

Financial statements and their reporting ability to management

Anudari Bat-Erdene

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Thesis Supervisor:

Ing. Marie Paseková, Ph.D.

Department of Finance and Accounting

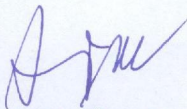
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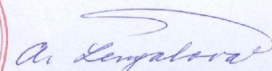
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Prof. PhDr. Vlastimil Švec, CSc.
Dean



Doc. Ing. Anežka Lengálová, Ph.D.
Head of Department

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ABSTRAKT

Tato bakalářská práce se zabývá finanční analýzou Batorshih "Ltd v Mongolsku. Cílem této práce je poskytnout informace o společnosti, jeho finanční situace v letech 2006-2009 pomocí nástrojů finanční analýzy s cílem navrhnout doporučení vedoucí k zlepšení ekonomické situace společnosti. Práce je rozdělena do dvou částí - teoretické a analytické. V teoretické části účelu, zdroje, jsou popsány uživatelů a metody finanční analýzy. V části analytické jsou uvedeny základní informace o společnosti, po kterém následuje příprava finanční analýzy, které jsou používány v horizontální analýza, vertikální analýza a analýza poměru. Dosáhl výsledky jsou konfrontovány s přímým konkurentem. Na základě výsledků finanční analýzy následuje hodnocení a doporučení pro další činnost společnosti.

Klíčová slova: finanční výkaznictví, finanční analýza, horizontální analýza, vertikální analýza, poměrové analýzy.

ABSTRACT

This bachelor thesis deals with the financial analysis of "Batorshih" Ltd in Mongolia. The aim of this thesis is to provide information about the company, its financial situation in a period 2006-2009 using the tools of financial analysis and to recommended some proposal that would lead to company's economic improvements. This thesis is divided into two parts - theory and analysis. In the theoretical part the purpose, source, users and methods of financial analysis are described. In the analytical part, there are basic information about the company, followed by preparation of financial analysis, which are used in horizontal analysis, vertical analysis and ratio analysis. The reached outcomes are confronted with the direct competitor. The conclusion contains an evaluation and recommendations for future activities.

Keywords: financial reporting, financial analysis, horizontal analysis, vertical analysis, ratio analysis.

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DECLARATION OF ORIGINALITY

I hereby declare that the work presented in this thesis is my own and certify that any secondary material used has been acknowledged in the text and listed in the bibliography.

May 2, 2010

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INTRODUCTION

Life is full of competition, in both personal and business life. People need to develop and improve themselves, meanwhile they should learn their competitors to become successful. The documents that contain the reporting ability of business record are financial statements. One of them is balance sheet, which represents economic resources of a company. Second one is income statement that reports performance of a company over a specified period. The statement of cash flows, which is not always obligatory, sums up all the cash flows of a company. Therefore, every person who engaged in business should have ability to understand the figures on company's financial statements.

The financial statements are used for following process called financial analysis. The financial analysis tries to discover reasons of why a company behaves in a particular way; and used by every decision-making person.

Common used methods are horizontal analysis, vertical analysis and ratio analysis. These analyses are beneficial tools for a company's management, since they make decisions for a company's improvements. To show their reporting ability and how it is implemented to make managerial decisions, newly founded "Batorshih" Ltd has been chosen.

This bachelor thesis has two main parts, theory and analysis. In theoretical part, term, facts and formulas are described. Financial analysis of "Batorshih" Ltd in years 2006 – 2009 and its gained results are compared with its direct competitor "ATTP" Ltd in analytic part. At the end of it, evaluations and recommendations for company's future improvements are given from managerial point of view.

I. THEORY

1 ASPECT OF FINANCIAL STATEMENT

Introducing the company's activities to everyone who is engaged the company's finance is almost impossible. Since, public and big companies usually have numbers of users, not only shareholders but also bondholders, bankers, suppliers, employees and managers. The main purpose of financial statement is let the users know how their investment and interests are being served. (Bandler 1994, 1)

1.1 Objectives of financial statements

Goal of the financial reporting is to provide useful information to help financial statement users to make their proper decisions. Reported data should be comprehensive; therefore, a company's activities will be understandable for external users. Moreover, it gives the possibility to the managers and directors themselves in making decisions on behalf of the owners. (Objectives of Financial Reporting)

1.1.1 Primary objectives of financial reporting

The primary objective of financial reporting is to provide economic information to allowed users of the information to make decisions. Users include both internal and external users. The external users usually do not have access to the detailed records of the business and not be involved daily activities of the company. They make their decisions based on financial statements. That is why financial reporting should provide information is useful to present and potential investors and creditors and other users in making their decisions. (Porter and Norton 2007, 55)

1.1.2 Secondary objectives of financial reporting

After primary objective, there are three secondary objectives follow, such as:

1. Reflect prospective cash receipts to investors and creditors - Financial statement should provide the useful information for present stockholders, potential stockholders and creditors. Present stockholders need to decide whether hold or sell their stock in a company. Potential stockholders have to decide whether buy the stock. Decision of creditors is to decide to lend money to a company.
2. Reflect prospective cash flows to the enterprise - Financial reporting should supply information to judge cash flow prospects, for example: the amount, timing, and the risk of expected cash receipts from dividends, interest, and the proceeds from the sale, redemption, or maturity of stock or loans.

3. Reflect the enterprise's resources and claims to its resources – Financial reporting should provide the information about what business resource and claim a company has, and what are effects of the transaction on resources and claims. (Needles, Powers and Crosson 2007, 232)

1.2 Users of financial statements

As mentioned before there are different kinds of financial statement users. They can be either inside or outside users. Internal users, owners, shareholders, managers and employees, are individuals who are directly connected with company's organization. They are provided with unlimited financial statements while external users, bank, loan companies, suppliers, investors and government, are provided with limited financial statements that have enough information of what they need to know. External users are interested in financial strength and position of a company.

Owners/shareholders – this group of people's interest is to know how the money which they have invested and how they gain from it. Their aims are first to make sure good return with profit as much as possible. Second is to increase their shares on market value. Thus, they use financial statements to make business decision.

Managers – they are responsible for the carrying out shareholders' policies and directives. Moreover, they should run the company's business effectively. Therefore, their purpose of using financial statements is almost as same as shareholders' purpose. Because they have to make the right decisions to make shareholders satisfy.

Employees – this group of people is part of the company, therefore they influence company's performance. They need to see how their work influences to the company. Seeing this, they can discuss and collect united conclusion to make next step.

Bank/loan companies – this group is interested in company's profitability but more importantly the ability of repaying their loan. In other words, bank/loan companies use financial statements to see the financial strength of a company.

Suppliers – their interest is similar to bank and loan companies. Because they want to make sure if company is able to pay timely payment during account due.

Investors – their interest is similar to owners and shareholders. They are interested in company's profitability and growth. Using financial statements they make decision whether invest or not into a company.

Government – they are interested in whether company pays tax and the tax is accurate to what they have gained. Moreover, they can see how the law works in a company from

financial statements where all salaries and wages are included. (Users of Financial Statements)

1.3 Financial statements

Balance sheet, income statement, statement of cash flows and statement of stockholders' equity are called the primary financial statements. They are main source of financial statements' analysis except statement of cash flows. Each of them indicates situation of a company from different point of view.

1.3.1 Balance sheet

Balance sheet is the one of two most important financial statements. Ronald C. Spurga explained it as "still picture" on his book "Balance sheet basics" (Spurga 2004, 7). It shows the summary of financial position at specific date. That means we can see how a company stood financially at that specific date. More importantly, it details what company owns and owes. These are showed in balance sheet in three separate segments; assets, liabilities and stockholders' equity. These three must be balanced as $\text{Assets} = \text{Liabilities} + \text{stockholders' equity}$. (Weygandt, Kieso and DeFranco 2009, 11)

Income statement

Income statement is another one of two most important financial statements. Its purpose is to show how profitable a company has been over a given period. In other words, it measures success of company with bottom line since it summarizes all revenue earned and expenses incurred during a given period.

1.3.2 Statement of cash flows

Statement of cash flows sums up all inflows and outflows from operating, financing and investing activities during a given period. Company's inflows are company's receipts from its operation and external sources, and outflows are company's due to pay for the activities. The three activities, operating, financing and investing, have their own position on statement of cash flows. Cash flows from operating activity are listed first and show how much cash company generated from its main activity. For second are cash flows from investing activity and report us an amount of cash on both spent on investment and received from investment. Last are cash flows from financing activities that includes any activities, such as purchasing common stock, dividends, among company's owners and creditors.

