

ANALYSIS OF FINANCIAL STATEMENTS

🔊 I. Tangible Assets 🗾

Tangible assets are **physical assets** that a company owns and uses for business operations.

- Classification:
- 🧹 (a) Land 🜎
- 🗸 (b) Buildings 📳
- 🗸 (c) Plant & Equipment 🏭
- 🗸 (d) Furniture & Fixtures 🛁
- 🗸 (e) Vehicles 🚙
- 🗸 (f) Office Equipment 🚽

🔊 J. Intangible Assets 💡

Intangible assets are **non-physical assets** with economic

value.





- ✔ (a) Goodwill ᇮ
- ✓ (b) Brands/Trademarks[™]
- (c) Computer Software
- 🗸 (d) Mining Rights 🔨
- (e) Copyrights & Patents
- (f) Recipes, Designs, & Prototypes
- (g) Licenses & Franchise Agreements

🔊 K. Non-Current Investments 📊

Long-term investments held for generating future returns.



Trade Investments **X** (Investments in

subsidiary/associate companies)

Other Investments [] (Government securities, Bonds,

Shares)



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🔊 L. Long-Term Loans & Advances 🏦

These are **amounts given by a company** that are **expected to**

be recovered beyond 12 months.



Classification:

(a) Capital Advances
 (For property or equipment)

purchase)

(b) Loans & Advances to Related Parties

(c) Other Long-Term Advances

- Sub-classification:
- 🗸 Secured, Considered Good 🔽
- Unsecured, Considered Good in the secured of the
- 🗸 Doubtful 🗙

🔊 M. Other Non-Current Assets 🌐



Classification:

- (a) Security Deposits = (Example: Rent deposits)
- (b) Long-Term Trade Receivables =
- (c) Other Assets (Specify) Interview

🔊 N. Current Investments 🖾

Short-term investments expected to be converted into cash within a year.

Example: A company **buys short-term mutual funds** to

park excess cash.

🔊 O. Inventories 🕅



Classification:

- ✔ (a) Raw Materials 🏭
- ✔ (b) Work-in-Progress 🔄



- 🗸 (c) Finished Goods 🌾
- ✔ (d) Stock-in-Trade 🄡
- (e) Stores & Spares I have a store with the store of t
- (f) Loose Tools

🔊 P. Trade Receivables 🥅

Amounts due from customers for goods or services provided.

Section 2.10 Sect

client on credit, recorded as Trade Receivables.

🔊 Q. Cash & Cash Equivalents 🗊



Classification:

- ✔ (a) Bank Balances 🏦
- ✔ (b) Cheques & Drafts on Hand 📄



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🗸 (c) Cash on Hand 💧

🔊 R. Short-Term Loans & Advances 🚍

Short-term loans & advances refer to amounts given by a company that are expected to be recovered within 12 months.



Classification:



Loans to subsidiaries or directors

for business expenses



Sub-classification:

✔ Secured, Considered Good 🔽

Unsecured, Considered Good in the secured of the



🔊 S. Other Current Assets 🔍



This category includes current assets that do not fit into

other standard classifications.

Examples:

Prepaid Expenses iii – Rent or insurance paid in

advance

Accrued Income [] – Interest earned but not yet

received

Advance Tax Payments yet adjusted

ℜ T. Contingent Liabilities & Commitments Λ

These represent **potential liabilities & commitments** that may **arise in the future** but are **not yet recorded in financial statements**.



