THE EFFECT

ADEL HABIB & CO.
CERTIFIED PUBLIC ACCOUNTANTS
SINCE 1943

Adel Habib & Co. Newsletter

Issue 2, September 2014

Welcome to the second edition of Adel Habib & Co. newsletter "**THE EFFECT**," keeping you up to date with our latest news and insightful client success stories!

We have been off to magnificent Bali, Indonesia; Adel Habib & Co. participated in the AGN Asia Pacific & West Asia and Africa joint regional conference. For the first time, the regional meeting gathered 2 AGN Regions who strongly interacted to learn more about their AGN counterparts. This is more than 50 delegates from 18 countries that attended the meeting.

In this edition, we would like to express a special thanks to our valued client ***F.A. Kettaneh & Co.,*** who has a long-term relationship with Adel Habib & Co. that spans over 5 decades of loyalty. Find out more about F.A. Kettaneh group in the **valued CLIENT SPOTLIGHT section.**

For this issue, we will provide you with a clear and practical explanation on how to analyze your financial statement. We encourage you to read this section carefully to gain a better understanding of your business and financial status.

In This Issue:

2014 AGN Regional Meeting:

Bali, Indonesia

Bali is indeed a magical place; green terraced rice fields, volcanic mountains, coconut forests, endless beaches, and exotic flowers that are only a part of the island's spectacular natural beauty.

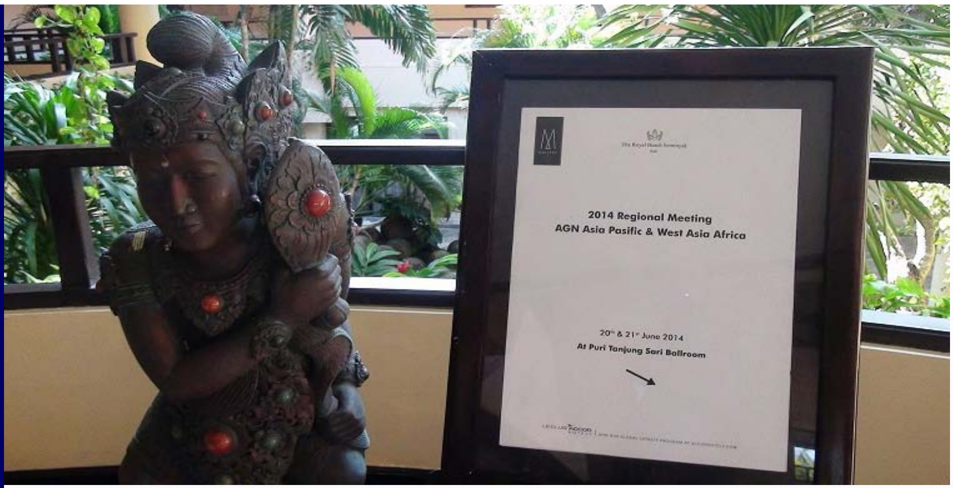
AGN International Factsheet

- Global Revenue: $1.6bn
- Global Staff: 11,835
- IAB World Survey Rank: Fifth-largest association

Revenue by Region:

- North America: $697.4m;
- Latin America: $28.8m;
- Europe: $724.9m;
- Africa/Middle East: $22.9m;
- Asia-Pacific: $193.1m

Source: International Accounting Bulletin World Survey 2014



AGN Asia Pacific and West Asia & Africa regions meet in Bali for the first time joint-regional conference:

Bali, Indonesia

The 2014 AGN Asia Pacific and West Asia & Africa joint regional-meeting was held on the 19-21 June 2014 at The Royal Beach Seminyak Hotel in Bali and successfully gathered more than 50 delegates, representing 18 countries spanning from Australia, China, Hong Kong, India, Indonesia, Japan, Jordan, Korea, Malaysia, Philippines, Saudi Arabia, Singapore, South Africa, Sri Lanka, Taiwan, UAE, United Kingdom and USA.

On behalf of Adel Habib & Co. Adel Habib and Rima Sabbagh attended the regional meeting which provided an opportunity to meet face to face to share knowledge, experience and to build strong relationships and confidence in fellow members' knowledge and abilities.

A Brief on the Social Events

The first day of the meeting was dedicated to social activities with the participation in a Balinese cooking-class competition which put everyone in a very cheerful mood!

Delegates and companions demonstrated strong team spirit, cooperation and trust!

The social day ended with a beach -cocktail party where delegates enjoyed some Balinese canapés and finger foods with an amazing sunset view.