2 FINANCIAL MANAGEMENT

Financial management is one of three categories of finance, which is the application of economic principles and concepts to business decision – making and problem solving. Financial management covers many different types of decisions within a company. These decisions can be classified into three groups:

- Investment decisions
- Financing decisions
- Decisions that involve both investing and financing.

Investment decisions are concerned with the use of funds – the buying, holding, or selling of all types of assets. Financing decisions are concerned with the acquisition of funds to be used for investing and financing day – to – day operations. It can be raised by either selling ownership interest or incurring debts; such as through bank loans and the sale of bonds. Many business decisions simultaneously involve first two groups of decisions. For example, a company may want to acquire another firm (investment decision). However, the success of it may depend on how it is financed (by borrowing cash to meet purchase price). (Fabozzi and Peterson 2003, 3-4)

2.1 The role of a financial manager

The basic goal of all businesspersons is the maximizing the value of company as much as they wish. Managers' role is the deciding what to do with the company's financial assets. So their role runs between financial market and operation of the company. This role is shown in Figure 1.a and Figure 1.b.

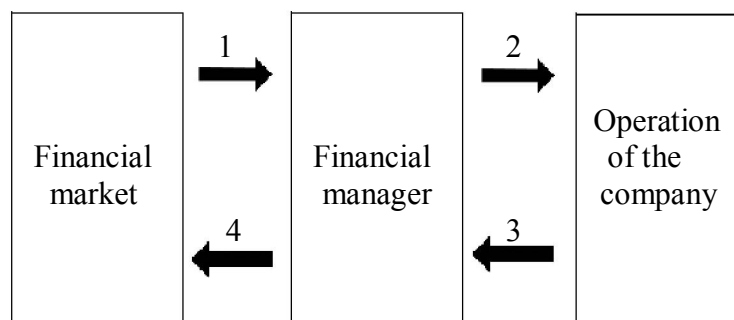


Figure 1.a. Financial manager's role

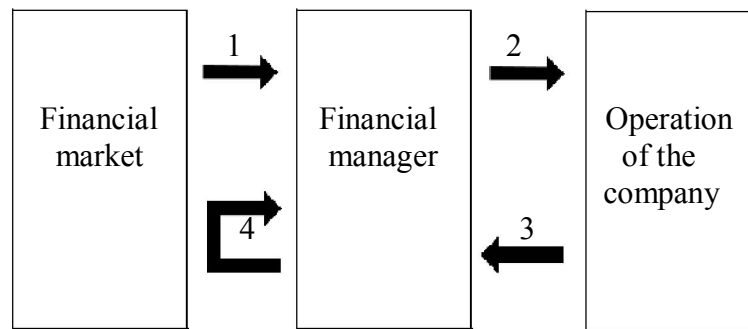


Figure 1.b. Financial manager's role (Brealey 2003, 5 - 7)

These 2 figures show that managers' work start from when company sells its securities to raise cash. Then this flow is used to buy real asset to use in operation of the company. When it returns with profit, managers should decide either reinvest or return it to who has bought the securities. Evidently, the choice between reinvesting and returning is not hundred percent free. Managers have to consider about company's financial situation. Therefore, they need to analyze the financial statements to answer two most important questions, first one is about investment and another one is about financing. Now we can describe financial manager as someone who is responsible for an investment and financing decisions.

3 TOOLS OF FINANCIAL ANALYSIS

To understanding financial statements, analyzing them is necessary. Users of financial statements can judge a company through them. From analyzing financial statements, we will understand changes, relationships and examination of the reasons of them. Numbers of tools are used to analyze, however a few tools are used commonly. They are horizontal analysis, vertical analysis, ratio analysis and

3.1 Comparative analysis

Before making analysis, knowing comparative analysis is worth. Single financial statement cannot support enough information since it just shows particular situation at particular time. To finding out relations and changes, comparative technique should be used. That means, it is necessary to compare data of one financial statement with data of another financial statement.

3.2 Horizontal analysis

Horizontal analysis, also called trend analysis, is the technique of analyzing of year – to – year changes in items of financial statements. Its purpose is to determine the increase or decrease that has taken place. The analysis has the advantage of showing the changes in amounts as well as in percentages. Nevertheless, it has disadvantage, if an item has no value in a base year or preceding year, no percentage change can be computed. The formulas that are used in computing the changes in amount and in percentage are given below. (Weygandt, Kieso and DeFranco 2008, 207)

Change in amount = Current year amount – base year amount

$$\text{Change in percentage} = \frac{\text{Current year amount} - \text{base year amount}}{\text{Base year amount}}$$

3.3 Vertical analysis

Vertical analysis, also called common size analysis, is a technique that compares items within a financial statement as a percent of a base amount. The purpose of using this technique is to show the relative size and changing portion of components within particular financial statement categories. The way of evaluating the portion is total assets, total

liabilities and equity in balance sheet; and net sales in income statement are computed as 100% separately and others are calculated as the portions of them.

(Weygandt, Kieso and DeFranco 2008, 210)

3.4 Ratio analysis

Ratio analysis is one of the most used tools of financial managements. Because different groups inside and outside a company has varying objectives and expectations, they approach the analysis from different perspectives. Thus, through this analysis, financial managers could find an area where company is weak.

Ratio analysis expresses the relationship between two selected items. In addition, a ratio shows the mathematical relationship between one quantity and another. This relationship can be resulted in term of a percentage, 155%, or a rate 1.55, or a proportion 1.55:1. The ratio analysis can be used to assess generally three significant qualities of a company: liquidity, profitability and solvency. (Moyer, McGuigan and Kretlow 2008, 64)

3.4.1 Liquidity ratios

Liquidity ratios measure the ability of paying short – term paying and meeting unexpected cash usage. In other words, they focus on short – term risk management. This ratio is interested by short – term creditors such as bankers and suppliers. The most common liquidity ratios are current ratio, quick ratio, cash ratio, receivables turnover and inventory turnover.

Current ratio

Current ratio is widely used to evaluate a company's liquidity and short – term debt – paying ability. The ratio is computed by dividing current assets by current. The answer is in the proportion of one. The portion 2:1 is used generally for the current ratio as a sign of short – term financial health. (Porter and Norton 2007, 691)

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

Quick ratio

Quick ratio, that is also called acid – test ratio, measures a company's immediate short – term liquidity. It is calculated by dividing the sum of cash, short – term investments and net receivables by current liabilities and answers are in portion. Advised one is 1- 1.5:1. (Weygandt, Kieso and DeFranco 2008, 213)

$$\text{Quick ratio} = \frac{\text{Cash} + \text{short – term investments} + \text{receivables}}{\text{Current liabilities}}$$

Cash ratio

Cash ratio, also called current cash debt coverage, is calculated by the sum of cash and marketable securities by average current liabilities. Since, cash and marketable securities are the most liquidity of a company. Advised portion is between 0.2–0.5. (Brealey 2003, 826)

$$\text{Cash ratio} = \frac{\text{Cash} + \text{marketable securities}}{\text{Current liabilities}}$$

Receivable turnover

Receivable turnover is used to measure how receivables are liquid. It measures the number of times; receivables are collected during the period. It is calculated by dividing net sales by the average net receivables. (Weygandt. Kieso and Defranco 2008, 215)

$$\text{Receivables turnover} = \frac{\text{Net sales}}{\text{Average net receivables}}$$

Inventory turnover

Inventory turnover measures the number of times on average inventory is sold during the period. The purpose of it is to measure the liquidity of the inventory. It is computed by cost of goods sold divided by average inventory. Generally high receivable turnover ratio represents profit for a company. (Weygandt. Kieso and Defranco 2008, 216)

$$\text{Inventory turnover} = \frac{\text{Cost of goods sold}}{\text{Average inventory}}$$

3.4.2 Profitability ratios

Creditors concerned with a company's profitability because profitable company is able to pay its interest expense. Not only creditors, also stockholders care about it since it affects market price of stock and ability of paying dividends. Frequently used ratios are profit margin, asset turnover, return on assets and return on equity. (Porter and Norton 2007, 698)

Profit margin

Profit margin is a measurement of the percentage of each dollar of sales that results in net income. It is calculated by dividing net income by sale shown below. (Weygandt, Kieso and DeFranco 2008, 217)

