

# Enterprise Management and Entrepreneurship MIEIC 2021-2022



Universidade do Porto

Faculdade de Engenharia

**FEUP**

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# Financial Management

## Lecture 1

## Farfetch Limited Announces Pricing of Initial Public Offering

September 20, 2018

[READ MORE](#) ▶

NYSE: FTCH

**\$28.00**

-0.65 ( -2.27% )

Volume 879,061

September 26, 2018 4:03 PM  
Pricing delayed by 20 minutes

Farfetch exists for the love of fashion. We believe in empowering individuality. Our mission is to be the global technology platform for luxury fashion, connecting creators, curators and consumers. We operate a modular end-to-end technology platform purpose built to connect the luxury fashion ecosystem worldwide, and are the only truly global luxury digital marketplace at scale where lovers of fashion anywhere in the world can shop for an unrivalled range of incredible products from the world's best brands and boutiques.

**#1**

Luxury online marketplace

**980+**

Luxury sellers\*

**2.3 m**

Marketplace consumers\*

**\$910 m**

2017 Gross merchandise value

\* as of June 30, 2018

# Farfetch IPO: 6 things you should know about this luxury-goods marketplace

Published: Sept 21, 2018 2:49 p.m. ET



Aa

Chief executive, José Neves, is a Portuguese entrepreneur with a background in coding



U.K. luxury-clothing marketplace Farfetch Ltd.'s stock surged 35% in its trading

## Shares of luxury online marketplace Farfetch surges 53 percent in IPO's first day of trading

- Shares of London-based luxury online marketplace Farfetch jumped more than 50 percent in their market debut Friday.
- Farfetch Thursday night raised \$885, stamping a valuation of \$6.2 billion on the online giant, taking into account employee dilution.
- The global market for personal luxury goods was estimated to be worth \$307 billion in 2017.

Lauren Hirsch

Published 11:32 AM ET Fri, 21 Sept 2018 | Updated 4:47 PM ET Fri, 21 Sept 2018



Shares of London-based luxury online marketplace Farfetch surged as much as 53 percent in their market debut Friday as investors

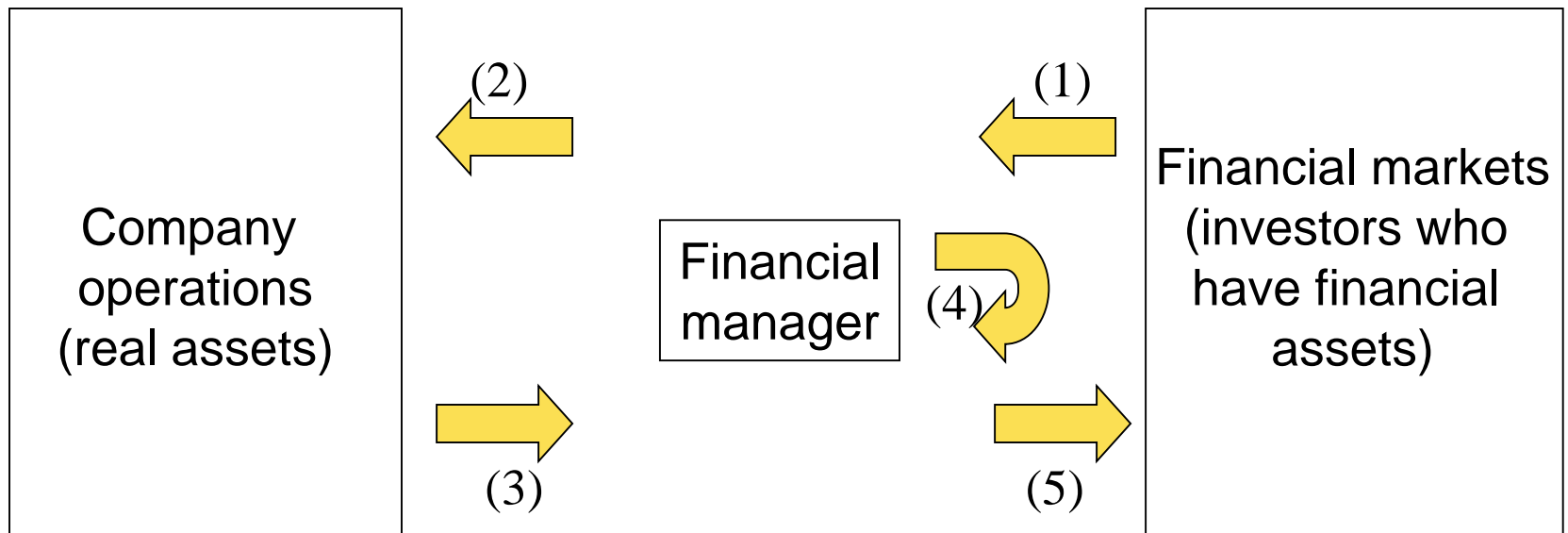
[www.marketwatch.com/story/farfetch-has-filed-for-an-ipo-six-things-to-know-about-the-luxury-goods-marketplace-2018-08-21](http://www.marketwatch.com/story/farfetch-has-filed-for-an-ipo-six-things-to-know-about-the-luxury-goods-marketplace-2018-08-21)


