

Enterprise Management and Entrepreneurship M.EIC 2022-2023



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Financial Management

Lecture 1



EMPRESAS • TECNOLOGIAS

Lucro da Glintt aumenta 25,3% em 2023 para 4,03 milhões de euros

Em 2023, o volume de negócios da Glintt totalizou 120,2 milhões de euros, uma subida de 6,7% face ao ano anterior.



Bruno Colaço

Lusa
 05 de Abril de 2024 às 18:38



A tecnológica Glintt registou 4,03 milhões de euros de lucro em 2023, um crescimento de 25,3% face ao ano anterior, foi esta sexta-feira comunicado ao mercado.



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Aerospace & Defense

Brazil airline Azul hikes 2024 earnings forecast on 'robust' demand

By Gabriel Araujo and Peter Frontini

March 28, 2024 6:39 PM GMT · Updated 11 days ago



E2-195 plane with Brazil's No. 3 airline Azul SA logo is seen during a launch event in Sao Jose dos Campos, Brazil September 12, 2019. REUTERS/Roosevelt Cassio/File Photo [Purchase Licensing Rights](#)

SAO PAULO, March 28 (Reuters) - Brazilian carrier Azul on Thursday bumped up its estimate for core earnings in 2024 as air travel demand in Latin America's largest economy remains at robust levels, helping Azul despite capacity bottlenecks in the industry.

Azul said it expects earnings before interest, taxes, depreciation and amortization (EBITDA) of around 6.5 billion reais this year, representing nearly 25% growth over 2023 and above the 6.3 billion reais previously projected.



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Feedback



Types of organizations

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

Objective of financial management

- General objective

assess and interpret

the current situation and the evolution

of the financial and economic situation of an organization

Objective of financial management

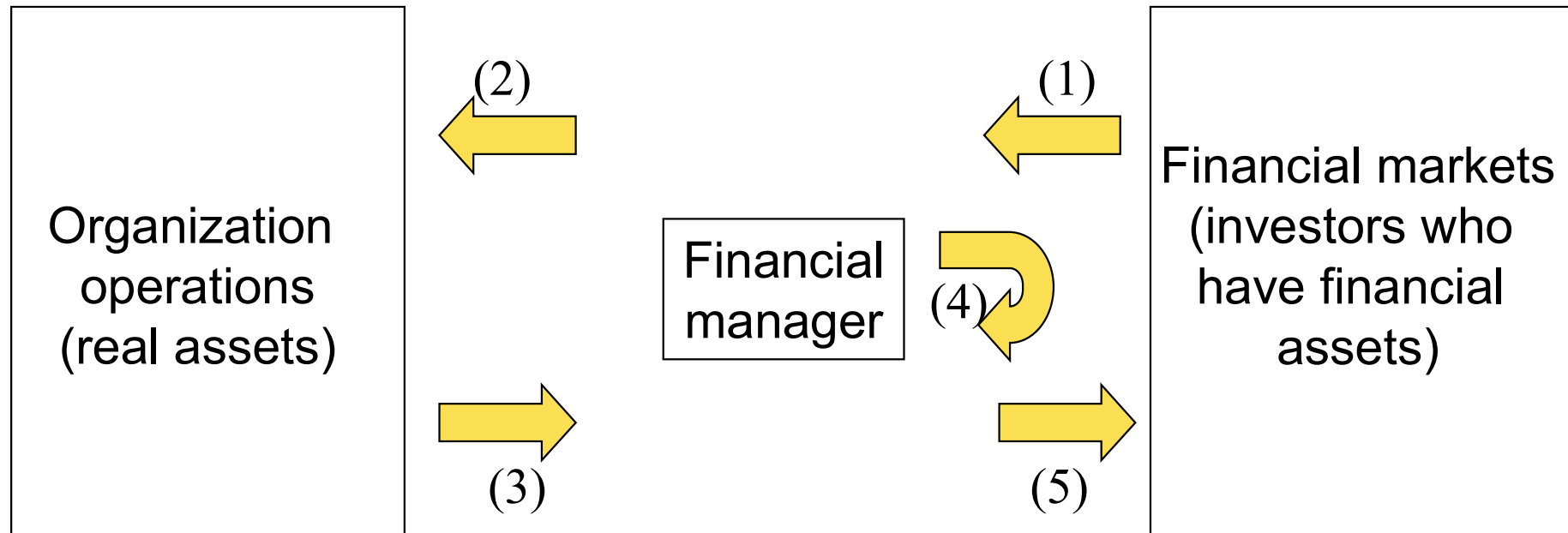
- For an organization, the objective of financial management is to:

- Maximize its value

and

- ensure it has a robust financial structure and cash so it can pursue its global strategy

The role of the financial manager



 Financial flows

The role of the financial manager

1. Getting funding for the company from financial investors.
2. Investment of those funds in the company's operations.
3. Management of funds in the company's operations.
4. Reinvestment of funds in the company.
5. Distribution of funds among shareholders.

Interested stakeholders

- managers – monitor, control, decide
- investors – compute the value of the business
- lenders – probability of being repaid
- state – taxes, identify and help address problems
- customers and suppliers – assess level of dependence and power
- workers – job security, income distribution

Accounting

What can we find in the Kish tablets?



Accounting – information system supporting financial management

- **Accounting**

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

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=item_id&value=2046507

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

Key questions

- **What are our resources?**
 - Balance sheet
- **How has our performance been?**
 - Income statement
- **How are we managing our cash?**
 - Cash Flow statement

Balance sheet

Financial position

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



Buildings	Cash
Equipment	Accounts receivable
Tools	Accounts payable
Inventory	

Balance sheet

- Portrays the financial situation of the organization at a report date:
 - A snapshot
 - Cumulative values
 - Relative to a date
 - Often shows comparative information

Balance sheet

- **Assets:** Assets controlled by the organization as a result of past events and that are expected to generate financial inflows to the organization
 - Ex.: Equipment, stocks, ...
 - Positive elements: goods and entitlements (receivables)
- **Liabilities:** present obligation of the organization arising from past events, the settlement of which is expected to result in an outflow of resources embodying economic benefits of the organization
 - Ex.: Amounts owed (“payables”) to suppliers, ...
 - Negative elements: debts and amounts owed (payables)
- **Equity:** corresponds to the residual interest of the organization after deducting all of its liabilities from the value of its assets