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

Asset turnover

Asset turnover measures that how efficiently a company uses its assets to generate sales. It is computed by dividing net sales by average assets. The result is the dollar of sales produced by each dollar that is invested in asset. (Weygandt, Kieso and DeFranco 2008, 217)

$$\text{Asset turnover} = \frac{\text{Net sales}}{\text{Average assets}}$$

Return on asset (ROA)

Return on asset is an indicator of how profitable a company is relative to its total assets. ROA gives a thought about how efficient management is using its assets to generate earnings. It is calculated by dividing net income by average assets and the result is in percentage. (Weygandt, Kieso and DeFranco 2008, 218)

$$\text{Return on Assets} = \frac{\text{Net Income}}{\text{Average assets}}$$

Return on equity (ROE)

Return on equity is used to calculate the return on capital provided by stockholder. It is a measure of profitability using the stockholders' equity. The ratio is determined by dividing net income by average equity. The result shows the percentage of net income earned for each dollar invested by owners. (Weygandt, Kieso and DeFranco 2008, 219)

$$\text{Return on equity} = \frac{\text{Net income}}{\text{Average equity}}$$

3.4.3 Solvency ratios

Solvency ratios measure the ability of the company to survive over a long period. Long – term creditors and stockholders are interested in company's ability to pay interest as it comes due and to repay the face value debt at maturity. Popular ratios in this case are total debt ratio and times interest earned. (Porter and Norton 2007, 695)

Total debt ratio

Total debt ratio measures the percentage of the total assets provided by creditors. It is calculated by dividing total debt by total assets. The higher percentage means lower protection for creditors. (Weygandt, Kieso and DeFranco 2008, 220)

$$\text{Total debt ratio} = \frac{\text{Debt}}{\text{Asset}}$$

Times interest earned

Times interest earned measures the ability of company to meet interest payments as they come due. It is computed by dividing EBIT, that is the sum of net income, interest expense and income tax expense, by interest expense. The low ratio tells us may company fail to meet its financial obligation. On the other hand, higher result could indicate a company has lack of loan. (Weygandt, Kieso and DeFranco 2008, 220)

$$\text{Times interest earned} = \frac{\text{EBIT}}{\text{Interest expense}}$$

II. ANALYSIS

4 CHARACTERISTICS OF “BATORSHIH” LTD

Cadastral mapping company “Batorshih” Ltd was founded in 2006. It is located in “Urt Tsagaan” street, Baga Toiruu district in Ulaanbaatar, Mongolia. Three shareholders established the company; and now four people work in “Batorshih” Ltd.

The corporate mission of “Batorshih” Ltd is to provide comprehensive, professional geographic data, with primary expertise in cadastral mapping, title research and digital conversion.

Their cadastre includes:

- Tenure
- precise location
- dimension
- value of individual parcels of land. Besides, clients can choose from those varieties.

“Batorshih” Ltd worked with Arkhangai aimag’s administration to make survey of precise location of “Tariat” sum in 2008.

Table 1. Number of employees of “Batorshih” Ltd

	2006	2007	2008	2009
Number of employees	3	3	3	4

Table 2. SWOT analysis of “Batorshih” Ltd

Strengths	Weaknesses
<ul style="list-style-type: none"> • high quality • hard – working employees • located in the one of the crowded street • private company 	<ul style="list-style-type: none"> • new in the market • few employees • have strong competitors • one service line
Opportunities	Threats
<ul style="list-style-type: none"> • advertisement • tender competition • expand the company 	<ul style="list-style-type: none"> • Inflation • Increasing live cost • Changes in law • Full liabilities of shareholders

Direct competitor – “ATTP” Ltd was founded in 1998 and provides their clients with cadastral mapping, geodesy, geomorphology and rehabilitation of land. It is equipped with most modern survey and printing equipments. ATTP gets their work from tender competition and state.

5 ANALYSIS ON THE FINANCIAL STATEMENTS OF “BATORSHIH” LTD

Choosing young company is purposed to showing financial statements' reporting ability to users, furthermore, what managers should learn about a company to improve its current situation.

5.1 Horizontal analysis

In order to giving hints to managers from horizontal analysis, big changes are appended. Based on them and comparison with direct competitor ATTP, following comments were given.

Table 3. Horizontal analysis in income statement of “Batorshih” Ltd (In MNT)

DESCRIPTIONS	2006 - 2007		2007 - 2008		2008 - 2009	
Gross sales	7,010,000.00	256.59%	5,199, 00.00	53.37%	14,656,211.80	98.09%
Net sales	7,010,000.00	256.59%	5,199,000.00	53.37%	14,656,211.80	98.09%
Cost of sales	-		-		-	
Gross profit	7,010,000.00	256.59%	5,199,000.00	53.37%	14,656,211.80	98.09%

Since the company was founded, their gross sales was getting more and more in comparison of the previous years. Batorshih provides cadastral mapping, therefore, there is not cost of sales on the income statement. Instead, Batorshih records it as expense. The competitor ATTP's gross profit in 2009 was 543.14%.

Table 4. Horizontal analysis on income statement of “Batorshih” Ltd (In MNT)

DESCRIPTIONS	2006 - 2007		2007 - 2008		2008 - 2009	
Salary and bonus	-520,000.00	-18.84%	2,640,000.00	117.86%	3,339,622.64	68.43%
Repair & maintenance expense	-67,200.00	-56.38%	75,000.00	144.23%	547,804.35	431.34%
Rent expense	-792,000.00	-40.00%	1,188,000.00	100.00%	1,116,000.00	46.97%
Business trip	-		385,275.92		0.00	0.00%
Advertising & promotion expense	-		350,000.00		-198,000.00	-56.57%
Fuel expense	564,200.00		493,200.00	87.42%	1,509,650.01	142.77%
Other expense	-357,480.00	-51.50%	183,000.00	54.35%	1,193,720.00	229.69%
Net profit (loss) for current period	7,711,098.63	-176.76%	-1,324,021.04	-39.54%	3,616,566.24	178.63%

Reason of Batorshih’s salary and bonus has been increasing from 2008 was, from that year live cost in Mongolia increased because of inflation; and hired one more employee in 2009. Due to it, salary and bonus expense increased by 68.43%. Repair and maintenance expense was – 56.38% in 2007, in comparison with 2006. Result came from the fixing their new office in 2006 even it is renting office. It increased in 2008 and 2009, because they got two cars and needed to spend some money on the fixing. About the rent expense, Batorshih paid the rent with the deposit in first year and made rent expense – 40% in 2007. However, the expense increased from 2008. It caused from increased live cost, as same as salary. From year 2008, Batorshih sent their employees to countryside in order to make survey. At the same year, Batorshih made survey of “precious location” of “Tariat” sum, Uvurkhnagai aimag. If Batorshih and ATTP are compared with their business trip, ATTP has been spending lots on its business trip, 1,838.51% in 2009. Moreover, Batorshih had fuel expense in 2007, even they did not have car. This expense derived from it’s directors’ agreement, employees’ expense on taxi from work to home and from home to job should be paid. One important improvement of Batorshih is they started to pay attention to company’s advertisement from 2008. First year, they paid for the advertisement board, which is located in city center, to put their promotion on it. Moreover, in 2009 Batorshih was introduced on the magazine called “Unuudur”. In 2006, Batorshih’s first year lost made the net profit negative in percentage in year 2007. Except 2006, Batorshih is getting more profitable. However, ATTP’s last year’s net income was increased by 44,295.20% in comparison of 2008.

Table 5. Horizontal analysis in balance sheet of “Batorshih” Ltd (In MNT)

DESCRIPTION S	2006 - 2007		2007 - 2008		2008 - 2009	
Accounts receivable	60,000.00		10,000,000.00	16,666.67%	-9,985,000.00	-99.25%
Inventory	-508,950.00	-100.00%	269,000.00		83,000.00	30.86%
Total current assets	11,409,490.00	1,306.32%	3,242,141.22	26.40%	-11,544,419.79	-74.36%
Fixed assets	770,000.00	22.72%	160,000.00	3.85%	26,945,454.55	623.90%
Total investment assets	577,552.92	17.04%	-51,697.08	-1.30%	25,264,060.38	645.36%
TOTAL ASSETS	11,987,042.92	281.24%	3,190,444.14	19.63%	13,719,640.59	70.58%
Accounts payable	0.00	0.00%	0.00	0.00%	15,000,000.00	8,571.43%
Salary & Wages payable	0.00	0.00%	-500,000.00	-20.86%	0.00	0.00%
Other payables	-		-		1 150 761,13	
Total current liabilities	8,638,464.29	329.11%	1,165,886.55	10.35%	8,078,516.76	65.00%
Total liabilities	8,638,464.29	329.11%	1,165,886.55	10.35%	8,078,516.76	65.00%

In 2006, Batorshih got plenty of inventories to make their maps, however they were new and could not find enough work. In 2007, Batorshih used remained inventory from 2006, that is why inventory is shown as -100% in 2007. In addition, they bought two cars, Pajero and Grand Mark2 Toyota from “Ypon mashin” Ltd. According to contract Batorshih have to pay MNT 10,000,000.00 first, which is shown 16,666.67% of account receivables in 2008, and remained by leasing MNT 15,000,000.00 of account payable in 2009. It resulted the increase of Batorshih’s fixed assets by 623.90% in 2009. In 2009, Batorshih made contract with “Petrovis” Ltd to buy fuel. When contract made Batorshih became able to buy its fuel with the card, without paying. MNT 1,150,761.13 of other payables in 2009 and caused from Batorshih had already bought its fuel via card, but did not pay it. During the analyzed years, total current liabilities and total liabilities were same. That means they did not have any loan.