Delegates during the activities

For those of you who need a reminder:

Adel Habib & Co. is a member of AGN International. AGN International is A Worldwide Association of Separate and Independent Accounting and Consulting Firms and is ranked the 5th largest accounting association in the world, according to International Accounting Bulletin.

Represented in:

89 Countries, with

183 Member Firms and 459 Offices

And 11,835 Partners and Staff

Worldwide Relationship:

Each member of AGN operates under its own local or national name and remains autonomous.

The individual members are all well established firms and many rank in the top 15 firms within their own local accounting profession.

AGN Member Firms become part of the association only after they undergo a thorough quality pre-admission review.

AGN Members offer clients the best of two worlds: international strength and close working relationships with senior professionals in each local firm.

Extensive information is supplied to Member Firms by the International Executive Office in various ways, for example, through international and regional websites, which contain up to date corporate and technical information. Additional communications are distributed throughout the membership to keep them informed about fellow members' news and current global technical matters and trends.

Furthermore, AGN also organizes meetings at various levels; international and regional, or industry related meetings, where members are offered the opportunity to meet face to face to share knowledge and experience.

Meetings are an opportunity to build strong relationships and confidence in fellow members' knowledge and abilities. Involvement in the organization enhances capabilities, ultimately benefiting clients.

Mr. Randy Redwitz, AGN International chair

New AGN International's CEO Malcolm Ward about his future plans for AGN

Asia Pacific Chair Mr. Thaddaeus Muller

Tony Shao (China Regal CPAs Co. Ltd) talked about business opportunities in China

The West Asia & Africa met to talk about future strategies

Adel Ghazi Habib Akel Regional Vice Chair of the AGN West Asia and Africa Region

The Technical Sessions:

Mr. Randy Redwitz, AGN International Chair introduced Malcolm Ward, the new AGN CEO who is a Former Grant Thornton International Asia-Pacific regional leader. Randy also clarified the new organizational structure of AGN. Malcolm then shared his views and expectations for the future.

Later, delegates from the 2 regions started a panel of presentations about business opportunities in China, Hong Kong, Japan, India, Africa, Sri Lanka and the Arab Countries, then, Pauline Walzak, Information Service Manager based in the AGN London head office presented an interactive session about online meeting techniques.

On the last day Adel Habib & Co. representatives participated in an audit session which was moderated by Hendang Tanusdjaja who reviewed IFRS (International Financial Reporting Standards) and ISA (International Standards on Auditing) latest updates..

KETTANEH

Thanking and Honoring over 5 Decades of Loyalty

Going through the archive of a firm that has been in business for over 70 years is highly rewarding.

Our firm has been fortunate enough to have built a loyal client base that spans over FIVE decades. In this special edition and on behalf of Adel Habib & Co. family, we would like to thank and honor our clients for their loyalty to our firm. We trust to count on your continued support that is a key factor in the company's advancement.
Through this issue, we would like to spotlight one of our long-term loyal clients **F.A. Kettaneh & Co. Ltd - Jordan**: we are proud to have **F.A. Kettaneh & Co. Ltd - Jordan** as our client for more than 5 decades.

Valued Client Spotlight

F.A. Kettaneh & Co. Ltd. - Jordan

F.A. Kettaneh Amman is a professional entrepreneurial company with commitment to family values, active in the Jordanian market since 1948.

Kettaneh Jordan is part of Kettaneh Group established in 1922, active in two major categories trade with after market support & heavy civil contracting.

The group's total number of employees exceeds 5,000 with branches in Lebanon, Egypt, Saudi Arabia, Qatar, Abu Dhabi, Jordan, Iraq, Iran, Palestine as well as other places such as Europe. Kettaneh Jordan represent well known multinational companies for decades, such as:

- Siemens of Germany since (1953) covering high voltages switchgears, Transformers, Automation, low voltage equipment & relevant products.
- Atlas Copco Sweden & Belgium since (1957), covering compressed air stations & ancillary equipment.
- Linde material handling for forklifts.
- Idrobase & Delfin of Italy covering high pressure washers & industrial vacuum cleaners.
- Home Master brand covering residential & commercial Air-conditioning systems.

The sixty five employees of Kettaneh Jordan, who are in majority engineers are involved in the sales & aftermarket support of Electrical, electro-mechanical projects.

