



BASICS OF FINANCE AND ACCOUNTING FOR BANKRUPTCY JUDGES

TRAVNIK, 02-03. April 2004

Introduction to financial reporting and accounting in context of bankruptcy

GOALS OF TRAINING :

- Acquainting bankruptcy judges with basics of finances and accounting
- Reading and understanding financial reports
- Analyzing impact of expenditures on results of business operations
- Introducing assessment of company's value
- Identification of financial problems in company
- Understanding assessment

FINANCIAL REPORT ANALASYS



“while numbers are speaking, analysts are listening”

FINANCIAL REPORT ANALASYS

Three types of reports which provide detailed financial information on company:

1. **BALANCE SHEET** – detailed overview of assets, liabilities and capital of owner which gives a financial picture of company in given moment
2. **INCOME STATEMENT** – collective review of assets and liabilities of company for certain time period
3. **CASH FLOW** – collective review of operational, financial and investment activities (cash inflow and outflow) in certain time period

FINANCIAL REPORT ANALASYS

Why is financial report analysis important?

...because it is systematic inspection and interpretation of data on previous business operations of company, with aim to project future revenues and possibility for debt repayment.



Key items of financial analysis

- **Profitability** – represents level up to which company can generate revenue which is higher than expenses of business operations
- **Efficiency** – measures success of company to manage its sources of assets and business activities
- **Level of indebtedness** – compares assets submitted by owner of company with assets provided by creditors
- **Liquidity** – possibility that company answers its current liabilities

FINANCIAL REPORT ANALISYS

- **COMPANY'S ACTIVITY** – production, trade, service, agriculture
- **REVOLVING ASSETS** – these assets are primarily used to realize revenues and are key item in balance sheet
- **OPERATIONAL CYCLE** – defines time the company needs to realize profit based on raw materials or labor, sold goods/services and to collect funds from sale
- **CASH FLOW CYCLE** – shows how funds are realized and used, and time span for settlement of financial liabilities

BALANCE SHEET

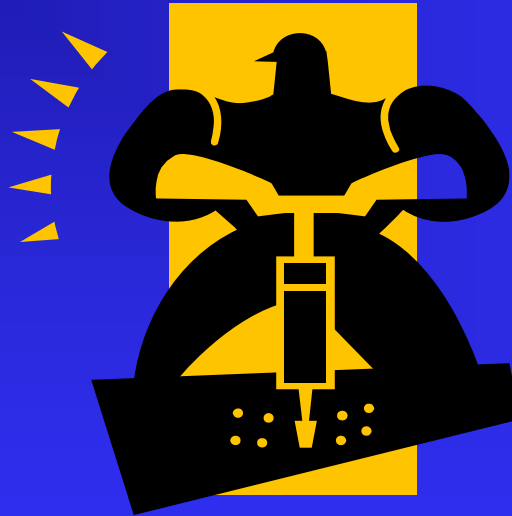
ASSETS = LIABILITIES + CAPITAL

Net Revolving Capital = Current assets – Current liabilities

CURRENT ASSETS (revolving capital)		CURRENT LIABILITIES
	NET REVOLVING CAPITAL	LONG-TERM DEBTS (long-term obligations)
CORE ASSETS		CAPITAL

BALANCE SHEET

Work sheets (Exercise 1 and 2)



INCOME STATEMENT

Gross profit = Sale – Expenses of sold goods

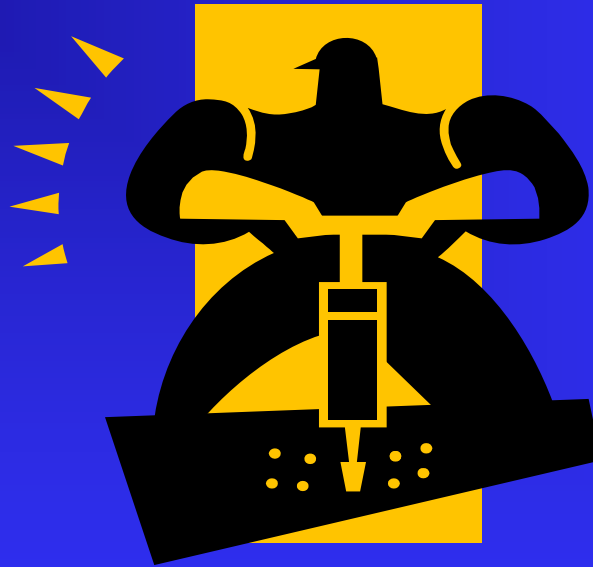
Net revenue before tax = Gross profit – Fixed Expenses

Net revenue = Net revenue before tax – Income Tax

SALE	EXPENSES OF SOLD GOODS		
	GROSS PROFIT	FIXED EXPENSES	
		NET REVENUE BEFORE TAX	PROFIT TAX
			NET REVENUE

INCOME STATEMENT

Work sheets (Exercise 2 and 3)



CASH FLOW

Cash flow report
contains all cash
inflows and outflows
during given period.

