

The Institute of Chartered Accountants of Barbados

In association with

Dowell's Advisory Services Inc.

Presents

**Is Your \$\$\$ Secure?
How Understanding
Financial Statements Can
Put You in the Know!**



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QUOTE - Warren E. Buffet

" ...stocks are the only things people don't want when they are cheaper.

If cars, hamburgers, real estate, perfume, gourmet coffee, furniture, clothing, concert tickets or televisions go on sale, you'll see people lining up outside of the stores at 3 a.m. to be first in line to save money.



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QUOTE - Warren E. Buffet

But if the market goes south and shares of companies that serve as the backbone of America...drop in price, they not only refuse to line up to buy more, they often bottleneck at the door in a panicked effort to sell.

Ten years pass and then they wonder why those who have patiently stayed the course are able to retire sooner and spend more on the things they enjoy."

Source: Barbados Business Authority – February 23, 2009



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Why Are We Doing This?

- Very few persons in Barbados invest for the long term through equities or fixed income securities
- Investors, potential investors, depositors and borrowers need to be informed
- Recent financial institution failures have reached our Caribbean shores
 - *in a different way!*
- Rely on ICAB registered accountants to advise you!



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We Will Share With You...

- Some key financial terminology
- What is your role? – investor, depositor, borrower, employee or entrepreneur
- What is the role of your accountant?
- Review of BNBI's and COBCCUL's published financial statements



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Financial Terms

- Balance sheet
- Assets
- Due from/accounts receivables
- Investment in associated company
- Liabilities
- Equity
- Statutory reserves
- Income statement
- Statement of cash flows

ASSETS = LIABILITIES + SHAREHOLDERS' EQUITY



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Financial Terms - Explained

- **Balance Sheet** – a continuous view...like a DVD or movie stopped at a single moment in time
- **Assets** – ‘things’ which we *OWN*
- **Due from/accounts receivables** – credit sales from business or related party transactions
- **Investment in associated company** – not a subsidiary, but the investor company has no less than 20% equity voting rights by which it can exercise significant influence



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Financial Terms - Explained

- **Liabilities** – ‘things’ which we *OWE*
- **Equity** – share ownership in an entity
- **Statutory reserves** – typically used with financial institutions whereby their liabilities are legally required to be maintained on the balance sheet with respect to unmatured obligations



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Financial Terms - Explained

- **Income statement** – represents the operating performance of the business over a given period of time
- **Statement of cash flows** – the changes in cash receipts and payments (determines the short term viability of the entity)



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What is Your Role?

- To have a basic knowledge and understanding of financial statements
- Being informed *now*, so you can ask questions *later*
- You can participate much more in publicly traded companies' AGMs
- Now, you can monitor any organisation's financial performances



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The Role of the Accountant

- To evaluate the technical information
- To apply financial ratio analyses to the financial statements
- To uncover the 'real' financial impact beyond the numbers
- To educate their clients, directors, management and the public
- Ensure that your accountant is a member of ICAB
- To uphold the ethical and professional standards of the Institute



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Consolidated Comparative Statements of The Barbados National Bank Inc.

2008's Balance Sheet:

- Cash and cash equivalents
- Due from/to banks
- Loans and advances and customers' deposits
- Investment securities
- Other fund raising instruments
- Net unrealised losses
- Statutory reserves



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Consolidated Comparative Statements of The Barbados National Bank Inc.

2008's Income Statement:

- Interest income and interest expense
- Non-interest expenses
- Basic and diluted earnings per share (cents)



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Consolidated Comparative Statements of The Barbados National Bank Inc.

2008's Statement of Cash Flows:

- **Operating Activities**

- Net profit before taxation
- Depreciation
- Increase in loan advances, net
- Increase in other liabilities

