

ABOUT FINANCIAL ANALYSIS



Implemented by
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für Internationale
Zusammenarbeit (GIZ) GmbH



LEARNING OBJECTIVES

The definition of financial analysis

The importance of financial analysis

The key financial statements

The ratio analysis

Tools of ratio analysis

WHAT IS FINANCIAL ANALYSIS?



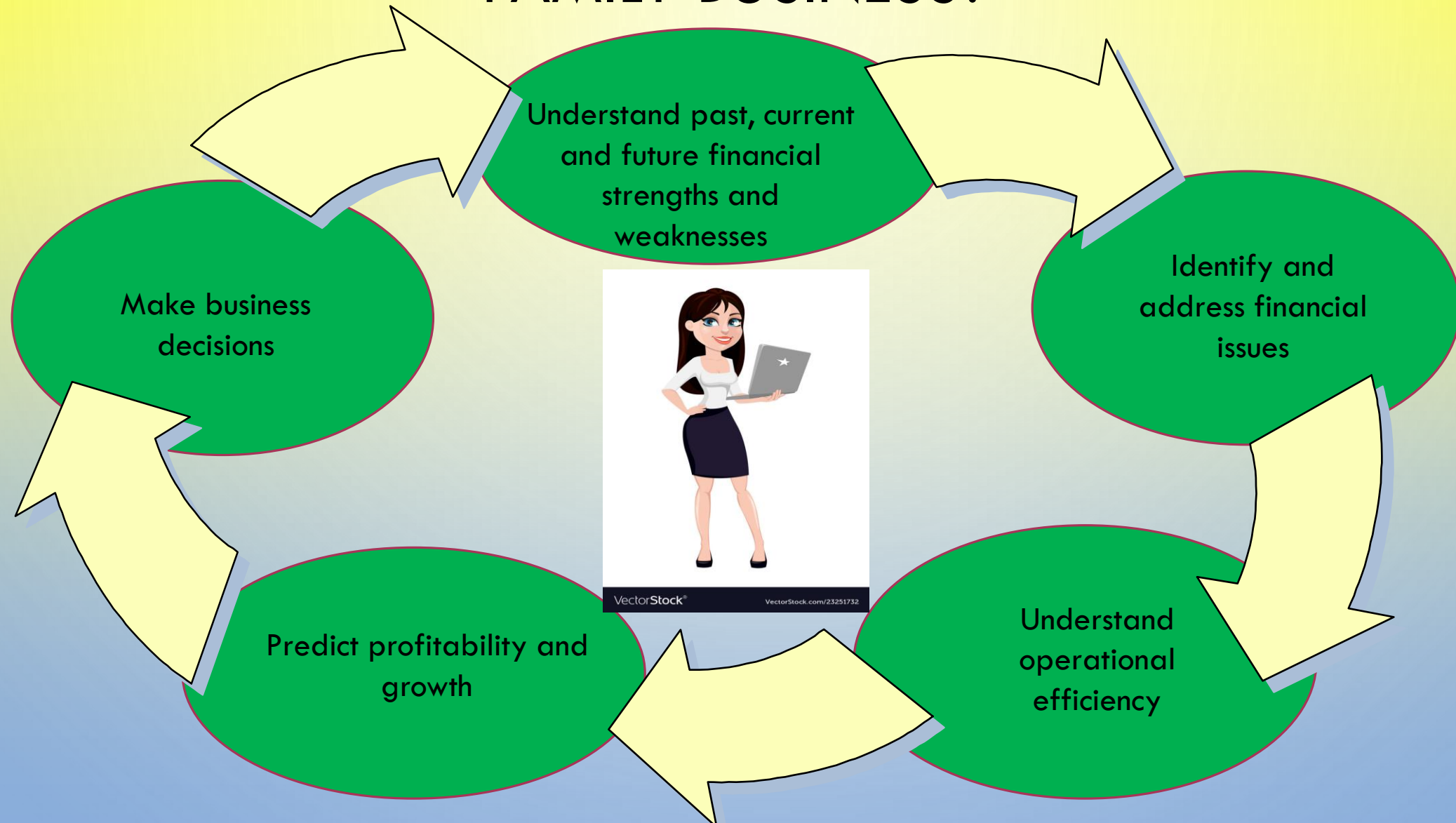
Financial analysis is “the study of financial information about companies in order to understand their costs, profits, and cashflow.”

