

The background of the slide is a blurred photograph of a workspace. It shows a wooden desk with a silver laptop, several sheets of paper with charts and graphs, and a pen. A blue semi-transparent banner is overlaid on the image, containing the title text.

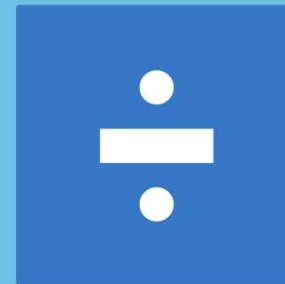
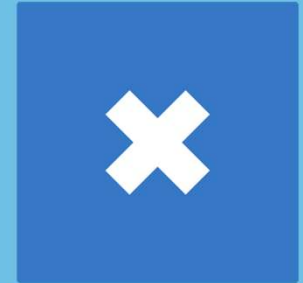
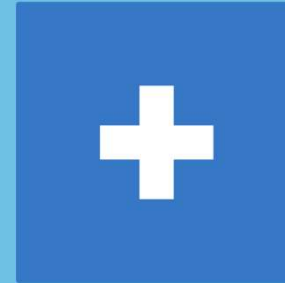
ACCOUNTING & FINANCIAL STATEMENT ANALYSIS

WHAT IS ACCOUNTING?

Accounting is an information science that is used to collect and organize financial data for organizations and individuals

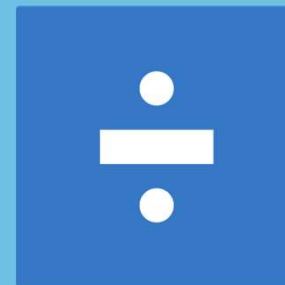
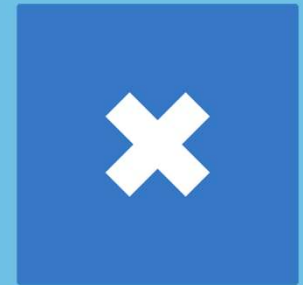
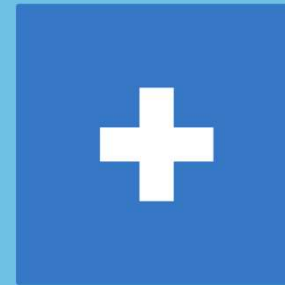
WHAT TYPE OF INFORMATION?

Accounting organizes financial information. Accounting isn't an abstract science – it is much more practical than theoretical. It's one of those things that you'll learn best by doing



TYPES OF ACCOUNTING

- **BOOKKEEPING:** Ensures that financial information has been gathered systematically
- **FINANCIAL ACCOUNTING:** Prepared for the company's ownership, its lenders, financial analysts, and for other external stakeholders
- **MANAGERIAL ACCOUNTING:** Looks into topics like pricing, competition, marginality, budgeting
- **TAX ACCOUNTING:** Determines the amount of taxes that a company has to pay



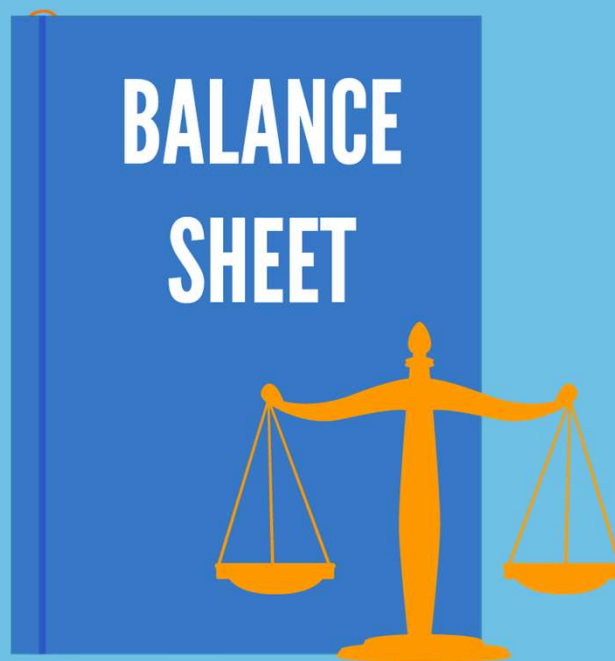
THE THREE CORE FINANCIAL STATEMENTS

INCOME STATEMENT



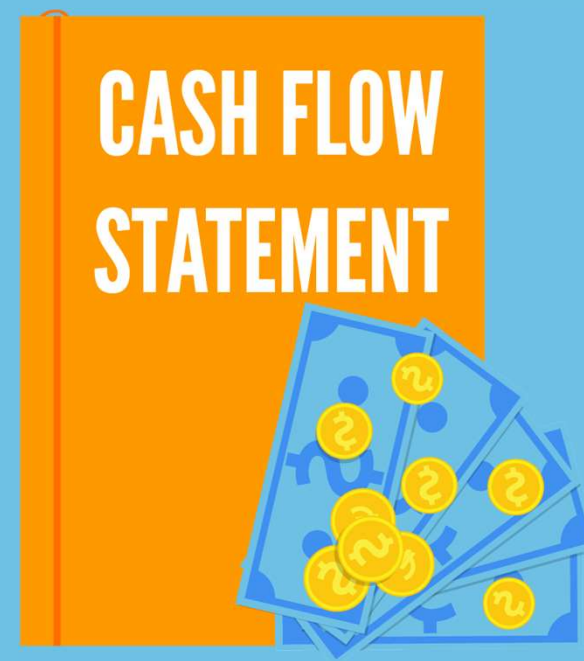
Income Statement/P&L/
Statement of Earnings

BALANCE SHEET



Balance Sheet/
Statement of Financial Position

CASH FLOW STATEMENT



Cash Flow Statement

THE THREE CORE FINANCIAL STATEMENTS



Income Statement/P&L/
Statement of Earnings

PURPOSE

- How did the company perform throughout the period under consideration?
- Did it generate a profit or a loss?

