference List

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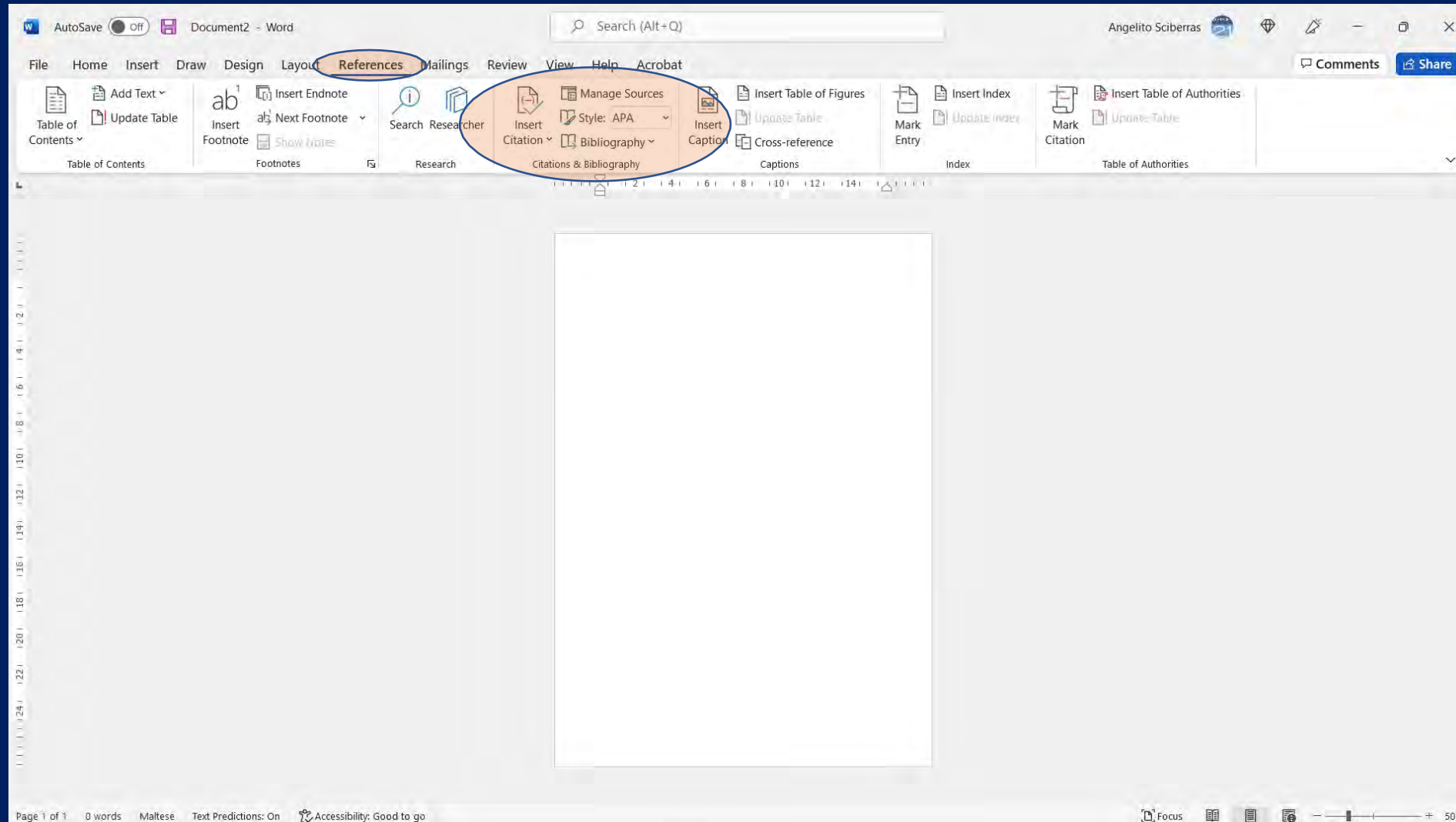
PUBLIC



Harvard Referencing



Referencing System



Referencing System

The screenshot displays the Cite This For Me website. The browser's address bar at the top shows the URL 'citethisforme.com', which is circled in blue. Below the address bar, the website's navigation menu includes 'Citations' and 'Papers' tabs, along with a 'My citation list' link and an 'Upgrade' button. The user's email address, 'angelito.sciberras@gmail.com', is visible in the top right corner. The main content area is titled 'Create Harvard, APA & MLA citations' and features two primary buttons: 'Create citations' and 'Check your paper'. Several promotional banners for Shutterstock videos are visible, including one for 'Dive into video that rises above' and another for 'Get 5 fresh hot videos in 4K & HD monthly'. A large green banner on the right side of the page reads 'Plagiarism can hide in plain sight'.

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