

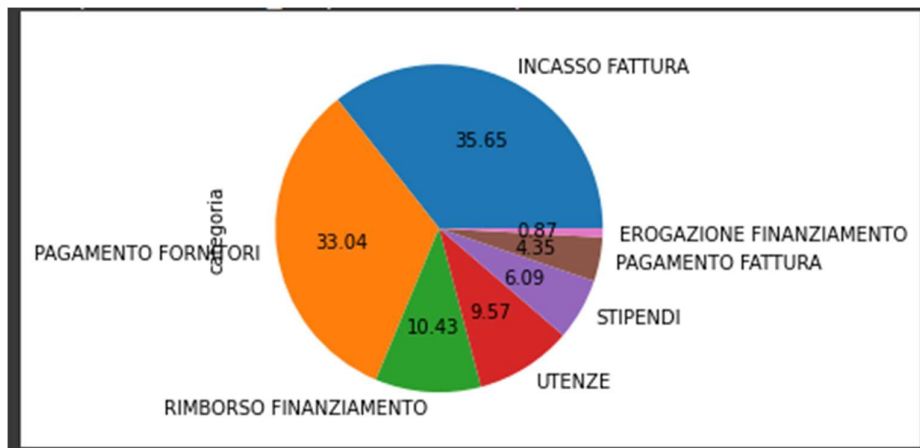
This Report aims to help the lending manager decide 2 things –

- i) Whether short-term lending to ABC company is workable or not?
- ii) If the lending is workable, how much amount should be lent?

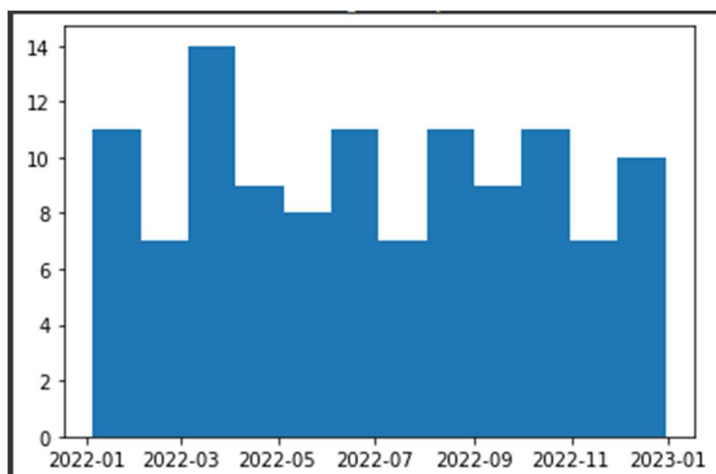
The data used for this analysis –

- A) A Google Sheet depicting transaction dates, categories, and the amount.
- B) Balencio.xml (An XML file depicting current transaction records)
- C) Basic concepts of accountancy and financial ratios.

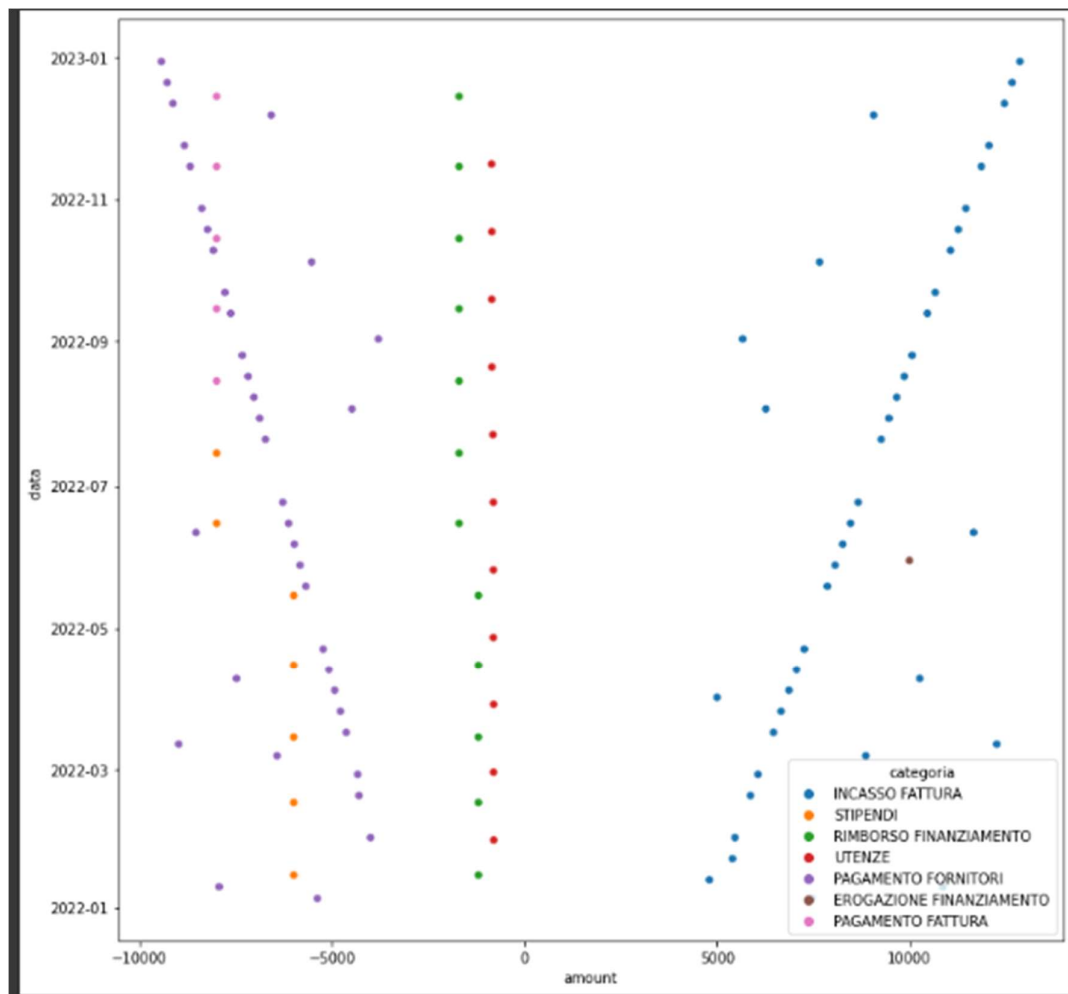
First, an analysis of file A) is presented.



