

## Chapter 2

# Financial Analysis



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— جامعة مدينة السادات —



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# ***Lecture***

## ***Code of ethics***



These distractions are things you can get rid of. To get rid of these, just write them down. I always carry a notebook with me and write these things down in it. This also serves to focus my thoughts when I have a spare moment and need to figure out what to do next. By keeping everything in one place, any part of my brain that I need about what I have to do goes into



# Learning Objectives

**By the end of this chapter, you should be able to know:**

- 1- Financial statements used in financial analysis.**
- 2- What is financial analysis?**
- 3- Significance of Analysis of financial statements.**
- 4- Tools of Analysis of financial statements.**
- 5- Sources and uses statement.**
- 6- Financial Ratios.**

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**The analysis of the financial position of any enterprise, which includes an analysis of financial decisions and results, will cover four sub-areas:**

- 1. Analysis of funding decisions.**
- 2. Analysis of investment decisions.**
- 3. Liquidity analysis.**
- 4. Profitability analysis.**

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# 1- Financial statements used in financial analysis

- (1) **Operating calculation:** shows the cost of industrial production & finished goods during a certain period of time
- (2) **Trading Account:** aims to determine the final outcome of the trading operations in the establishment during that period.
- (3) **Profit & Loss Account:** Some call it the "income statement".
- (4) **Budget:** is a statement of the assets and liabilities of the establishment on a certain date in the future.

# What is Financial Analysis ?

## Activity 1

5 minutes



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## **Financial analysis**

*Financial analysis* aimed at examining the financial statements and data published about a particular enterprise during a period of time or periods in order to deduce some information on the progress of the enterprise during that period and to predict the outcome of its business from future time periods, where the areas of analysis are multiplied by the multiplicity of beneficiaries of its results, whether internal or external.



- **The aim of financial analysis** is to determine the soundness of the relationship between both financial decisions & their financial consequences.
- **Financial analysis** is the method of reviewing companies programs, expenditures, and other activities relevant to finance to assess their performance and appropriateness.
- **Financial analysis** is usually used to determine whether an enterprise is sufficiently stable, solvent, liquid, or competitive to warrant a monetary investment.

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## Activity 3

# Functions of Financial Management

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Think

Pair

Share

5 minutes

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# **Significance of Analysis of Financial Statements:**

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**Financial analysis is useful and significant to different users in the following ways:**

**(a) Finance manager.**

**(b) Top management.**

**(c) Lenders.**

**(d) Investors.**

# **Tools of Analysis of Financial Statements**

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- (1) Comparative Statements.**
- (2) Common Size Statements.**
- (3) Trend Analysis.**
- (4) Ratio Analysis.**
- (5) Cash Flow Analysis.**

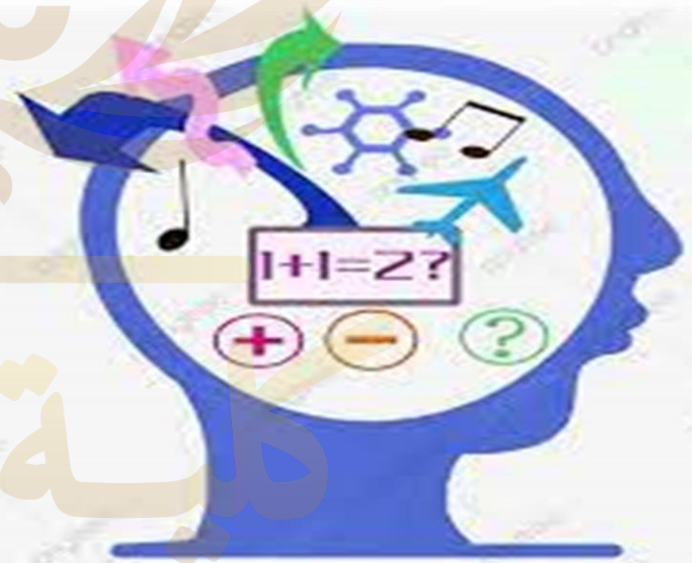
2

Activity



## Describe Sources & uses statement

5 minutes



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# **Fund Sources & uses statement**

**This list is used to study past financial flows in order to know the uses of funds and the way in which those uses were financed. *In other words*, this list gives answers to many questions about why the facility resorted to debt utilization, for example, and how the expansions were financed, about the movement of assets and liabilities during the period prepared for it, and the like.**

- The preparation of the Sources & uses statement for a certain period of time - usually a year - requires two balance sheets & the income statement for the last year.