◇ (i) Contingent Liabilities – Possible financial obligations in

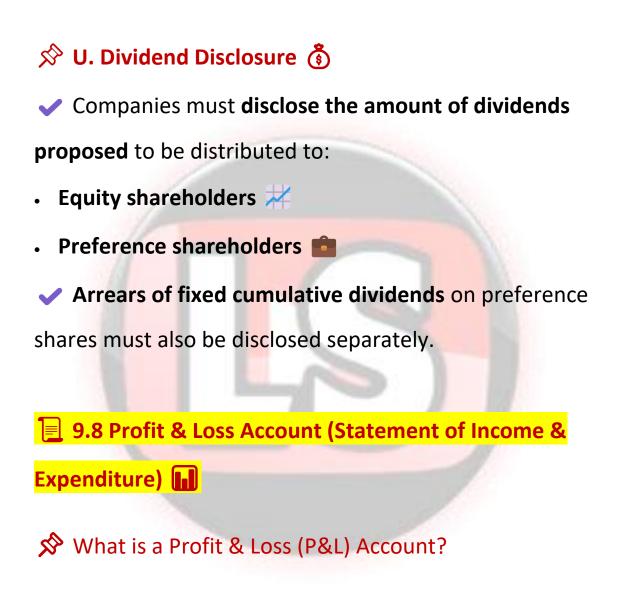
certain situations

Q Contingent Liability Type	Description
Claims Not Acknowledged	Legal claims pending against the
as Debt 📥	<mark>company</mark>
Guarantees 🔒	Bank guarantees given for
	subsidiaries or third parties

(ii) Commitments – Future financial obligations

Commitment Type	Description
Unexecuted Contracts	Contracts yet to be completed
Uncalled Liability on Shares	Outstanding payments on partly
	<mark>paid shares</mark>
<mark>Other Financial</mark>	Pending investments, lease
Commitments 📊	agreements





The **Profit & Loss Account (P&L)** is a **financial statement** that summarizes a company's **income and expenses** for a specific **accounting period** (e.g., April 1 – March 31).

- It shows whether a business made a profit or a loss
- \$

Every P&L statement must specify the period for which it

is prepared.

It helps in assessing financial performance, tax

calculations, and business decision-making.

Seneral Instructions for Preparing a P&L Statement

🛙 Revenue (Income) 🐧

Revenue represents the income generated from business

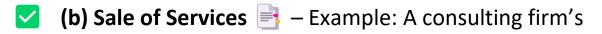
operations.

- ◇ (A) For Non-Finance Companies IIII
- Revenue from operations must be disclosed separately

as:

(a) Sale of Products

company's revenue from selling goods.

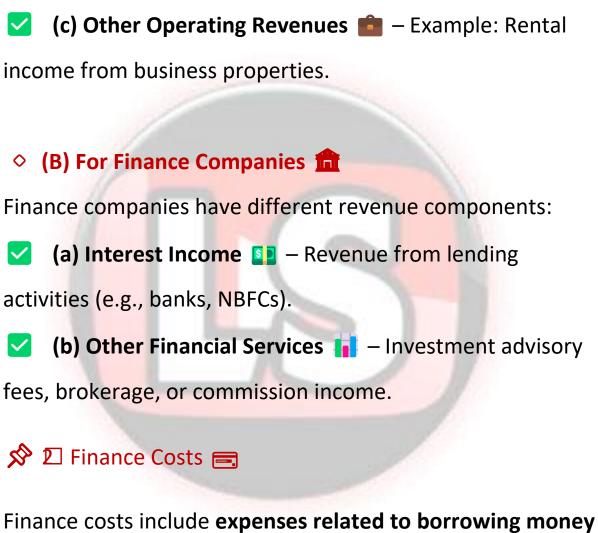


revenue from providing services.



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or financial transactions.

(a) Interest Expense interest paid on loans, bonds, or overdrafts.



(b) Other Borrowing Costs = – Loan processing fees,

commitment charges.

(c) Foreign Exchange Gain/Loss i – Net impact of

currency transactions on loans.

🔊 🛙 Other Income 🏦

Income **not directly related** to the company's core business activities.

(a) Interest Income [] – Earned from bank deposits or

lending (for non-finance companies).

(b) Dividend Income **H** – Received from investments in shares.

(c) Net Gain/Loss on Sale of Investments 1 – Profit or

loss from selling stocks, bonds, or assets.

(d) Other Non-Operating Income Period - Example: Rental

income from company-owned buildings.

🔗 🖅 Additional Information (Notes to Accounts) 📃

Companies must disclose additional financial details in the

Notes to Accounts, such as:

Breakdown of major expenses (e.g., advertising, legal

fees).

Breakdown of major income sources (e.g., government grants, investment income).

Details of one-time or exceptional items (e.g., litigation settlements).

9.9 Cash Flow Statement (CFS) 🚯

Solution What is a Cash Flow Statement?