- <https://www.marketwatch.com/story/farfetch-has-filed-for-an-ipo-six-things-to-know-about-the-luxury-goods-marketplace-2018-08-21>
- <https://www.cnbc.com/2018/09/21/farfetch-ipo-jumps-43-percent-in-first-minutes-of-trading.html>
- <https://www.marketwatch.com/story/farfetch-stock-plummets-40-after-earnings-present-a-much-different-company-from-ipo-one-year-ago-2019-08-09>
- <https://www.marketwatch.com/story/farfetch-stock-soars-as-the-shift-to-digital-luxury-market-share-gains-and-exclusive-merchandise-drive-revenue-2020-08-14>

# Types of organizations

- Non for profit organizations
  - Example: FEUP, associations, NGOs
- For profit organizations (companies)
  - Sonae, Cimpor

# The role of the financial manager



 Financial flows

# The role of financial management

- Monitoring and evaluation,
  - The company's strategy should lead to positive financial results for the shareholders
- Support
  - Only with a robust financial structure according to the defined strategy can the company succeed



# The objective of financial management

- The objective of financial management is to maximize firm value,
  - and
  - Ensure the company has a robust financial structure and cash so it can pursue its global strategy

# Accounting

# Accounting as the information system that provides support to financial management

- **Accounting**

- Notations that give an account of the financial facts and financial position of the company
- Accounting as the information system that supports the company's financial management

# What can we find in the Kish tablets?



# Principles of accounting

- **Relevance:** Financial accounting which is decision-specific. It must be possible for accounting information to influence decisions.
- **Materiality:** information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.
- **Reliability:** accounting must be free from significant error or bias. It should be easily relied upon by managers. Often information that is highly relevant isn't very reliable, and vice versa.
- **Understandability:** accounting reports should be expressed as clearly as possible and should be understood by those to whom the information is relevant.
- **Comparability:** financial reports from different periods should be comparable with one another in order to derive meaningful conclusions about the trends in an entity's financial performance and position over time.
- [http://bdjur.almedina.net/citem.php?field=node\\_id&value=1658773](http://bdjur.almedina.net/citem.php?field=node_id&value=1658773)

# Financial position

- **Set of assets and liabilities, expressed in Euros, that are used by the company.**



Buildings	Cash
Equipment	Accounts receivable
Tools	Accounts payable
Inventory	

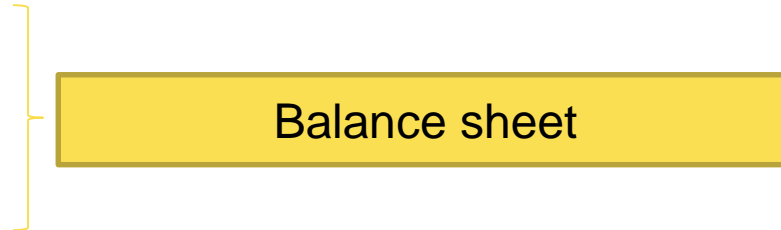
# SNC - Accounting Normalization System (ANS) - Adoption of the International Accounting Norms

- Organizations that follow and should provide:
  - Balance sheet;
  - Income statement by nature;
  - Statement of changes in equity;
  - Statement of cash-flows, using the direct methods;
  - Appendixes

# Components of the financial statements

- Balance sheet components

- Assets;
- Liabilities;
- Equity



- Income statement components:

- Income;
- Expenses .





# Balance sheet

- **Assets:** Assets controlled by the enterprise as a result of past events and that are expected generate financial inflows to the enterprise .
- **Liabilities:** present obligation of the enterprise arising from past events , the settlement of which is expected to result in an outflow of resources embodying economic benefits of the company
- **Equity:** corresponds to the residual interest of the company after deducting all of its liabilities from the value of its assets.

## basic equation of accounting and accounting movement

$$\text{Equity} = \text{Assets} - \text{Liabilities}$$

$$\text{Assets} = \text{Equity} + \text{Liabilities}$$

# Balance sheet

- **Balance Sheet:** accounting document that expresses the financial position of a company at a given date. Is an equality between two components referred to a certain date and concerning a given company. It represents the company's property both in composition and in value.
- The components of the Balance Sheet must be written according to the following order :
  - The Assets values must be presented from top to bottom , in order of increasing liquidity, and the components that are intended to stay in business for several years must therefore be represented in the first place.
  - The values of Equity and Liabilities are grouped from top to bottom in descending order of deadlines for claiming , and therefore shareholders' equity must therefore be represented in the first place.