Balance sheet

- **Basic equation of accounting and accounting movement**

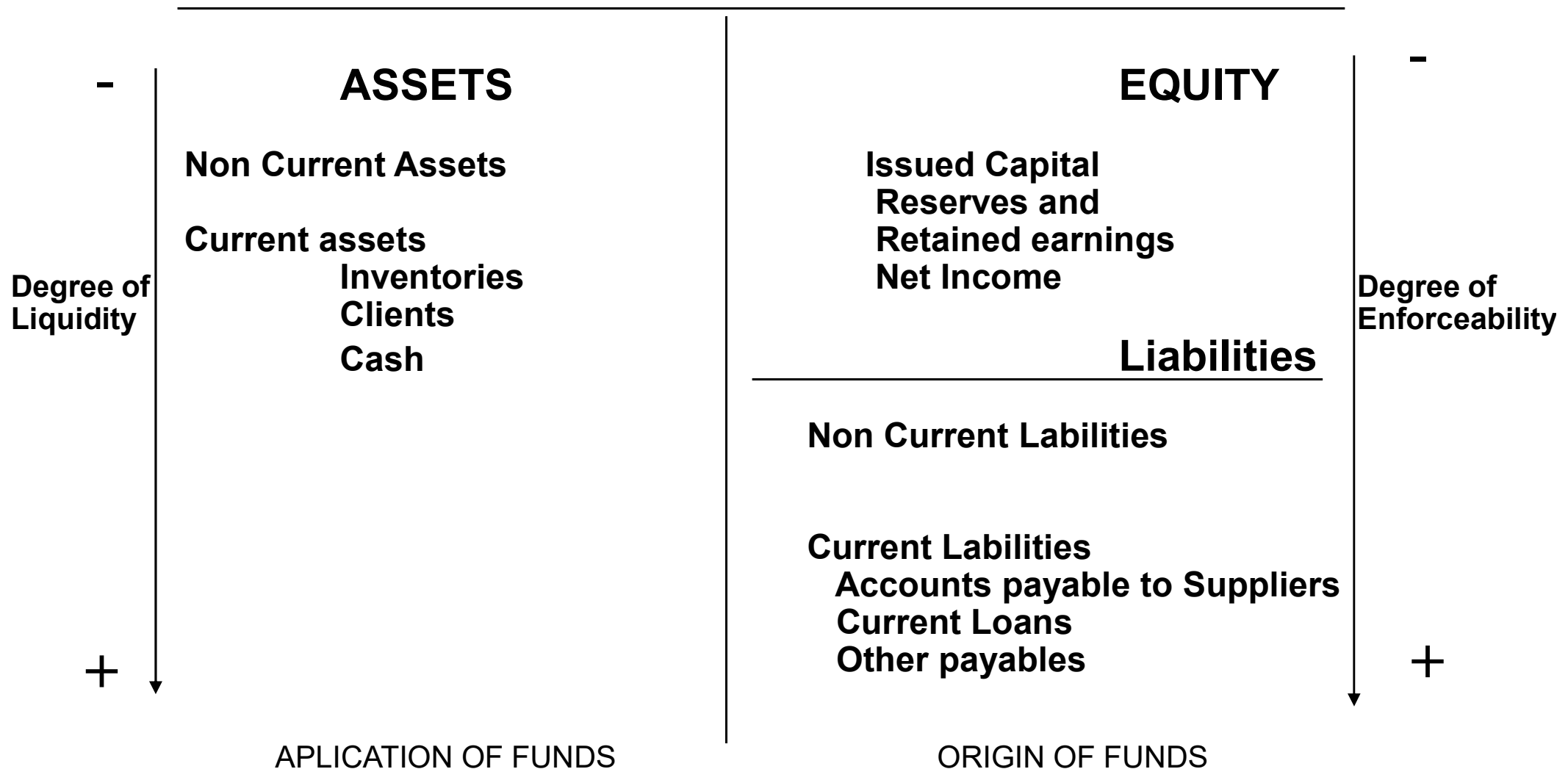
$$\text{Equity} = \text{Assets} - \text{Liabilities}$$

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

Balance sheet

- It represents the organization's property both in composition and in value.
- The components of the Balance Sheet must be written according to the following order:
 - The Assets must be presented from top to bottom, in order of increasing **liquidity** (*ease of conversion of the asset into cash at “fair market value”*)
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 (**enforceability** – *ease of converting liabilities into payment*)
shareholders' equity must therefore be represented in the first place.

Balance sheet



Balance sheet

ASSETS

Non-current assets

Property, plant and equipment (*land, buildings, equipments, ...*)

Intangible assets (*Intellectual property, software, ...*)

Investments in financial assets (*assets held for income or fruition*)

Total non-current assets

Current assets

Inventories (*Storable goods purchased or produced for sale or consumption*)

Biological assets

Accounts receivables (from clients) (*Credit granted– usually given 30, 60, 90 days to pay*)

Financial claims on owners of the company

Current tax assets (*VAT...*)

Other receivables

Cash and bank balances

Total current assets

Total assets

Balance sheet

EQUITY

Equity

Issued capital (*Shares in the ownership of the company*)

Legal reserves

Retained earnings – other reserves

Net income of the year

Total equity

Balance sheet

LIABILITIES

Non-current liabilities

Long-term debt (*Bank loans – longer than one year*)

Total non-current liabilities

Current liabilities

Accounts payable (*to suppliers*)

Current tax liabilities (*Amount due to taxing authorities within a year,...*)

Financial liabilities to owners of the company

Short-term debt (*Amount due to a lender and within a year*)

Other payables (*Regular amounts owed but unpaid to employees, interests at date of balance – accruals,...*)

Total current liabilities

Total liabilities

Total equity and liabilities

Working capital

- Liquidity
 - Cash readily available or obtainable
 - Interest: meet short-term commitments, because inflows and outflows do not coincide perfectly
- Short-term financial balance
 - Current assets > Current liabilities
- Working capital
 - Current assets – Current Liabilities

Working capital

- Working capital
 - $\text{Equity} + \text{Non-current liabilities} - \text{Non-current assets}$
- Part of (equity + non-current liabilities) financing the operating cycle

NON-CURRENT ASSETS	EQUITY + NON-CURRENT LIABILITIES
CURRENT ASSETS	Working capital
	CURRENT 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 organization's patrimony, but not its value.
- **Modifying financial facts** – fact that changes both the composition and the value of the organization's patrimony.

Examples:

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

Permutative facts

1. Permutative fact – deposit in bank

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

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

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

Modifying facts

2. Modifying fact

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

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

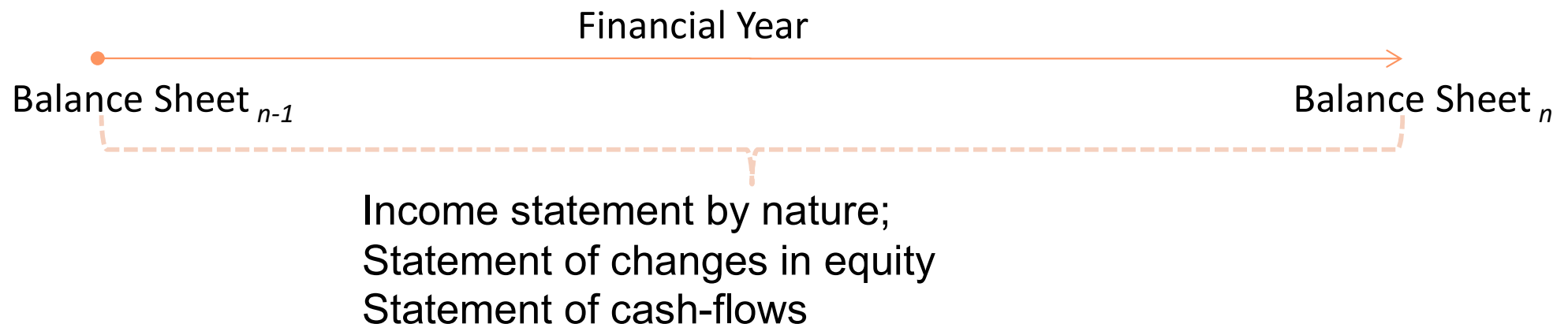
Assets	
Non-current assets	23300
Inventories	4847
Accounts receivable	1075
Cash and deposits	1100
Total Assets	30322
Equity and Liabilities	
Equity	27822
Accounts payable	2500
Total Equity and Liabilities	30322

