

# BANKING



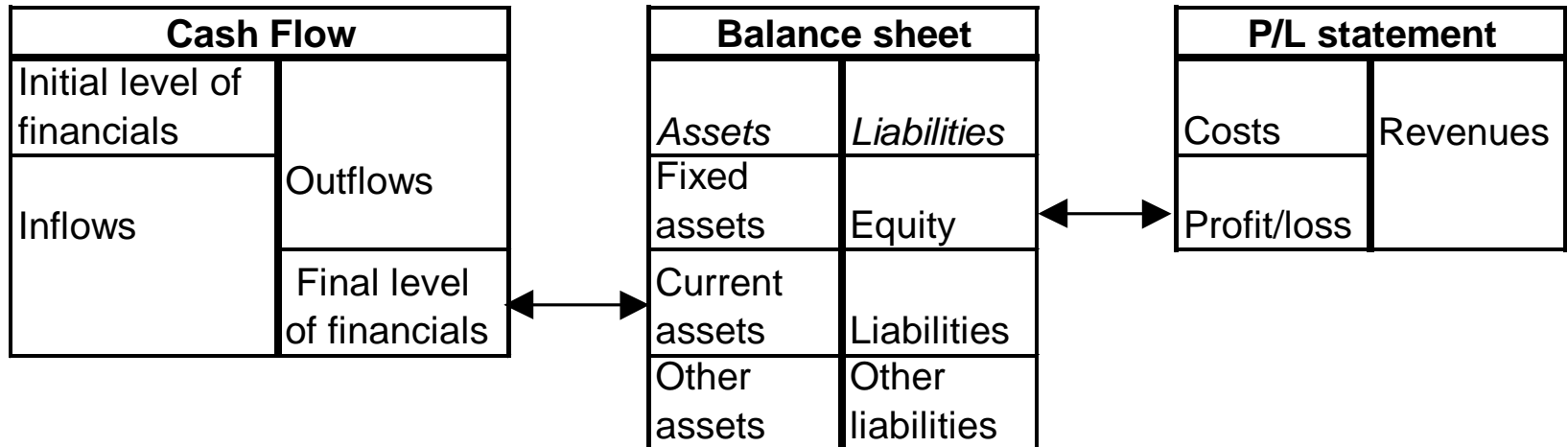
## **Additional Seminar – Financial statements and financial analysis**