“It’s all about cash”

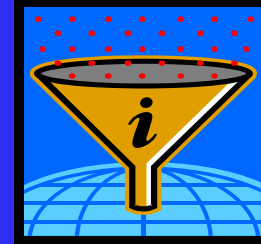


CASH FLOW

- Cash flow from “**OPERATIONS**” – includes cash realized via sale and payment of claims from buyers
- Cash flow from **INVESTMENT ACTIVITIES** – collectively shows purchase and sale of core assets
- Cash flow from **FINANCIAL ACTIVITIES** – includes cash flows directly related to outside sources of financing

CASH FLOW

REMEMBER!



- Increase of assets impacts decrease of cash
- Decrease of assets impacts inflow of cash
- Increase of liabilities impacts increase of cash
- Decrease of liabilities impacts outflow of cash

CASH FLOW

Net revenue after tax

+ Depreciation

+/- changes on buyers' account

+/- changes on suppliers' account

+/- changes on account of other current assets

+/- changes on suppliers' account

+/- changes on account of other current liabilities

= "OPERATIONAL" CASH FLOW

CASH FLOW

+/- changes on securities account

+/- changes on account of long-term investments

+/- changes on account of gross core assets

+/- extra profit/loss

+/- non-material and other assets =

INVESTMENT CASH FLOW

CASH FLOW

- +/- changes to account of short-term loans
 - +/- changes to account of long-term loans
 - +/- changes to account of subordinate loans
 - +/- changes to capital
 - paid dividends
 - +/- adjustments to account of retained profit
 - +/- other interest rate
- = FINANCIAL CASH FLOW**

CASH FLOW

Initial cash (e.g., status as of 31.12.'02.)

PLUS

+ Operational cash flow (in 2003)

+ Investment cash flow (in 2003)

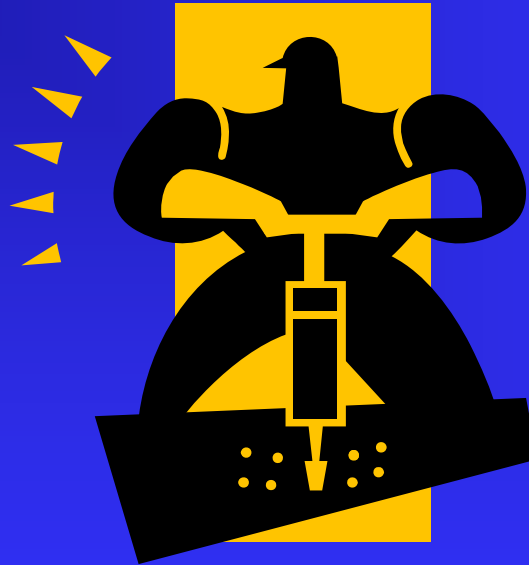
+ Financial cash flow (in 2003)

EQUALS

Final Cash (e.g., status as of 31.12.'03.)

CASH FLOW

Work sheets (Exercise 4 and 5)



FINACIAL COEFFICIENT

Profitability— represents level up to which company can produce revenue higher from its business operations' expenses

- Return coefficient compared to sale
- Return coefficient compared to capital
- Return coefficient compared to property

FINANCIAL COEFFICIENTS

- **Efficiency** – measures success of company to manage its sources of funds and business activities
- Days of buyers
- Days of supplies
- Days of suppliers
- Revolving (claims from buyers, supplies and liabilities to suppliers)

FINANCIAL COEFFICIENTS

Level of indebtedness – compares funds delivered by company owners with funds provided by creditors

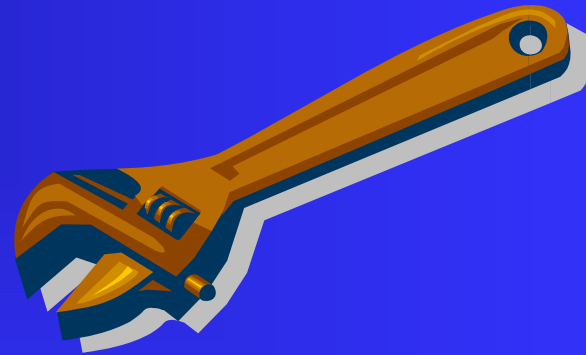
- Debt to capital ratio
- Long-term debt and capitalization

FINANCIAL COEFFICIENTS

- **Liquidity** – possibility of company to answer to current liabilities
- Current coefficient
- Coefficient of “faster” liquidity

FINANCIAL COEFFICIENTS

Work sheets
(Exercise 6)



SUMMARY

Analysis of financial reports is systematic investigation and interpretation of data, purpose of which is assessment of company's business operations in previous period, aiming at projecting future revenues and possibility for debt repayment.

TIME FOR BREAK!