Exercise 1

Income statement

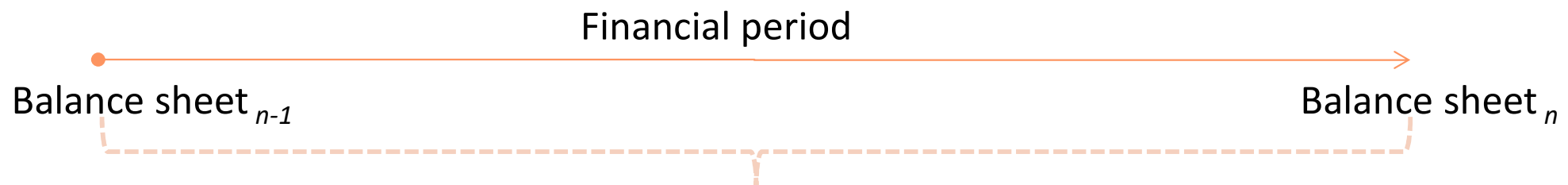
Financial statements (I)

- 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, which are not the result of contributions from equity participants
 - Revenue: arises in the course of ordinary activities of an organization (*earned from customer for goods sold and services rendered*);
 - Gains: represent other items that meet the definition of income and may, or may not, arise in the course of ordinary activities of an organization. Represent increases in economic benefits and as such are no different in nature from revenue. *Include extraordinary items, such as selling non-current assets.*

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 organization 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 organization. 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 = *(Earnings before interest, taxes, depreciation and amortization)*

- Depreciation and amortization expenses -

- EBIT = *(Earnings before interest and taxes = Operating income – Resultado operacional)*

- Financial income + *(from equity investments or from investments in financial assets)*
- Financial expenses – *(from loans obtained)*

- 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

Cash-flow statement

Financial flows: perspectives

- **Financial:** operations carried out by the organization with external entities. Related to the remuneration of factors and goods and services sold.
 - **Expenses (despesas):** obligations arising from the purchase of productive factors. Facts giving rise to obligations to be paid.
 - **Revenue (receitas):** rights arising from sales made and/or services rendered. Facts that give rise to rights to receive.
- **Economic or Productive:** linked to the transformation and incorporation into the production process of various materials, labour, etc. until reaching the final good/service.
 - **Costs (gastos):** values incorporated and consumed in production.
 - **Yields (rendimentos):** finished products ready for sale. The organization, when consuming goods and services, incurs expenses; producing them generates income.
- **Cash Flow:** cash inflows and outflows of the company.
 - **Receipts (recebimentos):** entry of monetary values for the organization.
 - **Payments (pagamentos):** outflow of monetary values from the organization.

Financial flows: perspectives

- **Example:**

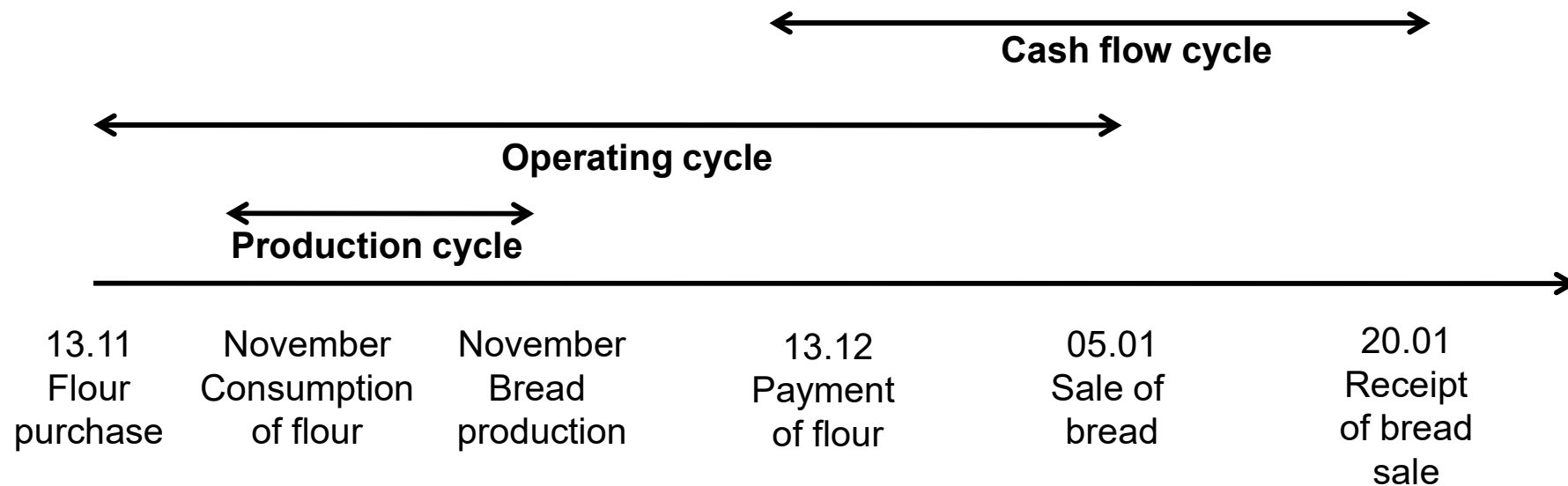
A bakery purchased on 13/11/2022, 10 tons of flour at a price of 4.000 m.u./ton, to manufacture bread.

The debt resulting from this acquisition would be paid on 13/12/2022.

In November 2022 it used 2 tons of flour, producing 1.500 kg of bread, sold at 10 m.u./kg on 5/1/2023, receiving the sale value on 20/1/2023.

