

Corporate finance

Summer 2019

THURSDAY, FEBRUARY 28, 2019

CORPORATE FINANCE

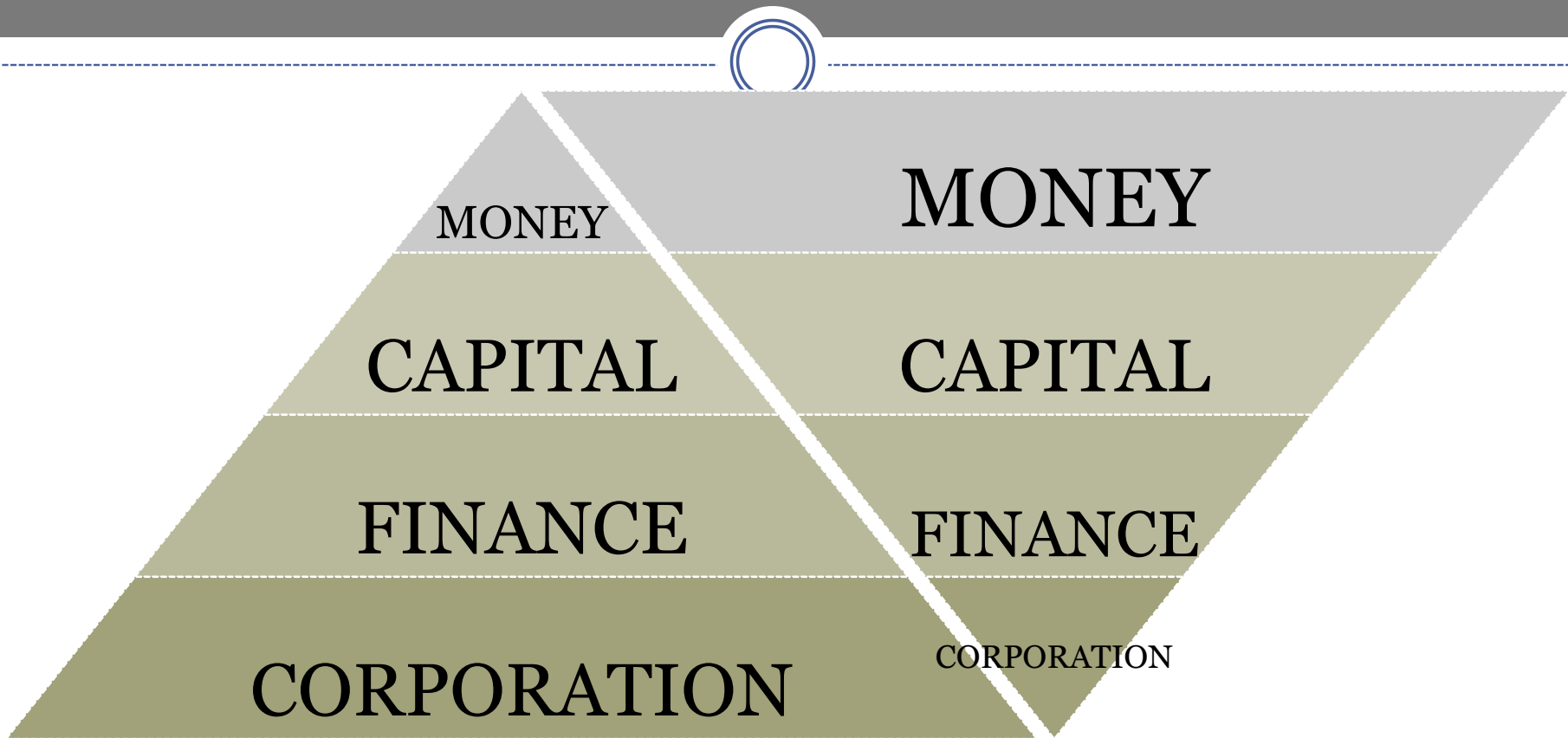


What ...