# Balance sheet

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# Balance sheet

## ASSETS

### Non-current assets

- Property, plant and equipment
- Investments in associates – equity method
- Investments in financial assets
- Intangible assets

Total non-current assets

### Current assets

- Inventories
- Biological assets
- Accounts receivables (from clients)
- Suppliers advances
- Financial claims on owners of the company
- Current tax assets
- Other receivables
- Cash and bank balances

Total current assets

Total assets

# Balance sheet

## EQUITY

### Equity

Issued capital

Share premium

Legal reserves

Retained earnings – other reserves

Net income of the year

Non-controlling (minority) interests

Total equity

# Balance sheet

## LIABILITIES

### Non-current liabilities

Long-term debt

Provisions

Total non-current liabilities

### Current liabilities

Accounts payable (to suppliers)

Customers advances

Current tax liabilities

Financial liabilities to owners of the company

Short-term debt

Other payables

Total current liabilities

Total liabilities

Total equity and liabilities

# Example

Consider that you founded a company selling computers and printers. Record the following transactions that occurred during the first month of activity:

- 1 - Investment of €5,000, by depositing a personal check in the company's account.
- 2 - Purchase of computers for sale in the amount of €3000 (cash payment).

# Example

- 3 - Acquisition of printers for sale in the amount of €750 (credit payment).
- 4 - Acquisition of a computer, for own use, in the amount of €650 (credit payment).
- 5 – Sale of half of the computers, in cash, in the amount of €3000.
- 6 - Payment of €250 in wages.



# Example

- 7 – Sale of the remaining computers and all printers on credit for a total of €3000.
- 8 – Payment, at the end of the month, of 650€ of the own computer. Printers will be paid on the 15th of the next month.
- 9 - Receipt of a €1500 check for payment of the transaction 7.

## Balance sheet

Assets		Equity	
Non-current Assets		Capital	(1) 5.000
Tangible Assets	(4) 650	Results (Revenues – Expenses)	(5) 1.500
Current Assets			(6) -250
Inventories	(2) 3.000		(7) 750
	(3) 750		
	(5) -1.500	Liabilities	
	(7) -2.250	Accounts payable	(3) 750
Accounts receivable	(7) 3.000		(4) 650
	(9) -1.500		(8) -650
Cash and bank balance	(1) 5.000		
	(2) -3.000		
	(5) 3.000		
	(6) -250		
	(8) -650		
	(9) 1.500		

Total assets = Total Equity + Total Liabilities

# Financial transactions

- **Permutative financial facts-** fact that changes the composition of the company's patrimony, but not its value.
- **Modifying financial facts–** fact that changes both the composition and the value of the company's patrimony.

## Exemplos:

1. Deposit of cash: 80.000m.u.
2. Sales on credit of 30 bags of cement 12.500m.u../bag.

# Permutative facts

## 1. Permutative fact – deposit in bank

- Cash: -80u.m.
- Deposits.: +80u.m.

Balance sheet of Gama, Lda em November of year  $n$  (after de fact)  
thousands of m.u..)

<b>Assets</b>	
Non-current assets	23300
Inventories	5147
Accounts receivable	700
Cash and deposits	1100
<b>Total Assets</b>	<b>30247</b>
<b>Equity and Liabilities</b>	
Equity	27747
Accounts payable	2500
<b>Total Equity and Liabilities</b>	<b>30247</b>

# Modifying facts

## 2. Modifying fact

- Sales:  $30 \times 12,5 \text{m.u.} = 375 \text{m.u.}$
- Cost of goods sold:  $30 \times 10 \text{u.m.} = 300 \text{u.m.}$
- Profit:  $375 \text{u.m.} - 300 \text{u.m.} = 75 \text{u.m.}$