THE THREE CORE FINANCIAL STATEMENTS

BALANCE SHEET



Balance Sheet/
Statement of Financial Position

PURPOSE

- What does a company owe and own at a certain date?
- What is the company's financial position?

THE THREE CORE FINANCIAL STATEMENTS



Cash Flow Statement

PURPOSE

- How much cash did the company make during the period under consideration?
- Where did the cash come from?

THE MAIN INCOME STATEMENT ITEMS



Income Statement/P&L/
Statement of Earnings

REVENUE:

An inflow of economic resources. Usually, the main type of revenue for a given firm are its day-to-day sales – customers buying the goods that the firm sells.

OTHER REVENUE:

Earnings generated by performing activities that are outside the core area of operations

COST OF GOODS SOLD (COGS):

Expenses that are sustained in order to produce the goods that the firm sells and are directly attributable to the production process

THE MAIN INCOME STATEMENT ITEMS



Income Statement/P&L/
Statement of Earnings

SELLING, GENERAL AND ADMINISTRATIVE (SG&A):

A large category of costs that includes many items that are not directly related to the production process (for ex. Salaries of non-production personnel, management compensation, rent, general expenses, etc.)

DEPRECIATION & AMORTIZATION (D&A):

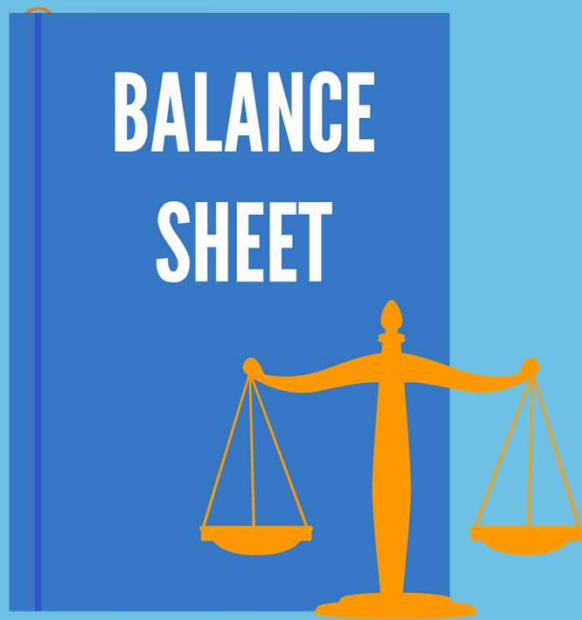
Two accounts that reflect the “using up” of tangible and intangible assets. Depreciation refers to assets of a physical nature, while amortization is the term that is used for intangible assets (goodwill, licenses, copyrights, etc.).

INTEREST EXPENSES:

The finance expense that a company bears for receiving external financing

THE MAIN BALANCE SHEET ITEMS

Assets



Balance Sheet/
Statement of Financial Position

CASH AND CASH EQUIVALENTS:

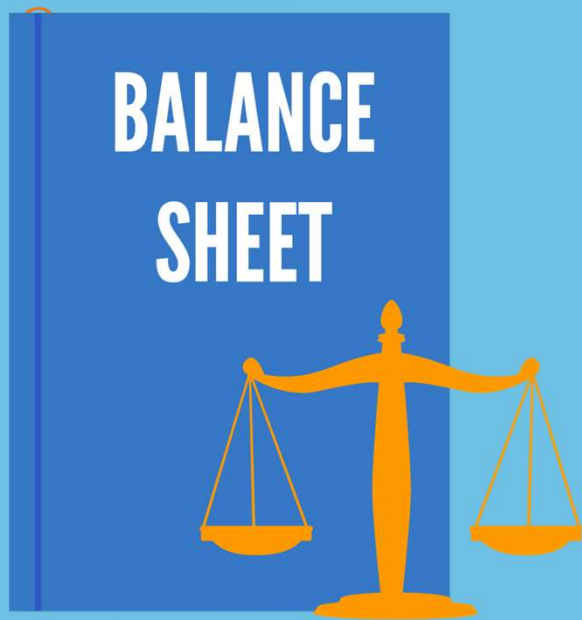
One of the most important drivers for a business. It shows how much of a firm's assets are cash or can easily be converted into cash. It gives us an idea of the liquidity of the company

ACCOUNTS RECEIVABLE:

When customers buy a firm's products they have to pay for them. And until they do, the firm will register this amount in accounts receivable, which indicates the money owed by customers. The firm registers that it has earned a payment from these customers but has not yet received the payment.

THE MAIN BALANCE SHEET ITEMS

Assets



Balance Sheet/
Statement of Financial Position

INVENTORY:

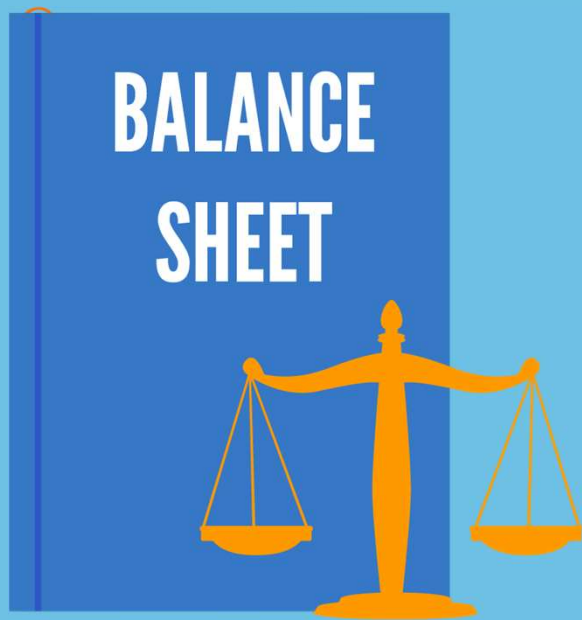
Inventory is the account that shows the value of raw materials, goods that are in the process of elaboration and finished goods that are ready to be sold to customers.

