

Various topics

Basic Principles – Soft skills

Capital turnover

Capital turnover compares the annual sales of a business to the total amount of its [stockholders' equity](#). The intent is to measure the proportion of [revenue](#) that a company can generate with a given amount of equity. It is also a general measure of the level of capital investment needed in a specific industry in order to generate sales. For example, capital turnover is very high in most services industries, and much lower in the more asset-intensive oil refining industry. As an example of the calculation, if a company has \$20 million of sales and \$2 million of stockholders' equity, then its capital turnover is 10:1.

There are a number of problems with the capital turnover concept that limit its use. These issues are:

- [Leverage](#). A company may incur an excessive amount of debt to fund additional sales, rather than acquiring more equity. The result is high capital turnover, but at an increased risk level.
- [Profits](#). The ratio ignores whether a company is generating a profit, concentrating instead on the generation of sales.
- [Cash flow](#). The ratio ignores whether a company is generated any cash flow.
- [Changes in capital](#). The capital turnover ratio is usually made as of a specific point in time, when the amount of capital may be unusually high or low in comparison to any of a number of points in time prior to the measurement date. This can yield an unusually high or low turnover ratio. The problem can be mitigated by using an average equity figure in the denominator.

Given these issues, valid usage of the capital turnover concept is certainly limited. At best, it can be employed to examine asset investment levels across an entire industry, to gain a general idea of which competitors appear to be making better use of their equity

Cash Conversion Cycle

The cash conversion cycle is a cash flow calculation that attempts to measure the time it takes a company to convert its investment in inventory and other resource inputs into cash. In other words, the cash conversion cycle calculation measures how long cash is tied up in inventory before the inventory is sold and cash is collected from customers.

The cash cycle has three distinct parts. The first part of the cycle represents the current inventory level and how long it will take the company to sell this inventory. This stage is calculated by using the days inventory outstanding calculation.

The second stage of the cash cycle represents the current sales and the amount of time it takes to collect the cash from these sales. This is calculated by using the days sales outstanding calculation.

The third stage represents the current outstanding payables. In other words, this represents how much a company owes its current vendors for inventory and goods purchases and when the company will have to pay off its vendors. This is calculated by using the days payables outstanding calculation.

Formula

The cash conversion cycle is calculated by adding the days inventory outstanding to the days sales outstanding and subtracting the days payable outstanding.

Cash Conversion Cycle

Cash Conversion Cycle = Days Inventory Outstanding + Days Sales Outstanding - Days Payables Outstanding

All three of these smaller calculations will have to be made before the CCC can be calculated.

| Cash Conversion Cycle | | | | |
|---|------------------|----------------------------|-------------------------|-------|
| Days Inventory Outstanding + Days Sales Outstanding - Days Payables Outstanding | | | | |
| Cash Conversion Cycle = | <u>Inventory</u> | <u>Accounts Receivable</u> | <u>Accounts Payable</u> | x 365 |
| | Cost of Sales | Net Credit Sales | Cost of Sales | |

Analysis

The cash conversion cycle measures how many days it takes a company to receive cash from a customer from its initial cash outlay for inventory. For example, a typical retailer buys inventory on credit from its vendors. When the inventory is purchased, a payable is established, but cash isn't actually paid for some time.

The payable is paid within 30 days and the inventory is marketed to customers and eventually sold to a customer on account. The customer then pays for the inventory within 30 days of purchasing it.

The cash cycle measures the amount of days between paying the vendor for the inventory and when the retailer actually receives the [cash](#) from the customer. As with most cash flow calculations, smaller or shorter calculations are almost always good. A small conversion cycle means that a company's money is tied up in inventory for less time. In other words, a company with a small conversion cycle can buy inventory, sell it, and receive cash from customers in less time.

In this way, the cash conversion cycle can be viewed as a sales efficiency calculation. It shows how quickly and efficiently a company can buy, sell, and collect on its inventory.

Example

Tim's Tackle is a retailer that sells outdoor and fishing equipment. Tim buys its inventory from one main vendor and pays its accounts within 10 days in order to get a purchase discount. Tim has a fairly high [inventory turnover ratio](#) for his industry and can collect accounts receivable from his customer within 30 days on average.

