

Generally accepted accounting principles (GAPP)

The practice and procedure guidelines used to prepare and maintain financial records and reports; authorized by the Accounting Standards Board (ASB).

Financial Statements

1. Income Statement/Profit & Loss account/
Statement of Earnings
2. Balance Sheet/ Statement of Financial Position
3. Stockholders Equity Statement
4. Cash Flows Statement

Income Statement

- **Income Statement:** Provides a financial summary of the firm's operating results during a specified period.
- **Earning Before Interest Taxes (EBIT):** Operating Profit
- **Operating Profit:** Gross Profit– Operating Expenses
- **Earning Per Share (EPS):** (Earnings available for common stockholders)/ (no of shares of common stock outstanding)
- **Dividend Per Share (DPS):** The amount of cash distributed during the period on behalf of each outstanding share of common stock.

Components of Income Statement

Sales revenue	Operating profit/EBIT
Cost of goods sold	Interest expense/financial costs
Gross Profit	Tax costs
Operating expenses	Net profit after tax
Selling expenses	Preferred stock dividend
General and Administrative expenses	Earnings available for common stockholders
Lease expenses	EPS/DPS
Depreciation expenses	

Balance Sheet

- ▶ **Balance Sheet:** Summary statement of the firm's financial position at a given point in time.
- ▶ **Current Assets:** Short-term assets, expected to be converted into cash within 1 year or less.
- ▶ **Current Liabilities:** Short-term liabilities, expected to be paid within 1 year or less.
- ▶ **Long-term debt:** Debts for which payment is not due in the current year.
- ▶ **Assets:** What it owns; **Debt:** What it owes; **Equity:** What was provided by owners;

Structure of a typical balance sheet

Current assets	Current liabilities
Cash Marketable securities Accounts receivable Inventories Total current assets	Accounts payable Notes payable Accruals Total current liabilities Long term debt Total liabilities
Gross fixed assets Land and buildings Machinery and equipment Furniture and fixtures Vehicles, others Total gross fixed assets	Stockholders' equity Preferred stock Common stock Paid in capital Retained earnings
Less: Accumulated depreciation	Total stockholders' equity
Net fixed assets	
Total assets	Total liabilities and stockholders equity

- ▶ **Paid-in capital:** The amount of proceeds in excess of the par value received from the original sale of common stock.
- ▶ **Retained earnings:** The cumulative total of all earnings, net of dividends, that have been retained and reinvested in the firm since its inception.
- ▶ **Statement of stockholders' equity:** Shows all equity account transactions that occurred during a given year.

- ▶ **Statement of retained earning:** Reconciles the net income earned during a given year, and any cash dividends paid, with the change in retained earnings between the start and the end of that year. An abbreviated form of the statement of stockholders' equity.
- ▶ **Statement of cash flows:** Provides a summary of the firm's operating, investment, and financing cash flows and reconciles them with changes in its cash and marketable securities during the period.

Mark each accounts

Account name	(1) Statement	(2) Type of account
Accounts payable	_____	_____
Accounts receivable	_____	_____
Accruals	_____	_____
Accumulated depreciation	_____	_____
Administrative expense	_____	_____
Buildings	_____	_____
Cash	_____	_____

Mark each accounts

Account name	(1) Statement	(2) Type of account
Common stock (at per)	_____	_____
Cost of goods sold	_____	_____
Depreciation	_____	_____
Equipment	_____	_____
General expense	_____	_____
Interest expense	_____	_____
Inventories	_____	_____

Mark each Accounts

Account name	(1) Statement	(2) Type of account
Land	_____	_____
Long-term debts	_____	_____
Machinery	_____	_____
Marketable securities	_____	_____
Notes Payable	_____	_____
Operating expense	_____	_____
Paid-in capital in excess of par	_____	_____

Mark each Accounts

Account name	(1) Statement	(2) Type of account
Paid-in capital in excess of par	_____	_____
Preferred stock	_____	_____
Preferred stock dividends	_____	_____
Retained earnings	_____	_____
Sales revenue	_____	_____
Selling expense	_____	_____
Taxes	_____	_____
Vehicles	_____	_____

Financial Ratios

- Ratio analysis:** Involves methods of calculating and interpreting financial ratios to analyze and monitor the firm's performance.
- ❖ **Cross sectional analysis:** Comparison of different firms' financial ratios at the same point in time; involves comparing the firm's ratios to those of other firm's in its industry or to industry average
 - ❖ **Time-series analysis:** Evaluation of the firm's financial performance over time using financial ratio analysis.