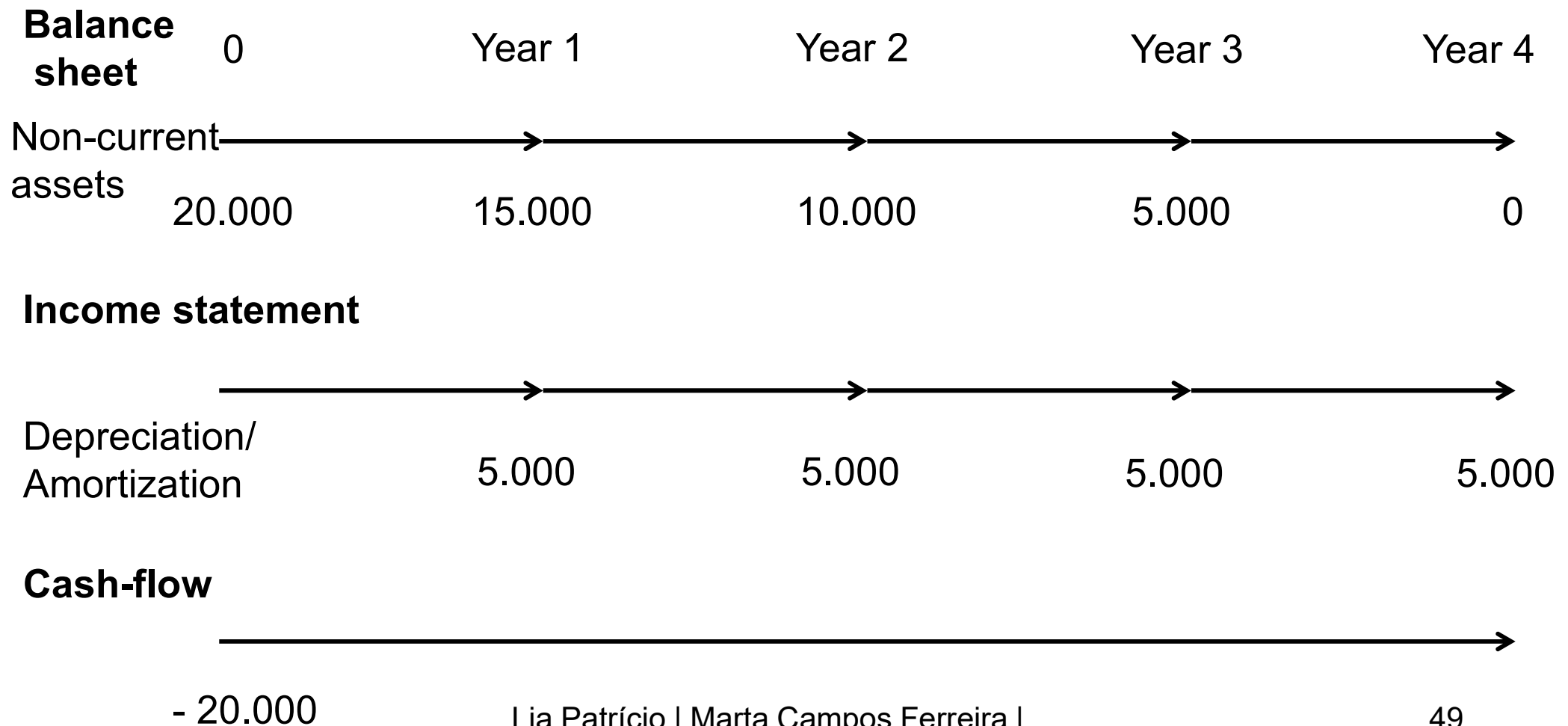
- **Expense:** Purchase of flour on 13/11/2022
- **Cost:** Use of 2 tons of flour in November 2022
- **Yield:** Produce 1,500 kg of bread in November 2022
- **Payment:** 13/12/2022
- **Revenue:** 5/1/2023
- **Receipt:** 20/1/2023.

Operating cycle and cash cycle



Depreciation and amortization

Purchase of a car (20.000 m.u.) that will be totally amortized in four years

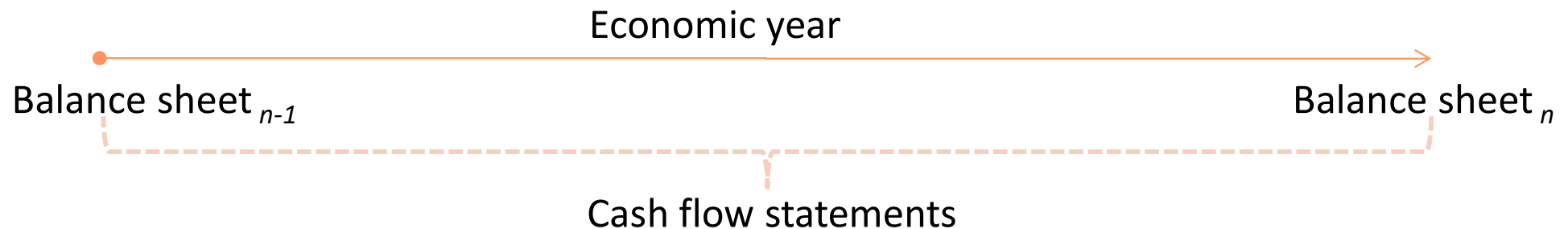


Financial flows: perspectives

- **Financial:** revenues and expenses
- **Cash flow:** receipts and payments

Cash flow statement


- **Cash flow statement (fluxos de caixa):** statement that presents the detailed historical information about what were the receipts and payments of an organization during a specific period of time – demonstrates the organization's ability to generate cash.



- Statement of cash flows
- For purposes of the statement of cash flows, cash receipts and payments are classified into three major activities :
 - Operational activities;
 - Investment activities;
 - Funding activities.

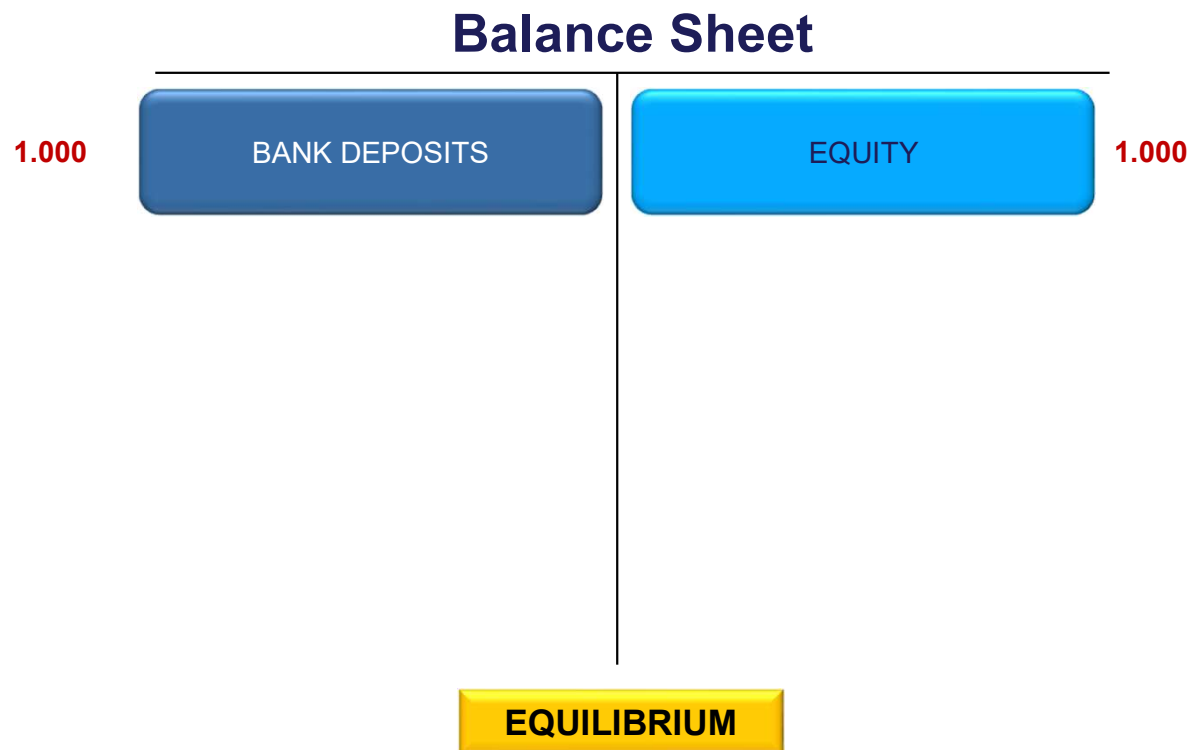
Cash flow statement

Cash at the beginning of the year (1)	Cash flows from Investment and Financing activities:
Cash Flows from operating activities:	
Cash Receipts (2)	Cash Receipts (5)
Sales	Equity
Other Revenues	Loans
Cash Payments (3)	Cash Payments (6)
Raw Materials	Loans repayments
Personnel	Investment
Other production expenses	Interest
Administrative expenses	Dividends
Commercialization expenses	
Balance of operating activities (4) = (2)-(3)	Balance of investment and financing activities (7) = (5) – (6)
	Balance of Period (8) = (4) + (7)
	Cash at the end of the year (9) = (1) + (8)