**... DOES CORPORATE
FINANCE MEAN?**

Corporate finance



How COULD YOU DEFINE



- **CAPITAL**
- **INCOME**
- **FINANCE**
- **CORPORATION**

WHEN DO YOU USE?

- 
- **MONEY**
 - **INCOME**
 - **VALUE ADDED**
 - **GAIN**
 - **REVENUE**
 - **PROFIT**
 - **YIELD**
 - **BENEFIT**
 - **INTEREST**
 - **UTILITY**
 - **GOODS**
 - **RETURN**
 - **EARNING**

WHEN DO YOU USE?



- **CORPORATION**
- **COMPANY**
- **FIRM**
- **COOPERATION**
- **ENTERPRISE**

MONEY



MONEY is...



**... OFTEN DEFINED
IN TERMS OF THE FUNCTIONS OR
SERVICES THAT IT PROVIDES.**

FUNCTIONS OF MONEY ...

are to serve as:



1. **UNIT OF ACCOUNT
(*MEASURE OF VALUE*),**
2. **MEDIUM (STANDARD) OF
EXCHANGE,**
3. **STANDARD OF DEFERRED PAYMENTS**
4. **STORE OF VALUE.**

MONEY



CASH FLOWS

CAPITAL



CAPITAL:

Some misconceptions



- **In general, it refers to financial resources available for use.**
- **The amount invested in business.**

CAPITAL



SOME MISLEADINGS

- **Capital is an extremely vague term and its specific definition depends on the context in which it is used.**

CAPITAL

- **All accumulated goods, possessions, and assets USED FOR THE PRODUCTION OF INCOME AND WEALTH, no matter what kind they are.**

CAPITAL:

Some misconceptions



- **In general, it refers to financial resources available for use.**
- **The amount invested in business.**

CAPITAL



BALANCE
ASSETS &
LIABILITIES

INCOME(s)



INCOME(s)



- **Gain derived from capital, labor, or a combination of the two.**
- **The money a person makes from labor, investment, or any other source, especially in the course of a year.**
- **The revenues derived from the business, less expenses.**

INCOME(s)

...2

- **Gross Income**
- **Taxable Income**
- **Net Income = profit attributable to shareholders**
= “the bottom line”

FINANCE



FINANCE



Interconnections based on MONEY related to

FORMATION, DISTRIBUTION AND

REDISTRIBUTION OF ECONOMIC AGENTS`

INCOMES,

**aimed to capital reproduction and reproduction
of human resources.**

CORPORATION



CORPORATION



LEGAL ENTITY

**separated and distincted from
its owners and managers,
having unlimited life.**

CORPORATION



Organization engaged in business as a proprietorship, partnership, corporation or other FORM OF ENTERPRISE;

made up of a group of people as distinguish from a sole proprietorship.

CORPORATION



- Legal “Person”
- Public Company
- Can borrow and lend money
- Can sue and be sued

Financial data



- **Organizing of Financial data /Financial Statements/**
- Balance sheet
 - Assets/Liabilities
 - Profit
- P&L (Income statement)
 - Incomes/Costs
 - Profit

Financial data



- **CF forming**
 - Incomes/Costs
 - CIFs/COFs
 - Income/Profit
- **CF Statement/s/**

Financial data



- **Financial assets. Nature, Types & Forms.**
- **Stocks**
 - Common stocks
 - Preferred stocks
- **Bonds**
 - Coupon bond
 - Discount bonds

Financial statements - Definitions



- **Balance Sheet**

- Snapshot of a firm's wealth – and how it has funded that wealth.

- **Income Statement**

- Profit or loss (P&L) of a business over time.

- **Cash Flow Statement**

- Tracks the inflows & outflows of cash.

What Does *Balance Sheet* Mean?

A financial statement that summarizes a company's assets, liabilities and shareholders' equity at a specific point in time.

These three balance sheet segments give investors an idea as to what the company owns and owes, as well as the amount invested by the shareholders.

Balance Sheet

It's called a balance sheet because the two sides balance out.

This makes sense: a company has to pay for all the things it has (assets) by either borrowing money (liabilities) or getting it from shareholders (shareholders' equity).

