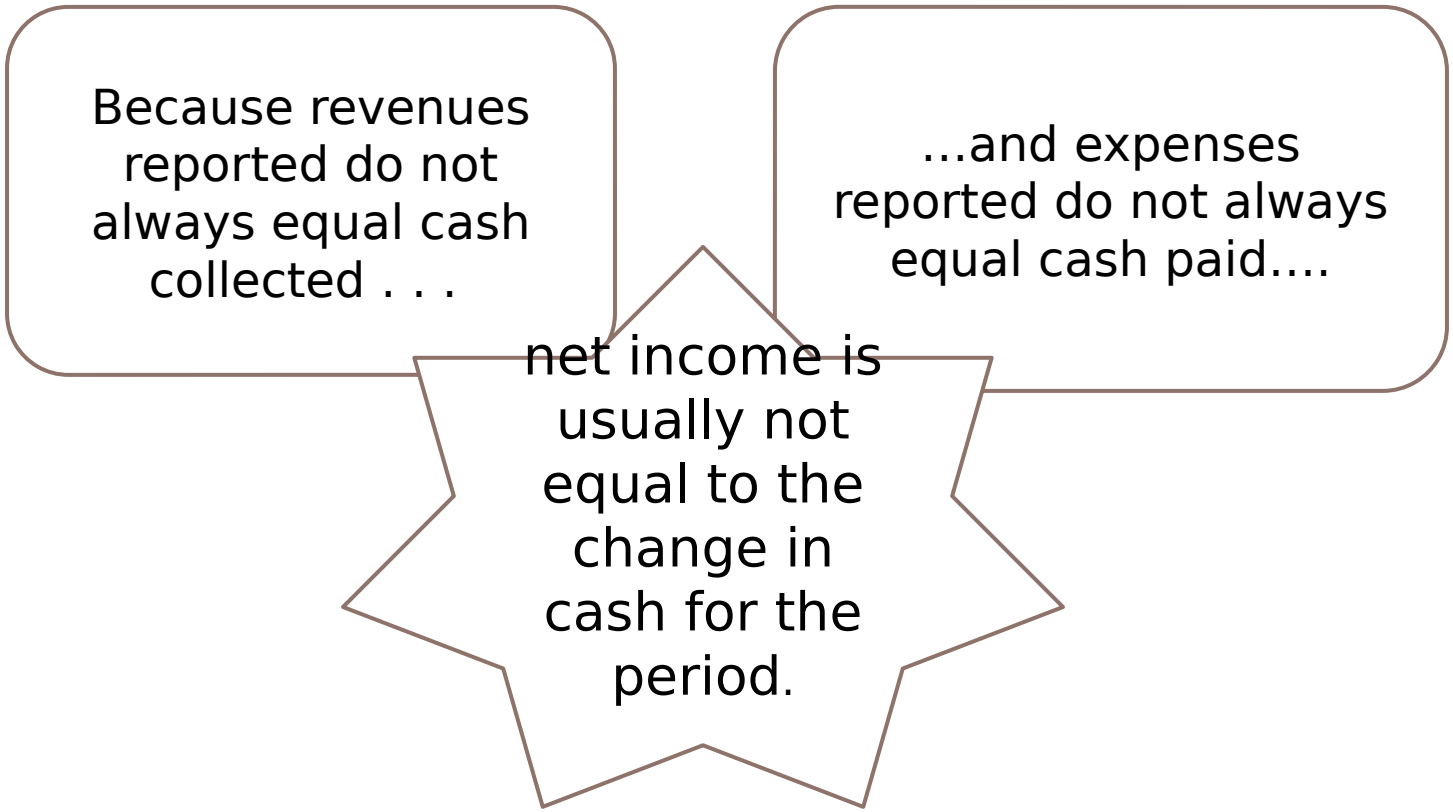
Financial Management in Construction

1. Name of entity
2.Title of statement
3. Specific date (Like the Income statement, this statement covers a specified period of time
4.Unit of measure

Addis-Matador CORP. Statement of Retained Earnings For the year Ended December 31,2006 (in thousands of dollars)	
Retained earnings, January 1,2006	$ 6,805.00
Net income for year 2006	3,300.00
Dividends for 2006	(1,000.00)
Retained earnings, December 31,2006	$ 9,105.00

The statement of Retained Earnings reports the way that net Income and the distribution of dividends affect the financial position of the company during a period

Statement of Cash Flows



1. Name of entity
2.Title of statement
3. Specific date (Like the Income statement and statement of retained earnings, this statement covers a specified period of time)
4.Unit of measure

Addis-Matador CORP.
Statement of Cash Flows
For the year Ended December 31,2006
(in thousands of dollar's)

Cash flows from operating activities		
Cash collected from customers	$ 33,563.00	
Cash paid to suppliers and employees	(30,854.00)	
Cash paid for interest	(450.00)	
Cash paid for taxes	(1,190.00)	
Net Cash flow from operating activities		$ 1,069.00
Cash flow from investing activities:		
Cash paid for purchases equipment	$ (1,625.00)	
Net Cash flow from investing activities		(1,625.00)
Cash flow from financing activities:		
Cash received form bank loan	$ 1,400.00	
Cash paid for dividends	(1,000.00)	
Net cash flow from financing activities		400.00

This statement of Cash Flows reports the Inflows and outflows of cash during the period in the categories of operating, investing, and financing.

Cash flows directly related to earning income are shown in the operating section.