Cambridge online dictionary



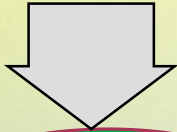
Financial analysis is the study of a company’s past, current and future financial strengths and weaknesses.

WHY IS FINANCIAL ANALYSIS IMPORTANT FOR ZANA'S FAMILY BUSINESS?



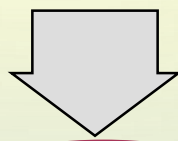
FINANCIAL STATEMENTS

BALANCE SHEET



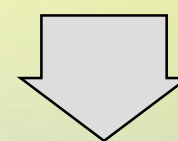
*Assets = Liabilities +
Owners' Equity*

INCOME STATEMENT



*Net Profit = Revenues –
expenses*

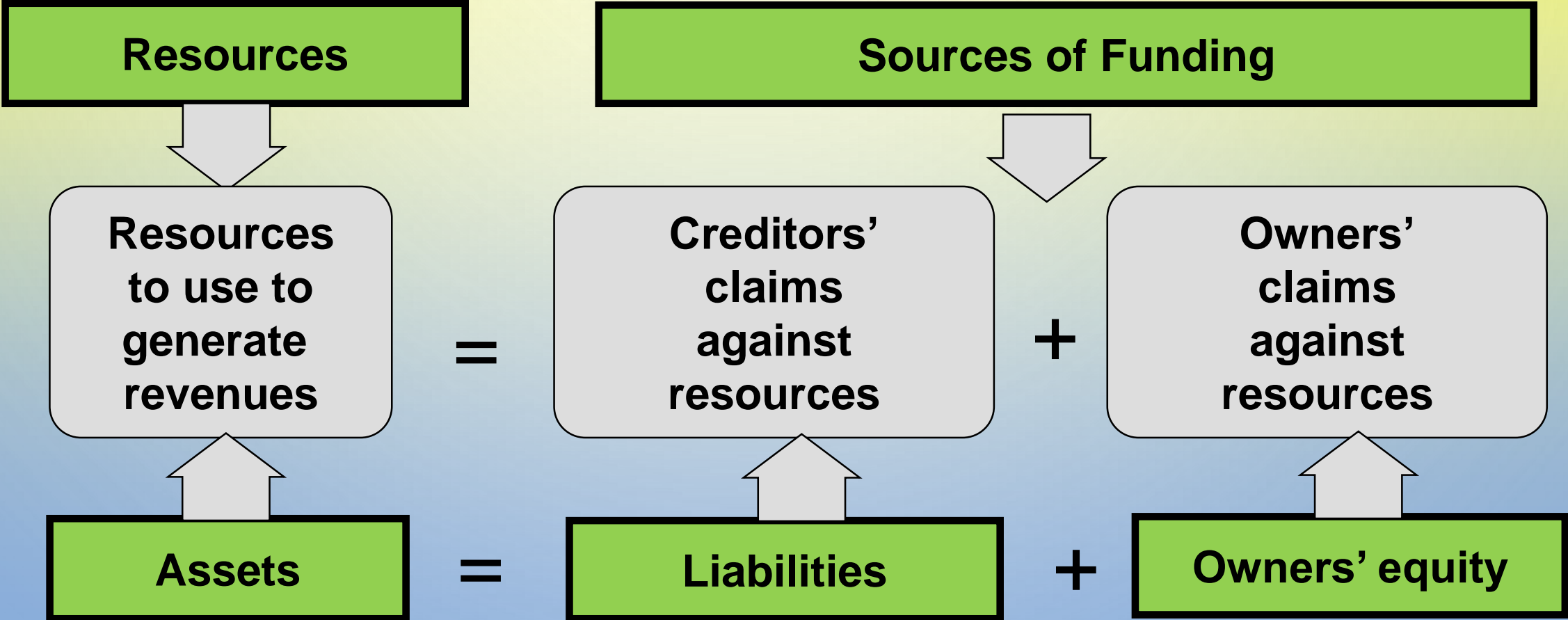
CASH FLOW STATEMENT



*Net change in cash =
cash inflows – cash
outflows*

BALANCE SHEET

ACCOUNTING EQUATION: **ASSETS = LIABILITIES + OWNERS' EQUITY**



BALANCE SHEET - EXAMPLE

Assets		Liabilities and Owner's equity	
Current assets		Current liabilities	
Cash	20,000	Accounts payable	10,000