Financial statements



BALANCE SHEET

ASSETS

LIABILITIES
+
EQUITY

Financial statements



СЧЕТОВОДЕН БАЛАНС

АКТИВИ

ПАСИВИ
+
СОБСТВЕН
КАПИТАЛ



Balance Sheet

Snapshot of a firm's wealth – and how it has funded that wealth

Current Assets
+Long-term Assets
= Total Assets

Current Liabilities
+Long-term Liabilities
= Total Liabilities

Capital Investment
+Retained Earnings
= Total Equity

Balance Sheet

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$


- **ASSETS**

= WEALTH

= *USE OF FUNDS*

Balance Sheet

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$


- **ASSETS**

THE SPECIFIC TYPES OF ASSETS A FIRM OWNS DEPENDS ON THE NATURE OF ITS BUSINESS :

- **MANUFACTURING**
- **MERCHANDISING**
- **FINANCIAL**
- **SERVICE.**

Balance Sheet

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$


- **ASSETS**

CURRENT ASSETS

**CASH AND OTHER ASSETS THAT ARE REASONABLY
EXPECTED TO BE REALIZED IN CASH OR
CONSUMED DURING THE NORMAL OPERATING
CYCLE OF THE BUSINESS**

Balance Sheet

Assets = Liabilities + Equity



- **ASSETS**

 - **LONG-TERM INVESTMENTS**

 - **INVESTMENTS INTENDED TO BE HELD FOR A PERIOD OF TIME USUALLY EXTENDING BEYOND ONE YEAR.**

 - **DEBT AND EQUITY SECURITIES SUCH AS STOCKS, BONDS, AND LONG-TERM NOTES RECEIVABLE.**

 - **TANGIBLE ASSETS NOT CURRENTLY USED IN OPERATIONS, E.G., LAND HELD FOR INVESTMENT PURPOSES.**

 - **PROPERTY, PLANT, AND EQUIPMENT**

 - **INTANGIBLE ASSETS**

Balance Sheet

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$


- **ASSETS ARE**

PLATFORM FOR GROWTH

Balance Sheet

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$


- **LIABILITIES = LEVERAGED SOURCE OF FUNDS**
 - Nervous claims on wealth secured by contracts & collateral such as loans from vendors, banks, other sources, bonds
 - EXPAND POSSIBILITIES while INCREASING RISK

Balance Sheet

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$


- **LIABILITIES**

 - CURRENT LIABILITIES**

OBLIGATIONS THAT ARE EXPECTED TO BE PAID (OR SERVICES EXPECTED TO BE PERFORMED) WITH THE USE OF ASSETS THAT ARE LISTED IN THE CURRENT SECTION OF THE BALANCE SHEET.

Balance Sheet

Assets = Liabilities + Equity



- **LIABILITIES**

- **LONG-TERM LIABILITIES**

- **OBLIGATIONS USUALLY EXPECTED TO REQUIRE PAYMENT OVER A PERIOD OF TIME BEYOND ONE YEAR.**

- **USUALLY FINANCING OBLIGATIONS, E.G., ARISING FROM ISSUANCE OF BONDS, LONG-TERM NOTES, AND MORTGAGES.**

- **THE MATURITY DATE, THE RATE OF INTEREST, AND ANY SECURITY PLEDGED TO SUPPORT THE BORROWING AGREEMENT SHOULD BE CLEARLY SHOWN.**

Balance Sheet

Assets = Liabilities + Equity



- **EQUITY = CAPITAL = INVESTED SOURCE OF FUNDS**
 - More patient claim on wealth secured by control, especially owners' capital plus retained profits

Balance Sheet

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$


- **STOCKHOLDER`S EQUITY**
 - Initial capital
 - Retained Earnings

Balance sheet



- Current Assets
 - Cash & similar
 - Accounts receivable
 - Inventory

- Long-term Assets
 - Equipment
 - Leasehold Improvements
 - Net of depreciation

Current Assets
Long-term Assets

= Total Assets

Balance sheet



- **Current Liabilities**
 - Accounts payable
 - Deposits
 - Line of credit
 - Current portion of long-term debt
- **Long-term Liabilities**
 - Loans
 - Bonds