Cash flows related to the acquisition or sale of productive assets are shown in the investing section.

Cash flows from or to investors or creditors are shown in the financing section

The statement ends with a reconciliation of cash.



Financial Analysis

- Assessment of the firm's past, present and future financial conditions
- Done to find firm's financial strengths and weaknesses
- Primary tools:
  - Financial statements
  - Comparison of financial ratios to past, industry sector and all firms



Financial Analysis (cont'd)

1. Common Size Financial Statements

- Each component of the statement is represented in terms of percentages.
  - Income statement
    - *Each item is calculated as a percent of net sales*
  - Balance Sheet
    - *Each item is calculated as a percent of assets or total liabilities and stockholder's equity.*

2. Comparative (common-Base year) Financial statements

- Financial information reported side by side in vertical columns to see relationship and trends between years**. Trend Analysis**
- Horizontal analysis shows birr and percent changes from year to year.



United Bank Financial Performance in 2011/12

Total Asset	**8.8b Br.**	**14.3%**	
Total Liabilities	7.7b Br.	13.2%	
Paid –up Capital	580.9m. Br.	11%	 
Income	813.6m. Br.	31.9%	
Expense	425.1m. Br.	38%	
Profit After Tax	297.9m. Br.	28.5%	
Earning Per	52.8m. Br.	.02%	

3. All financial statement ratios should be compared to:

- Should analyze ratios based upon standards of comparison such as:
  - I. Industry ratios and standards
  - II. Similar businesses in the same Industry (Competition)
  - III. Past performance ratios.
  - IV. Prior years operating results



Ratio Analysis

- **Liquidity**: can we make required payments?
- **Debt management**: Right mix of debt and equity?
- **Asset management**: Right amount of assets vs. Sales?
- **Profitability**: Do sales prices exceed unit costs, and are sales high enough as reflected in PM, ROE, and ROA?



a) Liquidity Ratios

- As asset that can be converted to cash quickly without having to reduce asset's price very much.
- Current Ratio:

$$\text{Current Ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$



Liquidity Ratios (cont'd)

- Quick, or Acid Test Ratio:

  Is calculated by deducting inventory from current assets as a proportion of current liabilities

$$\text{Current ratio} = \frac{\text{Current assets} - \text{Inventories}}{\text{Current Liabilities}}$$



b) Leverage Ratios

- Debt Ratio

  The ratio of total debts to total assets:

  Measures the percentage of funds provided by creditors

$$\text{Debt Ratio} = \frac{\text{Total Debt}}{\text{Total Assets}}$$



Leverage Ratios

- Debt Equity Ratio

Measures the extent of borrowing by the firm as a proportion of the investment of its own.

$$\text{Debt Ratio} = \frac{\text{Long term Debt}}{\text{Equity(shareholders' fund)}}$$



Leverage Ratios (cont'd)

- Times- Interest-Earned (TIE) Ratio

  The ratio of earnings before interest and taxes (EBIT) to interest charges; a measure of the firm's ability to meet its annual interest payments.

$$\text{Interest coverage ratio} = \frac{\text{EBIT}}{\text{Interest Charges}}$$



c) Profitability Ratios

- A group of ratios that show the combined effects of liquidity, asset management, and debt on operating results. Measures the success of the firm in earning a net return on sales or investment.
- Gross Profit Margin

  The ratio shows the margin left after meeting production costs. It measures the efficiency of production and pricing:

$$\text{Gross Profit margin} = \frac{\text{Gross Profit (Sales-Cost of goods Sold)}}{\text{Sales}}$$



- Net operating margin

$$= \frac{\text{EBIT}}{\text{Sales}}$$



- Net margin

$$= \frac{\text{Net Profit}}{\text{Sales}}$$



Profitability Ratios (cont'd)

- Return on Capital Employed

  A measure of how efficiently the capital is employed. A key indicator of profitability of a firm. Firm that are efficiently using their assets have a relatively high return. Less efficient firms have a lower return

  (ROCE)Return on capital employed

  $$\text{ROCE} = \frac{\text{Net Profit}}{\text{Share capital + Reserves + Non-current liabilities}}$$



- Return on Equity

  Profit indicator to shareholders. The ratio indicates the degree to which the firm is able to convert equity to generate net profit that eventually can be claimed by shareholders

$$\text{Return on Equity} = \frac{\text{Net profit}}{\text{Total Equity}}$$



- Return on Total Assets

  It is the return earned by the firm for all investors(i.e. shareholders and lenders). It reflects the ability of the firm to earn profits without considering the financing pattern,

$$\text{Return on total Assets} = \frac{\text{Net profit + interest expense}}{\text{Total Assets}}$$



d) Asset Management Ratios (Turnover)

The asset management ratios measures how effectively the firm is managing its assets.

- Inventory Turnover Ratio

This ratio is calculated by dividing sales by inventories

$$\text{Inventory turnover ratio} = \frac{\text{Sales}}{\text{Inventories}}$$



Asset Management Ratios (cont'd)

- Total Assets Turnover ratio

  Measures how efficiently assets are employed

$$\text{Total Assets turnover ratio} = \frac{\text{Sales}}{\text{Total Assets}}$$

- Fixed Asset Turnover ratio

  Measures how efficiently fixed assets are employed

$$\text{Fixed Asset turnover ratio} = \frac{\text{Sales}}{\text{Net Fixed Assets}}$$

