

MODULE 03: FINANCIAL ANALYSIS

Lecture Title 09: Revision Session No. 2

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Date: 3 February 2024



**Undergraduate Diploma in
Business Administration**



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
- VOs 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

[dā-bal '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	500	
Loan	200		1,000
Creditors	201		0
Services rendered	400		15,500
Salaries	500	4,000	
Telephone expense	501	200	
		<u>31,500</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

$$\frac{\text{Net Profit for the year}}{\text{Equity + Liabilities}} \times 100$$

RETURN ON EQUITY

$$\frac{\text{Net Profit for the year}}{\text{Capital}} \times 100$$

$$\frac{\text{Gross Profit}}{\text{Sales Revenue}} \times 100$$

$$\frac{\text{Gross Profit}}{\text{Cost of Sales}} \times 100$$

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		
CURRENT LIABILITIES		

ACID TEST		
CURRENT ASSETS - INVENTORIES		
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 Presentations

1	2	3	4
Anushree Dhunghel	Gurbhag Singh	Marina Selivanova	Bimash Pariyar
Gaganjot Singh	Manjot Singh	Muhammad Moaz	Rina Karki
Lokesh Rana	Manpreet Khaur	Varinder Singh	Rohit Kumar
Panth Piyar Singh	Nitish Singh	Mahimaben Bhupendrabhai Parmar	Sajan Rai
	Sahil		Sukraman Lama
			Vipin Yadav

Group Presentations

Group 1

**EIH Associated Hotels
Limited**

Group 2

**Torrent Pharmaceuticals
Limited**

Group 3

**Ultramarine & Pigments
Limited**

Group 4

Astral Limited



Presentations

The 4 Annual Reports links are:

A. Ultramarine & Pigments Limited

- <https://www.learnstockmarket.in/ar/Ultramarine-Pigments-Annual-Report-2023.pdf>

B. Astral Limited

- <https://www.bseindia.com/xml-data/corpfiling/AttachHis//aa9741a9-f026-474d-9169-5be6f7a1a073.pdf>

C. Torrent Pharmaceuticals Limited

- <https://www.bseindia.com/xml-data/corpfiling/AttachHis//6fe845d6-918b-4ab8-9efd-36588666eed.pdf>

D. EIH Associated Hotels Limited

- <https://www.bseindia.com/xml-data/corpfiling/AttachHis//ba1422ed-e814-4d1a-9896-94ce3ae8d893.pdf>