Current Liabilities

Long-term Liabilities

= Total Liabilities

Balance sheet



- Equity
 - Capital Investment
 - Retained Earnings

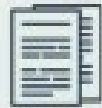
Capital Investment
Retained Earnings

= Total Equity

The three key financial statements



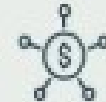
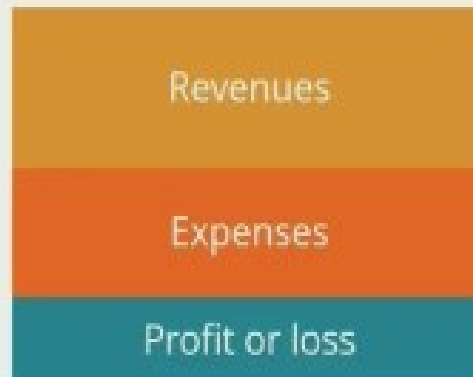
The financial statements are a record of the financial activities of a business



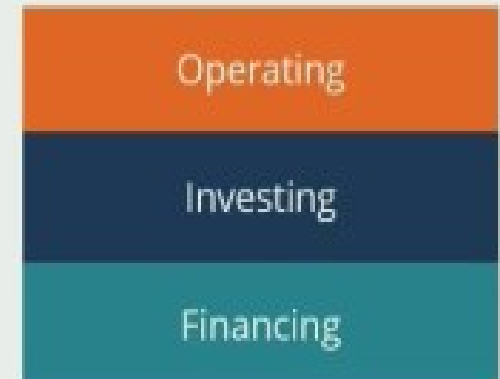
1. Balance sheet



2. Income statement



3. Statement of cash flows



СЧЕТОВОДЕН БАЛАНС



АКТИВ

ПАСИВ

Раздели, групи, статии

- A. Дълготрайни (дългосрочни) активи**
 - I. Дълготрайни материални активи**
 - II. Дълготрайни нематериални активи**
 - III. Дългосрочни финансови активи**
 - IV. Търговска репутация**
 - V. Разходи за бъдещи периоди**
- Б.Краткотрайни (краткосрочни) активи**
 - I. Материални запаси**
 - II. Краткосрочни вземания**
 - III. Краткосрочни финансови активи**
 - IV. Парични средства**
 - V. Разходи за бъдещи периоди**
- В. Условни активи**

Раздели, групи, статии

- A. Собствен капитал**
 - I. Основен капитал**
 - II. Резерви**
 - III. Финансов резултат**
- Б. Дългосрочни пасиви**
 - I. Дългосрочни задължения**
 - II. Приходи за бъдещи периоди и финансираня**
- В. Краткосрочни пасиви**
 - I. Краткосрочни задължения**
 - II. Приходи за бъдещи периоди и финансираня**
- Г. Условни пасиви**

Quiz



What type of account?

Identify assets, liabilities, or equity.

- Equipment
- Retained Earnings
- Patent
- Common Stock
- Dividend Payable
- Accumulated depreciation
- Prepaid Expense
- Supplies Inventory
- Accounts Receivable
- Land
- Goodwill developed by firm
- Unsettled damage suit
- Factory
- Increase in value of land
- Employee payroll taxes payable

Quiz



What type of account?

Identify assets, liabilities, or equity.

- Equipment **A**
- Retained Earnings **E**
- Patent **A**
- Common Stock **A/E**
- Dividend Payable **L**
- Accumulated depreciation **A**
- Prepaid Expense **A**
- Supplies Inventory **A**
- Accounts Receivable **A**
- Land **A**
- Goodwill developed by firm **A**
- Unsettled damage suit **L**
- Factory **A**
- Increase in value of land **A**
- Employee payroll taxes payable **L**

Financial statements



INCOME STATEMENT

EXPENSES

REVENUE

Financial statements



ОТЧЕТ ЗА ПРИХОДИ И РАЗХОДИ

РАЗХОДИ

ПРИХОДИ

Profit and Loss Statement - P&L



A financial statement that summarizes the revenues, costs and expenses incurred during a specific period of time - usually a fiscal quarter or year.

