



Financial Analysis for Surveyors in Property & Facility Management

By **Benny K B Kwok**

Principal, BENNY K B KWOK FORENSIC EXPERT

7:00 pm – 8:30 pm, Tue 20 April 2010

The Hong Kong Institute of Surveyors
Surveyors Learning Centre
Suite 811, 8/F, Jardine House
Central
Hong Kong

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IMPORTANT NOTES

The materials of this seminar are intended to provide general information and guidance on the subjects concerned. Examples and other materials in this seminar are only for illustrative purposes and should not be relied upon for technical answers.

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Speaker

Benny K B Kwok

AMAMI BSc CFE CPM FCA FCPA FTIHK MAHI MAICD MBA MCIJ
MCIQB MHIREA MHKIM MHKIoD MIHRM MRICS RPHM

- Qualified with 15 professional institutions in Australia, Hong Kong, the UK and the USA
- Produced expert reports and served as expert witness in arbitration hearings, disciplinary proceedings as well as trials at the District Court and the High Court, on civil and criminal cases
- Currently sits on two tribunals in the Government of the HKSAR, plus

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Seminar Objectives – see Attachment A

Equip surveyors engaging in property and facility management with an understanding of financial statements and budgets, covering:

Accounts	Income & expenditure accounts
Audit reports	Internal controls
Balance sheets	Inventory records
Budgets	Ledgers
Capital expenditure	Reconciliations
Cash books	Reporting regulatory framework
Financial statements	Reserves
Fixed asset registers	

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Sources of Reference

- HKFRS (Hong Kong Financial Reporting Standards)
- The Companies Ordinance (Cap 32)
- The Building Management Ordinance (Cap 344)
- *Financial Analysis in Hong Kong*, by Benny K B Kwok, The Chinese University Press 2008
- Various accounting conventions and established practices

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FINANCIAL STATEMENTS

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Financial Analysis for Surveyors in Property & Facility Management Financial Statements

BMO Section 27	CO Section 122	HKFRS HKAS 1
Balance sheet	Balance sheet	Statement of financial position
Income & expenditure account	Profit & loss account	Statement of comprehensive income Statement of cash flows Statement of changes in equity Notes to financial statements

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Financial Analysis for Surveyors in Property & Facility Management Balance Sheet

- A financial snapshot of assets, liabilities and equity at a particular point in time
- An indication of creditworthiness and financial strength
- Accounting Equation :
$$\text{Assets} - \text{Liabilities} = \text{Equity}$$

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Balance Sheet

Current vs non-current distinction for all assets and liabilities

- Property, plant and equipment
- Deposits
- Inventories
- Trade and other receivables
- Cash at bank
- Cash in hand
- Trade and other payables
- Provisions
- Share capital / general fund / contingency fund
- Accumulated surpluses / reserves

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Income & Expenditure Account / Profit & Loss Account / Statement of Comprehensive Income

- A financial camcorder / score-sheet showing the flows of resources and their net results during a particular period
- An indication of viability and financial performance
- Accounting Equation :
Assets – Liabilities = Equity
Equity = Share Capital + Reserve
Reserve ~ Accumulated surpluses / retained profits

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Income & Expenditure Account / Profit & Loss Account / Statement of Comprehensive Income

Classification by function or by nature

- Revenue / sales / turnover
- Cost of sales
- Gross profit
- Other income
- Distribution costs
- Administrative expenses
- Finance costs
- Other expenses
- Surplus / profit before tax
- Tax

20 April 2010 Surplus / profit after tax / profit for the year

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Statement of Cash Flows

- A financial camcorder showing the flows of cash and their net results during a particular period

Statement of Changes in Equity

- A reconciliation between opening and closing balances of equity during a particular period

Notes to Financial Statements

- Basis of preparation
- Statement of compliance with HKFRS
- Summary of significant accounting policies
- Supporting information for items presented in the four financial statements

20 April 2010 Other disclosures, e.g. contingent liabilities

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Accounting Ratios

- Current ratio
= Current assets / Current liabilities
- Debtor turnover days
= 365 days x Average receivables / Revenue
- Inventory turnover days
= 365 days x Average inventories / Costs of sales
- Creditor turnover days
= 365 days x Average payables / Purchases

