A1. Financial statements are important for reflecting the financial health of a company. You are tasked to choose Balance sheet of two consecutive years of any company from the internet (NOKIA, SAMSUNG etc). In your report identify their Assets (Fixed Current and, Total), Liabilities (Current, long term, and Total) and Equity. Further you are directed to analyse their working capital and current ratios. Check whether the company is going through under billing or over billing within the two consecutive years. Once analysed provide a detailed assessment on how the company financial health is considered in your opinion.

Ans: Case Study: Orascom Construction PLC (OC) Company Brief:

Orascom Construction PLC (OC) is an engineering, procurement and construction (EPC) contractor based in Cairo, Egypt. The company was Egypt's first multinational corporation and stands at the core Orascom Group companies. OC is active in more than 25 countries.

OC was established in Egypt in 1950 and owned by Onsi Sawiris. It owned and operated cement plants in Egypt, Algeria, Turkey, Pakistan, northern Iraq, North Korea and Spain, which had a combined annual production capacity of 21 million tonnes.

Orascom Construction PLC is a leading global engineering and construction contractor primarily focused on infrastructure, industrial and high-end commercial projects in the Middle East, North Africa, the United States, and the Pacific Rim for public and private clients. The Group also develops and invests in infrastructure opportunities.

As per the assignment, Orascom Construction Company is taken as a Case Study. In order to assess the financial status of the company, a balance sheet for fiscal year 2016 and 2017 is downloaded from internet.

Financial Analysis:

The balance sheet, sometimes called the statement of financial position, lists the company's assets, liabilities, and stockholders 'equity (including dollar amounts) as of a specific moment in time. That specific moment is the close of business on the date of the balance sheet. A balance sheet is like a photograph; it captures the financial position of a company at a particular point in time.

To analyze financial position, the below balance sheet for the Year 2016 and 2017 is considered.

Balance Sheet or M/S Orascom Construction PLC

USD millions	31 December 2017	31 December 2016
Assets		
Long term assets		
Property, plant and equipment	155.4	158.4
Goodwill	13.8	13.8
Trade and other receivables	15.8	16.2
Equity accounted investees	421.8	371.4
Deferred tax assets	34.5	81.6
Total Long term assets	**641.3**	**641.4**
Current assets		
Inventories	232.2	167.4
Trade and other receivables	1,146.7	1,076.3
Contracts work in progress	488.8	449.2
Current income tax receivables	3.2	0.6
Cash and cash equivalents	434.2	506.9
Total current assets	**2,305.1**	**2,200.4**
Total assets	**2,946.4**	**2,841.8**
Equity		
Share capital	116.8	117.8
Share premium	761.5	768.8
Reserves	(318.8)	(348.4)
Accumulated losses	(201.6)	(281.3)
Equity attributable to owners of the Company	**357.9**	256.9
Non-controlling interest	44.6	45.5
Total equity	**402.5**	**302.4**
Liabilities		
Long term liabilities		
Loans and borrowings	11.3	59.6
Trade and other payables	44.9	10.4
Deferred tax liabilities	4.9	6.7
Total Long term liabilities	**61.1**	**76.7**
Current liabilities		
Loans and borrowings	249.4	243.2
Trade and other payables	1,076.5	1,017.5
Advanced payments from construction contracts	484.7	382.3
Billing in excess of construction contracts	529.7	660.8
Provisions	62.3	116.2
Income tax payables	80.2	42.7
Total current liabilities	**2,482.8**	**2,462.7**
Total liabilities	**2,543.9**	**2,539.4**
Total equity and liabilities	**2,946.4**	**2,841.8**

Financial soundness is dependent on the following indicators:

1. Assets
   1.1. Current Assets
   1.2. Fixed Assets
2. Liabilities
   2.1. Current Liabilities
   2.2. Long Term Liabilities
3. Equity (Net Worth)
4. Working Capital
5. Current Ratio
6. Under Billing & Over Billing

1. <u>Assets</u>:

A business asset is an item of value owned by a company. Anything tangible or intangible that can be owned or controlled to produce value and that is held by a company to produce positive economic value is an asset. Total fixed assets are USD 641.4 and total cu