PROPERTY, PLANT & EQUIPMENT (PP&E):

A group of assets that are vital to business operations. Imagine a production company – it certainly needs plants and equipment in order to transform raw materials into finished products. Usually, this is a hefty investment that cannot be easily liquidated.

THE MAIN BALANCE SHEET ITEMS

Liabilities



Balance Sheet/
Statement of Financial Position

ACCOUNTS PAYABLE:

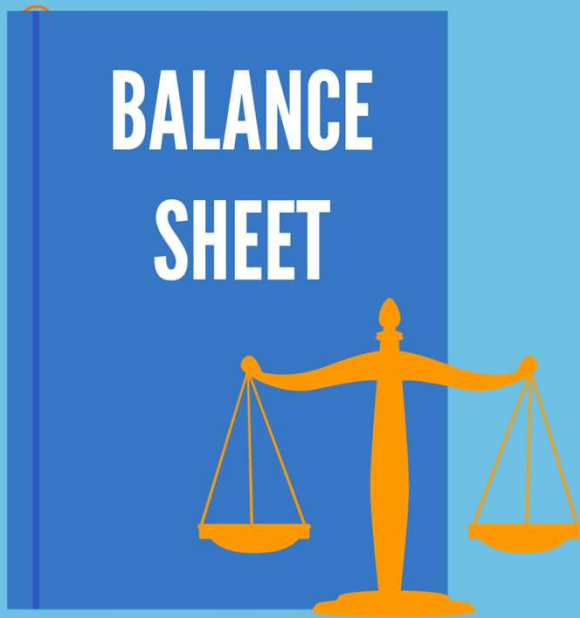
When a company buys goods from suppliers and does not pay at the time of the purchase, it registers the amount in accounts payable until the actual payment has been made.

FINANCIAL LIABILITIES:

A financial liability appears on the Balance Sheet of a company when it receives external financing – which is usually a bank loan.

THE MAIN BALANCE SHEET ITEMS

Owners' Equity



Balance Sheet/
Statement of Financial Position

EQUITY:

The firm's capital that it technically "owes" to its owners. This capital would not be repaid to the shareholders, but the company will try to pay them a decent amount of dividends if its business is successful

THE BASIC ACCOUNTING EQUATION



Assets

=



Liabilities

+



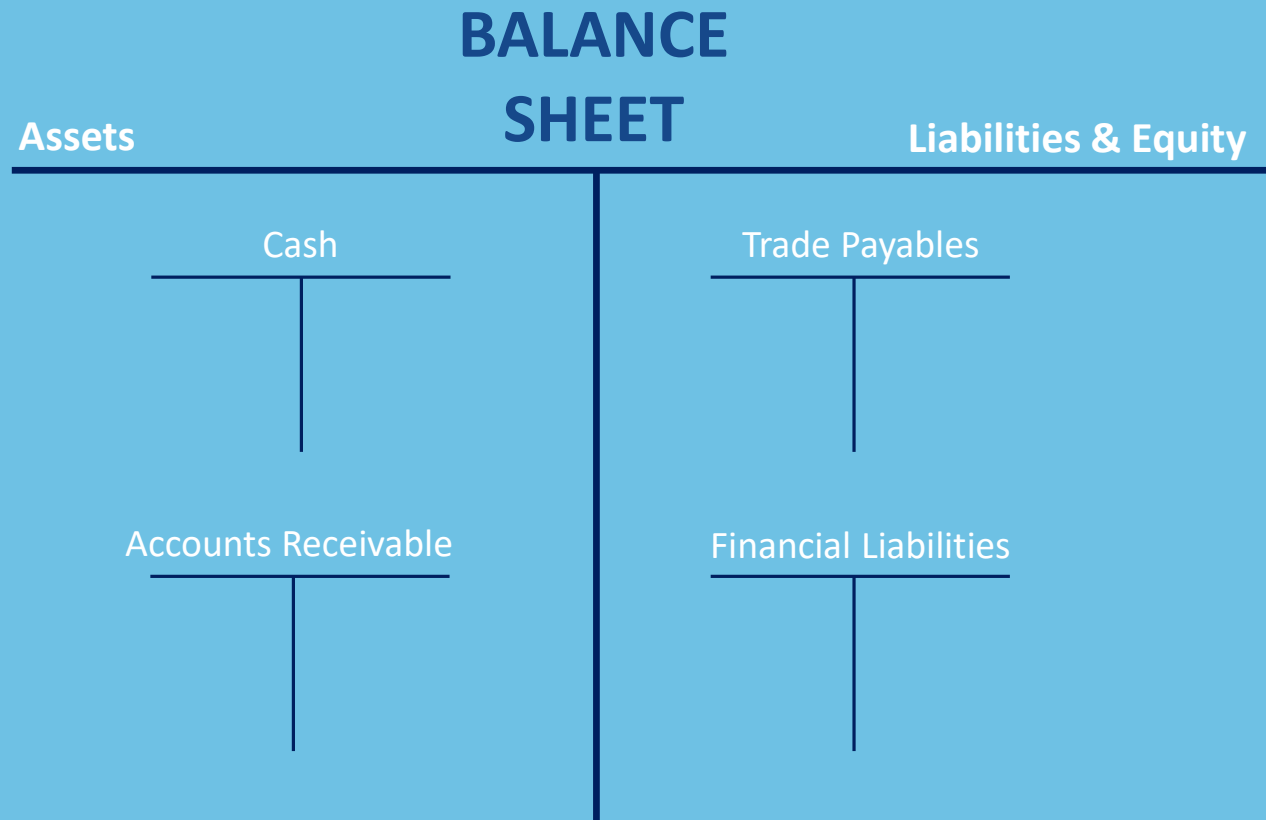
Equity

The reason it is called a “Balance Sheet” is because assets must equal liabilities and equity. The two sides have to be equal at all times.