Tim's days calculations are as follows:

- DIO represents days inventory outstanding: 15 days
- DSO represents days sales outstanding: 2 days
- DPO represents days payable outstanding: 12 days

Tim's conversion cycle is calculated like this:

| Cash Conversion Cycle |
|---|
| $5 \text{ Days} = 15 \text{ Days} + 2 \text{ Days} - 12 \text{ Days}$ |

As you can see, Tim's cash conversion cycle is 5 days. This means it takes Tim 5 days from paying for his inventory to receive the cash from its sale. Tim would

have to compare his cycle to other companies in his industry over time to see if his cycle is reasonable or needs to be improved.

Cash flow statement

From Wikipedia, the free encyclopedia

In [financial accounting](#), a **cash flow statement**, also known as ***statement of cash flows***,^[1] is a [financial statement](#) that shows how changes in [balance sheet](#) accounts and income affect [cash and cash equivalents](#), and breaks the analysis down to operating, investing and financing activities. Essentially, the cash flow statement is concerned with the flow of cash in and out of the business. The statement captures both the current operating results and the accompanying changes in the [balance sheet](#).^[1] As an analytical tool, the statement of cash flows is useful in determining the short-term viability of a company, particularly its ability to pay bills. International Accounting Standard 7 (IAS 7), is the [International Accounting Standard](#) that deals with cash flow statements.

People and groups interested in cash flow statements include:

- Accounting personnel, who need to know whether the organization will be able to cover payroll and other immediate expenses
- Potential [lenders](#) or [creditors](#), who want a clear picture of a company's ability to repay
- Potential [investors](#), who need to judge whether the company is financially sound
- Potential employees or contractors, who need to know whether the company will be able to afford compensation
- [Shareholders](#) of the business.

Purpose^{[[edit](#)]}

| Statement of Cash Flow - Simple Example for the period 1 Jan 2006 to 31 Dec 2006 | |
|---|----------------|
| Cash flow from operations | \$4,000 |
| Cash flow from investing | (\$1,000) |
| Cash flow from financing | (\$2,000) |
| Net cash flow | \$1,000 |
| Parentheses indicate negative values | |

The cash flow statement was previously known as the **flow of funds statement**.^[2] The cash flow statement reflects a firm's liquidity.

The statement of financial position is a snapshot of a firm's financial resources and obligations at a single point in time, and the [income statement](#) summarizes a firm's financial transactions over an interval of time. These two financial statements reflect the [accrual basis accounting](#) used by firms to match revenues with the expenses associated with generating those revenues. The cash flow statement includes only inflows and

outflows of cash and cash equivalents; it excludes transactions that do not directly affect cash receipts and payments. These non-cash transactions include depreciation or write-offs on bad debts or credit losses to name a few.^[3] The cash flow statement is a [cash basis](#) report on three types of financial activities: operating activities, investing activities, and financing activities. Non-cash activities are usually reported in footnotes.

The cash flow statement is intended to^[4]

1. provide information on a firm's [liquidity](#) and [solvency](#) and its ability to change [cash flows](#) in future circumstances
2. provide additional information for evaluating changes in assets, liabilities and equity
3. improve the comparability of different firms' operating performance by eliminating the effects of different [accounting methods](#)
4. indicate the amount, timing and probability of future cash flows

The cash flow statement has been adopted as a standard financial statement because it eliminates allocations, which might be derived from different accounting methods, such as various timeframes for depreciating fixed assets.^[5]

History and variations^[edit]

Cash basis financial statements were very common before accrual basis financial statements. The "flow of funds" statements of the past were cash flow statements.