Financial statements

■ Relationship between financial statements



INCOME STATEMENT



CASH-FLOW STATEMENT

Money received
Initial equity 1.000

BANK DEPOSITS

■ Assets and Revenues

■ Equity

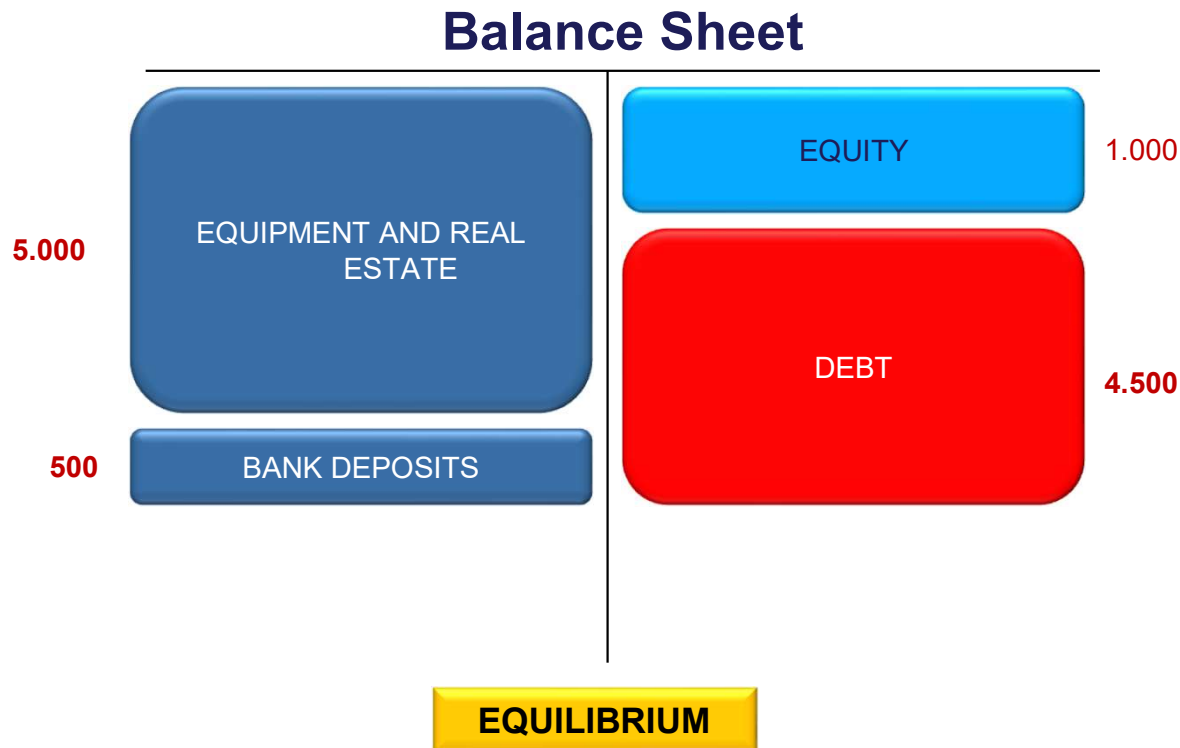
■ Liabilities and costs

1. Firm is created with 1000€ capital

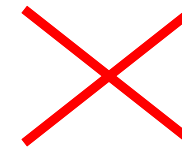
53 1.000

Financial statements

■ Relationship between financial statements



INCOME STATEMENT



CASH-FLOW STATEMENT

Money received	
<u>Initial equity</u>	1.000
<u>Bank debt</u>	4.500
Money paid	
<u>Equipment and real estate</u>	5.000

BANK DEPOSITS

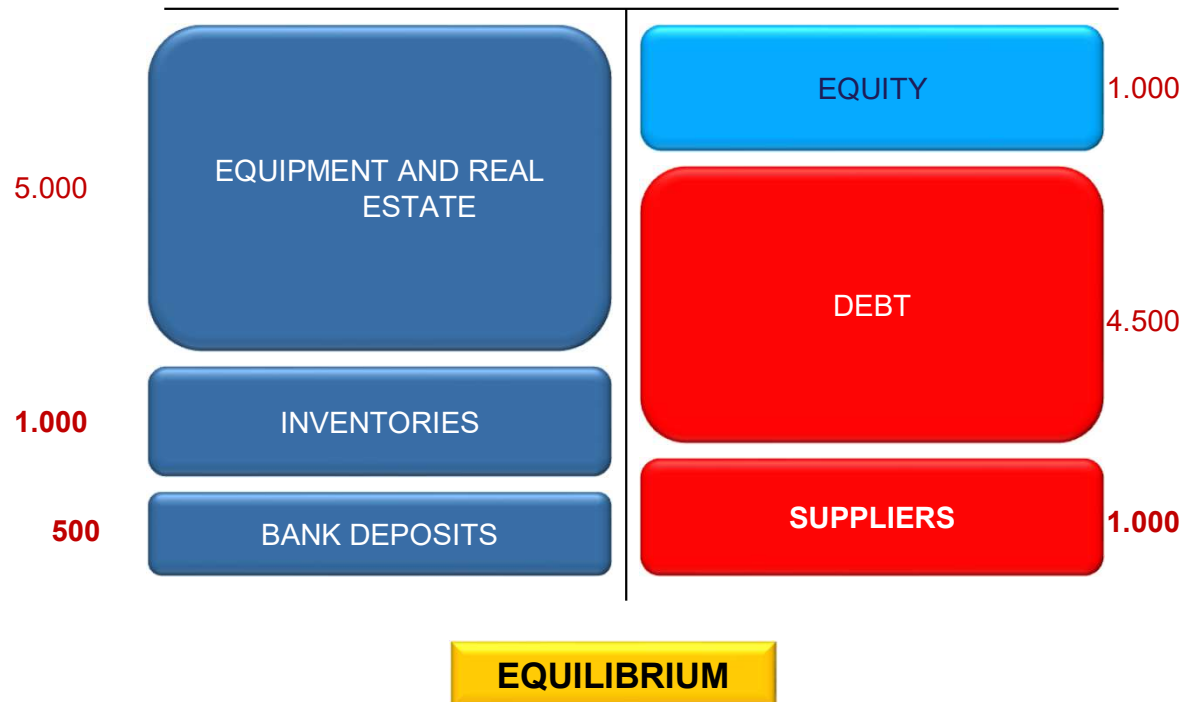
2. Initial investment: equipment and real estate acquisition with higher value than the initial equity 5000€, It is paid 4500€ bank loan and 500€ in cash.