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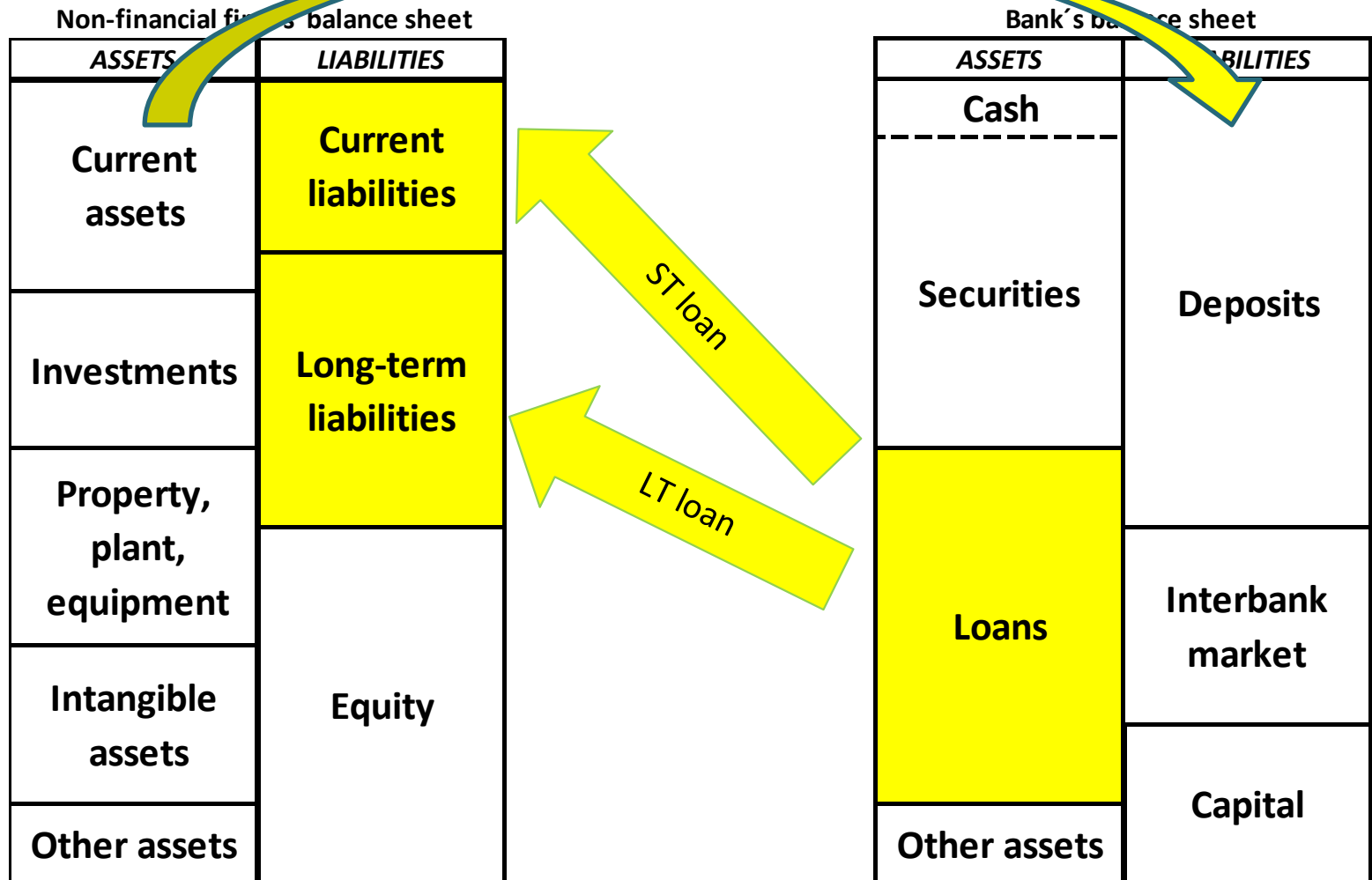
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16 October 2020

# Relationships



# Interaction between the statements



# Example 1

J&J decided to start their own business by baking fresh bread. They found out that they have CZK 65,000 in their current account at the Village Bank and CZK 50,000 in a special savings account at the same bank. After a detailed analysis they realised they would need another CZK 90,000 to start the business. A subsequent meeting in the Village Bank showed that the bank is prepared to finance the project by granting a 10-year loan. So the deal was done: the interest rate was set at 7% p.a. of the remaining principal and also the repayment schedule was agreed, 10% of the initial principal at the end of each period.

After having cleared the financing, J&J purchased all they needed: an oven for CZK 150,000, flour for CZK 20,000, eggs for CZK 10,000 and baking powder for CZK 5,000.

1. Construct an initial balance sheet of J&J's situation after they have paid for the oven and all the ingredients. Assume that they used the money from the loan first.
2. Construct an initial sub-balance sheet of the bank at the same point in time only for balances related to J&J.

The business ran well, and after one year after using all the ingredients and paying CZK 10,000 for electricity and water, they sold CZK 120,000 worth of bread.

3. Construct the income statement of the situation. Assume that the depreciation rate of the oven was 25% and the applicable income tax rate was 28% and was paid on the 31.12. (simplifying assumption). Ignore any potential interest earned on the savings and current account.
4. Construct the end of period balance sheet of the situation of J&J.
5. Construct the cash flow statement of J&J's situation.
6. Construct the end of period sub-balance sheet of the Village Bank.

## Example II

Where do these items belong? Indicate their effect on the balance sheet, income statement and cash flow statement of a change in each of the items listed below. Assume a CZK 100 increase in each case.

- Salaries paid
  - Income statement (expenses), lowers income before tax (EBT) by CZK 100
  - Balance sheet – it lower cash by CZK 100 and liabilities to employees (if booked like this before), also by CZK 100
  - it lowers the cash flow by CZK 100
- Profit from the current period
- Loan granted
- Interest received from a granted loan
- Bonds issued
- Loan promise
- Equity increase
- Purchase of a new building
- Deposit accepted
- Guarantee issued
- Deposit at the Central Bank



# Discussion

Thanks for your attention.  
Let's discuss it now!

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