5.2 Vertical analysis

Big changes that arouse during the analyzed period are attended with its afterward evaluations and comparison with competitor ATTP.

Table 6. Vertical analysis in income statement of “Batorshih” Ltd

DESCRIPTIONS	2006	2007	2008	2009
Salary and bonus	101.02%	22.99%	32.66%	27.77%
Rent expense	72.47%	12.19%	15.90%	11.80%
Chancellery expense	31.20%	4.59%	5.14%	2.61%
Other expense	25.41%	3.46%	3.48%	5.79%
Total operating expense	259.68%	63.42%	84.99%	71.13%
Operating income / loss /	-159.68%	36.58%	15.01%	28.87%

In 2006, Batorshih had greater amount of salary and bonus expense, 101.02%, than the net sales, 100%. Moreover, rent and chancellery expenses were high in that year. They resulted 259.68% of total operating expense, and -159.68% of operating income in 2006. ATTP’s total operating expense and operating income were 84.02% and 15.98% in same year. From 2007, Batorshih’s total operating expense became lower than the net sales. That indicates Batorshih has been making profit.

Table 7. Vertical analysis in balance sheet of “Batorshih” Ltd

DESCRIPTIONS	2006	2007	2008	2009
Cash on hand & in bank	8.32%	75.22%	7.59%	10.72%
Accounts receivable	-	0.37%	51.75%	0.23%
Total current assets	20.49%	75.59%	79.86%	12.00%
Fixed assets	79.51%	25.59%	22.22%	94.28%
TOTAL ASSETS	100.00%	100.00%	100.00%	100.00%

In 2006, when Batorshih was founded, owners invested to the furniture and equipments in first year. From this, fixed assets were much greater than cash in 2006. Their work increased and they had more cash from 2007. Followed year, Batorshih needed to expand its fixed assets in order to compete with competitors via tender competition. Thus, they bought two cars as paying MNT 10,000,000.00 first, 51.57% of account receivables, in 2008; and made big difference from 22.22% to 94.28% of fixed asset.

Table 8. Vertical analysis in balance sheet of “Batorshih” Ltd

DESCRIPTIONS	2006	2007	2008	2009
Accounts payable	4.11%	1.08%	0.90%	45.76%
Salary & Wages payable	56.23%	14.75%	9.76%	5.72%
VAT payable	-	-	-	1.19%
Unearned revenue	-	50.75%	51.44%	3.32%
Total current liabilities	61.58%	69.32%	63.94%	61.85%
Total liabilities	61.58%	69.32%	63.94%	61.85%
Total amount of stock	140.77%	36.92%	30.86%	18.09%

56.23% of salary and wages payables in 2006 arose from their first year's loss. Moreover, it affected to total amount of stock, 140.77%, in same year. From next year, they started to generate the profit that decreased the total amount of stock year by year. Unearned revenue, 50.75% in 2007 and 51.44% in 2008; and 45.76% of account payable in 2009 made total current liabilities stable. Moreover, having equal total current liabilities and total liabilities means Batorshih did not have long – term liabilities for analyzed years.

5.3 Ratio analysis

In this part, firstly, the formulas of all ratios on calculation of Batorshih's financial statements in 2009 are given. Furthermore, ratios of both Batorshih and ATTP are compared and comments are written after them.

5.3.1 Liquidity ratios

Current ratio

Table 9. Formula of current ratio

Current ratio	=	$\frac{\text{Current assets}}{\text{Current liabilities}}$	=	$\frac{3,980,620.80}{20,507,667.60}$	=	0.19
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Table 10. Current ratio of Batorshih Ltd, 2006 - 2009

	2006	2007	2008	2009
Current ratio	0.33	1.09	1.25	0.19

Table 11. Current ratio of ATTP Ltd, 2006 - 2009

	2006	2007	2008	2009
Current ratio	1.16	2.96	2.87	4.30

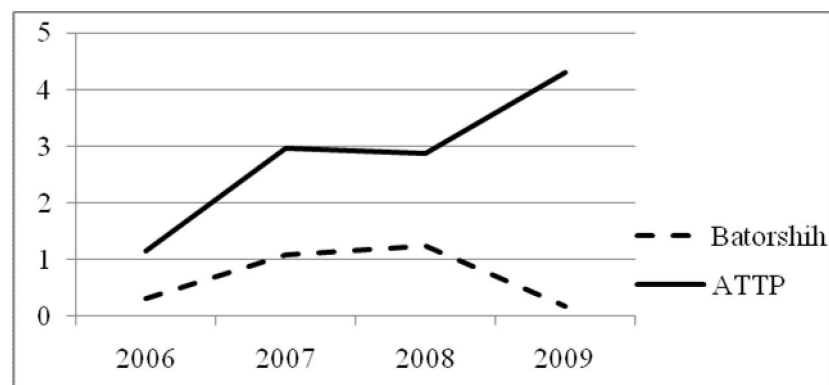


Figure 2. Current ratios of Batorshih Ltd and ATTP Ltd

Even Batorshih is young company, its current ratio was increasing in years 2006, 2007 and 2008; and was near to advised number in year 2007 and 2008. However, current ratio dropped to 0.19 in 2009 because of account payable of MNT 15,000,000.00's car leasing. Its competitor ATTP's current ratios were sufficient, except 2006.

Quick ratio

Table 12. Formula of quick ratio

Quick ratio	=	$\frac{\text{Cash + receivables + short-term investments}}{\text{Current liabilities}}$	=	$\frac{3,553,620.80 + 75,000.00}{20,507,667.60}$	=	0.18
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Table 13. Quick ratio of Batorshih Ltd, 2006 - 2009

	2006	2007	2008	2009
Quick ratio	0.14	1.09	1.20	0.18

Table 14. Quick ratio of ATTP Ltd, 2006 - 2009

	2006	2007	2008	2009
Quick ratio	0.33	2.83	2.60	4.07

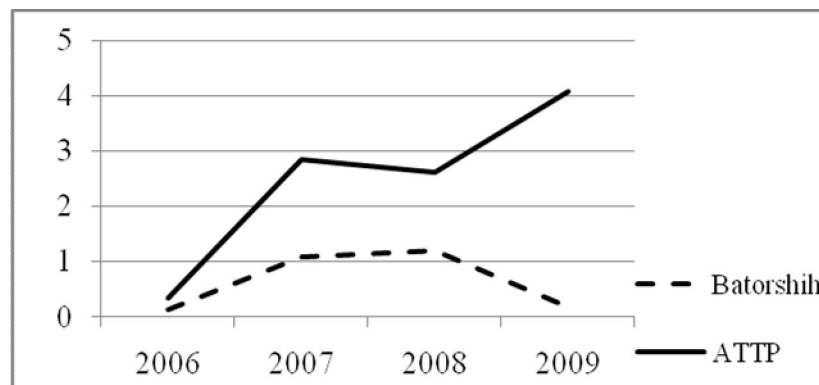


Figure 3. Quick ratios of Batorshih Ltd and ATTP Ltd

Quick ratio reached advised number in 2007 and 2008. First and last year of analyzed period, the ratio was under appreciated number. The company was founded newly in 2006 and they did not gain profit. Therefore, owners could not pay salary and they had MNT 2,396,600.00's salary and wages payable in 2006 in the balance sheet. That made company's current liabilities more than current assets. In 2009, they had account payable of MNT 15,000,000.00. ATTP's quick ratios were above advised number, except 2006.