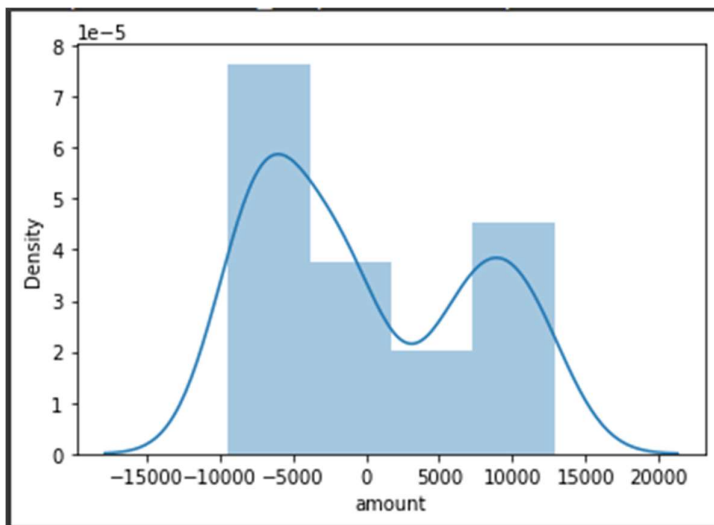
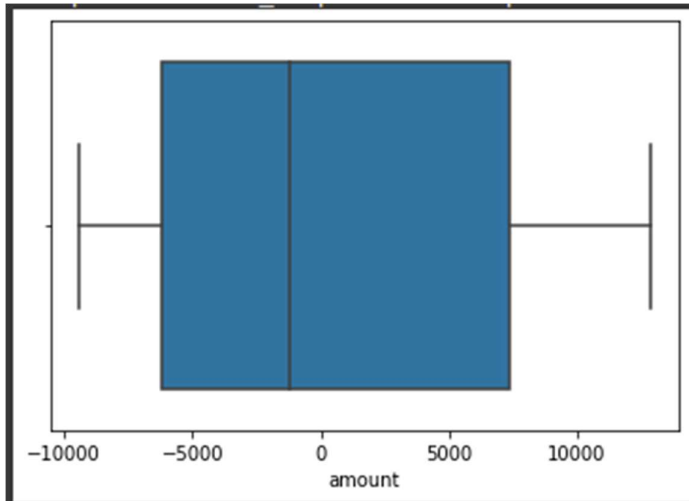
- Maximum transactions happened for INVOICE COLLECTION (INCASSO FATTURA) 35.65 %, followed by SUPPLIER PAYMENT (PAGAMENTO FORNITORI) 33.04 %.
- Least number of transactions happened for FUNDING DISTRIBUTION (EROGAZIONE FINANZIAMENTO) 0.87 % and INVOICE PAYMENT (PAGAMENTO FATTURA) 4.35 %.



- Maximum transactions happened in March, while the least happened in February, July, and November.