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# The utility of sources & uses on a cash basis goes through the following stages:

**1- Calculating the amount of change** that occurred in the components of assets, liabilities and equity, by comparing the two balance sheets under study, whether this change was an increase or decrease.

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**2- Classify this change into two main groups:**

**a- Changes that represent a source of funds and consist of a decrease in assets, an increase in liabilities, and an increase in equity.**

**b- Changes that represent a use of funds and consist of an increase in assets, a decrease in liabilities, and a decrease in equity.**

**3- Compilation of this previous information in the form of a Sources & uses statement.**

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- **Example No. (1):**
- The following balance sheet of The Arab Company for Wood Trade was provided to you on Dec, 31, 2018 and Dec, 31, 2019.
- **Required:**
- ***1- Create a list of the movement of funds for that period.***
- ***2- Clarify the most important facts to which this list refers.***

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Statement	31/12/2018	31/12/2019
<b>Assets:</b>		
<b>Current assets:</b>		
Cash in hand	100.000	50.000
Bank	100.000	150.000
Receivables	300.000	200.000
Accounts Receivable	400.000	500.000
Notes Receivable	200.000	600.000
<b>Total Current Assets</b>	<b>1,100.00</b>	<b>1,500.00</b>
<b>Fixed assets:</b>		
Lands	100.00	100.000
Buildings	300.00	300.000
Allowance for depreciation of buildings	50.000	100.000
Net value of buildings	250.000	200.000
Equipment	400.000	400.000
Allowance for depreciation of equipment	100.000	200.000
Net value of equipment	300.000	200.000
Furniture	100.000	100.000
Allowance for depreciation of furniture	20.000	40.000
Net value of furniture	80.000	60.000
<b>Total Fixed Assets</b>	<b>730.000</b>	<b>560.000</b>

<b>Other assets</b>		
<b>Marketable Securities</b>	<b>20.000</b>	<b>100.000</b>
<b>Advance Payments</b>	<b>120.000</b>	<b>140.000</b>
<b>Total Assets</b>	<b>2,150.000</b>	<b>2,300.000</b>
<b>Liabilities &amp; Capital:</b>		
<b>Current Liabilities</b>		
<b>Notes Payable</b>	<b>30.000</b>	<b>600.000</b>
<b>Short-Term bank loans</b>	<b>500.000</b>	<b>800.000</b>
<b>Creditors</b>	<b>300.000</b>	<b>100.000</b>
<b>Total current liabilities</b>	<b>1,100.000</b>	<b>1,500.000</b>
<b>Long-Term Liabilities</b>		
<b>Long-Term loans</b>	<b>500.000</b>	<b>100.000</b>
<b>Capital and Allowances:</b>		
<b>Common Stock</b>	<b>400.000</b>	<b>400.000</b>
<b>Retained Earnings</b>	<b>150.000</b>	<b>300.000</b>
<b>Total Liabilities</b>	<b>2,150.000</b>	<b>2,300.000</b>

# The answer

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**The Arab Company for Wood Trade**  
**Balance sheet statement on Dec, 31, 2018 & Dec, 31, 2019**  
**Sources & uses statement**

Statement	31/12/2018	31/12/2019	Change increase (decrease)	Uses	Sources
<b><u>Assets:</u></b>					
<b><u>Current assets:</u></b>					
Cash in hand	100.000	50.000	(50.000)		50.000
Bank	100.000	150.000	50.000	50.000	
Notes Receivables	300.000	200.000	(100.000)		100.000
Accounts Receivable	400.000	500.000	100.000	100.000	
Merchandise	200.000	600.000	400.000	400.000	
<b><u>Fixed assets:</u></b>					
Lands	100.000	100.000	-		
Buildings (Net)	250.000	200.000	(50.000)		50.000
Equipment (Net)	300.000	200.000	(100.000)		100.000
Furniture (Net)	80.000	60.000	(20.000)		20.000
<b><u>Other assets</u></b>					
Marketable Securities	200.000	100.000	(100.000)		100.000
Advance Payments	120.000	140.000	20.000		

Statement	31/12/2018	31/12/2019	Change increase (decrease)	Uses	Sources
<u>Liabilities &amp; Equity:</u>					
<u>Current Liabilities</u>					
Notes Payable	300.000	600.000	300.000		300.000
Short-Term loans	500.000	800.000	300.000		300.000
Creditors	300.000	100.000	(200.000)	200.000	
<u>Long-Term Liabilities</u>					
Long-Term loans	500.000	100.000	(400.000)	400.000	
<u>Capital and Allowances:</u>					
Common Stock	400.000	400.000	-		
Retained Earnings	150.000	300.000	150.000		150.000
Total				1,170.000	1,170.000



**Thanks for Listening**

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