Cash ratio

Table 15. Formula of cash ratio

$\text{Cash ratio} = \frac{\text{Cash + marketable securities}}{\text{Current liabilities}} = \frac{3,553,620.80}{20,507,667.60} = 0.17$

Table 16. Cash ratio of Batorshih Ltd, 2006 - 2009

	2006	2007	2008	2009
Cash ratio	0.14	1.09	0.12	0.17

Table 17. Cash ratio of ATTP, 2006 - 2009

	2006	2007	2008	2009
Cash ratio	0.06	1.21	0.76	3.16

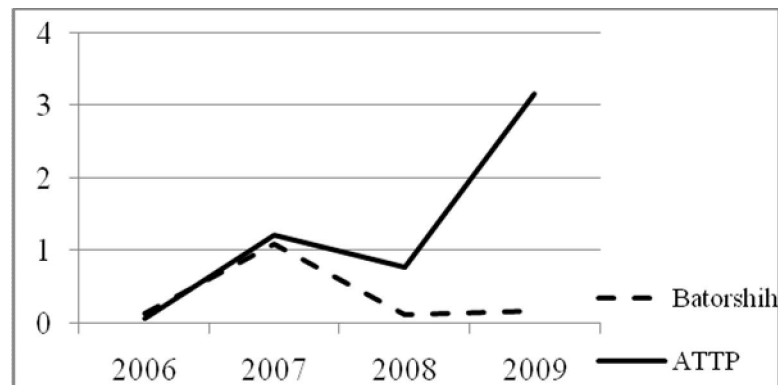


Figure 4. Cash ratio of Batorshih Ltd and ATTP Ltd

Cash ratio of Batorshih could not reach the advised number in 2006, 2008 and 2009. Reasons were as explained before, bigger amount of current liabilities. Competitor company ATTP's last cash was above MNT 49 million and had satisfied results.

Receivable turnover

Table 18. Formula of receivables turnover

$$\text{Receivables turnover} = \frac{\text{Net sales}}{\text{Average net receivables}} = \frac{29,597,211.80}{\frac{(10,060,000.00 + 75,000.00)}{2}} = 5.84$$

Table 19. Receivables turnover of Batorshih Ltd, 2006 - 2009

	2006	2007	2008	2009
Receivables turnover	-	162.36	2.95	5.84

Table 20. Receivables turnover of ATTP Ltd, 2006 - 2009

	2006	2007	2008	2009
Receivables turnover	73.31	9.02	2.93	24.90

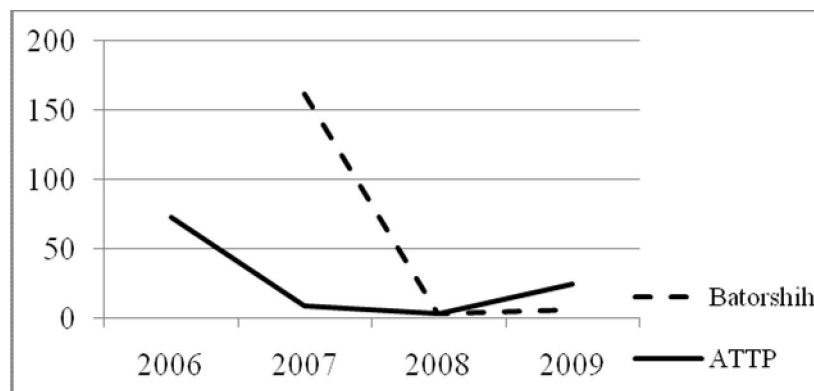


Figure 5. Receivables turnover of Batorshih Ltd and ATTP Ltd

Receivable turnover of Batorshih could not be computed in 2006 since they did not have any receivables. From 2007, they had account receivables of MNT 60,000.00; and it was calculated without finding the average. Therefore, Batorshih had the highest receivables turnover in 2007. In comparison of Batorshih and ATTP's receivables turnover in 2009, ATTP was in better position with having the result of 24.90.

Inventory turnover

Table 21. Formula of inventory turnover

Inventory turnover	=	$\frac{\text{Cost of good sold}}{\text{Average inventory}}$	=	$\frac{0}{\frac{(269,000.00+ 352,000.00)}{2}}$	=	0
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Inventory turnover of Batorshih is cannot be calculated in years 2006 - 2009. They provide cadastral mapping, not produce products. Therefore, they have expenses on the income statement instead of cost.

5.3.2 Profitability ratios

Profit margin

Table 22. Formula of profit margin

Profit margin	=	$\frac{\text{Net income}}{\text{Sales}}$	=	$\frac{5,641,123.83}{29,597,211.8} * 100\%$	=	19.06%
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Table 23. Profit margin of Batorshih Ltd, 2006 - 2009

	2006	2007	2008	2009
Profit margin	-159.68%	34.37%	13.55%	19.06%

Table 24. Profit margin of ATTP Ltd, 2006 - 2009

	2006	2007	2008	2009
Profit margin	14.38%	22.19%	0.16%	11.28%

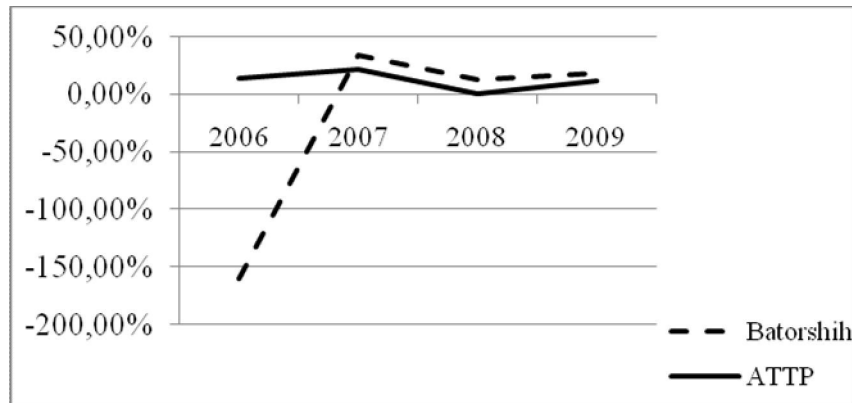


Figure 6. Profit margin of Batorshih Ltd and ATTP Ltd

In 2006, Batorshih’s bottom line was MNT -4,362,520.00; it caused the -159.68% of profit margin in 2006. From following year, Batorshih’s profit margin became greater than ATTP’s.

Asset turnover

Table 25. Formula of asset turnover

$$\text{Asset turnover} = \frac{\text{Net sales}}{\text{Average assets}} = \frac{29,597,211.80}{\frac{(19,439,766.43 + 33,159,407.02)}{2}} = 1.12$$

Table 26. Asset turnover of Batorshih Ltd, 2006 - 2009

	2006	2007	2008	2009
Asset turnover	0.53	0.94	0.83	1.12

Table 27. Asset turnover of ATTP Ltd, 2006 - 2009

	2006	2007	2008	2009
Asset turnover	1.52	1.48	0.56	2.95

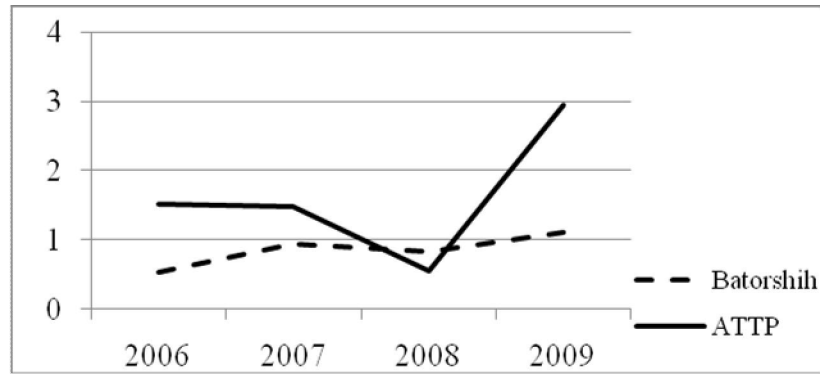


Figure 7. Asset turnover of Batorshih Ltd and ATTP Ltd

From 2006 to 2009, Batorshih’s net sales increased from MNT 2,372,000.00 to MNT 29,597,211.80, meanwhile, total asset increased from MNT 4.262.279.37 to MNT 33,159,407.02. This tendency of using the assets effectively more and more is shown in figure 7. However, ATTP’s last year’s asset turnover was two times high, if Batorshih’s 1.12 and ATTP’s 2.95 are compared.