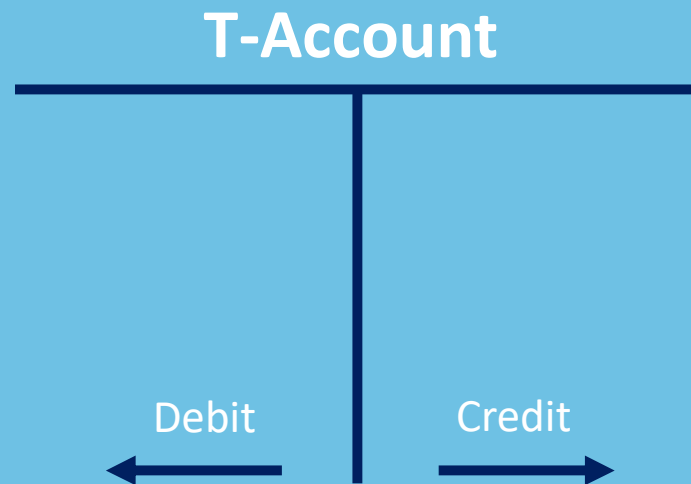
This principle is known as the Accounting equation and is one of the core principles around which Accounting has been built.

ASSETS ARE EQUAL TO LIABILITIES PLUS EQUITY.

T-ACCOUNTS, CREDITS AND DEBITS



T-ACCOUNTS, CREDITS AND DEBITS



DEBIT MEANS "LEFT",
CREDIT MEANS "RIGHT"

T-ACCOUNTS, CREDITS AND DEBITS

Asset T-Account

Assets increase to
the left



Increase



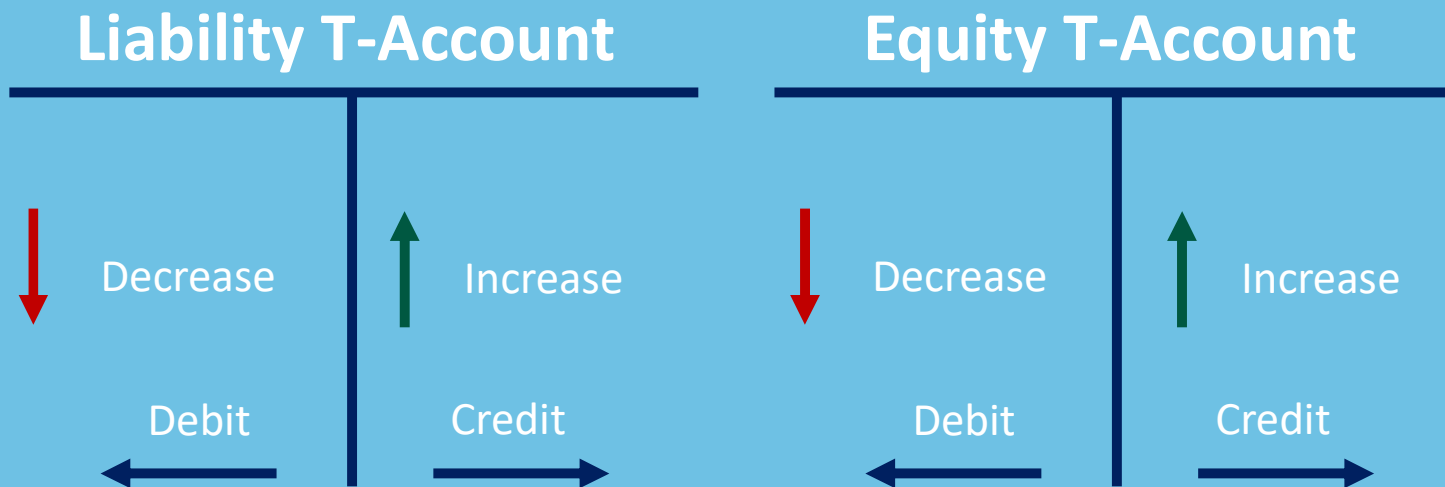
Decrease

Debit

Credit

DEBIT MEANS "LEFT",
CREDIT MEANS "RIGHT"