- **Assets and Revenues**
- **Equity**
- **Liabilities and costs**

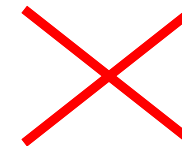
Financial statements

■ Relationship between financial statements

Balance Sheet



INCOME STATEMENT



CASH-FLOW STATEMENT

Money received	
Initial equity	1.000
Bank debt	4.500
Money paid	
Equipment and real estate	5.000



BANK DEPOSITS

■ Assets and Revenues

■ Equity

■ Liabilities and costs

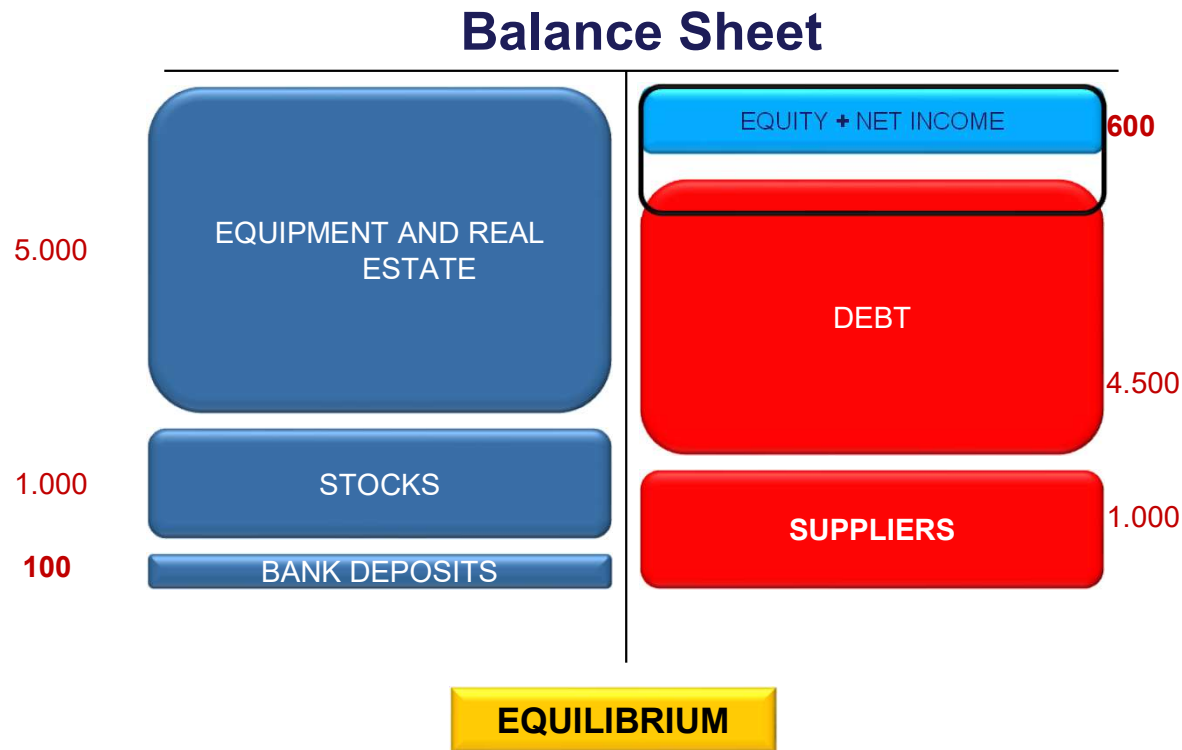
3. Inventories acquisition with credit from supplier 1000€

55

500

Financial statements

■ Relationship between financial statements



INCOME STATEMENT

SERVICES	200
LABOUR COSTS	200
NET INCOME	(400)

CASH-FLOW STATEMENT

Money received	
Initial equity	1.000
Bank debt	4.500
Money paid	
Equipment and real estate	5.000
<u>Adm. and general expenses</u>	<u>400</u>

BANK DEPOSITS

■ **Assets and Revenues**

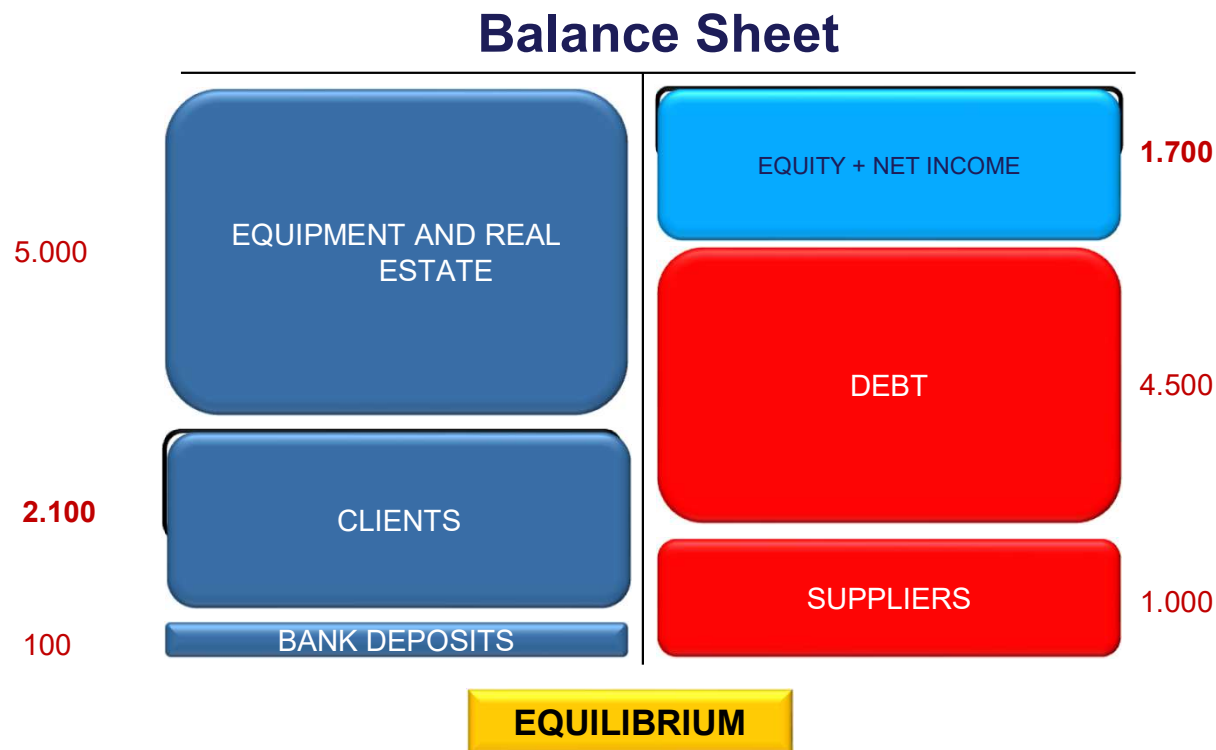
■ **Equity**

■ **Liabilities and costs**

4. Payment of salaries, electricity, water, insurance and other costs 200+200€ through bank account.

Financial statements

■ Relationship between financial statements



INCOME STATEMENT

SALES (REVENUES)	2.100
COST OF GOODS SOLD	1.000
SERVICES	200
LABOUR COSTS	200

NET INCOME	700
------------	-----

CASH-FLOW STATEMENT

Money received	
Initial equity	1.000
Bank debt	4.500
Money paid	
Equipment and real estate	5.000
Adm. and general expenses	400