Return on asset (ROA)

Table 28. Formula of return on asset

$$ROA = \frac{\text{Net income}}{\text{Average asset}} = \frac{5,641,123.83}{\frac{(19,439,766.43+33,159,407.02)}{2}} * 100\% = 21.45\%$$

Table 29. Return on asset of Batorshih Ltd, 2006 - 2009

	2006	2007	2008	2009
Return on asset	-85.02%	32.65%	11.34%	21.45%

Table 30. Return on asset of ATTP Ltd, 2006 - 2009

	2006	2007	2008	2009
Return on asset	21.96%	32.92%	0.09%	33.34%

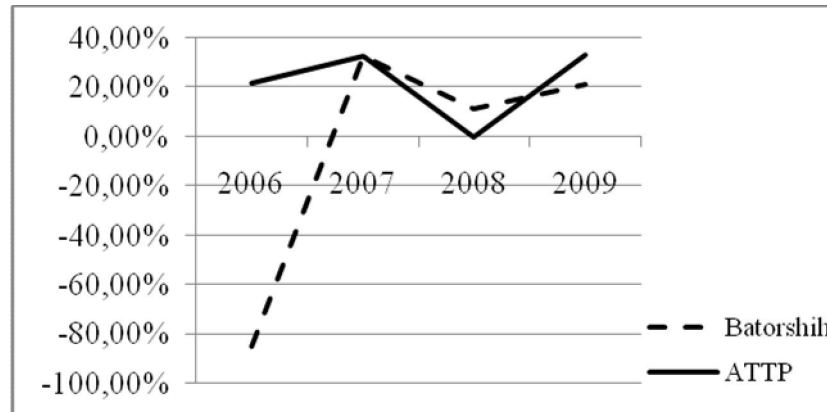


Figure 8. Return on asset of Batorshih Ltd and ATTP Ltd

As mentioned before, Batorshih did not gain profit in 2006. As a result, they were not profitable on using their assets, shown in figure 8. Nevertheless, from 2007 Batorshih started to gain profit, which is shown in figure 8, too. If ATTP’s drop in 2008 is ignored, ATTP was profitable on using its assets. The last year’s result shows Batorshih could not reach ATTP’s return on asset.

Return on equity (ROE)

Table 31. Formula of return on equity

$$ROE = \frac{\text{Net income}}{\text{Average equity}} = \frac{5,641,123.83}{\frac{(7,010,615.59+12,651,739.42)}{2}} * 100\% = 57.37\%$$

Table 32. Return on equity of Batorshih Ltd, 2006 - 2009

	2006	2007	2008	2009
Return on equity	-114.23%	101.11%	33.75%	57.37%

Table 33. Return on equity of ATTP Ltd, 2006 - 2009

	2006	2007	2008	2009
Return on equity	29.41%	38.76%	0.10%	37.14%

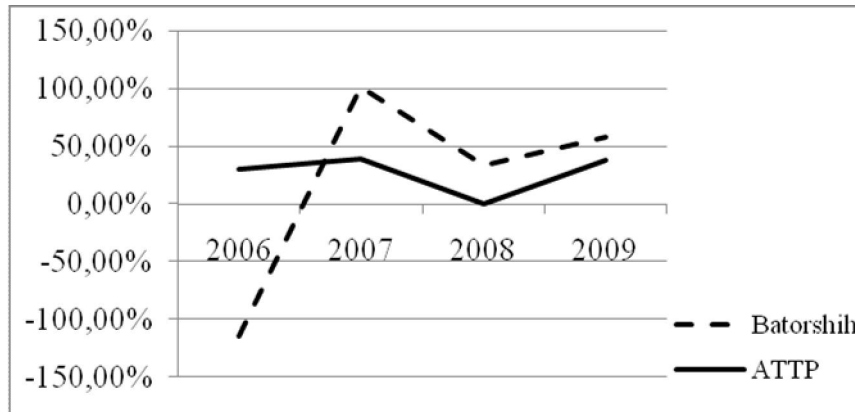


Figure 9. Return on equity of Batorshih Ltd and ATTP Ltd

Since, in 2006 Batorshih did not have profit. Its return on equity reached -114.23%. Moreover, this loss subtracted total owners equity by MNT -4,362,520.63. High return on equity in 2007 was the outcome. From 2008, Batorshih’s return on equity became stable and surpassed ATTP’s 37,14% in 2009.

5.3.3 Solvency ratios

Total debt ratio

Table 34. Formula of total debt ratio

$$\text{Total debt ratio} = \frac{\text{Debt}}{\text{Assets}} = \frac{20,507,667.60}{33,159,407.02} * 100\% = 61.85\%$$

Table 35. Total debt ratio of Batorshih Ltd, 2006 - 2009

	2006	2007	2008	2009
Total debt ratio	61.58%	69.32%	63.94%	61.85%

Table 36. Total debt ratio of ATTP Ltd, 2006 - 2009

	2006	2007	2008	2009
Total debt ratio	14.89%	15.20%	7.09%	12.25%

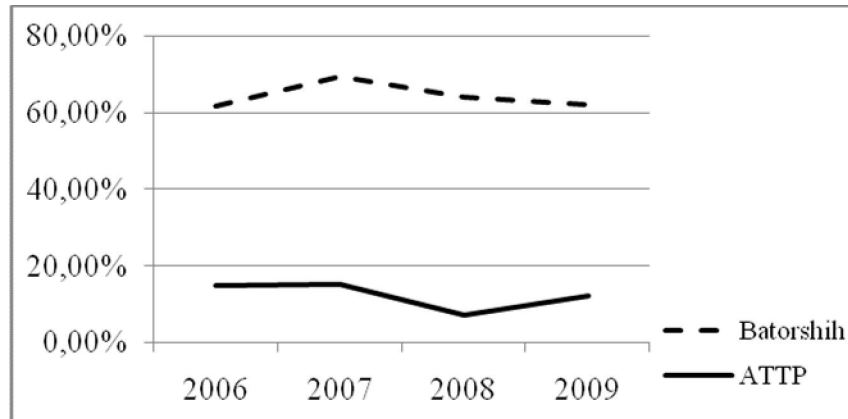


Figure 10. Total debt ratio of Batorshih Ltd and ATTP Ltd

Having a greater debt ratio means a company has lower protection on its creditors. In case of Batorshih, a company is new in the market, and its gross sales has been increasing year by year. Moreover, figure 10 shows the ratio has slight tendency to fall from year 2007, even though total debt ratio of Batorshih was stable above 60% and below 70% during the analyzed period. Therefore, those big percentages does not mean Batorshih have no protection on its creditors. However, figure 10 shows ATTP has strong protection on its creditors since their highest total debt ratio was 15.20% in 2007.

Times interest earned

Table 37. Formula of times interest earned

$T.I.E = \frac{EBIT}{Interest\ expense} = \frac{626792,36 + 5641123.83}{0} = -$

Times interest earned of Batorshih could not be computed during the analyzed years; and compared with others, since it had not either short – term or long – term loan.

CONCLUSION

The thesis aimed to show financial reporting ability to its users, especially for managers who make future improvement decisions, through analyzing “Batorshih” Ltd’s four years statements. Before giving the recommendations, “Batorshih” Ltd was established in 2006 should be mentioned. The company started its business with MNT 6,000,000.00 of monetary and non – monetary assets.

Horizontal and vertical analyses report Batorshih was in unsatisfied situation in 2006 and 2009. When the company was new, it had lack of work to gain the profit; and lost MNT 4,362,520.63 that resulted in vertical analysis as -102.35% in balance sheet and -159.68% in income statement. Three employees, at the same time shareholders, did not receive the salary. From this, they had high percentage, 56.23%, of salary and wages payables in vertical analysis in 2006. They started to gain a profit from following year. For instance, net profit of Batorshih increased by MNT 3,348,578.63 in 2007, MNT 2,024,557.59 in 2008 and MNT 5,641,123.83 in 2009. In comparison with previous years, total owner’s equity increased in horizontal analysis, especially in 2007 by high percentage. One of the important decisions was made in 2009, Batorshih bought two cars for the increasing their fixed assets in order to partake in tender competition. Fixed asset reached to MNT 31,264,324.55 in 2009, and appeared increase of 623.90% in horizontal analysis and 94.28% in vertical analysis. Batorshih faced with two outside factors; increased live cost and inflation. They affected to increase the employee salary and pay greater rent expense. Salary expenses in income statement increased by 117.86% from 2007 to 2008, 68.43% from 2008 to 2009. According to it, social insurance commission expense increased by same percentage. Rent expense raised by 100% between 2007 and 2008, and 46.97% between 2008 and 2009.