The Cash Flow Statement (CFS) tracks the movement of cash & cash equivalents within a business over a specific period. It shows how a company's cash balance changes from the beginning to the end of the period.

CFS provides insights into a company's financial strength,

liquidity, and ability to generate cash.

It helps assess whether a business can meet short-term

obligations and finance future growth.

- 📌 Key Insights from CFS
- Reveals profitability vs. actual cash flow #
- Shows how a company manages its cash resources
- Helps in understanding financial sustainability <</p>

🔗 Components of Cash Flow Statement 🏦

A Cash Flow Statement is divided into three sections:

1 Operating Cash Flow (OCF) 💼

- Cash generated from core business operations.
- Should be **positive** for a business to remain **solvent**.



2 Investing Cash Flow (ICF)

Cash used for acquiring/selling assets or long-term

investments.

Does NOT include debt or capital financing.

- 3 Financing Cash Flow (FCF)
- Cash transactions related to funding, capital, & debt.
- Shows how a company raises money through loans or

equity and how much is paid back.

Example: A company issues new shares (cash inflow) or

pays dividends (cash outflow).

🔗 Uses of the Cash Flow Statement 🗐



company has enough cash to pay liabilities.



managed compared to past years.



Assessing Financial Stability 4/2 – Helps banks/lenders

check if the business can repay loans.

A Methods of Preparing a Cash Flow Statement

1 Direct Method 📊 (Preferred Globally)

Converts each item in the income statement into cash

receipts or payments.

***** Example:

- Revenue from Sales ₹50 crore → Cash Received ₹48
 crore
- Purchases of Materials ₹30 crore → Cash Paid ₹28 crore

2 Indirect Method 🔛 (Used in India IN)

Starts with Profit Before Tax (PBT) from the Profit & Loss

Statement.

Adjusts for non-cash items & working capital changes.

🔗 Steps to Calculate Indirect Cash Flow

- 1 Begin with Profit Before Tax (PBT)
- 2 Add Back Non-Cash Expenses (Depreciation, Amortization)
- 3 Subtract Non-Operating Income (Investment gains,

dividends)

- 4 Adjust for Working Capital Changes:
- Deduct Increase in Current Assets (excluding cash)
- Add Increase in Current Liabilities
- 5 Deduct Taxes Paid

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- 6 Arrive at Net Cash Flow from Operating Activities
- **★** Example: If a company reports ₹10 crore profit but has

₹3 crore depreciation and **₹2** crore increase in inventory,

the adjusted cash flow will be:

₹10 crore + ₹3 crore - ₹2 crore = ₹11 crore cash inflow.



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FORMAT FOR PREPARATION OF CASH FLOW STATEMENT

Particulars	Amount	Amount
(A) Cash Flow from operating activities		
Net Profit Before Interest and Tax		
Adjustment for		
Depreciation	S	
Good will written off	1	
Loss on sale fixed assets		
Preliminary expense		
Operating profit working capital changes		
Increase in current assets		
Decrease in current assets		
Increase in current liabilities		
Decrease in current liabilities		
Cash generated from Operating activities	100	
Cash used in operating activities	111	
	11	
(B)Cash Flow from investing activities	1	
Purchase of fixed assets		
Sale or disposal of fixed assets		
Purchase of securities (in case of non-financial		
companies)		
Sale of securities (in case of non-financial		
companies)		
Loans and advances made to third parties		
Repayments received from loans and advances		
made to third parties. Cash generated from Investing activities		
Cash used in investing activities		
cash used in investing activities		
(C) Cash Flow from Financing activities		
Issue of shares		

Issue of debentures, bonds		
Loan taken from bank		
Redemption of debentures		
Buy-back of equity shares		
Repayment of borrowings		
Dividends on both equity and preference shares		
Interest on debentures and loans		
Cash generated from Financing activities		
Cash used in Financing activities		
Net Increase in Cash and cash equivalents		
Opening Balance Cash and cash equivalents	100	
Closing Balance Cash and cash equivalents	8	
	10	

Case Study: Jet Airways – Bankruptcy Due to Poor Cash

Flow 👗

What Happened?

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Jet Airways had high revenue & profits, but poor cash

flow.