BANK DEPOSITS

■ Assets and Revenues

■ Equity

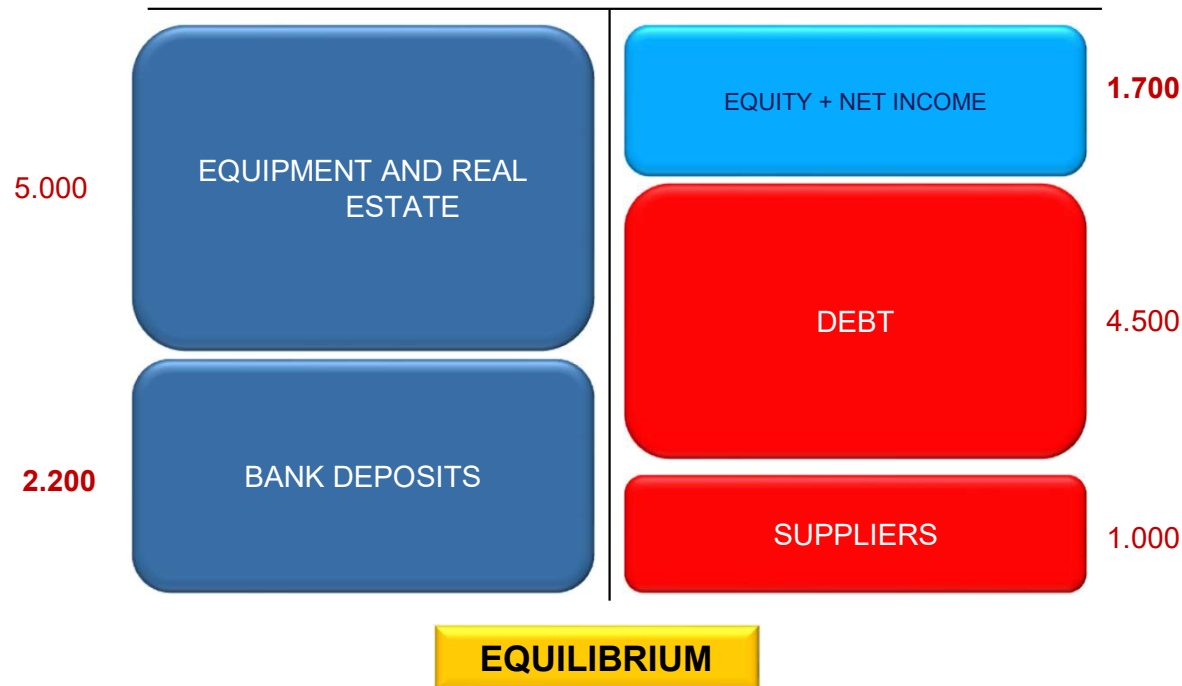
■ Liabilities and costs

5. The total amount of inventories (1000€) are sold for 2100€. Client does not pay with the sale.

Financial statements

■ Relationship between financial statements

Balance Sheet



INCOME STATEMENT

SALES (REVENUES)	2.100
COST OF GOODS SOLD	1.000
SERVICES	200
LABOUR COSTS	200

NET INCOME	700
------------	-----

CASH-FLOW STATEMENT

Money received	
Initial equity	1.000
Bank debt	4.500
Payment from clients	2.100
Money paid	
Equipment and real estate	5.000
Adm. and general expenses	400

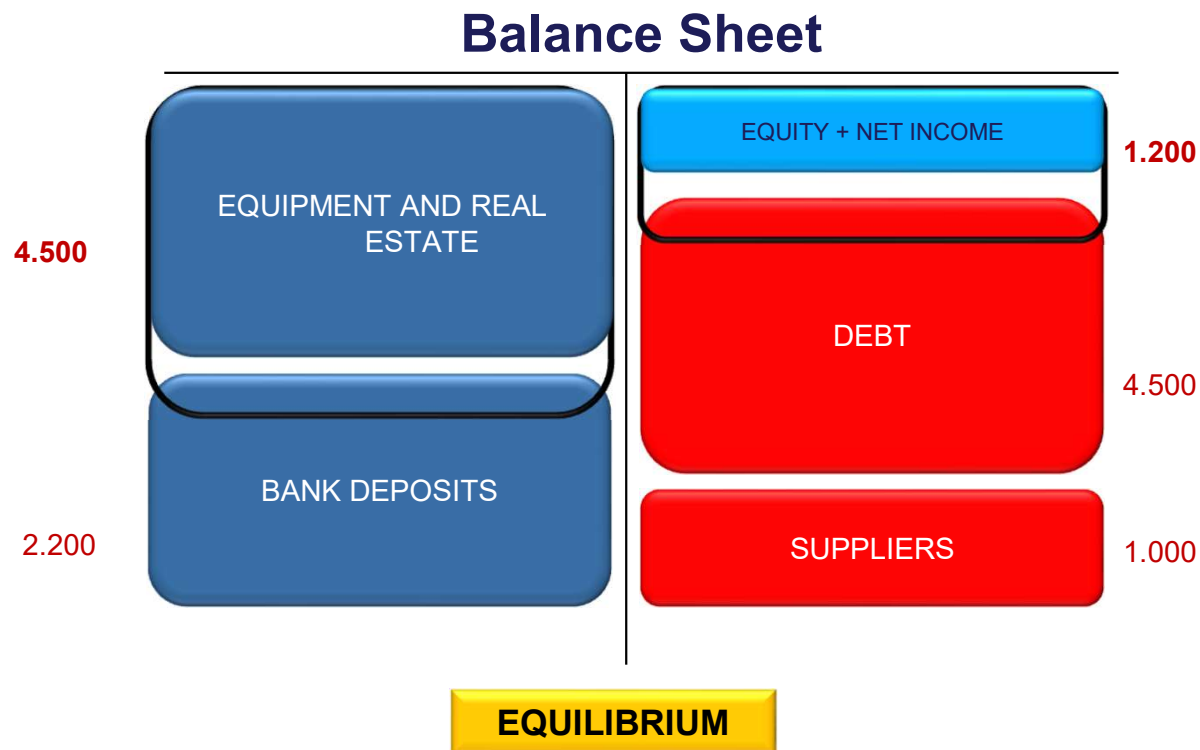
BANK DEPOSITS

- Assets and Revenues
- Equity
- Liabilities and costs

6. Payment from client 2100€

Financial statements

■ Relationship between financial statements



INCOME STATEMENT

SALES (REVENUES)	2.100
COST OF GOODS SOLD	1.000
SERVICES	200
LABOUR COSTS	200
AMORTIZATIONS AND DEPRECIATIONS	500
NET INCOME	200

CASH-FLOW STATEMENT

Money received	
Initial equity	1.000
Bank debt	4.500
Payment from clients	2.100
Money paid	
Equipment and real estate	5.000
Adm. and general expenses	400