Inventory	4,000	Income taxes payable	1,880
Prepaid expenses		Short-term loans	
Total current assets	24,000	Total current liabilities	11,880
Fixed assets		Long-term liabilities	
Long-term investments	1,500	Long-term debt	3,120
Property, plant, equipment	3,000	Deferred income tax	
(Less accumulated depreciation)	(500)		
Total fixed assets	4,000	Total long-term liabilities	3,120
Other assets	0	Owner's equity	
		Owner's investment	13,000
Total other assets	0	Total owner's equity	13,000
TOTAL ASSETS	28,000	TOTAL LIABILITIES	28,000



THE INCOME STATEMENT

ACCOUNTING EQUATION: **PROFIT = REVENUES – EXPENSES**

REVENUES

- ◎ ASSETS (CASH OR AR) CREATED THROUGH BUSINESS OPERATIONS

EXPENSES

- ◎ ASSETS (CASH OR AP) CONSUMED THROUGH BUSINESS OPERATIONS

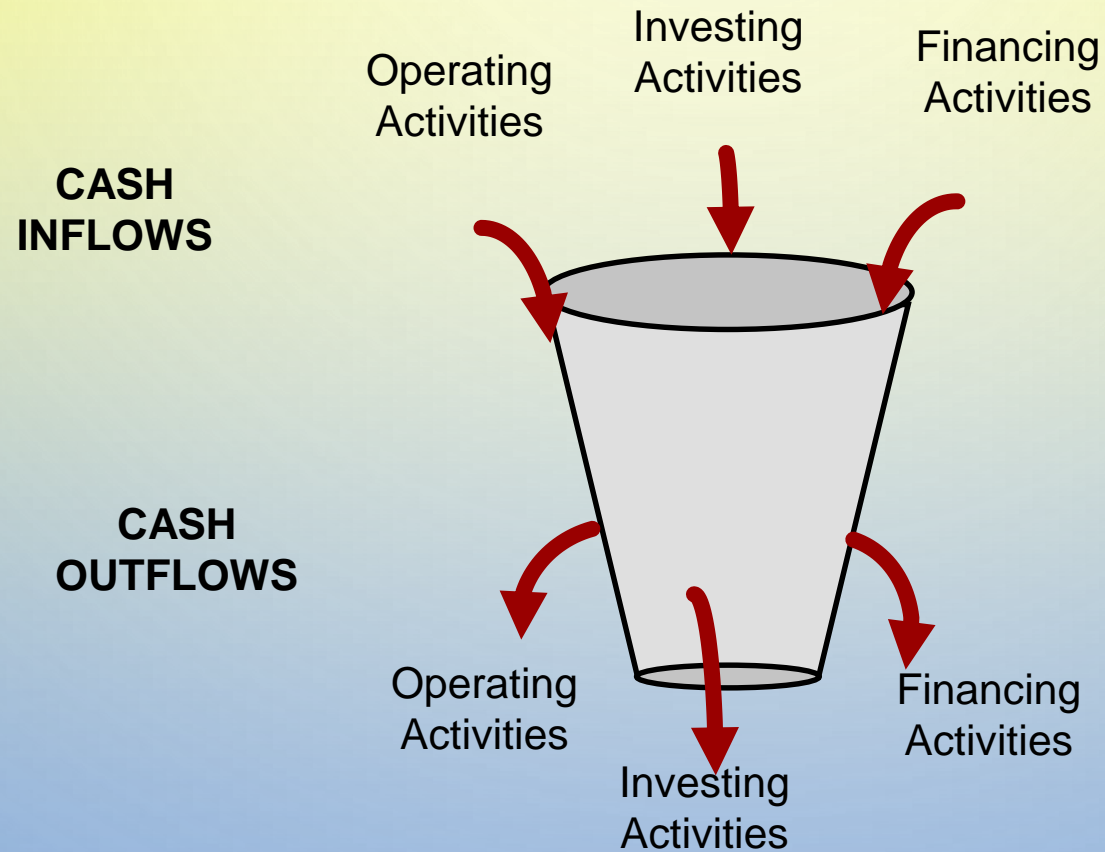
NET INCOME/ LOSS (PROFIT/LOSS)