The company failed to generate enough cash to cover

loan repayments & salaries.

✓ Over ₹8,500 crore in debt caused bankruptcy &

shutdown in 2019.

Investors & creditors suffered huge financial losses



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S Lesson: A company can be profitable on paper but still

fail due to poor cash flow management! 🔽 📊

9.10 Projected Financial Statements & Analysis of Financial Statements by Bankers markers

𝔅 9.10 Projected Financial Statements

Actual financial statements provide insights into a company's past performance, but for bank credit assessment, it is necessary to anticipate future financial conditions.

- Projected Financial Statements (PFS) help:
- Assess the working capital needs of a business
- Estimate the future financial position
- Determine the loan repayment capacity of a borrower



Why Projected Financial Statements are Important?



insufficient; future projections are necessary.

For New Businesses & – No historical data exists, so

projections are based on industry trends.

✓ For Loan Disbursement & Repayment = – Helps banks structure loans based on expected cash flows.

For Expansion Plans <u>For Expansion Plans</u> – Ensures a project is

financially viable before funding is approved.

分 9.11 Purpose of Financial Statement Analysis by Bankers

Financial statement analysis helps banks assess a borrower's **creditworthiness & financial stability** before approving a loan.

Different stakeholders analyze financial statements for **different purposes**:

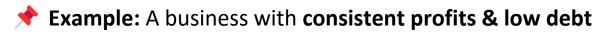


📌 Stakeholder	🤍 Focus Area
Stock Market	Earnings Per Share (EPS) & profitability
<u>in</u> Tax Authorities	Compliance & turnover details
Government Regulators	Accounting policies & financial transparency
i Bankers & Lenders	Credit risk, debt repayment ability & fund utilization

Service Representation of Key Areas of Financial Analysis by Banksz

- 1. Assessment of Performance & Financial Position
 - 🖌 🛛 Analyzes business growth trends & profitability 📈
- Evaluates leverage (Debt/Equity ratio) & financial

health 🝈

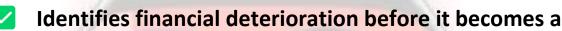


is a **low-risk borrower**.



2. Projection of Future Performance 🔗

- Past performance helps forecast future earnings.
- Evaluates growth prospects & stability.
- 3 Detecting Financial Red Flags 👗



- problem.
 - Red flag indicators include:
- Continuous decline in profitability
- High loan defaults or overdue payments
- Poor working capital management in
- 4 Assessing Credit Requirements 🏦
- \checkmark
- Helps banks **determine the right loan amount**.
- Prevents over-financing (excess funds) or under-

financing (insufficient funds).



5 Examining Funds Flow



intended purpose.



investments.

6 Cross-Checking Financial Statements 🗹

Verifies submitted financials with the actual balance sheet.

Ensures no manipulation of stock, receivables, or

payables.

🔗 Limitations of Financial Analysis 👗

Though financial analysis helps banks assess

creditworthiness, it has certain limitations:



A Limitation	<mark>Q Issue</mark>
Doesn't Consider	Prices change, but past data is used for evaluation.
Window Dressing of Accounts	Companies may manipulate financials to appear <mark>stronger.</mark>
Accounting Policy Changes	Different firms use different accounting rules.
	Focuses on past data, which may not reflect future trends.
Only Monetary Information	Non-financial factors (e.g., brand reputation) are ignored.

📃 9.12 Rearranging Financial Statements for Analysis 🏦

Solution Why Rearranging Financial Statements is Important?

It refers to the process of **reorganizing or reformatting the information in financial statements** to make it <u>more useful</u> <u>for analysis, decision-making, or specific reporting needs</u>. JAIIB/ CAIIB/ PROMOTIONS/ CERTIFICATIONS Course available <u>https://iibf.info/iibfLearning</u>

To assess a borrower's creditworthiness, banks rearrange financial statements. This helps in identifying trends, risks, and financial viability.

- * Key Reasons for Rearranging Financial Statements:
- 🖌 Evaluates financial stability 🦮 📈
- ✔ Identifies risks & red flags 🎽
- Assesses working capital needs
- Determines loan repayment ability in the second second
- Ensures correct fund utilization