

# FINANCIAL ANALYSIS

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# Introduction

# General objectives

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evaluate and interpret

the current situation and the economic and financial  
evolution

of a company

# Stakeholders

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- managers – monitoring, control, decision
- creditors – possibility to get their credit back
- workers – employment security, income distribution
- investors – company's valuation
- State - inform public policy to solve global problems
- clients – assessment of the degree of dependence and power

# Basic information

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- What resources do we own?
  - ▣ Balance sheet
  
- How has our performance been?
  - ▣ Profit and loss statement
  
- How are we using our money?
  - ▣ Cash flow demonstration

# Financial information characteristics

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## □ Relevance

- ▣ Influence on user decisions
- ▣ Omissions, errors, delays

## □ Reliability

- ▣ In agreement with the economic substance and reality, not merely in the legal form
- ▣ Neutrality, lack of prejudice

## □ Comparability

- ▣ Consistency in the company's life register

# Financial accounting principles

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- Continuity
  - ▣ The company operates on a continuous basis
- Consistency
  - ▣ Maintenance of accounting policies
- Specialization (increase)
  - ▣ revenues/costs are recognised when obtained/incurred, irrespective of receipt/payment
- historical costs
  - ▣ Records on the purchase/production costs

# Financial accounting principles

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- Prudence
  - ▣ Precaution for figures estimates under uncertainty conditions
- Substance on the form
  - ▣ Look out for financial substance and reality, not just in the legal form
- Materiality
  - ▣ Present all relevant elements and that may affect the assessment or decisions of the financial information users



# Accounting systems

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- POC – Official accounting plan
  - ▣ In force until 31st December, 2009
  - ▣ National accounting standard
  
- SNC – IAS – Accounting Standard System | International Accounting Standards
  - ▣ In force from 1st January 2010
  - ▣ Uniformization of the international accounting standards
  - ▣ System based on principles and concepts vs. rules
  - ▣ Significant change in the way we address accounting, resulting in a higher requirement for technical knowledge

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# Balance sheet

# Balance sheet

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- Expresses the financial situation of a company on a given date:
  - ▣ Photography
  - ▣ Cumulative values
  - ▣ Refers to a specific date
  - ▣ It often presents comparative information

# Assets

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- Goods and property
  - ▣ Equipment, stocks, ...
- Rights
  - ▣ Debts to be received from customers, ...
- Liabilities
  - ▣ Debts to be paid to suppliers, ...