- ◎ REVENUES - EXPENSES

INCOME STATEMENT - EXAMPLE

Income statement	FY-2022
Revenue	
Sales revenue	80,000
Total revenue	80,000
Expenses	
Cost of goods sold	45,000
Advertising	1000
Salaries and wages	15,000
Utilities	100
Insurance	100
Total expenses	61,200
Net income before tax	18,800
Income tax expense	1,880
Net income after tax (PROFIT)	16,920

STATEMENT OF CASH FLOWS



CASH FLOW STATEMENT - EXAMPLE

Operations	
Cash receipts from customers	80,000
Cash paid for inventory purchases	(45,000)
Cash paid for salaries and wages	(15,000)
<i>Net cash flow from operations</i>	20,000
Investing activities	
Cash receipts from sale of investment securities	0
Cash paid for purchase of property and equipment	(15,340)
<i>Net cash from investing activities</i>	(15,340)
Financing activities	
Cash paid for repayment of loans	(3,000)
<i>Net cash from financing activities</i>	(3,000)
NET CHANGE IN CASH	1,660

WHAT IS RATIO ANALYSIS?

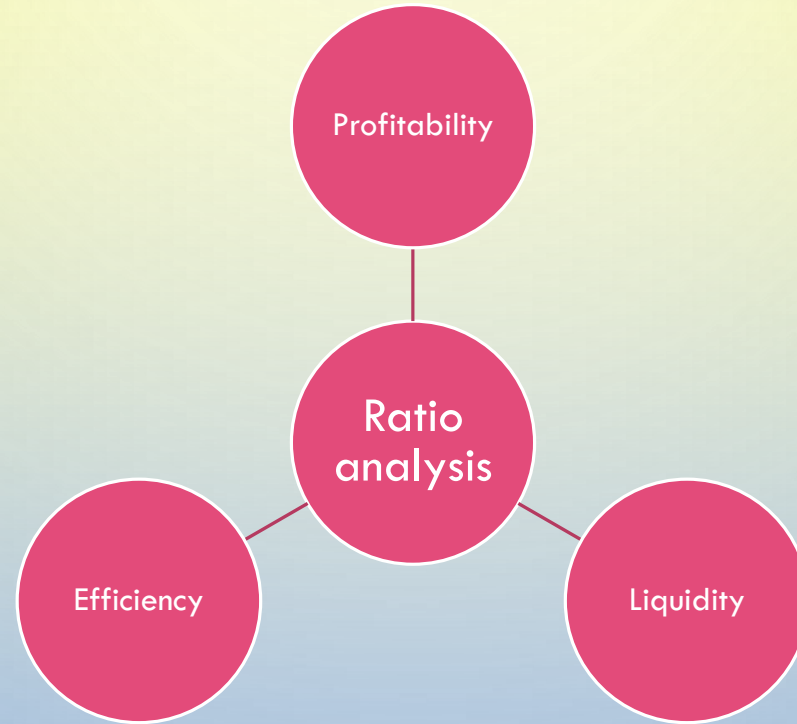
- **RATIO ANALYSIS** IS “THE USE OF ACCOUNTING RATIOS TO EVALUATE A COMPANY'S OPERATING PERFORMANCE AND FINANCIAL STABILITY”