In 1863, the [Dowlais Iron Company](#) had recovered from a business slump, but had no [cash](#) to invest for a new [blast furnace](#), despite having made a profit. To explain why there were no funds to invest, the manager made a new financial statement that was called a *comparison balance sheet*, which showed that the company was holding too much [inventory](#). This new financial statement was the genesis of cash flow statement that is used today.^[6]

In the United States in 1973, the [Financial Accounting Standards Board](#) (FASB) defined rules that made it mandatory under [Generally Accepted Accounting Principles](#) (US GAAP) to report sources and uses of funds, but the definition of "funds" was not clear. [Net working capital](#) might be cash or might be the difference between [current assets](#) and current liabilities. From the late 1970 to the mid-1980s, the FASB discussed the usefulness of predicting future cash flows.^[7] In 1987, FASB Statement No. 95 (FAS 95) mandated that firms provide cash flow statements.^[8] In 1992, the International Accounting Standards Board issued International Accounting Standard 7 (IAS 7), *Cash Flow Statement*, which became effective in 1994, mandating that firms provide cash flow statements.^[9]

US GAAP and IAS 7 rules for cash flow statements are similar, but some of the differences are:

- IAS 7 requires that the cash flow statement include changes in both cash and cash equivalents. US GAAP permits using cash alone or cash and cash equivalents.^[5]
- IAS 7 permits bank borrowings (overdraft) in certain countries to be included in cash equivalents rather than being considered a part of financing activities.^[10]
- IAS 7 allows interest paid to be included in operating activities or financing activities. US GAAP requires that interest paid be included in operating activities.^[11]
- US GAAP (FAS 95) requires that when the direct method is used to present the operating activities of the cash flow statement, a supplemental schedule must also present a cash flow statement using the indirect method. The IASB strongly recommends the direct method but allows either method. The IASB considers the indirect method less clear to users of financial statements. Cash flow statements are most commonly prepared using the indirect method, which is not especially useful in projecting future cash flows.

Cash flow activities^[edit]

The cash flow statement is partitioned into three segments, namely:

1. cash flow resulting from operating activities;
2. cash flow resulting from investing activities;

3. cash flow resulting from financing activities.

The money coming into the business is called cash inflow, and [money](#) going out from the business is called cash outflow.

Operating activities[\[edit\]](#)

Operating activities include the [production](#), [sales](#) and delivery of the company's product as well as collecting payment from its customers. This could include purchasing raw materials, building inventory, advertising, and shipping the product.

Under IAS 7, operating cash flows include:[\[11\]](#)

- Receipts for the sale of loans, debt or equity instruments in a trading portfolio
- Interest received on loans
- Payments to suppliers for goods and services
- Payments to employees or on behalf of employees
- Interest payments (alternatively, this can be reported under financing activities in IAS 7)
- buying Merchandise

Items which are added back to [or subtracted from, as appropriate] the net income figure (which is found on the Income Statement) to arrive at cash flows from operations generally include:

- [Depreciation](#) (loss of tangible asset value over time)
- [Deferred tax](#)
- [Amortization](#) (loss of [intangible asset](#) value over time)
- Any gains or losses associated with the sale of a non-current asset, because associated cash flows do not belong in the operating section (unrealized gains/losses are also added back from the income statement).
- Dividends received general reserves

Investing activities[\[edit\]](#)

Examples of Investing activities are

- Purchase or Sale of an asset (assets can be land, building, equipment, marketable securities, etc.)
- Loans made to suppliers or received from customers
- Payments related to mergers and acquisition.

Financing activities[\[edit\]](#)

Financing activities include the inflow of cash from [investors](#) such as [banks](#) and [shareholders](#), as well as the outflow of cash to shareholders as [dividends](#) as the company generates income. Other activities which impact the long-term liabilities and equity of the company are also listed in the financing activities section of the cash flow statement.

Under IAS 7,

- Payments of dividends
- Payments for repurchase of company shares
- For non-profit organizations, receipts of donor-restricted cash that is limited to long-term purposes

Items under the financing activities section include:

- [Dividends](#) paid
- Sale or repurchase of the company's [stock](#)
- Net [borrowings](#)
- Repayment of debt principal, including capital leases

Disclosure of non-cash activities[\[edit\]](#)

Under IAS 7, non-cash investing and financing activities are disclosed in footnotes to the financial statements. Under US General Accepted Accounting Principles (GAAP), non-cash activities may be disclosed in a footnote or within the cash flow statement itself. Non-cash financing activities may include[\[11\]](#)

- Leasing to purchase an asset
- Converting debt to equity
- Exchanging non-cash assets or liabilities for other non-cash assets or liabilities
- Issuing share
- Payment of dividend taxes in exchange for assets

Preparation methods[\[edit\]](#)

The direct method of preparing a cash flow statement results in a more easily understood report.[\[12\]](#) The indirect method is almost universally used, because FAS 95 requires a supplementary report similar to the indirect method if a company chooses to use the direct method.