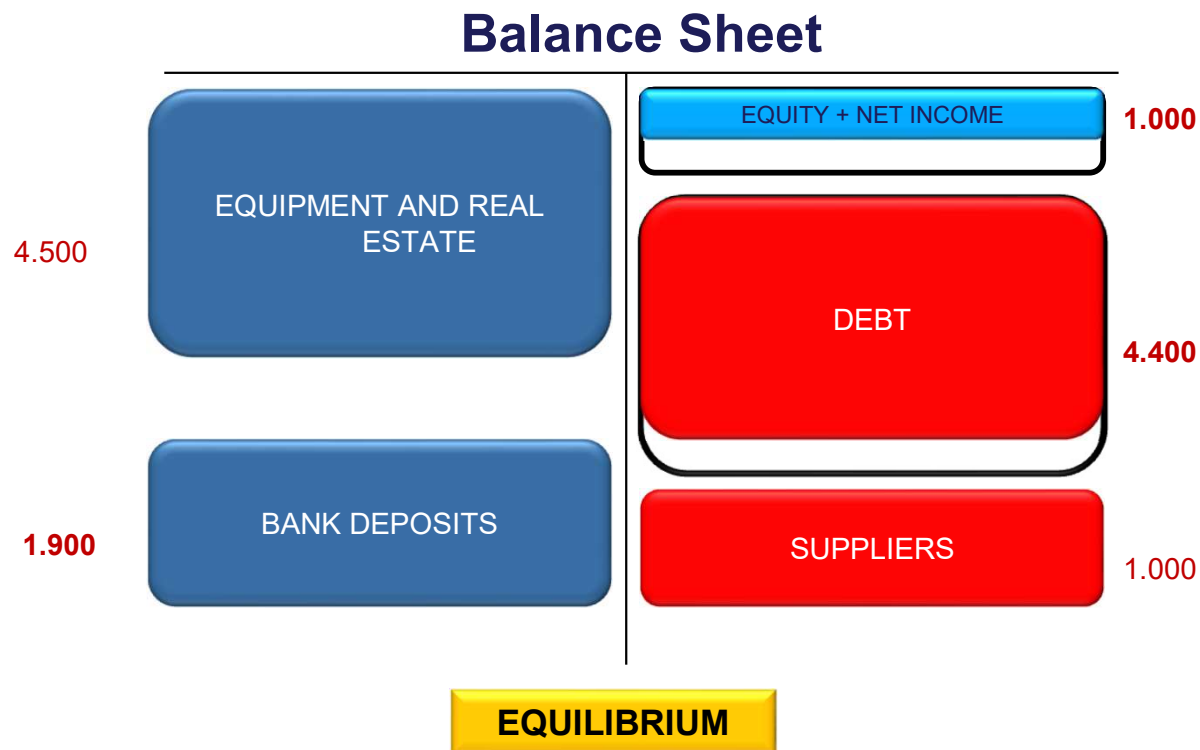
BANK DEPOSITS

- Assets and Revenues
- Equity
- Liabilities and costs

7. Equipment depreciation and amortization 500€

Financial statements

■ Relationship between financial statements



■ **Assets and Revenues**

■ **Equity**

■ **Liabilities and costs**

INCOME STATEMENT

SALES (REVENUES)	2.100
COST OF GOODS SOLD	1.000
SERVICES	200
LABOUR COSTS	200
AMORTIZATIONS AND DEPRECIATIONS	500
INTERESTS	200
NET INCOME	0

CASH-FLOW STATEMENT

Money received	
Initial equity	1.000
Bank debt	4.500
Payment from clients	2.100
Money paid	
Equipment and real estate	5.000
Adm. and general expenses	400
Bank repayment	300

BANK DEPOSITS

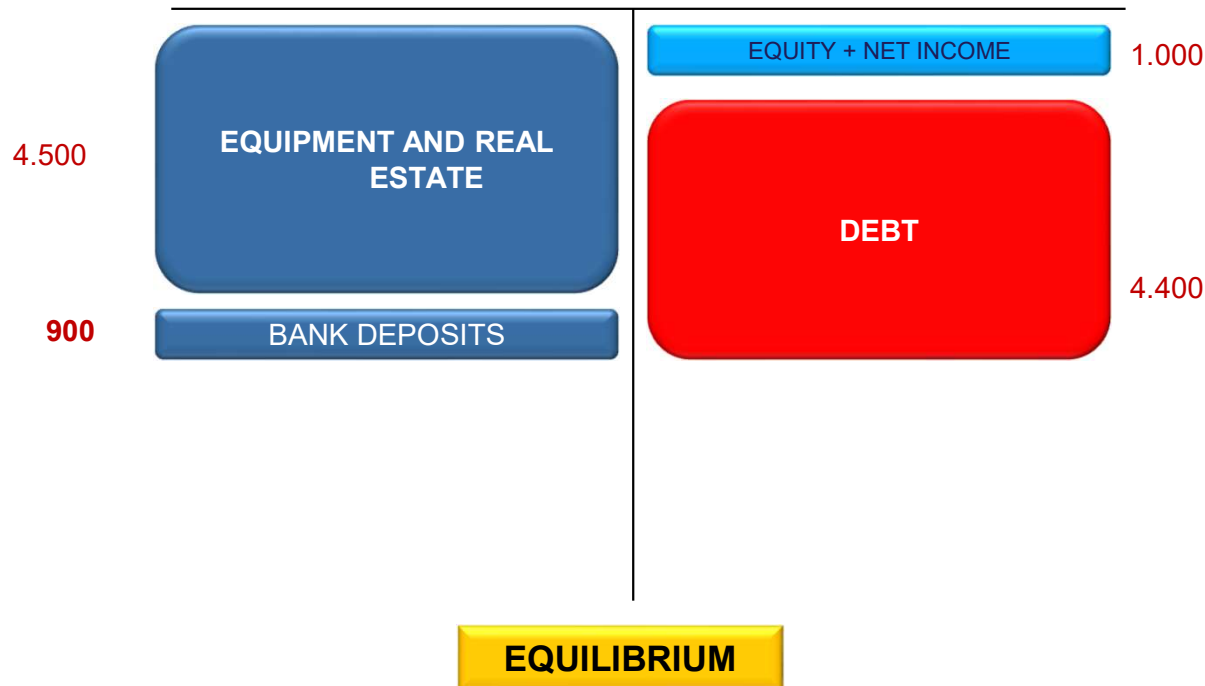
8. Partial payment to the bank (debt 100€ + interest 200€)

60 1.900

Financial statements

■ Relationship between financial statements

Balance Sheet



■ Assets and Revenues

■ Equity

■ Liabilities and costs

INCOME STATEMENT

SALES (REVENUES)	2.100
COST OF GOODS SOLD	1.000
SERVICES	200
LABOUR COSTS	200
AMORTIZATIONS AND DEPRECIATIONS	500
INTERESTS	200
NET INCOME	0

CASH-FLOW STATEMENT

Money received	
Initial equity	1.000
Bank debt	4.500
Payment from clients	2.100
Money paid	
Equipment and real estate	5.000
Adm. and general expenses	400
Bank repayment	300
<u>Payment to supplier</u>	<u>1.000</u>
<u>BANK DEPOSITS</u>	<u>900</u>

9. Payment to supplier 1000€

Exercise 3

References

- Brigham, E.F. and Ehrhardt, M.C. (2008), Financial Management – Theory and Practice, Thomson South-Western.
- Borges, A., Rodrigues, A., Rodrigues, R., Rodrigues, J.A. (2021), Elementos de contabilidade geral, Áreas Editora.