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DURBAN UNIVERSITY OF TECHNOLOGY

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FINANCE AND INFORMATION MANAGEMENT/ INFORMATION TECHONOLOGY

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FRAMEWORK FOR BUSINESS ANALYSIS AND VALUATION USING FINANCIAL STATEMENTS (CHAPTER 1 version 2)

- Financial statements are an important **source of information** to the capital markets, stakeholders, investors and business analysts etc.
- Profits, Income, debts, Expenses, etc.

COMPANY B
INCOME STATEMENT

For Year Ended September 28, 2019 (In thousands)

NET SALES	$	4,358,100
COST OF SALES		2,738,714
GROSS PROFIT		**1,619,386**
SELLING AND OPERATING EXPENSES		560,430
GENERAL AND ADMINISTRATIVE EXPENSES		293,729
TOTAL OPERATING EXPENSES		**854,159**
OPERATING INCOME		**765,227**
OTHER INCOME		960
GAIN (LOSS) ON FINANCIAL INSTRUMENTS		5,513
(LOSS) GAIN ON FOREIGN CURRENCY		(12,649)
INTEREST EXPENSE		(18,177)
INCOME BEFORE TAXES		**740,874**
INCOME TAX EXPENSE		257,642
NET INCOME	**$**	**483,232**

THE ROLE OF FINANCIAL REPORTING IN CAPITAL MARKETS

- Financial reporting **provides much-needed information** to capital market Participants

Shows Transparency & Fairness: Provides standardized information for **informed investment** decisions, reducing information asymmetry.

Helps in Pricing Efficiency: Enables accurate **valuation of companies**, leading to efficient allocation of capital across markets.

Risk Management: Helps investors assess **financial health** and potential risks, reducing investment uncertainty.

Global Investment: Facilitates cross-border investments by offering comparable financial data under recognized standards.

STAKEHOLDERS INVOLVED IN FINANCIAL STATEMENT ANALYSIS

1. **Investors:** Investors analyze financial statements to evaluate the investment potential of a company.

2. **Creditors**: Creditors, including banks and financial institutions, use financial statement analysis to assess the creditworthiness of a company before extending credit or loans.

3. **Management:** Management uses financial statement analysis to evaluate the company's financial **performance and identify areas** for improvement.

4. **Regulators**: Regulators and government agencies may use financial statement analysis to ensure **compliance with accounting standards**, regulations, and reporting requirements.

THREE MAIN FINANCIAL STATEMENTS

1. Balance Sheet:

- The balance sheet provides a snapshot of a company's **financial position** at a **specific point** in time, typically at the **end of a reporting** period, such as a quarter or fiscal year. **AS AT**.

2. **Income Statement:**

- The income statement, also known as the **profit and loss statement**, reports the company's **financial performance** over a specific period, usually a quarter or fiscal year.

3. **Cash Flow Statement:**

- The cash flow statement provides information about the cash **inflows and outflows** from operating, investing, and financing activities during a specific period.

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PURPOSE AND KEY COMPONENTS OF EACH FINANCIAL STATEMENT

Financial Statement	Purpose	Key Components
Income Statement	Shows the company's profitability over a period	Revenue, Expenses, Gross Profit, Operating Income, Net Income
Balance Sheet	Provides a snapshot of the company's financial position at a specific point in time	Assets, Liabilities, Equity
Cash Flow Statement	Tracks the flow of cash in and out of the company	Operating Cash Flow, Investing Cash Flow, Financing Cash Flow, Net Cash Flow from Operating Activities

Balance sheet

Assets
Liabilities
Equity

DETAILED
BALANCE SHEET
AS AT MMM DD, YYYY

ASSETS	$
CURRENT ASSETS	
CASH	X
ACCOUNTS RECEIVABLE	X
OTHER RECEIVABLES	X
PREPAID EXPENSES	X
TOTAL CURRENT ASSETS	X
NON-CURRENT ASSETS	
PROPERTY, PLANT & EQUIPMENT	X
INTANGIBLE ASSETS	X
TOTAL NON-CURRENT ASSETS	X
TOTAL ASSETS	**X**