# Organization

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- ASSETS

- ▣ Positive elements: goods and rights

- LIABILITIES

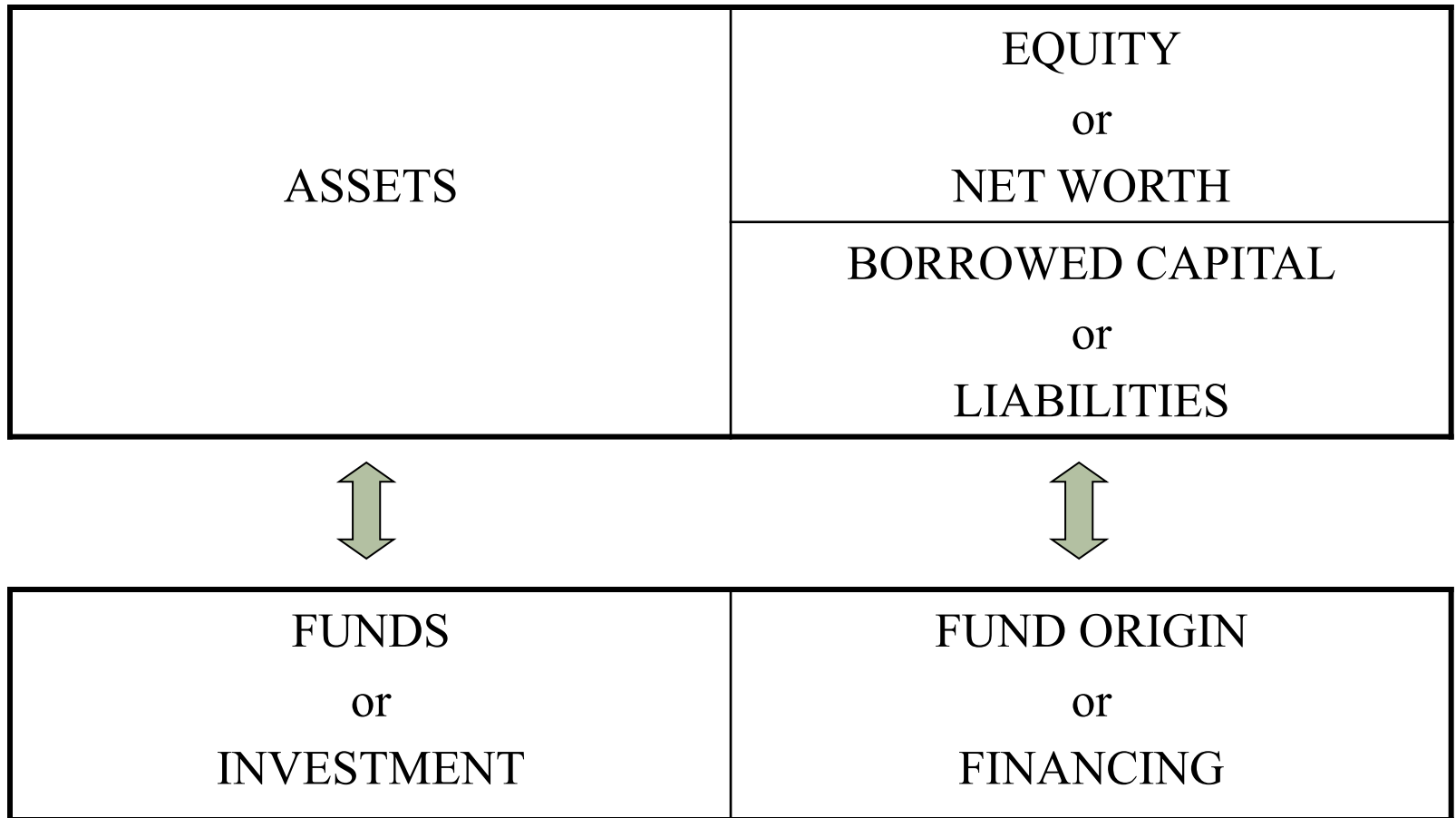
- ▣ Negative elements: obligations

- NET WORTH

- ▣  $\text{ASSETS} - \text{LIABILITIES}$

# Organization

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# ASSETS

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## □ Non-current assets

### Permanent capital assets

#### ▣ Intangible assets

- Goodwill
- Other intangible assets

#### ▣ Tangible assets

- Properties
- Biological assets

#### ▣ Financial assets

- Financial assets, Other financial investments
  - Income assets

# ASSETS

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## □ Current assets

- **Stocks** [Available assets for sale, biological assets, Inventories]
  - Stockable goods that can be purchased or produced for sale or consumption
- **Accounts receivable in the medium and long term** (Clients, Other accounts to be received, taxes on the salary to be received)
  - Over a year
- **Short-term accounts receivable** (Clients, Other accounts to be received, taxes on the salary to be received)
- **Tradable securities** [Available assets for sale]
- **Bank deposits and petty cash**



# ASSETS

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## □ Amortization

### ▣ Gross non-current assets

- Trade value at purchase

### ▣ Accumulated amortization

- Depreciation of non-current assets resulting from their use

## □ Provisions

### ▣ Estimates of property value loss to address future and uncertain risks

- Accounts receivable at risk
- Stock depreciation
- ...

# EQUITY

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- Capital provided by the shareholders (Nominal capital, additional paid-in capital...)
  
- Wealth created by the company itself (own shares, allowances)
  - ▣ Retained earnings
    - Treasury stocks
    - Earnings
  - ▣ Dividend pay-outs

# LIABILITIES

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- Provisions for risks and charges [Provisions]
  - ▣ Examples: pensions, customer guarantees
  - ▣ Potential debt: liability inclusion
- Non-current liabilities [Debts to third parties in the medium and long term]
- Current liabilities [Debts to short-term third-party]

# Liquidity and demandability

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- Account placing in Assets
  - ▣ Increasing liquidity
  - ▣ Liquidity: ease of conversion of the assets into net means at a “fair market value”
- Account placing in Liabilities
  - ▣ Increasing demandability
  - ▣ Demandability: ease of conversion of liabilities to payments

# Working capital

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- Liquidity
  - ▣ Availability or possibility to easily get money
  - ▣ Interest: meeting short-term commitments
- Short-term financial balance
  - ▣ Current assets  $>$  Short-term liabilities
- Working capital
  - ▣ Current assets  $-$  Short-term liabilities

# Working capital

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- Working capital
  - ▣ Permanent capital – Non-current assets
- Part of the permanent capital that finances the operating cycle

Non-current assets	PERMANENT CAPITAL
Current assets	Working capital
	SHORT TERM LIABILITIES

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# Profit and loss statement

# Profit and loss statement

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- Shows of earnings were obtained

- ▣ Profits or losses

In a certain period

- ▣ Between 2 balances

- Quantitative patrimonial events

- ▣ Changes in asset value in a certain period



# Patrimonial events

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- Income - increase in the value of assets
  - ▣ Sales
  - ▣ Services provided
  - ▣ Other income
  
- Expenditure – decrease in value of the assets
  - ▣ costs of goods sold (COGS)
  - ▣ External services and supplies
  - ▣ HR
  - ▣ Amortizations
  - ▣ Other expenses

# Organization of income and expenditure

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- By nature
  - ▣ Operations
  - ▣ Financial
  - ▣ Extraordinary
  
- By functions
  - ▣ Production
  - ▣ Distribution
  - ▣ Administration
  - ▣ Financial

# Organization

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+ OPERATIONAL EARNINGS	+ OPERATIONAL INCOME - OPERATIONAL EXPENDITURES
+ FINANCIAL EARNINGS	+ FINANCIAL INCOME - FINANCIAL EXPENDITURES
= CURRENT EARNINGS	
+ EXTRAORDINARY EARNINGS	+ EXTRAORDINARY INCOME - EXTRAORDINARY EXPENDITURES
= EARNINGS BEFORE TAXES	
- TAXES	
= EARNINGS	

# Operational earnings

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- Income
  - ▣ Sales: goods, products
  - ▣ Services
- Expenditures
  - ▣ COGS
  - ▣ External services
  - ▣ HR/Personnel
  - ▣ Amortizations and depreciations

# Financial earnings

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- Income
  - ▣ Capital income
  - ▣ Financial application income
- Expenditures
  - ▣ Interest
  - ▣ Amortizations from financial investments

# Extraordinary earnings

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- Income

- ▣ Non-current assets

- Sales of non-current assets

- ▣ ...

- Expenditures and losses

- ▣ Losses in stocks or non-current assets

- ▣ Penalties

- ▣ ...