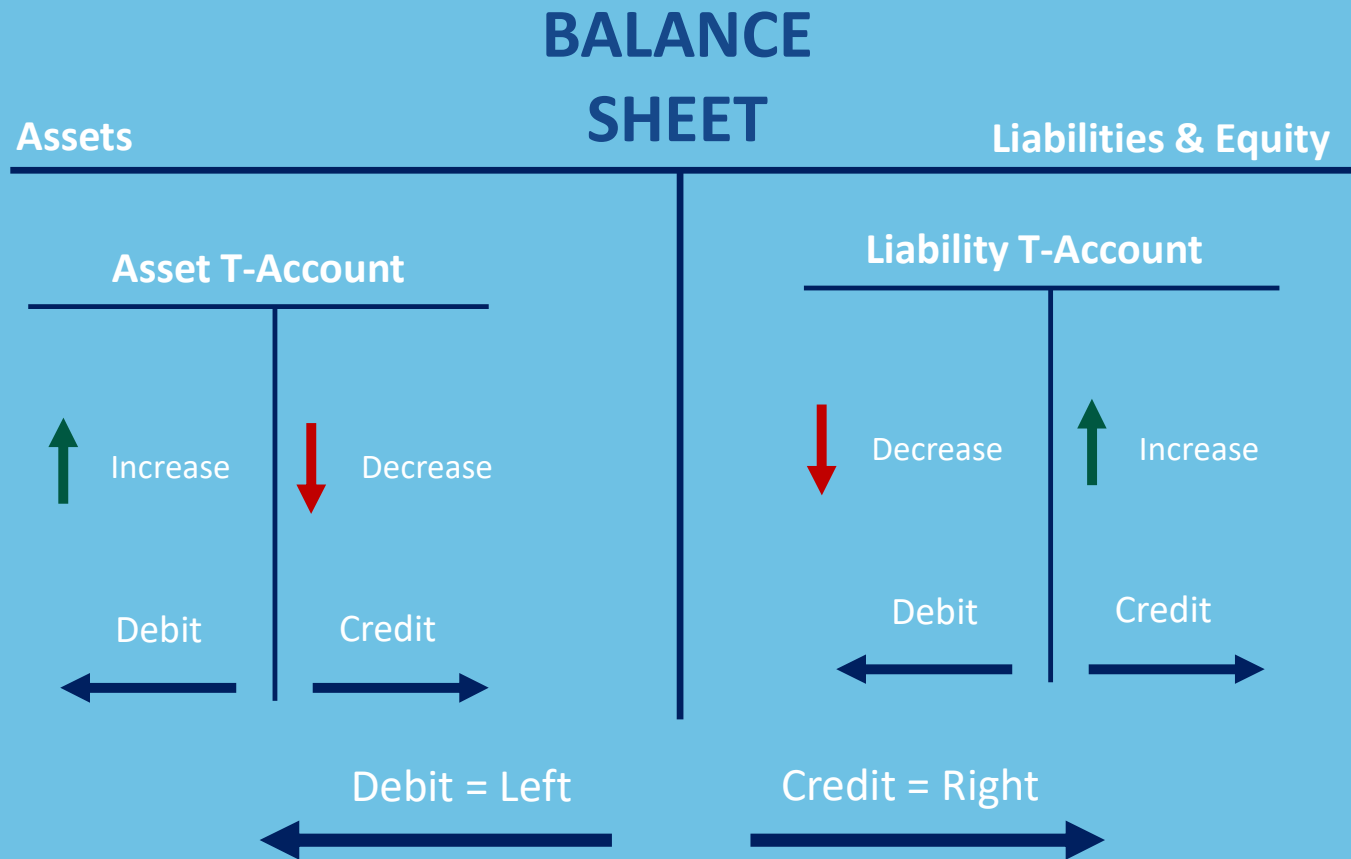
T-ACCOUNTS, CREDITS AND DEBITS



Liabilities and
Equity increase to
the right

DEBIT MEANS "LEFT",
CREDIT MEANS "RIGHT"