Direct method[\[edit\]](#)

The direct method for creating a cash flow statement reports major classes of gross cash receipts and payments. Under IAS 7, dividends received may be reported under operating activities or under investing activities. If taxes paid are directly linked to operating activities, they are reported under operating activities; if the taxes are directly linked to investing activities or financing activities, they are reported under investing or financing activities. Generally Accepted Accounting Principles (GAAP) vary from International Financial Reporting Standards in that under GAAP rules, dividends received from a company's investing activities is reported as an "operating activity," not an "investing activity."[\[13\]](#)

Sample cash flow statement using the direct method[\[14\]](#)

| Cash flows from (used in) operating activities | | |
|--|---------|-------|
| Cash receipts from customers | 9,500 | |
| Cash paid to suppliers and employees | (2,000) | |
| Cash generated from operations (sum) | 7,500 | |
| Interest paid | (2,000) | |
| Income taxes paid | (3,000) | |
| Net cash flows from operating activities | | 2,500 |
| Cash flows from (used in) investing activities | | |

| | | |
|---|---------|----------|
| Proceeds from the sale of equipment | 7,500 | |
| Dividends received | 3,000 | |
| Net cash flows from investing activities | | 10,500 |
| Cash flows from (used in) financing activities | | |
| Dividends paid | (2,500) | |
| Net cash flows used in financing activities | | (2,500) |
| . | | |
| Net increase in cash and cash equivalents | | 10,500 |
| Cash and cash equivalents, beginning of year | | 1,000 |
| Cash and cash equivalents, end of year | | \$11,500 |

Indirect method[\[edit\]](#)

The indirect method uses net-income as a starting point, makes adjustments for all transactions for non-cash items, then adjusts from all cash-based transactions. An increase in an asset account is subtracted from net income, and an increase in a liability account is added back to net income. This method converts accrual-basis net income (or loss) into cash flow by using a series of additions and deductions. [\[15\]](#)

Rules (operating activities)[\[edit\]](#)

| To Find Cash Flows from Operating Activities using the Balance Sheet and Net Income | |
|--|--------------------|
| For Increases in | Net Inc Adj |
| Current Assets (Non-Cash) | Decrease |
| Current Liabilities | Increase |

| For All Non-Cash... | |
|---|----------|
| *Expenses (Decreases in Fixed Assets) | Increase |
| <i>*Non-cash expenses must be added back to NI. Such expenses may be represented on the balance sheet as decreases in long term asset accounts. Thus decreases in fixed assets increase NI.</i> | |

The following rules can be followed to calculate Cash Flows from Operating Activities when given only a two-year comparative balance sheet and the Net Income figure. Cash Flows from Operating Activities can be found by adjusting Net Income relative to the change in beginning and ending balances of Current Assets, Current Liabilities, and sometimes Long Term Assets. When comparing the change in long term assets over a year, the accountant must be certain that these changes were caused entirely by their devaluation rather than purchases or sales (i.e. they must be operating items not providing or using cash) or if they are nonoperating items.^[16]

- Decrease in non-cash current assets are added to net income
- Increase in non-cash current asset are subtracted from net income
- Increase in current liabilities are added to net income
- Decrease in current liabilities are subtracted from net income
- Expenses with no cash outflows are added back to net income (depreciation and/or amortization expense are the only operating items that have no effect on cash flows in the period)
- Revenues with no cash inflows are subtracted from net income
- Non operating losses are added back to net income
- Non operating gains are subtracted from net income

The intricacies of this procedure might be seen as,

For example, consider a company that has a net income of \$100 this year, and its A/R increased by \$25 since the beginning of the year. If the balances of all other current assets, long term assets and current liabilities did not change over the year, the cash flows could be determined by the rules above as $\$100 - \$25 = \text{Cash Flows from Operating Activities} = \75 . The logic is that, if the company made \$100 that year (net income), and they are using the accrual accounting system (not cash based) then any income they generated that year which has not yet been paid for in cash should be subtracted from the net income figure in order to find cash flows from operating activities. And the increase in A/R meant that \$25 of sales occurred on credit and have not yet been paid for in cash.

