



FINANCE AND ACCOUNTING BASICS FOR BANKRUPTCY JUDGES (PART TWO)

May 27-28, 2004 TESLIĆ

Introduction to Financial Statements and Accounting in Bankruptcy Context – Part II

TRAINING OBJECTIVES:

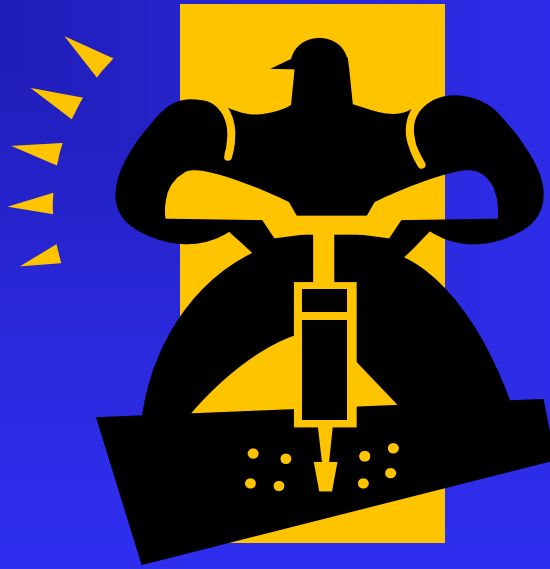
- Identify questions to which answers can be found in the Cash Flow Statement
- Explain operating, investment, and financial activities
- Utilize the Cash Flow Statement for the complete financial analysis

FINANCIAL STATEMENT ANALYSIS



“numbers talk and analysts need to listen”

Task!



Think of the
number of times
you would like to
dine in a
restaurant in the
course of one
week ...



... and multiply that imagined number by 2,
and add number 5!

$$X * 2 + 5 = Y$$



Now multiply that number by 50,
and...

$$Y \times 50 = Z$$

... in case your birthday has
already passed in this
year, add **1752**

or

if your birthday has yet to
come, then add
1751...



...then subtract the year of birth ...

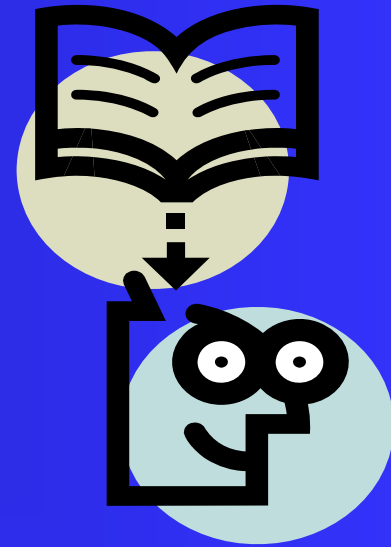
...AND YOU GOT ONE THREE FIGURED
NUMBER !!!

What does that number tell us?

- The first number is the number of times we wanted to dine in a restaurant in the course of one week!!!
- And when the remaining two figured number is increased by 1, we will get our age!!!

MESSAGE

“while numbers
speak, analysts
listen”



FINANCIAL STATEMENT ANALYSIS

Three types of statements to obtain detailed financial information about companies:

1. **BALANCE SHEET** – a detailed list of assets, liabilities, and owner's equity, showing a company's financial position at a given date
2. **INCOME STATEMENT** – a summary of a company's income and expenses over a given period of time
3. **CASH FLOW STATEMENT** – a summary of a company's operating, financing and investing activities (cash receipts and payments) over a specific period of time

ANALYSIS OF THE FINANCIAL STATEMENTS

Why is the analysis of the financial statements important?

...because it is systematic review and interpretation of data on past operations of a company for purpose of projecting future income and debt repayment capability.



Key Points of the Financial Analysis

- **Profitability** – represents the extent to which a company's income exceeds its operative expenses (INCOME STATEMENT)
- **Efficiency** – measures the success of a company in managing its fund sources and business activities (BALANCE SHEET)
- **Degree of indebtedness** – compares funds provided by owners of a company with those provided by creditors (BALANCE SHEET)
- **Solvency** – company's ability to respond to current liabilities (CASH FLOW)

BALANCE SHEET

$$\text{ASSETS} = \text{LIABILITIES} + \text{EQUITY}$$

$$\text{Net Work.Capital} = \text{Cur.Asset.} - \text{Cur.Liab.}$$

CURRENT ASSETS (working capital)		CURRENT LIABILITIES
	NET WORKING CAPITAL	LONG TERM DEBT (Long-term liabilities)
FIXED ASSETS		EQUITY