OXFORD ONLINE DICTIONARY

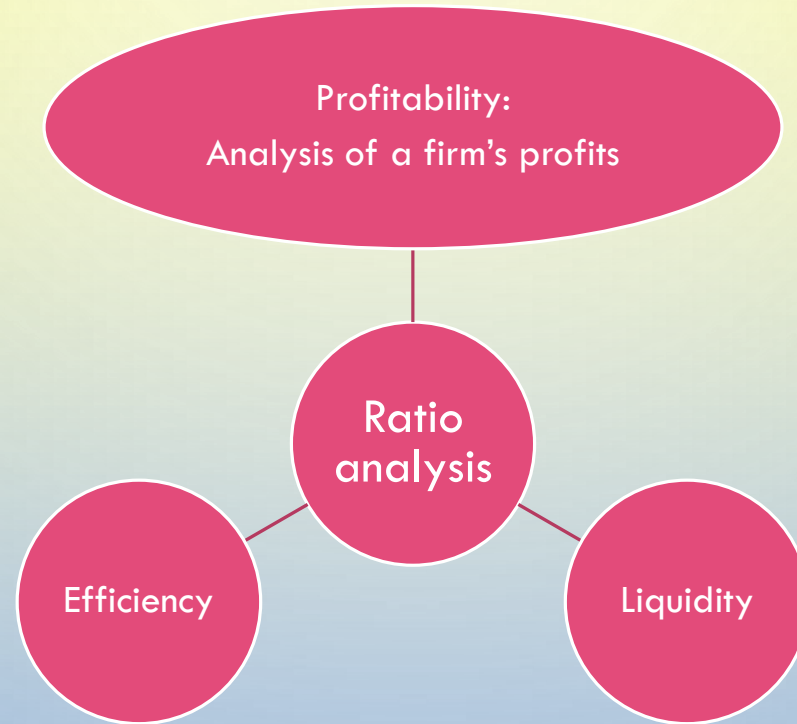
- SO,
- **RATIO ANALYSIS** IS A TOOL TO MEASURE, ANALYSE AND EVALUATE A FIRM'S STRENGTH AND FINANCIAL PERFORMANCE.



RATIO ANALYSIS

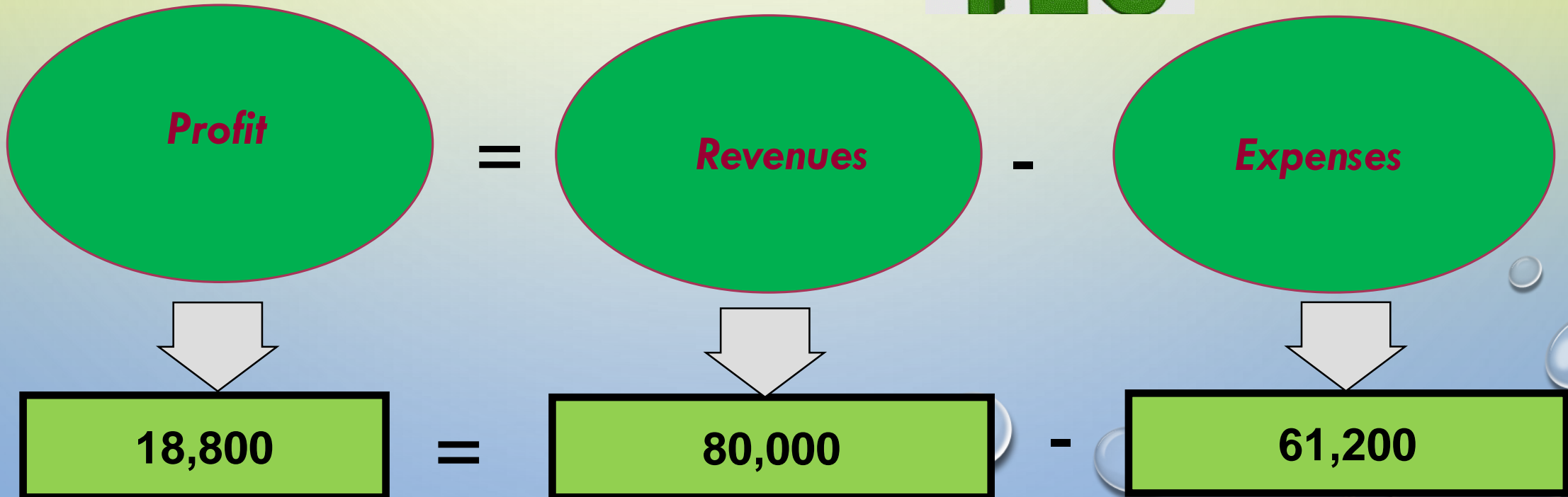


RATIO ANALYSIS – PROFITABILITY



RATIO ANALYSIS – PROFITABILITY RATIOS

**IS ZANA'S FAMILY BUSINESS MAKING PROFIT?
YES!**



RATIO ANALYSIS – PROFITABILITY RATIOS



GROSS PROFIT MARGIN

$$\text{GROSS PROFIT MARGIN} = \frac{\text{GROSS PROFIT}}{\text{SALES REVENUE}} \times 100 = \frac{18,800}{80,000} \times 100 = 23.5\%$$

THE GROSS PROFIT MARGIN OF 23.5% SHOWS THAT ZANA'S FAMILY BUSINESS IS MAKING 23.5 EURO CENTS GROSS PROFIT FOR EACH 1 EURO OF SALES.