These records provide information that shows the ability of a company to generate profit by increasing revenue and reducing costs.

The P&L statement is also known as a "statement of profit and loss", an "income statement" or an "income and expense statement".

Profit and Loss Statement - P&L



A GENERAL FORM

- It begins with an entry for revenue;
- subtracts from revenue the costs of running the business;
- including cost of goods sold, operating expenses, tax expense and interest expense.

The BOTTOM LINE (literally and figuratively) is NET INCOME (profit).



Income Statement

Profit or loss of a business over time

+ Net Revenues
- Cost of Goods Sold

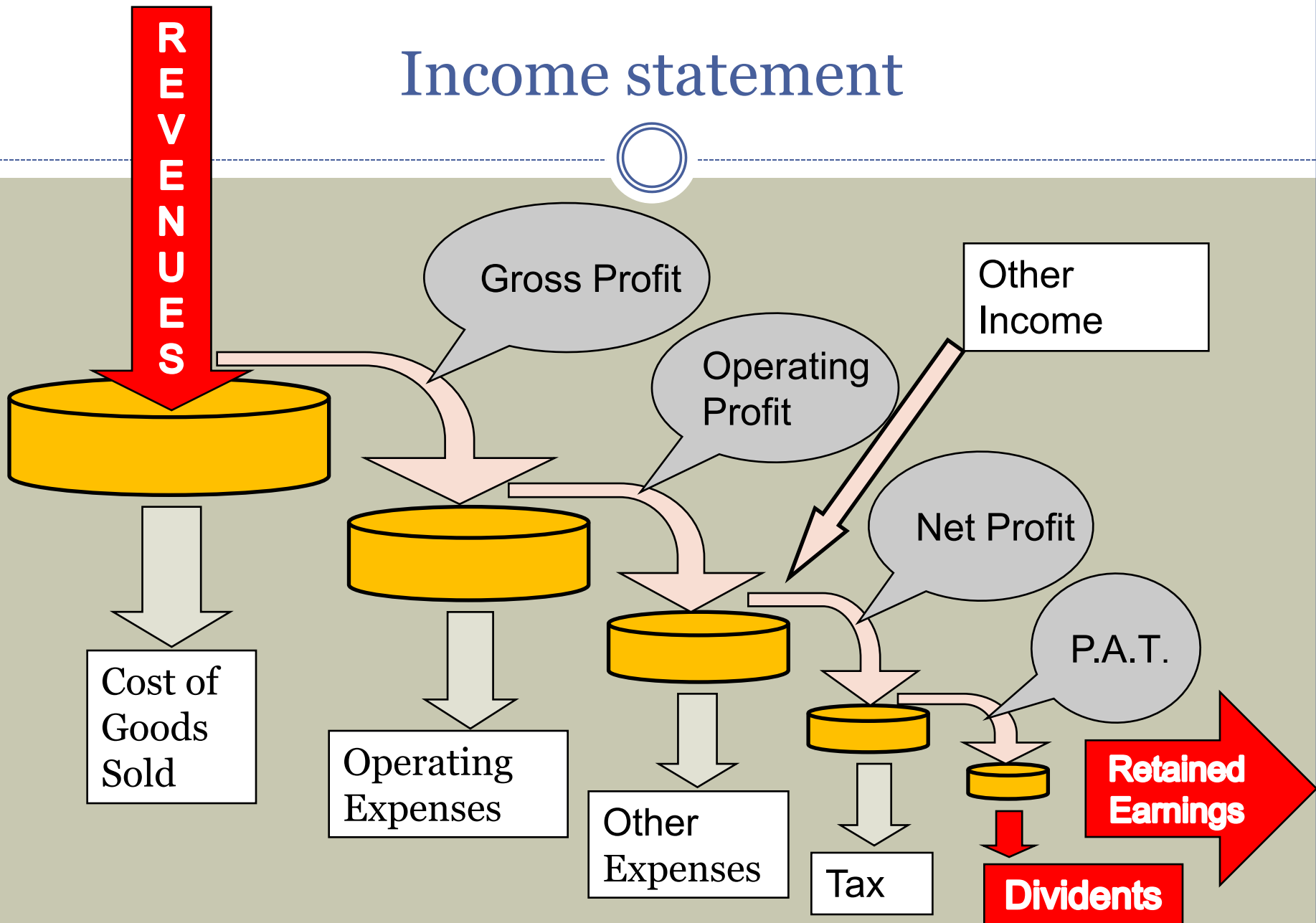
= Gross Profit (Gross Income)
- Operating Expenses