- **Investing Activities**

- Purchase of property, plant and equipment

- **Financing Activities**

- Decrease in due to banks
- Dividends paid

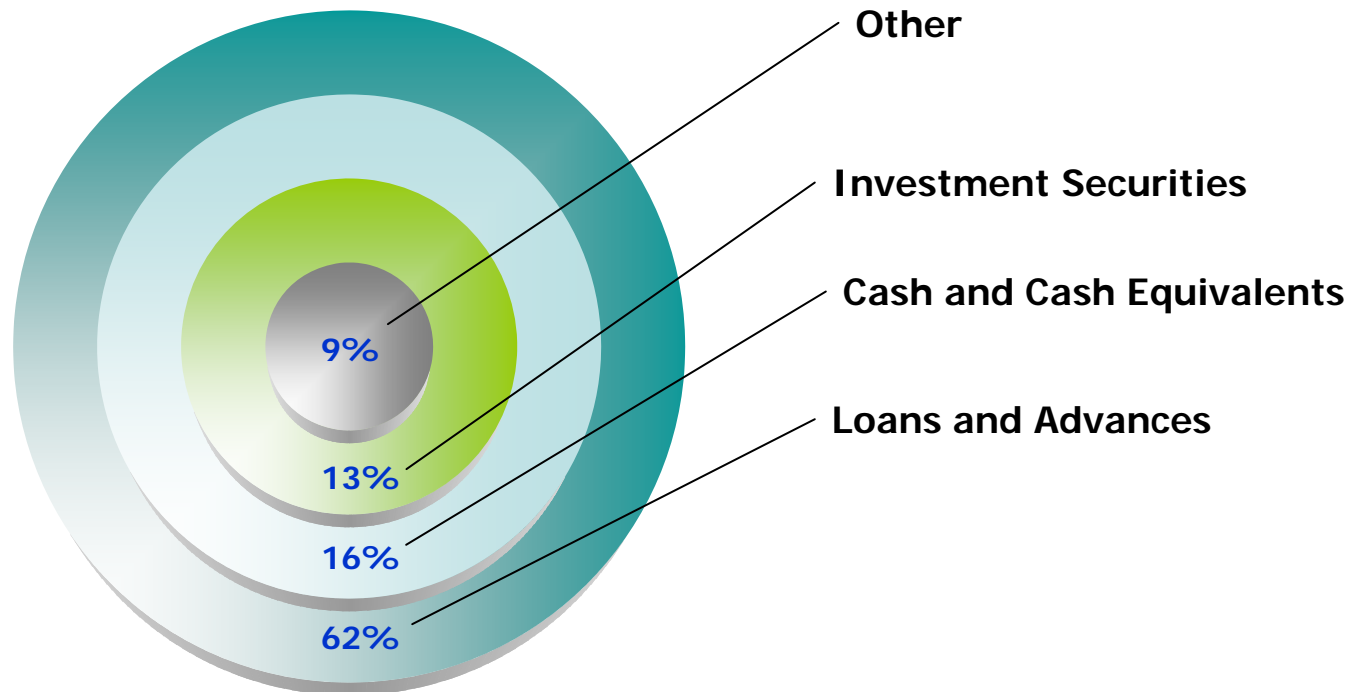


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Consolidated Comparative Statements of The Barbados National Bank Inc.

2008's Asset Allocations - \$2,626,599 (\$000s)