As explained in theoretical part, ratio analysis is an important tool for financial manager to make right decisions within a company. Based on this analysis managers would see the weaknesses of a company. Batorshih’s liquidity ratios; current, quick and cash ratios, were sufficient for young company as Batorshih. Moreover, how profitable they performed could be seen from its profitability ratios. First year, their operation was not moneymaking, the ratios were -159.68% of profit margin, 0.53 of asset turnover, -85.02% of return on asset and -114.23% of return on equity in 2006. However, those indicators reached 19.06% of profit margin, 1.12 of asset turnover, 21.45% of return on asset and 57.37% of return on equity in 2009. The only ratio, which shows a negative outcome, is total debt ratio from

solvency ratios. During analyzed years, that was over 60%. Another solvency ratio, times interest earned, could not be calculated since they did not have any loan in year 2006 - 2009.

Based on all analyses, recommendations from managerial point of view are following. Managers should use the money in order to increase company's profitability more instead returning to shareholders by way of dividends. One of the advantages Batorshih may use to improve their shareholders equity is they do not have the barrier to take a long – term loan, since making the business good without any loan. If they take out the loan, first they should promote more about the company. Second, they will be able to send the employees to business trips to make more surveys and prove they are the best for the present clients; and attract more clients' trustworthiness for them. Both activities would bring more works and will outcome the increase of net sales. Furthermore, expenses can be cut by making long – term contract with the suppliers, one example Batorshih did is fuel contract with "Petrovis" Ltd. This will secure from any sudden cost increase. From increased net incomes and decreased expenses, Batorshih could raise the net profit. Taking the long – term loan, Batorshih should expand their service – line by learning from the competitors' most profitable ones. By implementing all suggested recommendations, Batorshih could prosper and become more stable in the market in short period.

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APPENDIX P I: INCOME STATEMENT OF “BATORSHIH” LTD

In MNT

	DESCRIPTION	2006	2007	2008	2009
1,1	Operating income				
1.1.1	Gross sales	2,732,000.00	9,742,000.00	14,941,000.00	29,597,211.80
1.1.2	Sales allowance and returns				
1.1.3	Sales discount				
1.1.20	Net sales	2,732,000.00	9,742,000.00	14,941,000.00	29,597,211.80
1,2	Cost of sales				
1,3	Gross profit	2,732,000.00	9,742,000.00	14,941,000.00	29,597,211.80
1,4	Operating (selling & administrative expense)				
1.4.1	Salary and bonus	2,760,000.00	2,240,000.00	4,880,000.00	8,219,622.64
1.4.2	Social insurance commission	303,600.00	246,400.00	536,800.00	904,158.49
1.4.3	Repair & maintenance expense	119,200.00	52,000.00	127,000.00	674,804.35
1.4.4	Utilities expense		45,000.00	45,000.00	560,543.62
1.4.5	Rent expense	1,980,000.00	1,188,000.00	2,376,000.00	3,492,000.00
1.4.6	Business trip			385,275.92	385,275.92
1.4.7	Transportation expense		27,300.00	35,950.00	118,225.00
1.4.8	Raw material	27,200.00	608,200.00	662,200.00	146,460.00
1.4.9	Depreciation expense		192,447.08	404,144.16	
1.4.10	Advertising & promotion expense			350,000.00	152,000.00
1.4.11	Communication expense	357,820.00	230,900.00	550,506.10	998,338.44
1.4.12	Fuel expense		564,200.00	1,057,400.00	2,567,050.01
1.4.13	Bad dept expenses				
1.4.14	Bonus, gifts expense				350,000.00
1.4.15	Interest expense				
1.4.16	Chancellery expense	852,500.00	447,190.00	768,294.98	771,521.87
1.4.17	Other expense	694,200.00	336,720.00	519,720.00	1,713,440.00
1.4.20	Total operating expense	7,094,520.00	6,178,357.08	12,698,291.07	21,053,440.34
1,5	Operating income / loss /	-4,362,520.00	3,563,642.92	2,242,708.93	8,543,771.46
2	Non operating income & expenses				
2,1	Non operating income & expenses				
2,2	Penalty, discount expense				
2,3	Dividend revenue				
2,4	Gain & Loss from forex			-200.50	-382,764.02
2,5	Allowance for stock & bond expense				
2,6	Related and Joint company income				
2,7	Other		157,000.00	7,000.00	
2,20	Total of non operating income & expenses		157,000.00	6,799.50	-382,764.02

3	Profit before tax (loss)	-4,362,520.00	3,720,642.92	2,249,508.43	6,267,916.19
3,1	Income tax expense		372,064.29	224,950.84	626,792.36
4	Profit after tax (loss)	-4,362,520.00	3,348,578.63	2,024,557.59	5,641,123.83
4,1	Minority payment				
5	Normal operation profit (loss)	-4,362,520.00	3,720,642.92	2,249,508.43	6,267,916.19
5,1	Extraordinary revenue & loss				
6	Net profit (loss) for current period	-4,362,520.00	3,348,578.63	2,024,557.59	5,641,123.83
6,1	Earning per share (loss)				

APPENDIX P II: BALANCE SHEET OF “BATORSHIH” LTD

In MNT

	DESCRIPTIONS	2006	2007	2008	2009
1	A. ASSETS				
1,1	Current assets				
1.1.1	Cash on hand & in bank	354,459.37	12,222,899.37	1,475,397.67	3,553,620.80
1.1.2	Short term investment				
1.1.3	Provision for revaluation				
1.1.4	Accounts receivable		60,000.00	10,060,000.00	75,000.00
1.1.5	Bad debt				
1.1.6	Other receivable			3,348,578.63	
1.1.7	Inventory	508,950.00		269,000.00	352,000.00
1.1.9	Prepaid expenses/payment	10,000.00		372,064.29	
1.1.20	Total current assets	873,409.37	12,282,899.37	15,525,040.59	3,980,620.80
	Fixed assets				
1.2.1	Fixed assets	3,388,870.00	4,158,870.00	4,318,870.00	31,264,324.55
1.2.2	Accumulated depreciation		-192,447.08	-404,144.16	-2,085,538.33
1.2.3	Other fixed assets /computer/				
1.2.4	Accumulated depreciation				
1.2.5	Building in process				
1.2.6	Live stock (agricultural)				
1.2.7	Intangible assets				
1.2.8	Accumulated depreciation				
1.2.9	Investment & other assets				
1.2.10	Provision for evaluation				
1.2.20	Total investment assets	3,388,870.00	3,966,422.92	3,914,725.84	29,178,786.22
1,3	TOTAL ASSETS	4,262,279.37	16,249,322.29	19,439,766.43	33,159,407.02
2	B.LIABILITIES AND OWNER'S EQUITY				
2,1	PAYABLES				
2.1.1	Short term liabilities				
2.1.1.1	Accounts payable	175,000.00	175,000.00	175,000.00	15,175,000.00
2.1.1.2	Salary & Wages payable	2,396,600.00	2,396,600.00	1,896,600.00	1,896,600.00
2.1.1.3	Income tax payable		342,064.29	224,950.84	626,792.36
2.1.1.4	Personal income tax payable	53,200.00	103,600.00	132,600.00	163,566.04
2.1.1.5	VAT payable				394,948.07
2.1.1.6	Other tax payable				
2.1.1.7	Health & Social insurance payable				
2.1.1.8	Divident payable				
2.1.1.9	Short-term bank loan				
2.1.1.10	Other payables				1,150,761.13

2.1.1.11	Unearned revenue		8,246,000.00	10,000,000.00	1,100,000.00
2.1.1.12	Total current liabilities	2,624,800.00	11,263,264.29	12,429,150.84	20,507,667.60
2.1.2	Long term liabilities				
2.1.2.1	Long term notes payable				
2.1.2.2	Long term loans				
2.1.2.3	Long term security payable				
2.1.2.4	Other long term payable				
2.1.2.5	Allowance for long term liabilities				
2.1.2.20	Total long term liabilities	0.00	0.00	0.00	0.00
2.2.20	Total liabilities	2,624,800.00	11,263,264.29	12,429,150.84	20,507,667.60
2,3	Owner's equity				
2.3.1	a.State				
2.3.2	b.Private	6,000,000.00	6,000,000.00	6,000,000.00	6,000,000.00
2.3.3	Treasury stock				
2.3.4	Total amount of stock	6,000,000.00	6,000,000.00	6,000,000.00	6,000,000.00
2.3.5	Paid-in capital				
2.3.6	Revaluation surplus				
2.3.7	Other capital				
2.3.8	Retained earnings (loss)	-4,362,520.63	-1,013,942.00	1,010,615.59	6,651,739.42
2.3.8.1	current year		3,348,578.63	2,024,557.59	5,641,123.83
2.3.8.2	prior year		-4,362,520.63	-1,013,942.00	1,010,615.59
2.3.20	Total owner's equity	1,637,479.37	4,986,058.00	7,010,615.59	12,651,739.42
2.5.20	TOTAL LIABILITIES & OWNER' EQUITY	4,262,279.37	16,249,322.29	19,439,766.43	33,159,407.02

