

FINANCIAL STATEMENT RATIO ANALYSIS

FINANCIAL CAPACITY ANALYSIS FOR TENDERING PROCESS

“It sounds extraordinary, but it's a fact that balance sheets can make fascinating reading.”

Mary Archer

A place of quality,
a place to grow, from hope
to action through knowledge

TENDERING PROCESS

- The tendering process consists of various components that need to be assessed to determine if the applicants have:
 - the required experience,
 - financial capacity and
 - operational capacity

to meet the requirements of the proposed contract.

- The financial capacity assessment forms part of the entire tendering process.

PURPOSES OF AND PROCESS OF ASSESSING FINANCIAL CAPACITY



- To determine if the applicant has the financial ability to meet the requirements of the contract.
- How do we assess financial capacity?
- The request for a financial pack with a tender application normally includes:
 - A set of financial statements
 - Financial information of other similar tenders awarded and completed or in progress.
 - The financial commitments (strain on current financial capacity) to meet the objectives of the existing/in-progress contracts.

PROCESS OF ASSESSING FINANCIAL CAPACITY

- The financial requirements of the tender must be assessed in line with the cash flows of the applicants.
- The cash flow requirements of the project has to be broken down into the:
 - Short-term cash flow requirements:
 - salaries,
 - material purchases and
 - other running costs
 - Long-term cash flow requirements:
 - additional equipment needed
 - payment of existing long-term loans

PROCESS OF ASSESSING FINANCIAL CAPACITY

- Financial ratios to assess short-term cash flow requirements inter alia (liquidity ratios):
 - Current ratio (current assets/current liabilities)
 - Net working capital (current assets minus current liabilities)
 - Cash ratio (cash and cash equivalent assets/total liabilities)
 - Quick ratio (current assets minus inventory/current liabilities)
 - Debtors collection days
- Long-term cash flow requirements:
 - Leverage ratios (These ratios provide an indication of the long-term solvency of a company and to what extent you are using long-term debt to support your business)
 - Debt-to-equity ratio (total liabilities/shareholders equity)
 - Debt-to-asset ratio (total liabilities/total assets)

FINAL THOUGHTS BEYOND THE NUMBER

- Financial statements cannot in isolation be used to assess the ability of a potential vendor to meet the requirements of a proposed tender.
- Ratio analysis cannot provide answers, it can only highlight certain relationships that should lead to probing questions where the relationships don't make sense.
 - Salary costs with reference to staff listed as part of tender process?
- No ratio analysis process can replace common sense.



THANK YOU
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