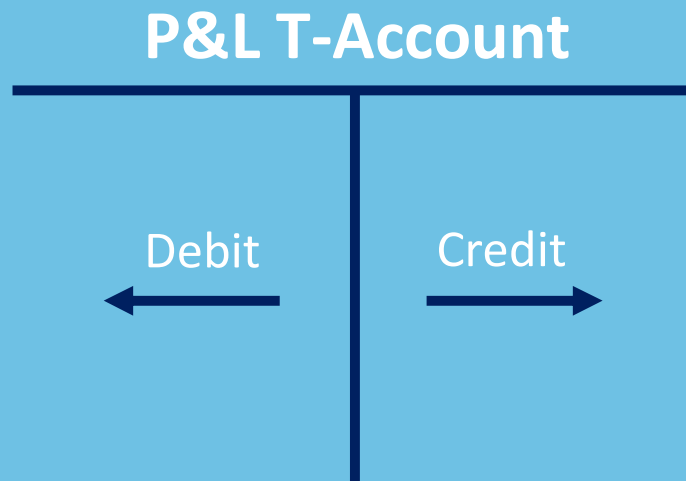
T-ACCOUNTS, CREDITS AND DEBITS



INCOME STATEMENT T-ACCOUNTS

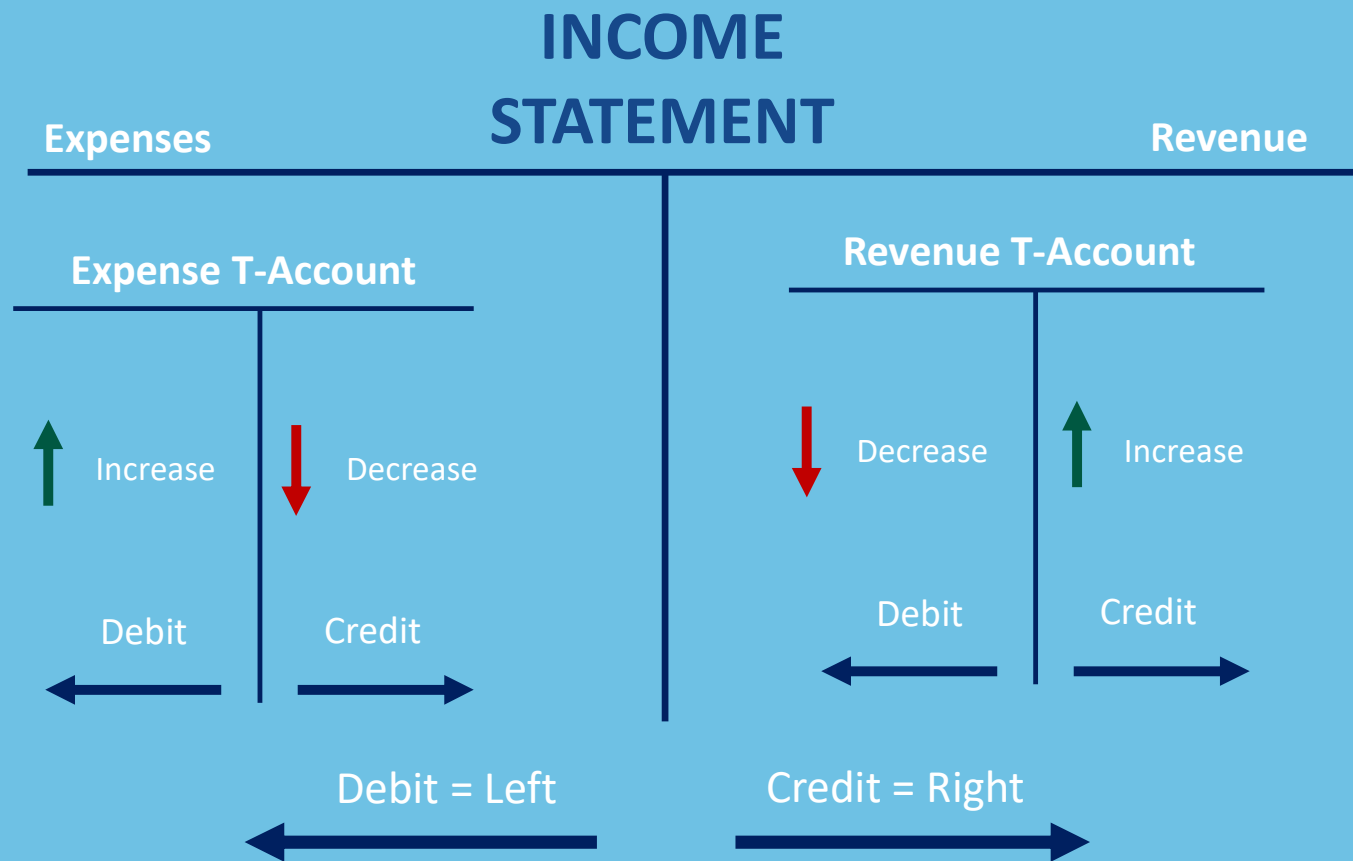


Income Statement/P&L/
Statement of Earnings

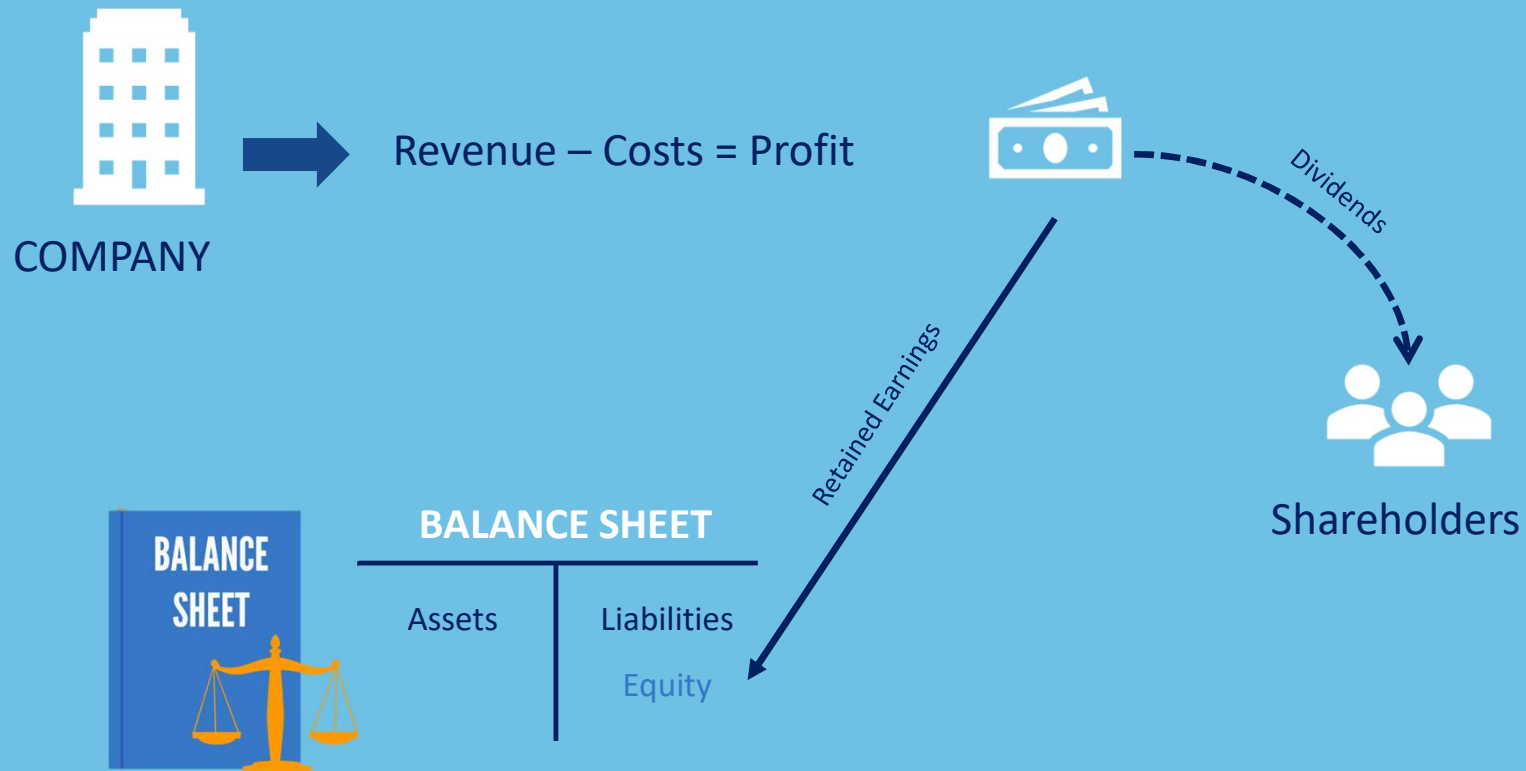


DEBITS ARE ON THE LEFT, WHILE
CREDITS ARE ON THE RIGHT SIDE

T-ACCOUNTS, CREDITS AND DEBITS



WHEN A FIRM MAKES PROFITS...