INCOME STATEMENT

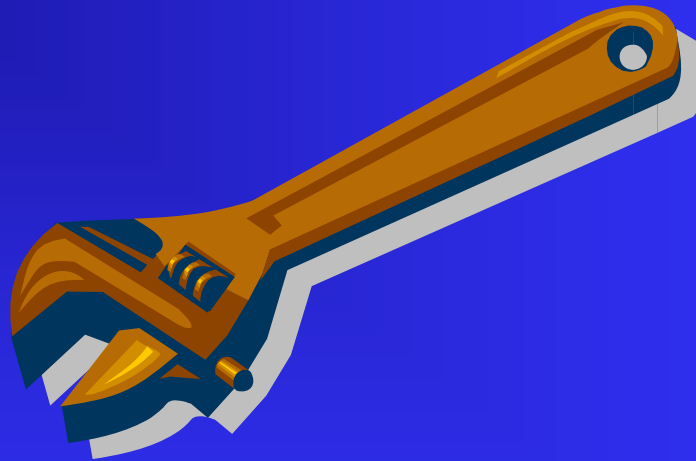
Gross Profit = Sales - COGS

Net Income BT = Gross Profit - Fix. Costs

Net Income = Net Income BT - Income Tax

SALES	COST OF GOODS SOLD		
	GROSS PROFIT	FIXED COSTS	
		NET INCOME BEFORE TAX	INCOME TAXES
			NET INCOME

BALANCE SHEET AND INCOME STATEMENT (Exercise)



CASH FLOW

Cash flow statement is a statement of a company's cash receipts and payments during a given period.

“Cash is King”

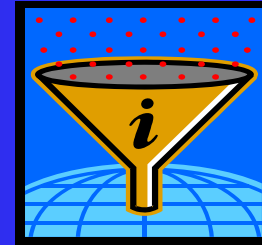


CASH FLOW

- Cash flow from **OPERATIONS** –examines the cash coming into the company through sales and receivables
- Cash flow from **INVESTING ACTIVITIES** – summarizes fixed-asset purchases and sales
- Cash flow from **FINANCING ACTIVITIES**– includes cash flows that directly relate to the external financing of the business

CASH FLOW

TO REMEMBER!



- An increase in assets constitutes a use of cash
- A decrease in assets constitutes a source of cash
- Any increase in liabilities constitutes a source of cash
- A decrease in liabilities provides a use of the cash

CASH FLOW

$$\begin{aligned} & \text{Net income after tax} \\ + & \text{ Depreciation} \\ +/- & \text{ changes on A/R} \\ +/- & \text{ changes in Inventory} \\ +/- & \text{ changes on other Curr. Assets Account} \\ +/- & \text{ changes on A/P} \\ +/- & \text{ changes on other Curr.Liabilities Account} \\ \hline = & \text{ OPERATING CASH FLOW} \end{aligned}$$

CASH FLOW

+/- changes on Securities Account

+/- changes in Long Term Investment

+/- changes in Gross Fixed Assets

+/- Non expected profit/loss

+/- Intangible and Other Assets

= INVESTING CASH FLOW

CASH FLOW

+/- changes in Short Term Loan

+/- changes in Long Term Loan

+/- changes in Subordinated

+/- changes in Capital

- Dividends paid

+/- Adjustments on Retained Earning Acc.

+/- Other Interest

= FINANCING CASH FLOW

CASH FLOW

Beginning Cash (e.g. cash as of 12/31/02)

PLUS

+ Operating cash flow (in 2003)

+ Investing cash flow (in 2003)

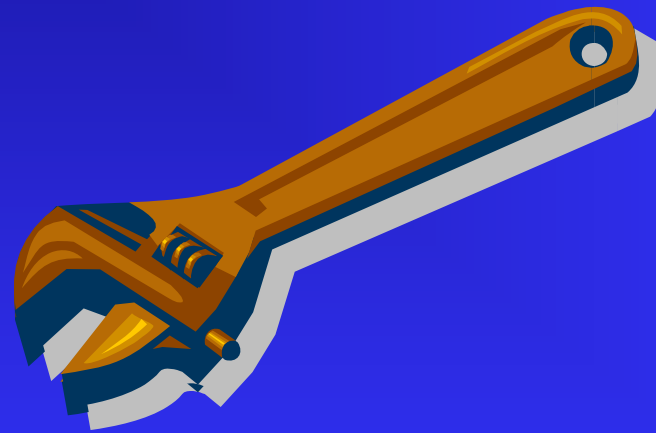
+ Financing cash flow (in 2003)

EQUALS

Ending Cash (e.g. at the end of 2003)

CASH FLOW

(exercise)



SUMMARY

“The goal of the financial statements is to provide information about some company, important to large number of users in making business decisions.”

*International Accounting
Standards Committee*

TIME FOR A BREAK!