In the case of finding Cash Flows when there is a change in a fixed asset account, say the Buildings and Equipment account decreases, the change is added back to Net Income. The reasoning behind this is that because Net Income is calculated by, $\text{Net Income} = \text{Rev} - \text{Cogs} - \text{Depreciation Exp} - \text{Other Exp}$ then the Net Income figure will be decreased by the building's depreciation that year. This depreciation is not associated with an exchange of cash, therefore the depreciation is added back into net income to remove the non-cash activity.

Rules (financing activities)^[edit]

Finding the Cash Flows from Financing Activities is much more intuitive and needs little explanation. Generally, the things to account for are financing activities:

- Include as outflows, reductions of long term notes payable (as would represent the cash repayment of debt on the balance sheet)
- Or as inflows, the issuance of new notes payable
- Include as outflows, all dividends paid by the entity to outside parties
- Or as inflows, dividend payments received from outside parties

- Include as outflows, the purchase of notes stocks or bonds
- Or as inflows, the receipt of payments on such financing vehicles. [\[citation needed\]](#)

In the case of more advanced accounting situations, such as when dealing with subsidiaries, the accountant must

- Exclude intra-company dividend payments.
- Exclude intra-company bond interest. [\[citation needed\]](#)

A traditional equation for this might look something like,

Example: cash flow of XYZ: [\[17\]\[18\]\[19\]](#)

| XYZ co. Ltd. Cash Flow Statement (all numbers in millions of Rs.) | | | |
|---|--------------------|--------------------|--------------------|
| <i>Period ending</i> | <i>31 Mar 2010</i> | <i>31 Mar 2009</i> | <i>31 Mar 2008</i> |
| Net income | 21,538 | 24,589 | 17,046 |
| Operating activities, cash flows provided by or used in: | | | |
| Depreciation and amortization | 2,790 | 2,592 | 2,747 |
| Adjustments to net income | 4,617 | 621 | 2,910 |
| Decrease (increase) in accounts receivable | 12,503 | 17,236 | -- |
| Increase (decrease) in liabilities (A/P, taxes payable) | 131,622 | 19,822 | 37,856 |
| Decrease (increase) in inventories | -- | -- | -- |
| Increase (decrease) in other operating activities | (173,057) | (33,061) | (62,963) |
| Net cash flow from operating activities | 13 | 31,799 | (2,404) |

| | | | |
|---|------------------|-----------------|-----------------|
| Investing activities, cash flows provided by or used in: | | | |
| Capital expenditures | (4,035) | (3,724) | (3,011) |
| Investments | (201,777) | (71,710) | (75,649) |
| Other cash flows from investing activities | 1,606 | 17,009 | (571) |
| Net cash flows from investing activities | (204,206) | (58,425) | (79,231) |
| Financing activities, cash flows provided by or used in: | | | |
| Dividends paid | (9,826) | (9,188) | (8,375) |
| Sale (repurchase) of stock | (5,327) | (12,090) | 133 |
| Increase (decrease) in debt | 101,122 | 26,651 | 21,204 |
| Other cash flows from financing activities | 120,461 | 27,910 | 70,349 |
| Net cash flows from financing activities | 206,430 | 33,283 | 83,311 |
| Effect of exchange rate changes | 645 | (1,840) | 731 |
| Net increase (decrease) in cash and cash equivalents | 2,882 | 4,817 | 2,407 |

Quick ratio (Acid test ratio)

In [finance](#), the **quick ratio**, also known as the **acid-test ratio** ^[1] is a type of **liquidity ratio** ^[2] which measures the ability of a company to use its *near cash* or quick assets to extinguish or retire its [current liabilities](#) immediately. Quick assets include those [current assets](#) that presumably can be quickly converted to cash at close to their [book values](#). It is the [ratio](#) between quickly available or liquid assets and current liabilities.