KETTANEH

Valued Client Spotlight

Highlights IN FIGURES

F.A. KETTANEH & CO. LTD. - JORDAN

- Sixty Six"66" Years Young Company
- Capital: USD $2.9 Million
- Chairman: Mr. Nabil Kettaneh
- Sixty Five "65" Employees
- Twenty five "25" Engineers "out of the 65"
- Turnover:
- Local Sales (2013) USD 8.5 Eight Point Five Million
- Indent Sales Project Business Varies From Year to Year between USD One million & 3 Million

Highlights IN FIGURES
Kettaneh Group

- Ninety Two "92" Year Young Group Over 5000 permanent Employees Worldwide
- Worldwide Presence in: Ten "10" countries in four "4" different Continents
- Trading Turnover: $ 234 M in 2013
- Projected Trading Turnover: $ 244 M in 2014
- Construction Turnover: $ 117 M in 2013
- Projected Construction Turnover: $ 100 M in 2014

HUNTSMAN Enriching lives through innovation	ARGO INT'L EUROPE	Atlas Copco	SIEMENS
BROKK®	PRYSMIAN	CHLORIDE UPS SYSTEMS	MASTER GUARD A Chloride Group Company
perfectcool	Home Master (2004)	SMA SOLARWORLD	MEET (2003)
IDROBASE PASSION FOR WATER	Linde	Riedel FILTERTECHNIK	delfin

Kettaneh Jordan represent well known multinational companies

UNDERSTANDING FINANCIAL REPORTS

Calculating and analyzing financial data can give business owners, managers, and decision makers the information they need to make critical decisions.

We have prepared this section to provide you with a clear and practical explanation on how to analyze your financial statement: by listing the most important of the many ratios that you can calculate from information on financial statements and then use to evaluate your business activities & performance and ultimately gain better control of your business. As a general rule, desirable ratios vary by industry.

Now, sit back with your company's annual report and follow these steps:

Liquidity Measurement Ratios:

Liquidity ratios attempt to measure a company's ability to pay off its short-term debt obligations. This is done by comparing a company's most liquid assets or, those that can be easily converted to cash, to its short-term liabilities.

In general, the greater the coverage of liquid assets to short-term liabilities the better, as it is a clear signal that a company can pay its debts that are coming due in the near future and still fund its ongoing operations. However, a company with a low coverage rate should raise a red flag for investors as it may be a sign that the company will have difficulty meeting running its operations, as well as meeting its obligations.

Current Ratio

The current ratio compares a company's current assets (those that can be converted to cash during the current accounting period) to its current liabilities (those liabilities coming due during the same period). The formula is:

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

The current ratio measures the company's ability to repay the principal amounts of its liabilities.

The current ratio is closely related to the concept of working capital. Working capital is the difference between current assets and current liabilities. Is a high current ratio good or bad? Certainly, from the creditor's standpoint, a high current ratio means that the company is well-placed to pay back its loans. Consider, though, the nature of the current assets: they consist mainly of cash and cash equivalents. Funds invested in these types of assets do not contribute strongly and actively to the creation of income. Therefore, from the standpoint of stockholders and management, a current ratio that is very high means that the company's assets are not being used to the best advantage.

Quick Ratio

The quick ratio is a variant of the current ratio. It takes into account the fact that inventory, while it is a current asset, is not as liquid as cash or accounts receivable. Cash is completely liquid; accounts receivable can normally be converted to cash fairly quickly, by pressing for collection from the customer. But inventory cannot be converted to cash except by selling it. The quick ratio determines the relationship between quickly accessible current assets and current liabilities:

$$\text{Quick Ratio} = \frac{\text{Current Assets - Inventory}}{\text{Current Liabilities}}$$

The quick ratio shows whether a company can meet its liabilities from quickly-accessible assets.

In practice, a quick ratio of 1.0 is normally considered adequate, with this caveat: the credit periods that the company offers its customers and those granted to the company by its creditor must be roughly equal. If revenues will stay in accounts receivable for as long as 90 days, but accounts payable are due within 30 days, a quick ratio of 1.0 will mean that accounts receivable cannot be converted to cash quickly enough to meet accounts payable.

Profitability Indicator Ratios:

Profitability Ratios measures the company's profitability and financial performance. These ratios, much like the operational performance ratios, give users a good understanding of how well the company utilized its resources in generating profit and shareholder value.

Gross Profit Margin

A company's cost of sales, or cost of goods sold, represents the expense related to labor, raw materials and manufacturing overhead involved in its production process. This expense is deducted from the company's net sales/revenue, which results in a company's first level of profit, or gross profit. The gross profit margin is used to analyze how efficiently a company is using its raw materials, labor and manufacturing-related fixed assets to generate profits. A higher margin percentage is a favorable profit indicator.