REVENUE

Revenue behaves like
Liabilities & Equity

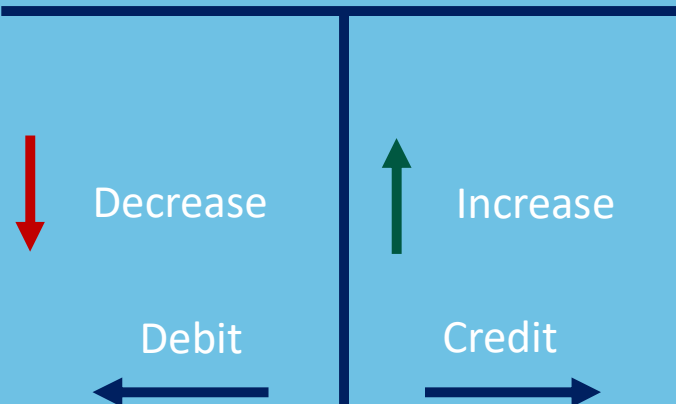
THE HIGHER A COMPANY'S REVENUE, THE HIGHER ITS PROFITS AND EQUITY



REVENUE

Revenue behaves like
Liabilities & Equity

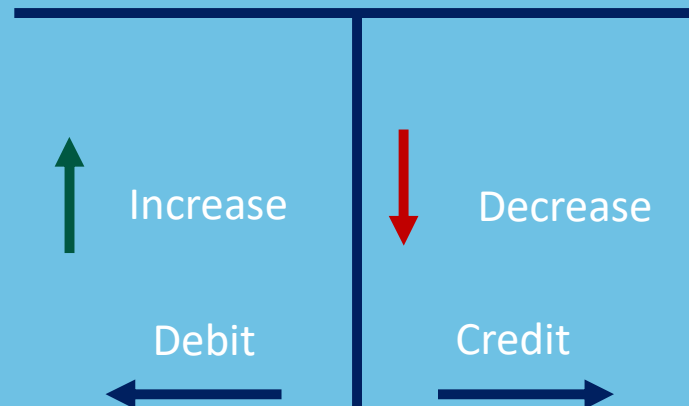
Revenue T-Account



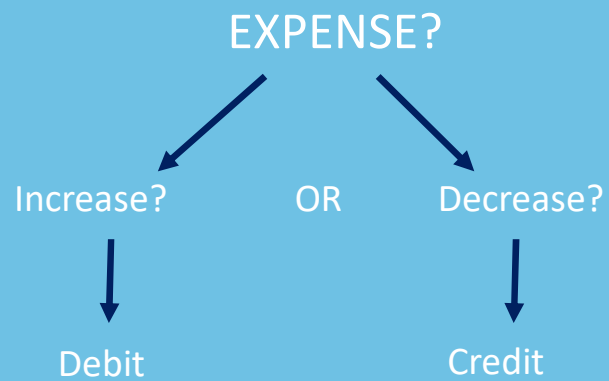
COSTS

Costs behave
like Assets

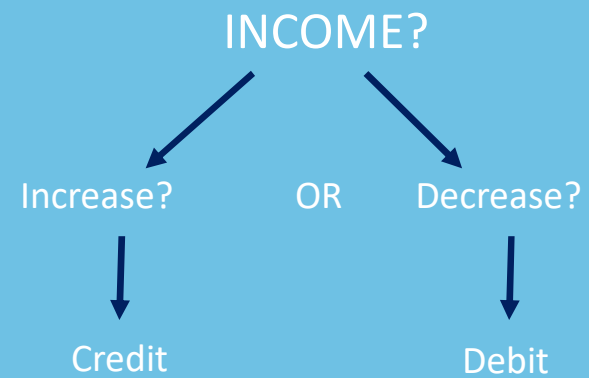
Costs T-Account



A USEFUL SCHEME



OR



DOUBLE ENTRY BOOKKEEPING

A firm owns
one asset



\$1,000,000
Cash

BALANCE SHEET

Assets

Liabilities & Equity

Cash

\$1,000,000

DOUBLE ENTRY BOOKKEEPING

A firm owns
one asset



\$1,000,000
Cash

100% Equity
Financing



\$1,000,000
Equity

BALANCE SHEET

Assets

Liabilities & Equity

Cash

Equity

\$1,000,000

\$1,000,000

DOUBLE ENTRY BOOKKEEPING

A firm owns
one asset



\$1,000,000
Cash

100% Equity
Financing



\$1,000,000
Equity

Acquisition of Real Estate



\$1,000,000
Cash (Asset)



\$1,000,000
Real Estate (Asset)

BALANCE SHEET

Assets

Liabilities & Equity

Cash

\$1,000,000

Equity

\$1,000,000

Real Estate

\$1,000,000

DOUBLE ENTRY BOOKKEEPING

A firm owns
one asset



\$1,000,000
Cash

100% Equity
Financing



\$1,000,000
Equity

Acquisition of Real Estate

The firm
receives a
bank loan



\$500,000
Bank Loan

BALANCE SHEET

Assets

Cash

\$1,000,000

Real Estate

\$1,000,000

Liabilities & Equity

Equity

\$1,000,000

Bank Loans

\$500,000

TIMING OF REVENUES

A company sells
office equipment



COMPANY

ORDER FOR \$10,000



CLIENT FIRM

TIMING OF REVENUES

The company delivers
the products



TIMING OF REVENUES

The company delivers the products



- 1 A payment is made **AT** delivery
- 2 A payment is made **BEFORE** delivery
- 3 A payment is made **AFTER** delivery