A normal liquid ratio is considered to be 1:1. A company with a quick ratio of less than 1 cannot currently fully pay back its current liabilities.

This ratio is considered to be much better and reliable as a tool for assessment of liquidity position of firms. [\[citation needed\]](#)

Quick Ratio = liquid assets / Quick Liabilities

Note that [inventory](#) is excluded from the sum of assets in the quick ratio, but included in the [current ratio](#). Ratios are tests of viability for business entities but do not give a complete picture of the business' health. If a business has large amounts in [accounts receivable](#) which are due for payment after a long period (say 120 days), and essential business expenses and [accounts payable](#) due for immediate payment, the quick ratio may look healthy when the business is actually about to run out of cash. In contrast, if the business has negotiated fast payment or cash from customers, and long terms from suppliers, it may have a very low quick ratio and yet be very healthy.

More detailed analysis of all major payables and receivables in line with market sentiments and adjusting input data accordingly shall give more sensible outcomes which shall give actionable insights.

Generally, the acid test ratio should be 1:1 or higher; however, this varies widely by industry.^[3] In general, the higher the ratio, the greater the company's liquidity (i.e., the better able to meet current obligations using liquid assets).

Shareholder Value (SV)

Shareholder value is the value delivered to the equity owners of a corporation due to management's ability to increase sales, earnings, and [free cash flow](#), which leads to an increase in [dividends](#) and capital gains for the [shareholders](#).

Shareholder value is the financial worth owners of a business receive for owning shares in the company. An increase in shareholder value is created with a company earns a [return on invested capital](#) that is greater than its weighted average cost of capital. Put more simply, value is created for shareholders when the business performs better than they expect it to.

Creation of Shareholder Value



When

$$ROIC > WACC$$

Where;