- The main source of receipt for the company ABC is INVOICE COLLECTION (INCASSO FATTURA), which contributes 97.2 % of the total revenue. It is followed by FUNDING DISTRIBUTION, provided in the last week of May, which contributes to the rest.
- The main source of expenditure is SUPPLIER PAYMENT (PAGAMENTO FORNITORI), which contributes to 69.13 % of the total expenditure. It is followed by SALARIES (STIPENDI), which is 12.56 % of the total expenditure. Rest is contributed by REIMBURSEMENT DISTRIBUTION (RIMBORSO FINANZIAMENTO) and UTILITIES (UTENZE).
- Overall, it seems there are **multiple liabilities** associated with the company ABC with **less diverse sources of revenue**.



- Moreover, only 42 out of 115 transactions (~36 %) were positive.
- Debt to Income ratio is extremely high, which is more than 0.97.
- However, **overall receipts** are **slightly over 7,500 Euros** for the company. So, by taking a margin of safety by 20%, around 6,000 Euros should be lent to the company, which is about 60 % of the Funding Distribution received by the company in the last week of May 2022 (30-05-2022).

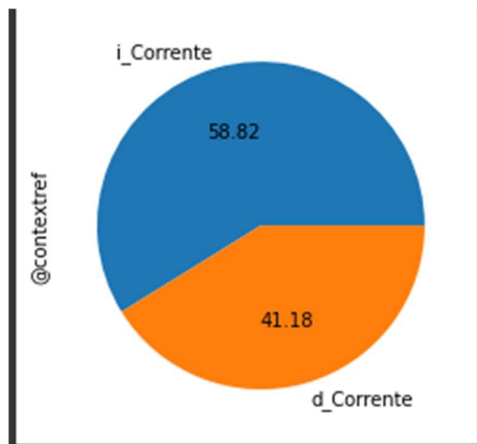
However, there is a caveat to this analysis. Perhaps the company did not perform well in the year 2022. So, previous transactions need to be analysed, which are present in the XML file.

The data present in the previous transactions are of two types –

- 1) Under the context “**i_Corrente**”, where the transactions happened as a **single instance** – 2021-12-31. Moreover, there are categorical factors associated with it, which are either True or False. These factors do not directly contribute to the balance sheets but may affect the final decision of lending. For instance, personal details fully paid-up share capital (dati anagrafici capitale sociale interamente versato) is True. Similarly, the personal data of the sole

shareholder company (“dati anagrafici società socio unico”) is False. Some transactions are negative, like shareholders' equity profit loss year (patrimonio netto utile perdita esercizio) is equal to 94,264 Euros. Some are positive, like total receivables from shareholders payments still due (totale crediti verso soci versamenti ancora dovuti) is equal to 33 Euros. Some are zero, like advances administrators (amministratori anticipazioni).

- 2) Under the context “**d_Corrente**”, where the transactions happened during a **period** – Transactions started on 2021-01-12 and ended on 2021-12-31. In this category, some transactions are assets/income sources, while others are expenditures/liabilities. Some of them are positive, some are negative, and others are zero. For instance, the profit loss exercise (“utile perdita esercizio”) gives a loss of 94,264 Euros. Similarly, the value of production other revenues other income (valore produzione altri ricavi proventi altri) gives an income/profit of 260 Euros. Moreover, some transactions like the acquisition of treasury shares for the corresponding period (acquisizione esercizi corrispettivo azioni proprie) are zero.



- As can be seen, single instance transactions under “i_Corrente” are more than the transactions under “d_Corrente”. This indicates that most of the transactions happened at the end of the year, which needs to be kept in mind while lending the amount.
- By analysing the XML File, it can be said that the **information** regarding **personal shareholding, liquidation** and **capital** for the company is **not available**.
- Moreover, there are 39 heads where the amount is equal to zero. These include –
 - Fees and credits related to directors and auditors.
 - Guaranteed amount.
 - Commitment amounts related to the parent company.
 - Treasury shares value and related capital.

After dropping the aforementioned and irrelevant columns, the remaining columns and their corresponding amount can be classified into -

- Balance Sheet, having Assets, Liabilities and Equity
- Income Statement – depicting Revenue and Expenditure.