TIMING OF REVENUES

PAYMENT **AT** DELIVERY

The client pays for the office supplies at delivery

Cash (BS)

\$10,000

Revenue (IS)

\$10,000

Trade Receivables (BS)

TIMING OF REVENUES

PAYMENT **AFTER** DELIVERY

The client pays for the office supplies 60 days after delivery

Cash (BS)

Revenue (IS)

Trade Receivables (BS)

\$10,000

\$10,000

TIMING OF REVENUES

PAYMENT **AFTER** DELIVERY

The client pays for the office supplies 60 days after delivery

Cash (BS)

\$10,000

Revenue (IS)

\$10,000

Trade Receivables (BS)

\$10,000

\$10,000

TIMING OF REVENUES

PAYMENT **AFTER** DELIVERY

The client pays for the office supplies 60 days after delivery

Cash (BS)

\$10,000

Revenue (IS)

\$10,000

Trade Receivables (BS)

\$10,000

\$10,000

TIMING OF REVENUES

PAYMENT **BEFORE** DELIVERY

The client pays in advance

Cash (BS)	Revenue (IS)	Trade Receivables (BS)	Prepaid Revenue (BS)
\$10,000			\$10,000

TIMING OF REVENUES

PAYMENT **BEFORE** DELIVERY

The client pays in advance

Cash (BS)		Revenue (IS)		Trade Receivables (BS)		Prepaid Revenue (BS)	
\$10,000		\$10,000				\$10,000	\$10,000

TIMING OF EXPENSES

A company has
to pay rent



- 1 A payment is made **AT** the date of the invoice
- 2 A payment is made **AFTER** the date of the invoice
- 3 A payment is made **BEFORE** the date of the invoice

TIMING OF EXPENSES

PAYMENT **AT** THE INVOICE DATE

Paying rent at the date of the invoice

Cash (BS)

\$1,000

Rent (IS)

\$1,000

Trade Receivables (BS)

TIMING OF EXPENSES

PAYMENT **AFTER** THE INVOICE DATE

The company pays its rent 60 days after the invoice is issued

Cash (BS)

\$1,000

Rent (IS)

\$1,000

Trade Receivables (BS)

\$1,000

\$1,000

TIMING OF EXPENSES

PAYMENT **BEFORE** THE INVOICE DATE

The company pays its rent in advance

Cash (BS)		Rent (IS)		Trade Payables (BS)		Prepaid Expenses (BS)	
	\$1,000	\$1,000				\$1,000	\$1,000

FINANCIAL RATIOS



LIQUIDITY

A firm's ability to pay its short- term obligations



PROFITABILITY

A firm's ability to generate profits



SOLVENCY

The ability to meet long-term liabilities



ACTIVITY/EFFICIENCY

The ability to effectively employ resources into business operations



VALUATION

A firm's capability to pay its short- term obligations

FINANCIAL RATIOS



LIQUIDITY

Current Ratio
Quick Ratio



PROFITABILITY

ROA EBIT%
ROE Net Income%



SOLVENCY

Debt Ratio
Interest Coverage Ratio



ACTIVITY/EFFICIENCY

DSO DIO
DPO NET Trading Cycle



VALUATION

EPS DEPS
P/E Dividend Yield

FINANCIAL RATIOS



LIQUIDITY

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$\text{Quick Ratio} = \frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$$

FINANCIAL RATIOS



SOLVENCY

$$\text{Debt Ratio} = \frac{\text{Total Liabilities}}{\text{Total Assets}}$$

$$\text{Interest Coverage Ratio} = \frac{\text{EBIT}}{\text{Interest Expenses}}$$

FINANCIAL RATIOS



PROFITABILITY

$$\text{ROA} = \frac{\text{Net Income}}{\text{Total Assets}}$$

$$\text{ROE} = \frac{\text{Net Income}}{\text{Shareholders' Equity}}$$

$$\text{ROE} = \underbrace{\frac{\text{Net Income}}{\text{Revenue}}}_{\text{Net Profit Margin}} \times \underbrace{\frac{\text{Revenue}}{\text{Shareholders' Equity}}}_{\text{Equity Turnover}}$$

$$\text{ROE} = \text{Net Profit Margin} \times \text{Equity Turnover}$$

FINANCIAL RATIOS



ACTIVITY/EFFICIENCY

$$\text{DSO} = \frac{\text{Accounts Receivable}}{\text{Revenue}} \times 360$$

$$\text{DPO} = \frac{\text{Accounts Payable}}{\text{Cost of Goods Sold}} \times 360$$

$$\text{DIO} = \frac{\text{Inventory}}{\text{Cost of Goods Sold}} \times 360$$

$$\text{Net Trading Cycle} = \text{DSO} + \text{DIO} - \text{DPO}$$

FINANCIAL RATIOS



VALUATION

$$\text{EPS} = \frac{\text{Net Income} - \text{Preferred Dividends}}{\text{Weighted average number of common shares outstanding}}$$

$$\text{DEPS} = \frac{\text{Adjusted income available for common shares}}{\text{Weighted average number of common shares outstanding}}$$

$$\text{P/E Ratio} = \frac{\text{Share price}}{\text{EPS}}$$

$$\text{Dividend Yield} = \frac{\text{Dividend per share}}{\text{Current share price}}$$

365



A stylized line graph with three points connected by lines, showing an upward trend. The first point is at the bottom left, the second point is slightly higher and to the right, and the third point is the highest and furthest to the right.