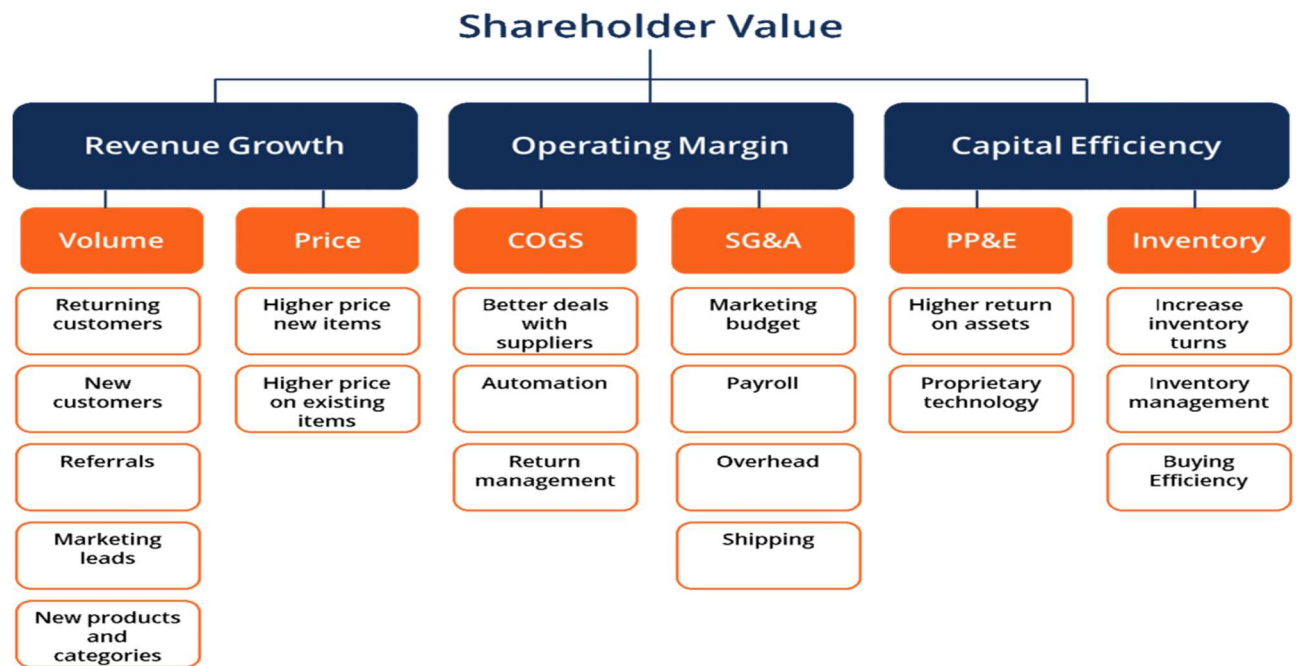
ROIC = Return on Invested Capital

WACC = Weighted Average Cost of Capital

Since the value a company and its shares are based on the net present value of all future cash flows, that value can be increased or decreased by changes in cash flow and changes in the discount rate. Since the company has little influence over discount rates, its managers focus on investing capital effectively to generate more cash flow with less risk.

How to Create Shareholder Value

In order to maximize shareholder value, there are three main strategies for driving profitability in a company: (1) revenue growth, (2) operating margin and (3) capital efficiency. We will discuss in the following sections the major factors in boosting each of the three measures.



#1 Revenue Growth :

For any goods and services businesses, sales revenue can be improved through the strategies of sales volume increase or sales prices inflation.

Increasing Sales Volume : A company would want to retain its current customers and keep them away from competitors to maintain its market share. It should also attract new customers through referrals from existing customers, marketing and promotions, new products and services offerings, and new revenue streams.

Raising Sales Price : A company may increase current product prices as a one-time strategy or gradual price increases throughout several months, quarters, or years to achieve revenue growth. It can also offer new products of advanced qualities and features and price them at higher ranges.

Ideally, a business can combine both higher volume and higher prices to significantly increase revenue.

#2 Operating Margin

Beside maximizing sales, a business must identify feasible approaches to cost reductions leading to optimal operating margins. While a company should strive to reduce all its expenses, COGS (Cost of Goods Sold) and SG&A (Selling, General, and Administrative) expenses are usually the largest categories that need to be efficiently managed and minimized.

Cost of Goods Sold (COGS) : When a company builds a good relationship with its suppliers, it can possibly negotiate with suppliers to reduce material prices or receive discounts on large orders. It may also form a long-term agreement with the suppliers to secure its material source and pricing.

Many companies use automation in their manufacturing processes to increase efficiency in production. Automation not only reduces labor and material costs, but also improves the quality and precision of the products and thus largely reduces defective and return rates.

Return management is the process by which activities associated with returns and reverse logistics are managed. It is an important factor in cost reduction because a good return management process helps the company manage the product flow efficiently and identify ways to reduce undesired returns by customers.

Selling, General, and Administrative (SG&A) Expenses : SG&A is usually one of the largest expenses in a company, therefore being able to minimize them will help the company achieve an optimal operating margin. The company should tightly control its marketing budget when planning for next year's spending. It should also carefully manage its payroll and overhead expenses by evaluating them periodically and cutting down unnecessary labor and other costs.

Shipping cost is directly associated with product sales and returns. Therefore, good return management will help reduce the cost of goods sold as well as logistic cost.

#3 Capital Efficiency

Capital efficiency is the ratio between dollar expenses incurred by a company and dollars that are spent to make a product or service, which can be referred to as ROCE (Return on Capital Employed) or the ratio between EBIT (Earnings Before Interest and Tax) over Capital Employed. Capital efficiency reflects how efficiently a company is deploying its cash in its operation.

$$\text{ROCE} = \frac{\text{EBIT}}{\text{Capital Employed}}$$

Capital employed is the total amount of capital a company uses to generate profit, which can be simplified as total assets minus current liabilities. A higher ROCE indicates a more efficient use of capital to generate shareholder value, and it should be higher than the company's capital cost.

Property, Plant, and Equipment (PP&E) : To achieve high capital efficiency, a company would first want to achieve a high return on assets (ROA), which measures the company's net income generated by its total assets.

Over time, the company might also shift to developing its proprietary technology, which is a system, application or tool owned by a company that provides a competitive advantage to the owner. The company can then profit from utilizing this asset or licensing the technology to other companies. Proprietary technology is an optimal asset to possess because it increases capital efficiency to a great extent.