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Accounting Ratios (continued)

- Interest coverage
= Profit before interest expenses / Interest expenses
- Profit margin
= Profit / Revenue
- Return on equity
= Profit / Equity

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Accounting, auditing & financial reporting

- Invoices, orders, delivery notes, remittance advices, bank statements ...
- Journals
- Book-keeping and accounting ledgers
- Annual report (financial statements, audit report, directors' report, ...)
- Auditing and statutory auditors
– see Attachment B

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Mandatory requirements in financial reporting

- Companies Ordinance
- Inland Revenue Ordinance
- HKFRS – see Attachments C, D and E
- Listing Rules / GEM Rules
- Other requirements, e.g. Building Management Ordinance, Banking Ordinance and Insurance Companies Ordinance

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Regulators

- Government of the HKSAR
- Stock Exchange
- SFC
- HKICPA
- FRC

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BUDGETS

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Budget

- a detailed plan of action for an upcoming period, quantified in money
- translating the overall objectives and strategies into detailed plans of action
- for the whole entity (sales forecasts, KPIs, SLAs, ...materials/production budgets, payroll budgets, cash budgets, ...)
- for a sub-unit within the entity (a department, a machine, a property, ...)
- short-term vs long-term

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Types of Budgets

- Incremental budgets
- Zero-based budgets
- Fixed budgets
- Flexed budgets

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Benefits of Budgeting

- focus on overall objectives
- planning mechanism
- motivation
- means of communication
- co-ordination of activities
- expenditure authorisation
- performance measurement
- budgetary controls

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Budgetary Controls

A type of internal controls

- Cost centre, profit centre and investment centre
- Budget preparation
- Recording of actual results (as part of book-keeping)
- Comparison between budget and actual results
- Calculation of variances
- Interpretation of variances

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Internal Controls

- *“the process designed and effected by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of the entity’s objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.”* Source: HKFRS
- Five components:
 - Control environment;
 - Risk assessment process;
 - Information system;
 - Control activities; and
 - Monitoring of controls.

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Controls over Inventories

- Inventory records
- Physical controls
- Periodic stocktaking
- Inventory management
 - holding costs and ordering costs
 - JIT – Just-in-time

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Reconciliations

- A type of internal controls
- Comparing data from two independent sources and explaining the discrepancies (bank reconciliations, suppliers' accounts reconciliations, ...)

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Fixed Asset Register

- A register recording capital expenditure
- Date
- Description
- Serial / make number
- Amount
- Location

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Capital expenditure

- Long-term benefits to the entity
- Long-term costs to the entity (asset life cycle)
- Discount cash flows (present value vs future value)

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Towards the end of this seminar

We hope that you have obtained an overview of these topics.

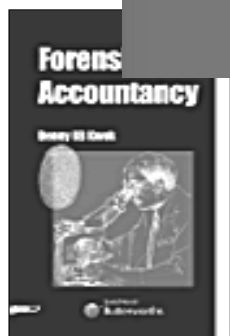
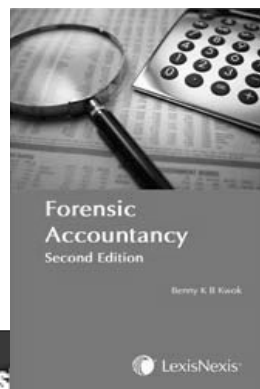
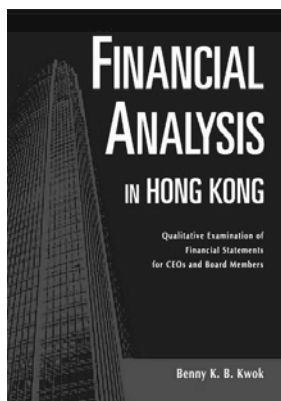
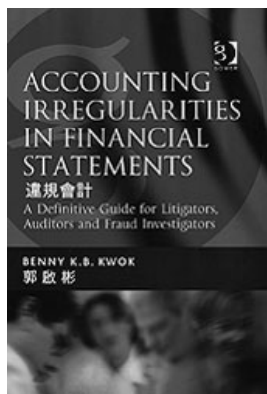
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Further References



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Questions now or in the future ...

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