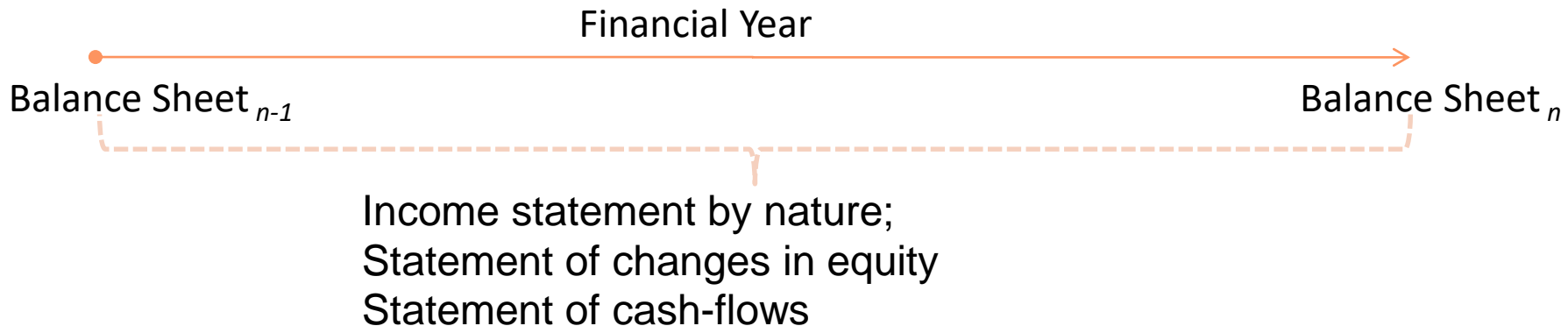
Balance sheet of Gama, Lda in November of year  $n$  (after the fact)  
(thousands of u.m.)

<b>Assets</b>	
Non-current assets	23300
Inventories	<b>4847</b>
Accounts receivable	<b>1075</b>
Cash and deposits	1100
<b>Total Assets</b>	<b>30322</b>
<b>Equity and Liabilities</b>	
Equity	<b>27822</b>
Accounts payable	2500
<b>Total Equity and Liabilities</b>	<b>30322</b>

# Exercise 1

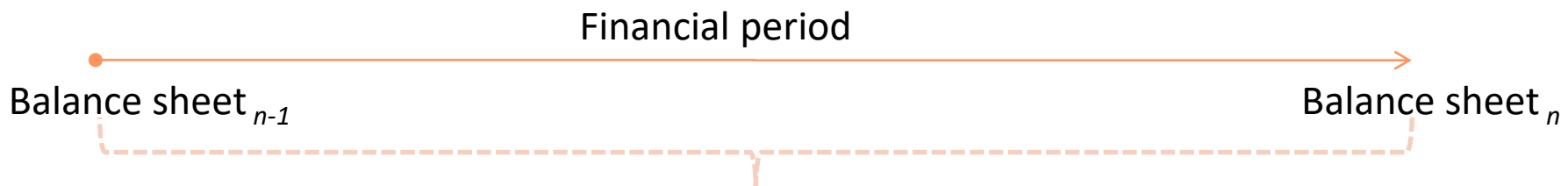
# Financial statements (I)

- Financial statements:
  - Balance sheet;
  - Income statement by nature;
  - Statement of changes in equity;
  - Statement of cash-flows, using the direct methods;
  - Appendixes (not a financial statement)



# Income Statement

- A document that shows the results (profits or losses) in a certain financial period ( between two balance sheets) . It is a document for assessing the economic performance in the period. It identifies the revenues and expenses incurred during a given period.
- Income statement by **nature** (nature of the expenses and revenues: operating, financial, current).
- Income statement by **function** (classifies expenses according to their function as part of the cost of sales, distribution or administration).



Income statement by nature



# Revenues

- **Revenues and gains (rendimentos):** increases in economic benefits during the accounting period in the form of inflows or increases in assets or decreases of liabilities that result in increases in equity, that are not the result of contributions from equity participants
  - Revenue: arises in the course of ordinary activities of an enterprise ;
  - Gains: represent other items that meet the definition of income and may, or may not , arise in the course of ordinary activities of an enterprise . Represent increases in economic benefits and as such are no different in nature from revenue.

# Expenses

- **Expenses (gastos):** decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrence of liabilities that result in decreases in equity , other than those relating to distributions to equity participants
  - **Expenditures ( actual ) :** that arise in the course of ordinary activities of the company and usually take the form of an outflow or depletion of assets such as cash and cash equivalents , inventories and fixed assets .
  - **Losses :** represent other items that meet the definition of expenses and may , or may not, arise in the course of the ordinary activities of the company . Represent decreases in economic benefits and as such are no different in nature from other expenses .

# Income Statement by Nature

- Sales +
- Cost of goods sold -
- Suppliers and external services -
- Employee expenses -
- Other operating income +
- Other operating expenses -
  
- EBITDA =
  
- Depreciation and amortization expenses -
  
- EBIT =
  
- Financial income +
- Financial expenses -
  
- Earnings before taxes =
- 
- Income Taxes +/-
  
- Net Income =

# Income Statement by Function

- Sales +
- Cost of Goods sold -
- Gross Revenue =
  
- Other revenues +
- Selling expenses -
- Administrative expenses -
- Research and Development -
- Other expenses -
  
- EBIT =
  
- Financing expenses (net) -
  
- Earnings before taxes =
- Income Taxes +/-
- Net Income =

# Exercise 2