Total Current Assets $_{(2017)}$ = \$ 2305.1 M   Total Fixed Assets $_{(2019)}$ = \$ 641.3 M

Total Assets $_{(2017)}$ = Total Current Assets $_{(2017)}$ + Total Fixed Assets $_{(2017)}$

= \$ 2305.1 M + \$ 641.3 M

= \$ 2946.1 M

Total Current Assets $_{(2016)}$ = \$ 2200.4 M   Total Fixed Assets $_{(2016)}$ = \$ 641.4 M

Total Assets $_{(2016)}$ = Total Current Assets $_{(2016)}$ + Total Fixed Assets $_{(2016)}$

= \$ 2200.4 M + \$ 641.4 M

= \$ 2841.8 M

Total Assets $_{(2017)}$ = \$ 2946.1 M   Total Assets $_{(2016)}$ = \$ 2841.8 M

Net Increase in Total Assets = Total Assets $_{(2017)}$ - Total Assets $_{(2016)}$

= \$ 2946.1 M - \$ 2841.8 M

= \$ 104.3 M

1.1 <u>Current Assets</u>:

Anything owned by a company that can be readily converted into cash is known as current asset. Current assets can be sold out within a year to generate money. Current assets are the measure of the short term financial health of the company, to undertake a contract and meet its current liabilities.

1.2 Fixed Assets:

Assets that are bought for long-term use and are not likely to be converted quickly into cash are known as fixed assets. They include land, building, plants, equipment and vehicles. They are also called as Long term Assets. The fixed asset turnover ratio (FAT) is used to measure the operating performance of the company. This efficiency ratio compares sales to fixed assets and measures a company's ability to generate net sales from its fixed asset. Higher ratio shows that the management is effectively utilizing its fixed assets.

2. Liabilities:

Liability is defined as the future sacrifices of economic benefits that a company is obliged to make to other entity as result of past transaction or other past events, the settlement of which may result in transfer or use of assets, provision of services or other yielding of financial benefits in the future. Any obligation that a company owes to third party is liability. They include short term bank loans, bank overdraft, loans against mortgages and payments to sub-contractors.

2.1 Current Liabilities:

Current liabilities are a company's short-term financial obligations that are due within one year or within a normal operating cycle. Current liabilities are cleared through current assets.

2.2 Long Term Liabilities:

A long-term liability is an obligation resulting from a previous event that is not due within one year of the date of the balance sheet (or not due within the company's operating cycle if it is longer than one year). Long-term liabilities are also known as noncurrent liabilities. Long term liabilities can be settled through company's business net income, future investment incomes or cash from new debt agreements.

3. Equity (Net Worth):

Capital invested by owner(s) of the company is termed equity. Equity represents the shareholders' stake in the company. Equity is the net worth of a company to undertake any project/business assignment. Net worth is the sum of all the investments plus the profit made by the company during business. The calculation of equity is a company's total assets minus its total liabilities. Net worth is the key factor for financial analysis of the company because it is the actual amount available for the business.

The mathematical relationship is given as

Equity (Net Worth) + Total Liabilities = Total Assets

Equity (Net Worth) = Total Assets – Total Liabilities

Year 2016:

Total Assets = $ 2841.8 Million, Total Liabilities = $ 2,539.4 Million,

Equity (Net Worth) = Total Assets - Total Liabilities
= $ 2841.8 Million - $ 2,539.4 Million

= $ 302.4 Million.

Year 2017:

Total Assets = $ 2,946.4 Million, Total Liabilities = $ 2,543.9Million

Equity (Net Worth) = Total Assets - Total Liabilities
= $ 2,946.4 Million - $ 2,543.9Million

= $ 402.5 Million

Increase in Equity = $ 402.5 Million - $ 302.4 Million = $ 100.1 Million.

Increase in equity during year 2017 is sign of a strong financial position.