LIABILITIES	$
CURRENT LIABILITIES	
ACCOUNTS PAYABLE	X
TAXES PAYABLE	X
ACCRUED EXPENSES	X
DEFERRED REVENUE	X
TOTAL CURRENT LIABILITIES	X
NON-CURRENT LIABILITIES	
LONG TERM LOANS	X
TOTAL NON-CURRENT LIABILITIES	X
TOTAL LIABILITIES	**X**
EQUITY	
CAPITAL CONTRIBUTIONS	X
RETAINED EARNINGS	X
TOTAL EQUITY	**X**
TOTAL LIABILITIES AND EQUITY	**X**

Income statement STATEMENT – profit and loss

Revenue
Expenses

TUMBLE

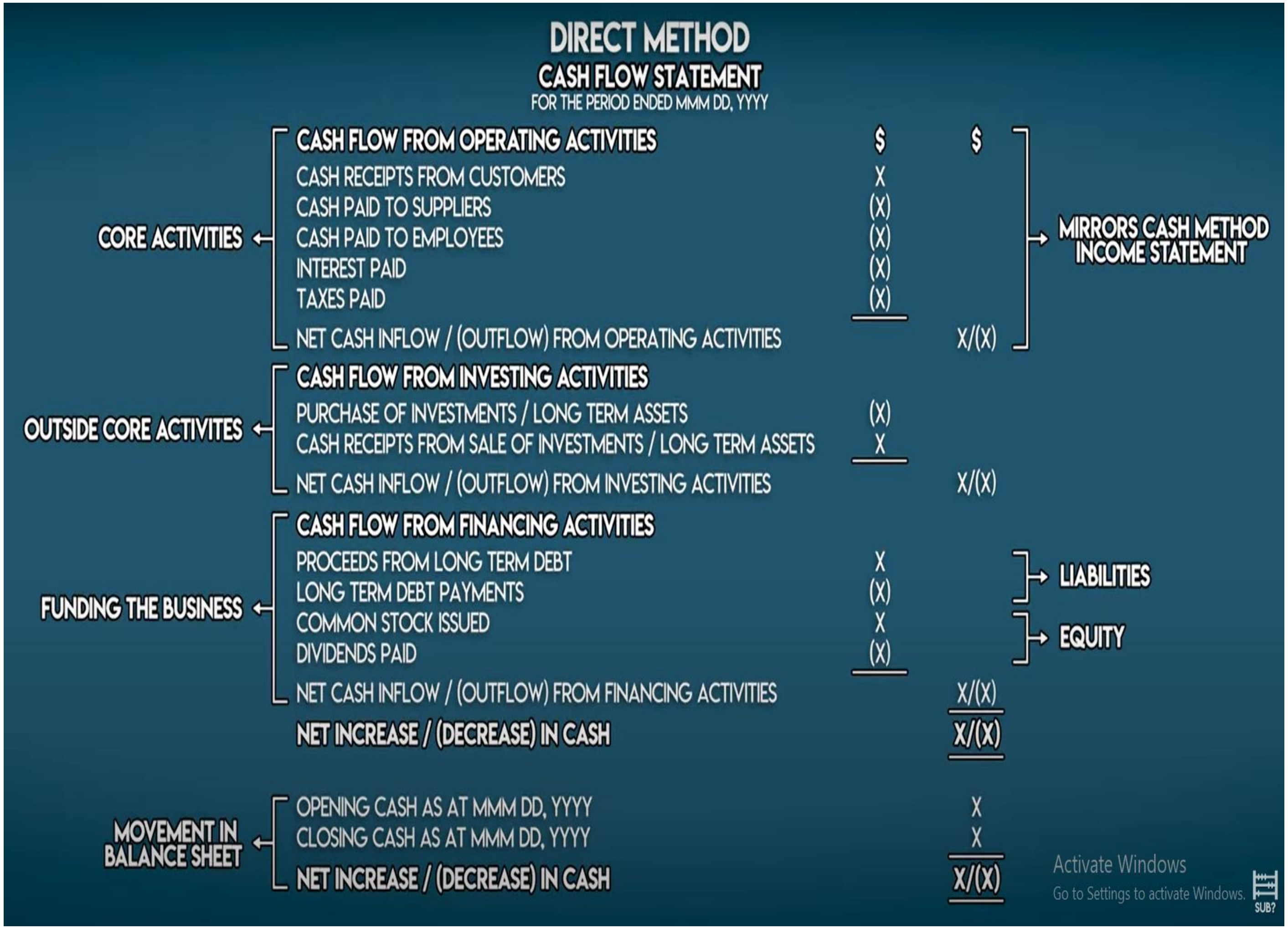
INCOME STATEMENT

FOR THE YEAR ENDED DEC 31, 20X1

	$'000s
REVENUE	**60,000**
COST OF SALES	(17,500)
GROSS PROFIT	**42,500**
GENERAL & ADMIN EXPENSES	(13,200)
SELLING & MARKETING EXPENSES	(18,000)
DEPRECIATION & AMORTISATION	(850)
OPERATING PROFIT	**10,450**
INTEREST EXPENSE	(50)
TAX EXPENSE	(750)
NET PROFIT	**9,650**

Cash flow statement

Operating
Investing
Financing



MANAGEMENT’S RESPONSIBILITY FOR REPORTING FINANCIAL INFORMATION

- 1. Ensuring the **accuracy and reliability** of financial data.
- 2. Implementing **internal controls** to safeguard assets and prevent fraud.- Protect against unauthorized access, use, or loss of resources.
- 3. Complying with relevant accounting standards and regulatory requirements.
- 4. Providing **transparent and timely** financial disclosures to stakeholders.
- 5. Upholding **accountability for the company's financial** performance and reporting practices.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

- The **EU and other countries** worldwide have relied on the IASB to set accounting standards (IFRS); many countries have endorsement procedures.
- IFRS allows for **consistency i**n reporting between firms and over different time periods of the same firm.
- Uniform accounting standards **minimize manager's ability to manipulate** financial statement information.

Importance of EXTERNAL AUDITING OF FINANCIAL STATEMENTS

Investor Confidence: External audits provide assurance to investors and other stakeholders that the financial statements **are free from material misstatements**

Market Integrity: External auditing contributes to the integrity of financial markets by ensuring transparency and accountability in financial reporting practices.

Credibility and Reputation: Companies that undergo external audits demonstrate a **commitment to transparency and accountability** to their investors, creditors, and regulatory bodies