Financial Ratios

Liquidity Ratios	<ol style="list-style-type: none">1. Current Ratio2. Quick (Acid Test) Ratio
Activity Ratios	<ol style="list-style-type: none">1. Inventory Turnover2. Average payment period3. Average collection period4. Total asset turn over
Debt Ratios	<ol style="list-style-type: none">1. Time interested Earned ratio2. Fixed payment Coverage ratio

Profitability Ratios

1. Gross profit Margin
2. Net profit margin
3. Return on Total Assets (ROA)
4. Operating Profit Margin
5. Earning per share (EPS)
6. Return on Common Equity (ROE)

Market Ratios

1. Price/Earnings (P/E) Ratio
2. Market/Book (M/B) Ratio

Liquidity Ratios

$$1. \text{ Current ratio} = \frac{\text{Current assets}}{\text{Current Liabilities}}$$

$$2. \text{ Quick Ratio} = \frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$$

Activity Ratios: Measure the speed with which various accounts are converted into sales of cash-inflows or outflows

$$1. \text{ Inventory turnover} = \frac{\text{Cost of goods sold}}{\text{Inventory}}$$

$$2. \text{ Average collection period} = \frac{\text{Accounts receivable}}{\text{Average sales per day}}$$

$$3. \text{ Average payment period} = \frac{\text{Accounts payable}}{\text{Average purchase per day}}$$

$$4. \text{ Total asset turnover} = \frac{\text{Sales}}{\text{Total assets}}$$

Debt ratio: Measures the proportion of total assets financed by the firm's creditors.

$$1. \text{Debt ratio} = \frac{\text{Total liabilities}}{\text{Total assets}}$$

$$2. \text{Times interest earned ratio} = \frac{\text{Earnings before interest and taxes}}{\text{Interest}}$$

$$3. \text{Fixed - payment coverage ratio} = \frac{\text{Earnings before interest and taxes} + \text{Lease payment}}{\text{Interest} + \text{Lease payment}}$$

Profitability Ratios

$$1. \text{Gross profit margin} = \frac{\text{Sales} - \text{Cost of goods sold}}{\text{Sales}} = \frac{\text{Gross profits}}{\text{Sales}}$$

$$2. \text{Operating profit margin} = \frac{\text{Operating profits}}{\text{Sales}}$$

$$3. \text{Net profit margin} = \frac{\text{Earning available for common stockholders}}{\text{Sales}}$$

$$4. \text{Earning per share} = \frac{\text{Earning available for common stockholders}}{\text{Number of shares of common stock outstanding}}$$

$$5. \text{Return on total assets} = \frac{\text{Earning available for common stockholders}}{\text{Total assets}}$$

$$6. \text{Return on common equity} = \frac{\text{Earning available for common stockholders}}{\text{Common stock equity}}$$

Market Ratios: Relate a firm's market value, as measured by its current share price, to certain accounting values.

$$1. \text{ Price/earn ings (P/E) ratio} = \frac{\text{Market price per share of common stock}}{\text{Earning per share}}$$

$$2. \text{ Book value per share of common stock} = \frac{\text{Common stock equity}}{\text{Number of shares of common stock outstanding}}$$

$$2. \text{ Market/book k (M/B) ratio} = \frac{\text{Market price per share of common stock}}{\text{Book value per share of common stock}}$$

Mathew, Ltd., ended 2006 with a net profit before taxes of TK 218,000. The company is subject to a 40 percent tax rate and must pay Rs. 32,000 in preferred stock dividends before distributing any earnings on the 85,000 shares of common stock currently outstanding.

1. Calculate Mathew's 2006 earning per share (EPS)
2. If the farm paid common stock dividends of Re. 0.80 per share, how much would go to retained earnings?

Rayan Industries
Balance Sheet
December 31, 3006

Assets		Liabilities and Stockholders' Equity	
Cash	Tk. 32,720	Accounts payable	Tk. 120,000
Marketable securities	25,000	Notes payable	_____
Accounts receivable	_____	Accruals	20,000
Inventories	_____	Total current liabilities	_____
Total current assets	_____	Long-term debt	_____
Net fixed assets	_____	Stockholders' equity	Tk. 600,000
Total Assets	<u>Tk. _____</u>	Total liabilities and stockholders' equity	<u>Tk. _____</u>

The following financial data for 2006 are also available:

1. Sales totaled Tk. 1,800,000.
2. The gross profit margin was 25 percent.
3. Inventory turnover was 6.0.
4. There are 365 days in the year.
5. The average collection period was 40 days.
6. The current ratio was 1.60.
7. The total asset turnover ratio was 1.20.
8. The debt ratio was 60 percent.

MAC Printing Ltd., had sales totaling TK 40,000,000 in fiscal year 2006. Some ratios for the company are listed below. Use this information to determine the TK values of various statement and balance sheet accounts as required.

		Calculate
Sales	TK 40,000,000	1. Gross profits
Gross profit margin	80%	2. Cost of goods sold
Operating profit margin	35%	3. Operating profits
Net profit margin	8%	4. Operating expenses
Return on total assets	16%	5. Earnings available for CS
Return on common equity	20%	6. Total assets
Total asset turnover	2	7. Total common stock eq.
Average collection period	62.2 days	8. Accounts receivable

Thank you