= Operating Profit
+/- Other Income/Expenses

= Profit before tax (Tax Income)
- Tax

= Profit after tax (Net Income)

Income statement



Income statement



- **Net Revenues**
 - Sales
- **Cost of Goods Sold**
 - Direct goods + direct labor per unit sold
- **Gross Profit**
 - Amount left to cover operations

$$\begin{array}{r} + \text{ Net Revenues} \\ - \text{ Cost of Goods Sold} \\ \hline = \text{ Gross Profit} \end{array}$$

Income statement



- Operating Expenses
 - Salaries (benefits, taxes)
 - Sales & Marketing
 - General Administration (supplies, IT, insurance)
 - Space (rent, maintenance, utilities)
 - Depreciation (spreading capital expense over use/ time)
 - Professional fees

$$\begin{array}{r} = \text{Gross Profit} \\ - \text{Operating Expense} \\ \hline = \text{Operating Profit} \end{array}$$



Operating Profit- Basic measure of success

Income statement



- Other Income
 - Sidelines (can be very valuable and/or indicate new businesses or products)
 - Interest
- Other Expense
 - Cost of financing, especially interest on loans
 - Other miscellaneous expenses
- Profit before Taxes
 - Net income

$$\begin{array}{r} = \text{Operating Profit} \\ +/- \text{ Other Inc or Exp} \\ \hline = \text{Profit before taxes} \end{array}$$

Income statement



- Income Taxes
 - State and local
- Profit after Taxes
 - Reinvest (retained earnings)
 - Distribute (dividends)

$$\begin{array}{r} = \text{Profit before Taxes} \\ - \text{Income Taxes} \\ \hline = \text{Profit after Taxes} \end{array}$$

ОТЧЕТ ЗА ПРИХОДИ И РАЗХОДИ



РАЗХОДИ

Наименование на разходите
A. Разходи за обичайната дейност
I. Разходи по икономически елементи
II. Суми с корективен характер
III. Финансови разходи
Б. Общо разходи за дейността (I + II + III)
В. Печалба от обичайна дейност
IV. Извънредни разходи
Г. Общо разходи (Б + IV)
Д. Счетоводна печалба
V. Разходи за данъци
Е. Печалба (Д - V)
Всичко (Г + V + Е)

ПРИХОДИ

Наименование на приходите
A. Приходи от обичайната дейност
I. Нетни приходи от продажби
II. Приходи от финансираня
III. Финансови приходи
Б.Общо приходи от дейността (I + II+ III)
В.Загуба от обичайната дейност
IV.Извънредни приходи
Г.Общо приходи (Б + IV)
Д.Счетоводна загуба
Е.Загуба (Д + V)
Всичко (Г+ Е)

Financial Statements



The balance sheet, income statement and statement of cash flows are the most important financial statements produced by a company.

While each is important in its own right,

THEY ARE MEANT TO BE ANALYZED TOGETHER.

NEXT CLASS:



FINANCIAL ANALYSIS AND PLANNING

- Financial Ratios Analysis
 - Profitability
 - Utilization of Assets
 - Debt/Equity
 - Market Performance

Students need to do:



- Read **FINANCIAL ANALYSIS AND PLANNING** from the textbook .
 - deadline:07.03.2019
- Prepare a case study for **Financial Ratios Analysis** (10 different ratios + DuPont model)
 - deadline:14.03.2019