BALANCE SHEET

ASSETS

TOTAL CURRENT ASSETS	145,786
TOTAL TANGIBLE ASSETS	2,765
TOTAL INTANGIBLE ASSETS	74,819
TOTAL FIXED ASSETS (TANGIBLE + INTANGIBLE)	77,584
TOTAL INVENTORIES	3,000
RECEIVABLES STILL DUE FROM SHAREHOLDERS	33
RECEIVABLES DUE FOR THE FOLLOWING YEAR	87,895
TOTAL ASSETS	22,516,800

EQUITY

CAPITAL EQUITY	209
SHAREHOLDERS' EQUITY RESERVES INDICATED SEPARATELY	50,000
SHAREHOLDERS' EQUITY SHARE PREMIUM RESERVE	129,982
TOTAL EQUITY	85,927
SHAREHOLDERS' EQUITY LOSS	-94,264
TOTAL DEBT	139,241
PAYABLES DUE WITHIN THE FOLLOWING YEAR	139,241

LIABILITIES

TOTAL LIABILITIES (TOTAL EQUITY + TOTAL DEBT)	225,168
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The following observations can be made from the balance sheet –

- According to the fundamentals of accountancy, **Assets = Liabilities + Equity**. However, in the above case, total assets are way higher than total liabilities and equity. It raises 2 concerns –
One, there may be unknown assets making it riskier to lend. In that scenario, reckoning the risk is not workable.
Second, there may be a misrepresentation of the assets' data. If the data is misrepresented, in that case, there is a possibility to balance the asset-liability equation. **Total Liability = Total Debt + Total Equity**. In the balance sheet, this condition is satisfied. It gives a clear sign that at least the **source of debt obligations and equity is clear**. If Total Assets are equal to 225,168 Euros instead of 22,516,800 Euros (assuming the typing error), then **Total Assets = Total Liability**. However, even in that case, there is a strong sign that the company arranges its funds from debt obligations, making it risky to invest in it.
- **Debt ratio = Total Debt / Total Assets**. In the above case, it is **0.618**. It is preferred to be less than 1. Hence, it is a positive indicator.
- **Leverage** or the **proportion of debt and equity** in a balance sheet helps in deciding the risk associated with the business. In the above, this ratio is **high (1.620)** making it risky to lend to such a company.
- **Current Ratio = Current Assets / Current Liabilities**. This ratio depicts the ability of a company to repay its obligations in the short term. Assuming current liabilities to be equal to total debt, it comes out to be **1.047**. Here, whether it is good or bad, will depend on the type of business Company ABC is into. It shows that the assets of the company are slightly over its current obligations, which can be considered a positive sign.

- **Quick Ratio = Liquid Assets / Current Liabilities.** It helps in finding the liquidity of the company in short term. Here, liquid assets are equal to (Current assets – Inventory – Prepayments). This gives a ratio of **1.012**, which is in an acceptable range.
- Shareholders' equity loss, calculated by subtracting capital equity, shareholders' equity shares premium reserve, and equity total other reserves from total equity, is 94,264 Euros. This amount is equal to the amount depicted in the XML file.
- Here, total payables due within the following year (139,241 Euros) are much more than the receivables (87,895 Euros). This shows that more cash would be paid than what would be received. Ideally, total receivables should be more than total payables, which can help in enabling short-term cash resources for the business. Hence, it requires to be considered.

INCOME STATEMENT

REVENUE

PRODUCTION VALUE OTHER REVENUE OTHER INCOME	260
PRODUCTION VALUE OTHER REVENUE INCOME GRANTS OPERATING ACCOUNT	4,000
TOTAL OTHER REVENUE INCOME	4,260
SALES SERVICES REVENUE	111,055
PRODUCTION VALUE OF INVENTORIES	3,000
<i>TOTAL REVENUE/PRODUCTION VALUE</i>	118,315

EXPENSES

PRODUCTION COST SUNDRY MANAGEMENT CHARGES	939
PRODUCTION COST OF SERVICES	136,179
PRODUCTION COST OF ANCILLARY RAW MATERIAL	75,461
<i>TOTAL PRODUCTION COST</i>	212,579
ACTIVE ACCRUALS AND PREPAYMENTS	1,765
PAYABLES DUE WITHIN THE FOLLOWING YEAR	139,241
PRODUCTION COST DIFFERENCE (TOTAL PRODUCTION COST - TOTAL PRODUCTION VALUE)	-94,264

The following observation can be made from the income statement –

- Cost of production is more than the total value of production. Hence, there is a loss in production of 94,264 Euros. This is depicted in one of the entries of the XML table as well. Further, it is equal to the outcome of the profit loss exercise, where a loss of 94,264 Euros is clear.

Finally, in the XML Table, the amount of liquidity available is depicted as 54,891 Euros.

In a nutshell, it can be said that Company ABC is worthy of lending amount. Nonetheless, the amount that can be sanctioned needs to be in proportion to its total current assets, liquidity available, liabilities and previous year's performance.

Total Current Assets + Total Tangible Assets + Total Equity = 145,786 + 2,765 + 85,927 = 234,478

Total Liabilities= 225,168. Difference = 234,478 – 225,168 = 9,310.

Net receipts for the year 2022 = 7,525. Taking an average, = 8,417.

So, an amount of **8,400 Euros** can be lent to the company ABC for a short term. This is proportionate to the funding distribution the company received in the year 2022.