RATIO ANALYSIS – PROFITABILITY RATIOS

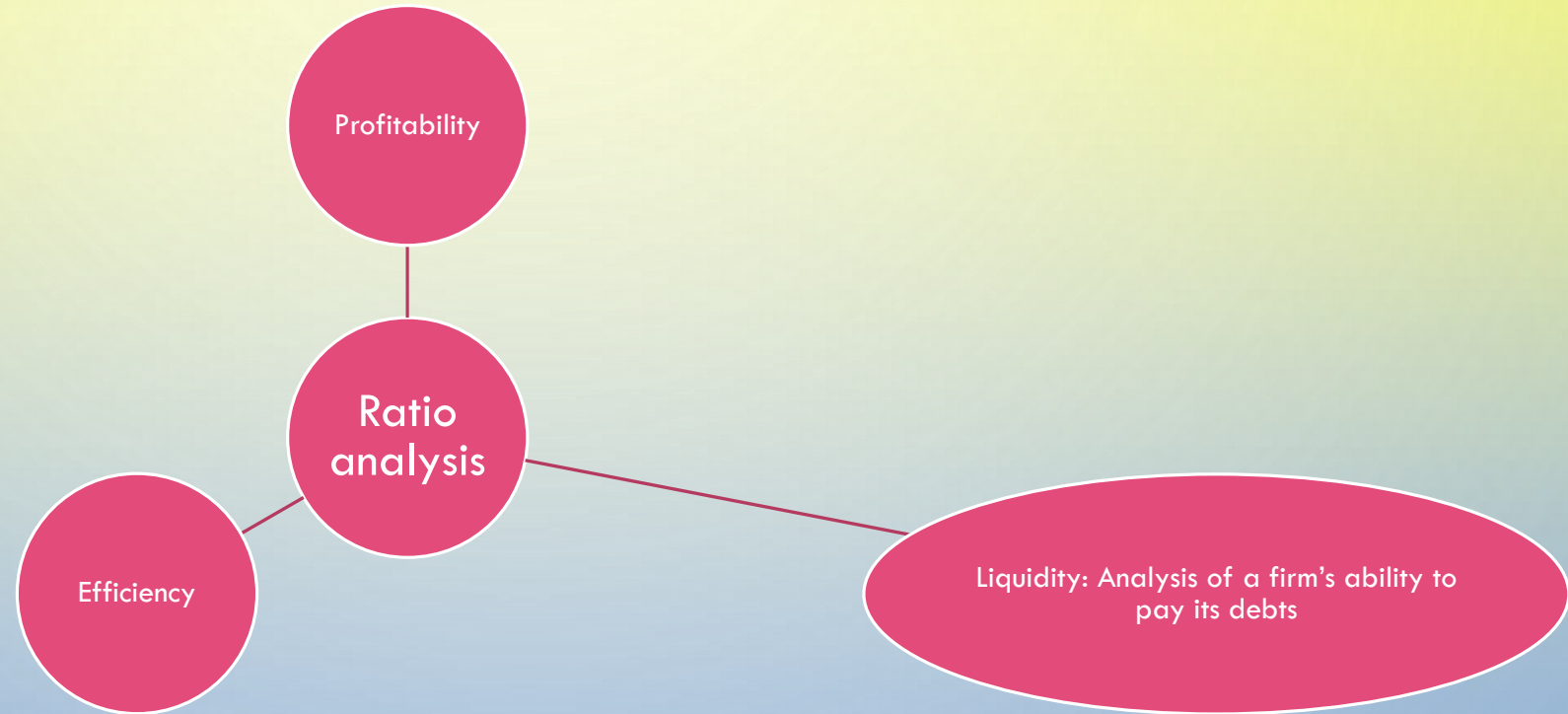


NET PROFIT MARGIN

$$\text{NET PROFIT MARGIN} = \frac{\text{NET PROFIT} \times 100}{\text{SALES REVENUE}} = \frac{16,920}{80,000} \times 100 = 21.1\%$$

THE NET PROFIT MARGIN OF 21.1% SHOWS THAT ZANA'S FAMILY BUSINESS IS MAKING 21.1 EURO CENTS NET PROFIT FOR EACH 1 EURO OF SALES.