Risk Management: External audits provide valuable insights into the **effectiveness of a company's internal controls and risk** management processes

PUBLIC ENFORCEMENT

The Companies and Intellectual Property Commission (CIPC): The CIPC regulates and monitors compliance with the Companies Act,

The Independent Regulatory Board for Auditors (IRBA): IRBA is the regulatory body responsible for overseeing the auditing profession in South Africa. It sets auditing standards, conducts quality control reviews, and investigates complaints of professional misconduct against auditors.

The Financial Sector Conduct Authority (FSCA): Formerly known as the Financial Services Board (FSB), the FSCA regulates non-banking financial services providers, including listed companies, collective investment schemes, and financial intermediaries. It ensures compliance with financial reporting requirements and investor protection regulations.

The Johannesburg Stock Exchange (JSE): As Africa's largest stock exchange, the JSE regulates listed companies and oversees compliance with its listing requirements, which include financial reporting standards, disclosure obligations, and corporate governance principles.

The South African Reserve Bank (SARB): The SARB regulates banks and financial institutions in South Africa and ensures compliance with prudential and financial reporting requirements to maintain financial stability and integrity in the banking sector.

FACTORS INFLUENCING ACCOUNTING QUALITY

Regulatory Environment: Accounting standards and regulations set by governing bodies dictate **reporting practices, ensuring consistency** and reliability in financial information.

Corporate Governance: Strong governance structures, including independent oversight and effective internal controls, uphold integrity and accuracy in financial reporting processes.

Auditing Standards: Stringent auditing standards and oversight mechanisms by regulatory bodies ensure independent verification and reliability of financial statements.

Management Integrity: Ethical leadership and transparent practices from management foster trust and credibility in financial reporting, enhancing accounting quality.

Information Technology: Robust accounting systems and technology infrastructure promote accuracy, efficiency, and reliability in financial data management and reporting processes.

THANK
YOU