Presentation

A

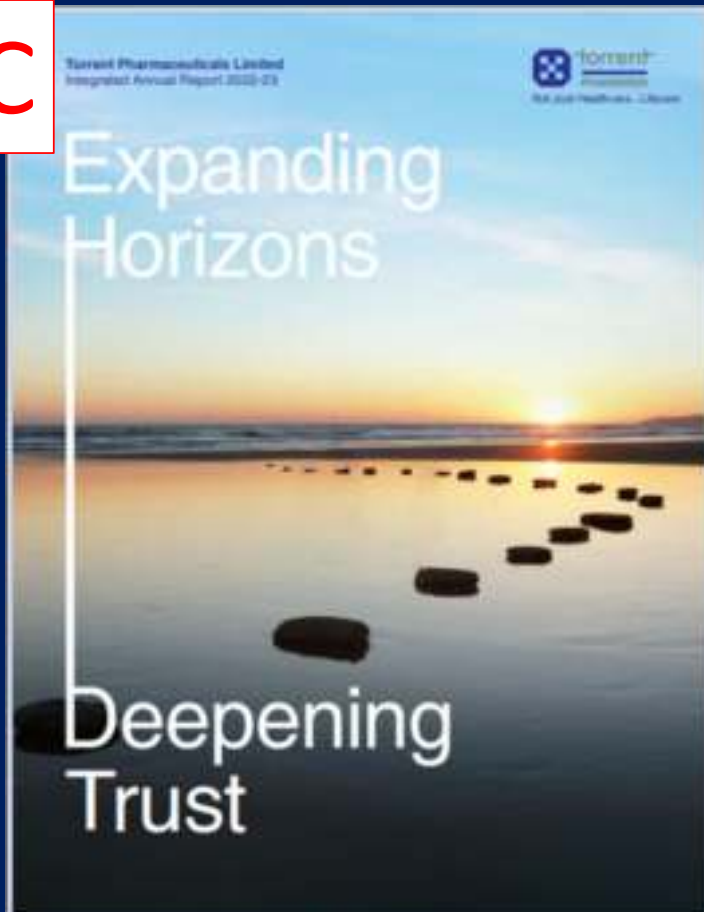


B

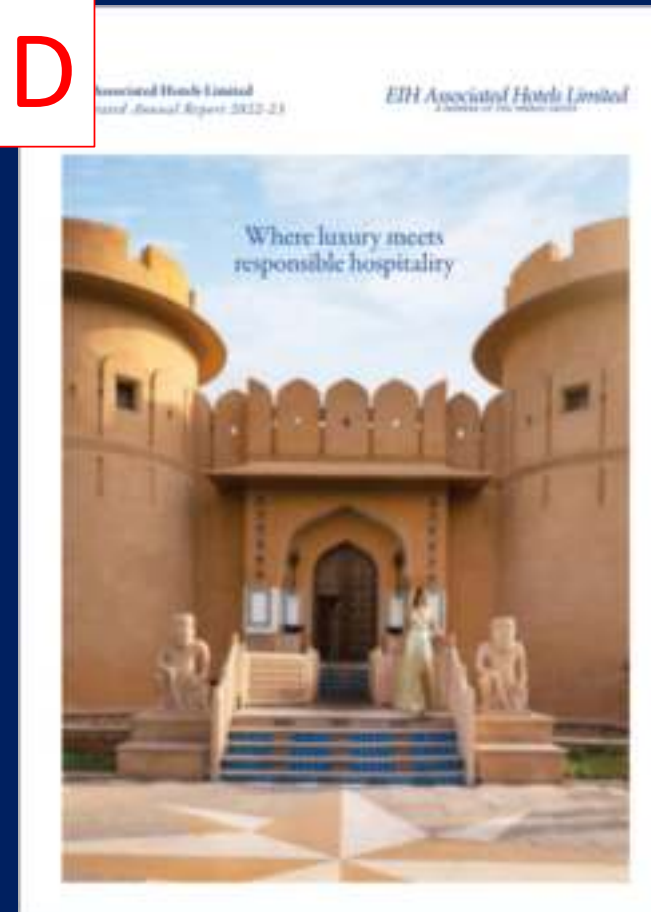


Presentation

C



D



What am I expecting

- Show the annual reports chosen
- Snapshot of the annual reports
- Show question
- Have sample slides on intro, history of company, ratios
- Name of Group members
- How is it performing – industry, multi-year ?
- 7 ratios, as chosen
- Formula, from where you obtained the figures
- Results for current and past year
- Commentary on results



15:00



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Assignment Questions



Assignment Questions

- Assignment Deadline: **15 February 2024**
- 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:

Ratio analysis is an important tool to measure and interpret the success of any business. It allows top management to understand the health of the business, and map strategies for the future.

Outline the financial ratios listed hereunder, providing details on how to calculate the ratios. List also, for each ratio, their meaning and use; and their importance and limitations:

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



Assignment Questions

Question 2:

The financial requirements of a business entity differ from one another. In the context of today's realities, provide a critical overview of the requirements on the basis of terms and periods of financial requirement faced by business. Provide detailed examples of the various forms of business finance available to a business.

Question 3:

Financial Accounting is driven by Principles and Concepts. Provide a detailed explanation of each of these principles and concepts, giving examples of each; their relevance; and any limitations that the application of such principles and concepts have on businesses in today's world.



Assignment

- Student's understanding of the subject
- Presentation
- Uniqueness (no plagiarism)
- Appropriate citations



**Let's meet the Groups and go
through your Presentations....**



Statement of Consolidated Profit and Loss

For the year ended March 31, 2023

(In Million, except as stated otherwise)

Particulars	Notes	Year ended March 31, 2023	Year ended March 31, 2022
Income			
Revenue from operations	23	44,546	43,130
Other income	24	36	39
Total		44,582	43,169
Expenses			
Cost of materials consumed	25	23,432	20,507
Purchase of a fixed asset	26	458	29
Charges to stockholders of fixed assets, work-in-process and fixed assets	27	35	11,841
Employee benefits expense	28	1,773	1,411
Finance costs	29	403	129
Depreciation and amortisation expense	30	1,739	1,204
Other expenses	31	2,938	2,404
Total		45,447	47,725
Profit before share of loss of joint venture, exceptional items and tax		8,135	5,444
Share of loss of joint venture		(20)	(21)
Profit before exceptional items and tax		8,115	5,423
Exceptional items	32	(20)	—
Profit before tax		8,095	5,423
Tax expense			
— Current tax		1,458	1,531
— Deferred tax		1,327	177
Total tax expense		2,785	1,708
Profit for the year from continuing operations		5,310	4,715
Profit before tax from discontinued operations		20	—
Tax expense of discontinued operations		(20)	—
Profit for the year from Discontinued operations	33	0	0
Profit for the year		5,310	4,715
Other comprehensive income			
Continuing operations			
Items that will not be reclassified to profit or loss			
— Remeasurement to fair value of defined benefit plans		2	2
— Income tax expense to items that will not be reclassified to profit or loss		(2)	(2)
Items that will be reclassified to profit or loss			
— Currency translation differences		8	8
Discontinued operations	34		
Items that will not be reclassified to profit or loss			
— Goodwill impairment provisions of the value through other comprehensive income		20	—
Items that will be reclassified to profit or loss			
— Currency translation differences		8	—
— Foreign exchange differences		44	—
— Share of other comprehensive income		(11)	8
Total comprehensive income for the year		5,711	4,731
Profit for the year from continuing operations attributable to:			
— Shareholders		4,739	4,326
— Non-controlling interests		571	409
Profit for the year from discontinued operations attributable to:			
— Shareholders		0	0
— Non-controlling interests		0	0
Profit for the year		5,310	4,735
Share of profit for the year from continuing operations attributable to:			
— Shareholders		4,739	4,326
— Non-controlling interests		571	409

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