RATIO ANALYSIS – LIQUIDITY RATIOS



RATIO ANALYSIS – LIQUIDITY RATIOS



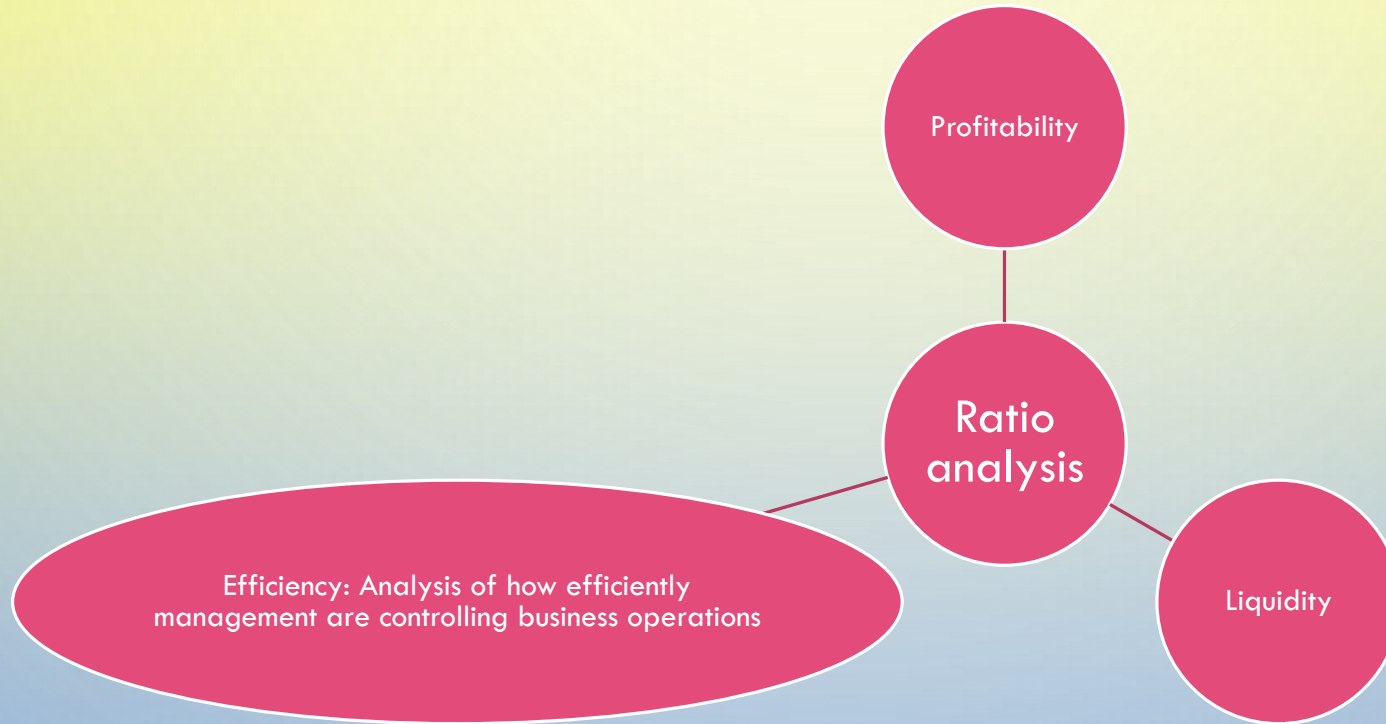
CURRENT RATIO

$$\text{CURRENT RATIO} = \frac{\text{CURRENT ASSETS}}{\text{CURRENT LIABILITIES}} = \frac{24,000}{11,880} = 2.02$$

A CURRENT RATIO OF 2.02 MEANS THAT ZANA'S FAMILY BUSINESS HAS 2.02 EUROS OF CURRENT ASSETS FOR EACH 1 EURO OF CURRENT LIABILITIES.