4. **Working Capital:**

Working capital is another important financial indicator of company's soundness. It is the amount available to carry current business operations or to fulfill short term financial commitments. Working capital is calculated as follows:

Working Capital = Current Assets – Current Liabilities

Year 2016:

Current Assets = $ 2,200.4Million Current Liabilities = $ 2,462.7 Million

Working Capital = Current Assets - Current Liabilities

=$2,200.4 Million - 2,462.7 Million

= $ (262.3) M.

Year 2017:

Current Assets = $ 2,305.1Million Current Liabilities = $ 2,482.8 Million

Working Capital = Current Assets - Current Liabilities

= $ 2,305.1 Million - $ 2,482.8 Million

= $ (177.7) Million

5. **Current Ratio:**

The current ratio is the liquidity ratio that measures a company's ability to pay short term obligations or those due within one year. It is a means to maximize current assets on its balance sheet to satisfy its current liabilities. The current ratio for a construction company should be 1.3 or higher.

Current Ratio = Current Assets / Current Liabilities

Year 2016:

Current Assets = $ 2,200.4 Million, Current Liabilities = $ 2,462.7 Million

Current Ratio = Current Assets / Current Liabilities

= $ 2,200.4 M / $ 2,462.7 M

= 0.89 Million

Year 2017:

Current Assets = $ 2,305.1 Million Current Liabilities = $ 2,482.8Million

Current Ratio = Current Assets / Current Liabilities

= $ 2,305.1 Million / $ 2,482.8 Million

= 0.93

6. **Under Billing and Over Billing:**

Under billing is defined as when a contractor completes a certain amount of work but does not claim its client for full payment. Over billing is that a contractor demands more than the work completed. In balance sheet under billing is expressed as "Cost & estimated earnings in excess of billing on work in progress" under current assets. Over billing is shown in current liabilities as "Billing in excess of costs & estimated earnings on works in progress". The company has shown Billing in excess of construction contracts for both years under current liability and therefore it is going through over billing.

Findings Regarding Balfour Beatty PLC:

Based on the above findings regarding financial position of the company are the follow:

1. The company has enhanced its total assets by USD 104.3 M in year 2017.
2. Total current assets have increased by USD 104.7 M.
3. The goodwill value of the company remained the same for the reported period.
4. Trade and other receivable has been increased by USD 70.4 M for the reporting period.
5. Equity increased by USD 100.1 M during year 2017.
6. Equity accounted investees increased by USD 50.4 M during reporting period. `
7. Working capital for both the years is in deficit.
8. Current Ratio for 2016 is 0.89 and for 2017 0.93, which are less than 1.3.

Assessment and Conclusion:

The Company has net current liabilities of USD 177.7 million as of 31 December 2017. The Company's management assesses their ability to meet its commitments and financial obligations as they fall due in the foreseeable future. The availability of cash and expected cash flows are monitored internally by the corporate treasury department on an ongoing basis. Management also prepares cash flow projections periodically, and at the reporting date management expects that the Company will meet the funding requirements through future income generated from operations.
Management is required to consider any material uncertainty that may cast significant doubt about the Company's ability to meet its future obligations.

Balance of payment is partially offset because current liabilities are in excess to current assets. Current ratios for both 2016 and 2017 are 0.89 and 0.93 respectively, which are less than 1.3 and has improved in year 2017.The Company's credit risk is primarily attributable to its loans due from related parties. In determining whether impairment losses should be reported in the profit and loss, the Company makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. The Company's management has performed a preliminary assessment of the Company's ability continue as a going concern, which covers a period of twelve months from the reporting date, based on certain identified events and conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as going concern.

The Company's management has prepared its business forecast and the cash flow forecast for the twelve months from the reporting date on a conservative basis. On the basis of such forecasts, the Company's management is of the opinion that the Company will be able to continue its operations for the next twelve months from the reporting date and that the going concern assumption used in the preparation of these separate financial statements is appropriate. The appropriateness of the going concern assumption shall be reassessed next year.

The financial assets of the Company include cash at banks, loans due from related parties. The financial liabilities of the Company include accounts payable, loans due to related parties and amounts due to related parties.

Management believes that the loans and the amounts due from related parties are fully recoverable and hence no provision for impairment is required as at the year-end. Company's cash is placed with banks of repute.