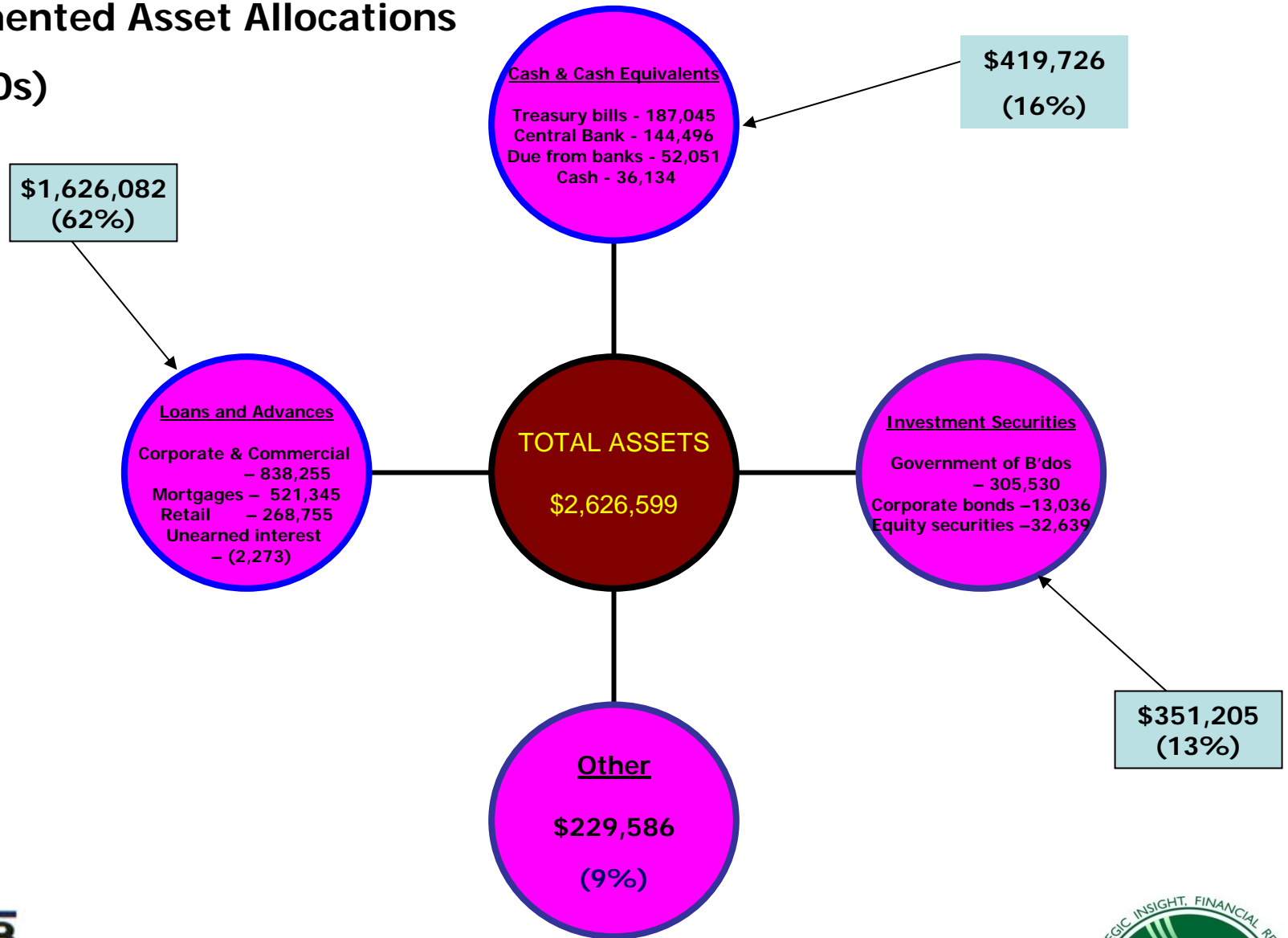


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Segmented Asset Allocations

(\$000s)



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Comparative Statements

The City of Bridgetown Credit Union Ltd.

2008's Balance Sheet:

- Cash and cash equivalents
- Investments
- Investments in associated company
- Loans to members and member deposits plus liabilities qualifying as regulatory capital



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Comparative Statements

The City of Bridgetown Credit Union Ltd.

2008's Income Statement:

- Net interest and other income
- Equity share of associated company's profits
- Distributions



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Comparative Statements

The City of Bridgetown Credit Union Ltd.

2008's Statement of Cash Flows:

- **Operating Activities**
 - Net Surplus
 - Depreciation/amortisation
 - Increase in interest on loans
 - Increase in interest paid
 - members' deposits
- **Investing Activities**
 - Investments income received
 - Investments acquired (net)
- **Financing Activities**
 - Loan payable
 - Special dividends