A CURRENT RATIO OF 2 OR MORE MEANS THAT ZANA'S FAMILY BUSINESS DOES NOT HAVE LIQUIDITY PROBLEMS, AS IT HAS MORE CURRENT ASSETS THAN CURRENT LIABILITIES.

RATIO ANALYSIS – EFFICIENCY RATIOS



RATIO ANALYSIS – LIQUIDITY RATIOS

GEARING RATIO

$$\text{GEARING RATIO} = \frac{\text{NON-CURRENT ASSETS}}{\text{TOTAL EQUITY} + \text{NON-CURRENT LIABILITIES}} = \frac{4,000}{13,000 + 3,120} \times 100 = 25\%$$

A GEARING RATIO OF 25% MEANS THAT IN ZANA'S FAMILY BUSINESS ONLY 25% OF THE CAPITAL INVESTED IS FROM LOANS.

THE GEARING RATIO OF 25% SUGGESTS THAT ZANA'S FAMILY BUSINESS WILL NOT HAVE TO PAY A LOT OF INTEREST ON LOANS.

QUESTION 1

- THE THREE FINANCIAL STATEMENTS INCLUDE:
 - A. BALANCE SHEET, PROFITABILITY RATION, AND RATIO ANALYSIS
 - B. BALANCE SHEET, INCOME STATEMENT, AND CASH FLOW STATEMENT
 - C. INCOME STATEMENT, LIQUIDITY RATIOS, AND EFFICIENCY RATIOS
 - D. ALL OF THE ABOVE

QUESTION 2

- FINANCIAL ANALYSIS IS USED TO UNDERSTAND THE PAST, CURRENT, AND FUTURE FINANCIAL STRENGTHS AND WEAKNESSES OF A FIRM:
 - A. TRUE
 - B. FALSE

QUESTION 3

- FINANCIAL RATIOS INCLUDE
 - A. NET PROFIT MARGIN RATIO
 - B. GEARING RATIO
 - C. CURRENT RATIO
 - D. ALL OF THE ABOVE

QUESTION 4

- THE NET PROFIT MARGIN AND THE GROSS PROFIT MARGIN SHOW WHETHER THE BUSINESS IS MAKING PROFIT OR LOSS:
 - A. TRUE
 - B. FALSE

QUESTION 5

- THE CURRENT RATIO SHOWS WHETHER
 - A. THE BUSINESS IS MAKING PROFIT
 - B. THE BUSINESS IS LIQUID
 - C. THE MAJORITY OF BUSINESS CAPITAL COMES FROM OWNER'S EQUITY OR LOANS
 - D. NON OF THE ABOVE

RESOURCES

- [HTTPS://WWW.TOPPR.COM/GUIDES/ACCOUNTANCY/ANALYSIS-OF-FINANCIAL-STATEMENTS/MEANING-SIGNIFICANCE-OBJECTIVES-FINANCIAL-ANALYSIS/](https://www.toppr.com/guides/accountancy/analysis-of-financial-statements/meaning-significance-objectives-financial-analysis/)
- [HTTPS://TEMPLATES.OFFICE.COM/EN-US/BALANCE-SHEET-TM03934533](https://templates.office.com/en-us/balance-sheet-tm03934533)
- [HTTPS://WWW.WALLSTREETMOJO.COM/OBJECTIVES-OF-FINANCIAL-STATEMENT-ANALYSIS/](https://www.wallstreetmojo.com/objectives-of-financial-statement-analysis/)
- [HTTPS://WWW.VERTEX42.COM/FILES/DOWNLOAD2/THEMED.PHP?FILE=BALANCE-SHEET.XLSX](https://www.vertex42.com/files/download2/themed.php?file=balance-sheet.xlsx)
- [HTTPS://WWW.FORBES.COM/ADVISOR/INVESTING/ROI-RETURN-ON-INVESTMENT/](https://www.forbes.com/advisor/investing/roi-return-on-investment/)
- [FINANCIAL STATEMENTS | BANKA QENDRORE E REPUBLIKËS SË KOSOVËS \(BQK-KOS.ORG\)](https://www.bqk-kos.org/en/financial-statements)