The formula is:

$$\textbf{Gross Profit Margin} = \frac{\textbf{Gross Profit}}{\textbf{Net Sales}}$$

The gross profit margin measures the amount that customers are willing to pay for a company's product, over and above the company's cost for that product. This is the value that the company adds to that of the products it obtains from its suppliers. The gross profit margin also depends heavily on the ability of the sales force to persuade its customers of the value added by the company.

Net Profit Margin

The net profit margin narrows the focus on profitability, and highlights not just the company's sales efforts, but also its ability to keep operating costs down, relative to sales. The formula generally used to determine the net profit margin is:

$$\textbf{Net Profit Margin} = \frac{\textbf{Net Profit}}{\textbf{Net Sales}}$$

Return on Assets

This ratio indicates how profitable a company is relative to its total assets. The Return on Assets (ROA) ratio illustrates how well management is employing the company's total assets to make a profit. The higher the return, the more efficient management is in utilizing its asset base. The ROA ratio is calculated by comparing net income to average total assets, and is expressed as a percentage. There are several ways to measure this return; one useful method is:

$$\textbf{Return on Assets} = \frac{\textbf{Net Profit}}{\textbf{Total Assets}}$$

Return on Equity

This ratio indicates how profitable a company is by comparing its net income to its average shareholders' equity. The Return on Equity Ratio (ROE) measures how much the shareholders earned for their investment in the company. The higher the ratio percentage, the more efficient management is in utilizing its equity base and the better return is to investors. The formula is:

$$\textbf{Return on Equity} = \frac{\textbf{Net Profit}}{\textbf{Shareholders Equity}}$$

The principal difference between the formula for return on assets and for return on equity is the use of equity rather than total assets in the denominator, and it is here that the technique of comparing ratios comes into play. By examining the difference between Return on Assets and Return on Equity, you can largely determine how the company is funding its operations.

If the Return on Equity ratio is much larger than the Return on Assets ratio, you can infer that the company has funded some portion of its operations through borrowing.

Activity Ratios:

Activity ratios, referred to as operating ratios or management ratios, measures how effectively a company is able to generate revenue in the form of cash and sales based on its assets, liability and capital. The more commonly used operating ratios are the average collection period, the inventory turnover, .

Average Collection Period

The average collection period is how long the company takes on average to collect its debts; generally speaking, the shorter the period the better for the company. One formula for this ratio is:

$$\text{Average Collection Period} = \frac{\text{Accounts Receivable}}{\text{Credit Sales / Days}}$$

Where Days is the number of days in the period for which Accounts Receivable and Credit Sales accumulate.

You should interpret the average collection period in terms of the company's credit policies. If, for example, the company's policy as stated to its customers is that payment is to be received within two weeks, then an average collection period of 30 days indicates that collections are lagging. It may be that collection procedures need to be reviewed, or it is possible that one particularly large account is responsible for most of the collections in arrears. It is also possible that the qualifying procedures used by the sales force are not stringent enough.

Regardless of the cause, if the average collection period is over-long, it means that the company is losing profit. The company is not converting cash due from customers into new assets that can, in turn, be used to generate new income.

Inventory Turnover Ratio

The average collection period is This ratio measures the number of times a company's inventory is turned over during a given year. The higher the turnover ratio, the better, since the company with a high turnover requires a smaller investment in inventory than one producing the same level of sales with a low turnover rate. Company management has to be sure, however, to keep inventory at a level that is just right in order not to miss sales.

This ratio indicates the efficiency in turning over inventory and can be compared with the experience of other companies in the same industry. It also provides some indication as to the adequacy of a company's inventory for the volume of business being handled. If a company has an inventory turnover rate that is above the industry average, it means that a better balance is being maintained between inventory and cost of goods sold.

The formula for the Inventory Turnover Ratio is:

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

where the Average Inventory figure refers to the value of the inventory on any given day during the period during which the Cost of Goods Sold is calculated.

The figures for cost of goods sold and average inventory are taken directly from the Statement of Income's cost of sales and the Balance Sheet's inventory. In a situation where you know only the beginning and ending inventory, you would use the average of the two levels: hence the term "average inventory."

“The Effect” Upcoming Issue:

To improve your company ahead of the curve you need to calculate and assess the overall financial health of your business. You need to use your financial data to allocate resources, improve your company’s performance and run your business.

In our upcoming issues of "**THE EFFECT**," we will give managers and business owners the advice they need to increase their impact on financial budgeting, planning and forecasting.

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Your Feedback

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