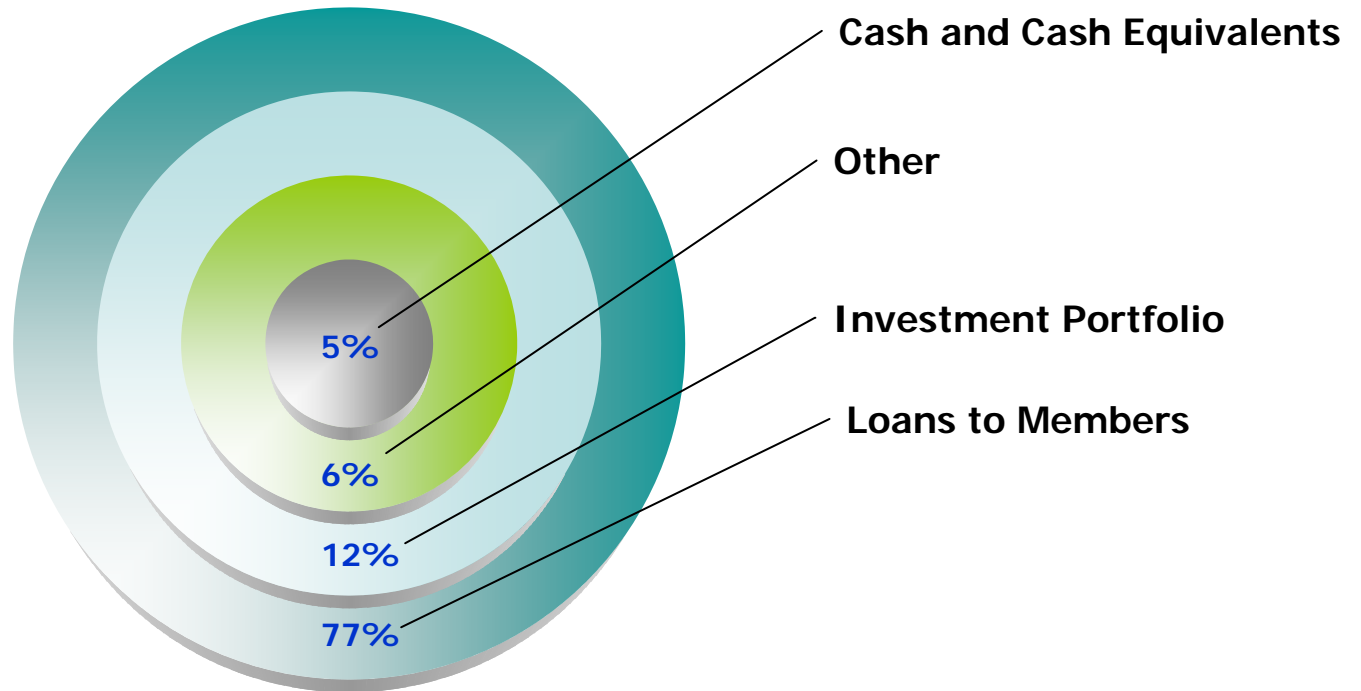
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Comparative Statements

The City of Bridgetown Credit Union Ltd.

2008's Asset Allocations - \$278,171 (\$000s)