APPENDIX P III: INCOME STATEMENT OF “ATTP” LTD

In MNT

	DESCRIPTION	2006	2007	2008	2009
1,1	Operating income				
1.1.1	Gross sales	90,704,582.05	110,697,203.17	47,987,954.59	308,631,968.77
1.1.2	Sales allowance and returns				
1.1.3	Sales discount	356,432.65			
1.1.20	Net sales				
1,2	Cost of sales				
1,3	Gross profit	91,061,014.70	110,697,203.17	47,987,954.59	308,631,968.77
1,4	Operating (selling & administrative expense)				
1.4.1	Salary and bonus	14,445,000.00	5,013,000.00	8,744,000.00	8,612,000.00
1.4.2	Social insurance commission	1,638,050.00	575,730.00	1,026,640.00	1,123,900.00
1.4.3	Repair & maintenance expense	5,703,295.33	5,910,949.98	3,800,663.34	6,482,471.81
1.4.4	Utilities expense		1,778,361.00	197,300.00	6,862,137.48
1.4.5	Rent expense	2,286,362.05	1,018,181.81	1,602,272.70	6,327,272.73
1.4.6	Business trip	21,020,000.00	45,100,000.00	6,125,000.00	118,734,000.00
1.4.7	Transportation expense				692,040.00
1.4.8	Raw material	5,423,802.33	5,950,095.08	1,223,348.90	3,462,353.70
1.4.9	Depreciation expense	5,376,028.28	2,106,155.48	5,743,082.71	7,179,202.78
1.4.10	Advertising & promotion expense				25,000.00
1.4.11	Communication expense	2,196,402.98	1,030,927.28	1,299,113.77	1,392,670.02
1.4.12	Fuel expense	16,329,045.85	7,498,063.63	9,018,651.82	24,089,917.20
1.4.13	Bad dept expenses	1,257,292.18			
1.4.14	Bonus, gifts expense	143,000.00	417,400.00		
1.4.15	Interest expense				15,615,000.00
1.4.16	Chancellery expense		519,840.26	2,355,939.39	
1.4.17	Other expense	693,807.78	6,643,491.16	6,946,258.64	65,155,375.07
1.4.20	Total operating expense	76,512,086.78	83,562,195.68	48,082,271.27	265,753,340.79
1,5	Operating income / loss / Non operating income & expenses	14,548,927.92	27,135,007.49	-94,316.68	42,878,627.98
2	Non operating income & expenses				
2,1	Non operating income & expenses				
2,2	Penalty, discount expense				-3,568,600.00
2,3	Dividend revenue				
2,4	Gain & Loss from forex		151,983.58	242,530.36	1,080,880.85
2,5	Allowance for stock & bond expense				
2,6	Related and Joint company income				
2,7	Other				-1,185,335.00
2,20	Total of non operating income & expenses	0.00	151,983.58	242,530.36	-3,673,054.15

3	Profit before tax (loss)	14,548,927.92	27,286,991.07	148,213.68	39,205,573.83
3,1	Income tax expense	1,454,892.79	2,728,699.10	19,805.15	4,395,950.88
4	Profit after tax (loss)	13,094,035.13	24,558,291.97	128,408.53	34,809,622.95
4,1	Minority payment				
5	Normal operation profit (loss)	14,548,927.92	27,286,991.07	128,408.53	34,809,622.95
5,1	Extraordinary revenue & loss			50,000.00	
6	Net profit (loss) for current period	13,094,035.13	24,558,291.97	78,408.53	34,809,622.95
6,1	Earning per share (loss)				

APPENDIX P IV: BALANCE SHEET OF “ATTP” LTD

In MNT

	DESCRIPTIONS	2006	2007	2008	2009
1	A. ASSETS				
1,1	Current assets				
1.1.1	Cash on hand & in bank	509,095.14	16,369,969.64	4,390,514.34	49,317,448.50
1.1.2	Short term investment				
1.1.3	Provision for revaluation				
1.1.4	Accounts receivable	2,483,976.04	22,040,828.04	10,657,237.40	14,127,154.53
1.1.5	Bad debt				
1.1.6	Other receivable				
1.1.7	Inventory	7,364,293.14	1,762,198.06	1,557,954.55	870,000.00
1.1.9	Prepaid expenses/payment		2,390.00		2,800,000.00
1.1.20	Total current assets	10,357,364.32	40,175,385.74	16,605,706.29	67,114,603.03
	Fixed assets				
1.2.1	Fixed assets	70,347,975.85	71,819,975.85	93,428,100.58	95,946,100.58
1.2.2	Accumulated depreciation	-26,829,833.49	-28,935,988.97	-34,679,071.62	-41,858,274.46
1.2.3	Other fixed assets /computer/				
1.2.4	Accumulated depreciation				
1.2.5	Building in process				
1.2.6	Live stock (agricultural)				
1.2.7	Intangible assets				
1.2.8	Accumulated depreciation				
1.2.9	Investment & other assets	6,125,000.00	6,125,000.00	6,125,000.00	6,125,000.00
1.2.10	Provision for evaluation				
1.2.20	Total investment assets	49,643,142.36	49,008,986.88	64,874,028.96	60,212,826.12
1,3	TOTAL ASSETS	60,000,506.68	89,184,372.62	81,479,735.25	127,327,429.15
2	B.LIABILITIES AND OWNER'S EQUITY				
2,1	PAYABLES				
2.1.1	Short term liabilities				
2.1.1.1	Accounts payable	542,600.00	542,600.00	4,042,600.00	0.00
2.1.1.2	Salary & Wages payable				
2.1.1.3	Income tax payable	1,454,892.79	2,728,591.89	19,805.15	2,761,442.77
2.1.1.4	Personal income tax payable	443,150.00	63,320.00	226,960.00	2,520,940.00
2.1.1.5	VAT payable	5,759,906.32	10,225,711.19	949,240.14	5,823,300.00
2.1.1.6	Other tax payable				
2.1.1.7	Health & Social insurance payable	734,100.00		538,580.00	923,180.00
2.1.1.8	Divident payable				
2.1.1.9	Short-term bank loan				
2.1.1.10	Other payables				3,568,600.00

2.1.1.11	Unearned revenue				
2.1.1.20	Total current liabilities	8,934,649.11	13,560,223.08	5,777,185.29	15,597,462.77
2.1.2	Long term liabilities				
2.1.2.1	Long term notes payable				
2.1.2.2	Long term loans				
2.1.2.3	Long term security payable				
2.1.2.4	Other long term payable				
2.1.2.5	Allowance for long term liabilities				
2.1.2.20	Total long term liabilities	0.00	0.00	0.00	0.00
2.2.20	Total liabilities	8,934,649.11	13,560,223.08	5,777,185.29	15,597,462.77
2,3	Owner's equity				
2.3.1	a.State				
2.3.2	b.Private	12,000,000.00	12,000,000.00	12,000,000.00	12,000,000.00
2.3.3	Treasury stock				
2.3.4	Total amount of stock	12,000,000.00	12,000,000.00	12,000,000.00	12,000,000.00
2.3.5	Paid-in capital				
2.3.6	Revaluation surplus				
2.3.7	Other capital				
2.3.8	Retained earnings (loss)	39,065,857.57	63,624,149.54	63,702,549.96	99,729,966.38
2.3.8.1	current year	13,094,035.13	24,558,291.97	78,400.42	34,809,622.95
2.3.8.2	prior year	25,971,822.44	39,065,857.57	63,624,149.54	63,702,549.96
2.3.20	Total owner's equity	51,065,857.57	75,624,149.54	75,702,549.96	111,729,966.38
2.5.20	TOTAL LIABILITIES & OWNER' EQUITY	60,000,506.68	89,184,372.62	81,479,735.25	127,327,429.15