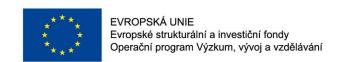


# 1FP571 Special seminar – Advanced Corporate Finance





#### **Profitability**Accounts Receivable Turnover

Measures how soon sales will become cash:

Accounts Receivable Net Sales on Account /

(A/R) Turnover = Avg Accounts Receivable

An alternative measure of the rate at which A/R are being collected

Days Receivable = 365 /

Outstanding Accounts Receivable Turnover

### **Profitability**Inventory Turnover Ratio

Measures how quickly inventory is being sold:

Iventory Cost of Goods Sold (COGS) /

Turnover = Average Inventory

An alternative measure of the rate at which inventory is being sold

Days Receivable = 365 /

Outstanding Accounts Receivable Turnover

#### **Profitability**Fixed Asset Turnover

Measures the relation between sales and the investment in property, plant and equipment (PP&E), i.e. how efficiently is the firm using its fixed assets to generate sales:

Fixed asset Sales /

Turnover = Average Fixed Assets

#### **Profitability**Return on Assets (ROA)

Measures how profitable are company's asstes:

Return [Net Income + (1–Tax Rate)\*(Interest on = Expense) + Minority Interest in

Assets (ROA) Earnings] / Average Inventory

#### **Profitability**Profit Margin for ROA

Measures how profitable are company's sales:

Profit Margin [No

for

**ROA** 

[Net Income + (1–Tax Rate)\*(Interest

Expense) + Minority Interest in

Earnings] / Sales

#### **Profitability**Com. Earnings Leverage Ratio

Common
Earnings =
Leverage
Ratio

(Net Income – Preferred
Dividends) / [Net Income + (1 –
Tax Rate)\*(Interest Expense) +
Minority Interest in Earnings]

#### Profitability Cap. Structure Leverage Ratio

Capital
Structure
Leverage Ratio

Average Total Assets /
Average Common
Shareholders' Equity

### **Profitability**Cost of Goods Sold Percentage

Costs of Goods Sold Percentage Cost of Goods Sold /

= Sales

#### **Profitability**Total Assets Turnover

Total Assets Sales /
Turnover = Average Total Assets

## **Profitability**Selling ad Admin Expense %

Selling and Administrative Expense Percentage Selling and Administrative

Expense Percentage /
Sales

### Profitability Income Tax Expense %

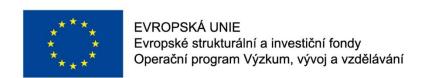
Income Tax
Expense Percentage
(on operating income)

[Income Tax Expense +
 (Tax Rate)\*(Interest
 Expense )] / Sales

#### **Profitability**

#### **REFERENCES**

Wysocki, Peter. Business Analysis Using Financial Statements – Lecture Notes. MIT OpenCourseWare, <a href="https://ocw.mit.edu/courses/15-535-business-analysis-using-financial-statements-spring-2003/pages/lecture-notes/">https://ocw.mit.edu/courses/15-535-business-analysis-using-financial-statements-spring-2003/pages/lecture-notes/</a>





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