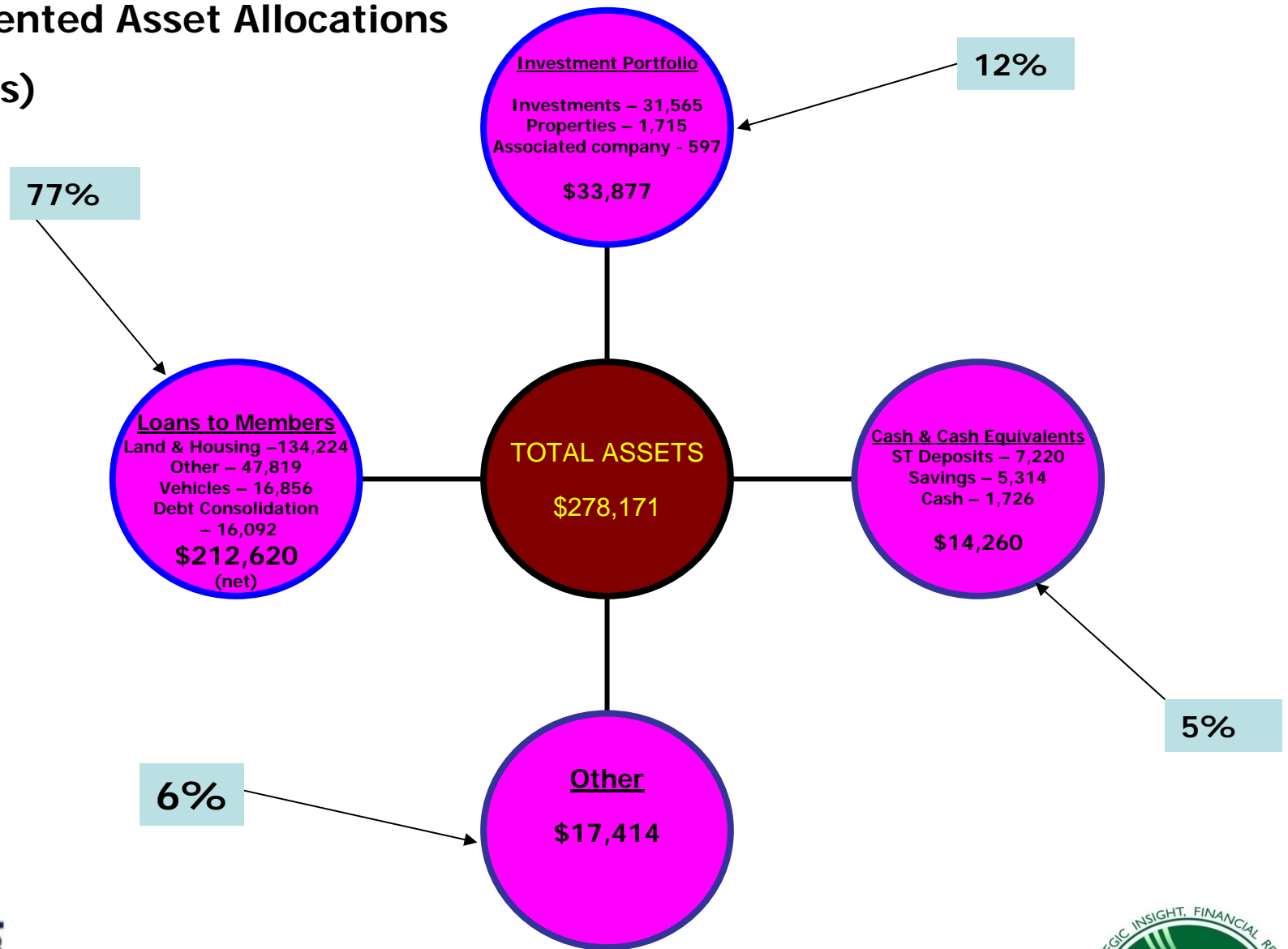


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Segmented Asset Allocations

(\$000s)



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Consolidated Comparative Statements of The Barbados National Bank Inc.

An introduction...

Liquidity Ratios

- Current ratio
- Quick ratio

Profitability Ratios

- Profit margin on sales
- Return on total assets
- Return on equity

Leave These to An ICAB Accountant...

Activity Ratios

- Fixed asset turnover
- Total asset turnover
- Inventory turnover
- Average collection period

Leverage Ratios

- Debt to total assets
- Times interest earned



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Ratio Formulae

| RATIO | FORMULA |
|-----------------------------|---|
| Liquidity Ratios | |
| Current Ratio | Current Ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$ |
| Quick (Acid Test) Ratio | Quick Ratio = $\frac{\text{Current Assets} - \text{Inventories}}{\text{Current Liabilities}}$ |
| Profitability Ratios | |
| Profit Margin on Sales | Profit Margin on Sales = $\frac{\text{Net Profit before Taxes}}{\text{Sales}}$ |
| Return on Total Assets | Return on Total Assets = $\frac{\text{Net Profit after Taxes}}{\text{Avg. Total Assets}}$ |
| Return on Equity | Return on Equity = $\frac{\text{Net Profit after Taxes}}{\text{Avg. Equity}}$ |



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Ratio Formulae

| RATIO | FORMULA |
|-------------------------------|--|
| Activity Ratios | |
| Fixed Asset Turnover | Fixed Asset Turnover = $\frac{\text{Sales}}{\text{Fixed Assets}}$ |
| Total Asset Turnover | Total Asset Turnover = $\frac{\text{Sales}}{\text{Total Assets}}$ |
| Inventory Turnover | Inventory Turnover = $\frac{\text{Cost of Sales}}{\text{Inventory}}$ |
| Average Collection Period | Average Collection Period = $\frac{\text{Accounts Receivable}}{\text{Sales per Day}}$ |
| Leverage (Debt) Ratios | |
| Debt to Total Assets | Debt to Total Assets = $\frac{\text{Total Debt}}{\text{Total Assets}}$ |
| Fixed Charge Coverage | Fixed Charge Coverage = $\frac{\text{Income before taxes} + \text{fixed charges}}{\text{Fixed Charges}}$ |
| Times Interest Earned | Times Interest Earned = $\frac{\text{Income before taxes} + \text{interest charges}}{\text{Interest Charges}}$ |



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Take-A-Ways

- Compare trended performances with comparative statements
- Always read the notes to the statements
- Trace the cash flows and see where they are leading
- Determine the composition of the current and non-current assets
- Tie corresponding assets to liabilities to see the net effects
- Before investing, depositing or borrowing – consult with an ICAB Accountant



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