University Center Abdelhafid Boussouf-Mila

Faculty of Economics, Commercial &

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Lecture Three: Financial statements

Addressed To Second Year Students-Semester 2

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What is a financial statement?

Financial statements are formal records that present the financial activities and position of a business, individual, or other entity. They are typically prepared periodically, usually at the end of a specific reporting period such as a month, quarter, or fiscal year. These statements provide a comprehensive summary of a company's financial performance and financial position, helping stakeholders understand its economic activities and overall health.

Understanding Financial Statements:

1. Balance Sheet:

Snapshot of Financial Position: It portrays what a company owns (assets), owes (liabilities), and its equity at a specific point in time.

Assets: Tangible (like property, equipment) and intangible (like patents, goodwill) resources.

Liabilities: Debts and obligations owed by the company.

Equity: Represents the ownership interest in the company.

2. Income Statement (Profit and Loss Statement):

Performance Overview: It outlines the company's revenues, expenses, gains, and losses over a specific period, usually a quarter or a year.

Revenue: Money earned from the sale of goods or services.

Expenses: Costs incurred to generate revenue.

Profit/Loss: The difference between revenue and expenses, indicating the company's profitability.

3. Cash Flow Statement:

Liquidity Insights: Tracks the inflow and outflow of cash and cash equivalents during a specific period.

Operating Activities: Cash generated from core business operations.

Investing Activities: Cash flows related to investment in assets like property, equipment, or securities.

Financing Activities: Cash flows from activities like borrowing, issuing stocks, or paying dividends.

4. Statement of Changes in Equity:

Capital Changes: Records changes in equity accounts like common stock, retained earnings, and additional paid-in capital over a specific period.

Dividends: Distribution of profits to shareholders, affecting equity.

Why Financial Statements Matter?

1.Decision Making:

Investors, creditors, and management rely on financial statements to make informed decisions regarding investments, loans, and business strategies.

2. Performance Evaluation:

Financial statements help assess a company's performance over time, comparing current results with historical data and industry benchmarks.

3. Transparency and Accountability:

They promote transparency by disclosing the company's financial health to stakeholders, ensuring accountability to shareholders and regulatory bodies.

4. Risk Assessment:

Analysis of financial statements aids in identifying potential risks and weaknesses within the business, allowing for proactive risk management.

5. Compliance and Regulation:

Financial statements are subject to regulatory standards (e.g., Generally Accepted Accounting Principles - GAAP) to ensure consistency, comparability, and reliability.

Key Ratios and Metrics:

1. Liquidity Ratios:

Measure a company's ability to meet short-term obligations.

Examples: Current Ratio, Quick Ratio.

2. Profitability Ratios:

Assess a company's ability to generate profits.

Examples: Gross Profit Margin, Net Profit Margin, Return on Equity.

3. Financial Leverage Ratios:

Evaluate the extent to which a company relies on debt financing.

Examples: Debt-to-Equity Ratio, Interest Coverage Ratio.

4. Efficiency Ratios:

Gauge how effectively a company utilizes its assets and resources.

Examples: Asset Turnover Ratio, Inventory Turnover Rati

Internal Use of Financial Statements

Financial statements are used within a business by owners, managers, and board members to make strategic and operational decisions. The statements summarize underlying transactions and account balances to show both the state of the business at points in time and the business activity that has occurred within the period.

Businesses often customize their reports—the income statement in particular—to show activity by division, location, or product line. This can help to isolate which areas are more profitable and which may need more support to gain the traction that was expected.

External Use of Financial Statements

Whether a business is closely held and owned by a single individual, family, or millions of shareholders, there is often a need to share a company's financial statements with those outside of the organization.

Public companies—those traded on a stock exchange—are required to publish their financial statements so investors and prospective investors can understand how the company is uses its resources. This allows the readers to make buy and sell decisions with their investment dollars.

Nonpublic companies frequently require outside funds to scale their business. When securing lines of credit for working capital and construction loans, lenders require that you provide financial statements to help so they can judge whether loaning the funds is a wise decision. Likewise, investors also need them to learn how owners are using their current funds and help them decide if choosing investing in your business over another is the right move.

Financial statements serve as the cornerstone of financial reporting, providing crucial insights into a company's financial health, performance, and viability. Understanding and analyzing these statements empower stakeholders to make sound decisions, mitigate risks, and drive sustainable growth. Therefore, mastering the language of financial statements is paramount for anyone involved in the world of business and finance.

Terminology

1. Financial statements- البيانات المالية
2. Balance Sheet – الميزانية العمومية
3. Income Statement (Profit and Loss Statement) –(بيان الدخل (بيان الربح والخسارة)
4. Cash Flow Statement - بيان التدفقات النقدية
5. Statement of Changes in Equity - بيان تغيرات حقوق الملكية
6. Assets - الأصول

7. Liabilities - الالتزامات
8. Equity - حقوق الملكية
9. Revenue - الإيرادات
10. Expenses - المصروفات
11. Gross Profit - الربح الإجمالي
12. Net Profit - الربح الصافي
13. Earnings before Interest and Taxes (EBIT) - الأرباح قبل الفائدة والضرائب
14. Earnings before Interest, Taxes, Depreciation, and Amortization (EBITDA) - الأرباح قبل الفائدة والضرائب والاستهلاك والإهلاك
15. Operating Income - الدخل التشغيلي
16. Non-operating Income - الدخل غير التشغيلي
17. Operating Expenses - المصروفات التشغيلية
18. Non-operating Expenses - المصروفات غير التشغيلية
19. Depreciation - الاستهلاك
20. Amortization - الإهلاك
21. Return on Investment (ROI) - عائد على الاستثمار
22. Return on Equity (ROE) - عائد على حقوق الملكية
23. Return on Assets (ROA) - عائد على الأصول
24. Current Ratio - نسبة التيار
25. Quick Ratio (acid-test ratio) - نسبة السرعة الفورية (نسبة الاختبار الحمضي)
26. Debt-to-Equity Ratio - نسبة الدين إلى حقوق الملكية
27. Working Capital - رأس المال العامل
28. Inventory Turnover - دوران المخزون
29. Accounts Receivable Turnover - دوران الاستحقاقات
30. Accounts Payable Turnover - دوران الالتزامات
31. Gross Margin - الهامش الإجمالي
32. Net Margin - الهامش الصافي
33. Operating Margin - الهامش التشغيلي
34. Free Cash Flow - التدفق النقدي الحر

35.Dividend - الأرباح الموزعة
36.Dividend Yield - عائد الأرباح
37.Capital Expenditure (CapEx) - الإنفاق على رأس المال
38.Retained Earnings - الأرباح المُحتفظ بها
39.Intangible Assets - الأصول غير الملموسة
40.Tangible Assets - الأصول الملموسة
41.Equity Capital - رأس المال الخاص
42.Operating Cash Flow - التدفق النقدي التشغيلي
43.Financing Cash Flow - التدفق النقدي للتمويل
44.Investing Cash Flow - التدفق النقدي للاستثمار
45.Book Value - القيمة المحاسبية
46.Market Value - القيمة السوقية
47.Financial Ratios - النسب المالية
48.Accrual Basis - الأساس التراكمي
49.Cash Basis - الأساس النقدي
50.GAAP (Generally Accepted Accounting Principles) - المبادئ المحاسبية المقبولة عمومًا
51.IFRS (International Financial Reporting Standards) - معايير التقارير المالية الدولية