Inventory : Inventory is often a major component of a company's total asset, and the company would always want to increase its inventory turnover, which equals to net sales divided by average inventory. A higher inventory turnover ratio means that more revenues are generated given the amount of inventory. Increasing inventory turns also reduces holding costs, consisting of storage space rent, utilities, theft and other expenses. It can be achieved by effective inventory management, which involves constant monitoring and controlling of inventory orders, stocks, returns or obsolete items in the warehouse.

Besides, inventory buying efficiency can be greatly improved by using the Just-in-time (JIT) system. Costs are only incurred when the inventory goes out and new orders are being placed, which allows companies to minimize costs associated with keeping and discarding excess inventory.

Shareholder Value in Practice

There are so many factors that influence shareholder value it can be very difficult to accurately attribute the causes in its rise or fall.

Managers of businesses constantly speak of "generating shareholder value" but it is often more of a soundbite than an actual practice. Due to a host of complications, including executive compensation incentives and principal-agent issues, the primacy of shareholder value can sometimes be called into question.

Businesses are influenced by many outside forces and thus the impact of management vs external factors can be very hard to measure.

Standard cost

A standard cost has been described as a *predetermined cost*, an *estimated future cost*, an *expected cost*, a *budgeted unit cost*, a *forecast cost*, or a *"should be" cost*. Standard costs are often a part of a manufacturer's annual profit plan and operating budgets. Standard costs will be established for the following year's direct materials, direct labor, and manufacturing overhead. If standard costs are used, there will be:

- a standard cost for each unit of input (e.g., \$20 per hour of direct labor)
- a standard quantity of each input for each unit of output (e.g., 2 hours of labor for each product)

- a standard cost for each unit of output (e.g., \$20 X 2 hours = \$40 of direct labor per product)
- Under a standard cost system, the standard costs of the manufacturing activities will be recorded in the inventories and the cost of goods sold accounts. Since the company must pay its vendors and production workers the actual costs incurred, there are likely to be some differences. The difference between the standard costs and the actual manufacturing costs is referred to as a [cost variance](#) and will be recorded in separate variance accounts. Any balance in a variance account indicates that the company is deviating from the amounts in its profit plan.
- While standard costs can be a useful management tool for a manufacturer, its external financial statements must comply with the cost principle and the matching principle. Therefore, significant variances must be reviewed and properly reported as part of the cost of goods sold and/or inventories.

[AccountingCoach PRO](#) includes forms to assist in a better understanding of standard costs and their related

Χρηματοοικονομικοί Αριθμοδείκτες

1 Δείκτης γενικής ρευστότητας: σύνολο κυκλοφορούντος ενεργητικού / σύνολο

βραχυπρόθεσμων υποχρεώσεων :

$$15.306 / 31.209 = \mathbf{0,49} \text{ φορές}$$

Ο αριθμοδείκτης αυτός δείχνει το μέτρο ρευστότητας μιας επιχείρησης και το περιθώριο ασφαλείας, ώστε αυτή να είναι σε θέση να ανταποκριθεί στην πληρωμή των καθημερινών απαιτητών υποχρεώσεων. Όσο πιο προβλέψιμες είναι οι εισροές χρημάτων μιας επιχείρησης τόσο είναι γενικότερα αποδεκτός ένας πιο χαμηλός δείκτης, αν και αυτό είναι συνάρτηση κυρίως του κλάδου στον οποίο ανήκει η επιχείρηση.

2 Δείκτης ταχύτητας κυκλοφορίας ενεργητικού: κύκλος εργασιών / γενικό σύνολο ενεργητικού :

$$106.856 / 44.649 = \mathbf{2,4} \text{ φορές}$$

Ο εν λόγω αριθμοδείκτης παρέχει ενδείξεις για το πόσο η επιχείρηση χρησιμοποιεί εντατικά τα περιουσιακά της στοιχεία προκειμένου να πραγματοποιεί τις πωλήσεις της. Από αυτό φαίνεται αν υπάρχει υπερεπένδυση κεφαλαίων στην επιχείρηση σε σχέση με το ύψος των πωλήσεών της. Βέβαια, τα στοιχεία αυτού του δείκτη επηρεάζονται σε μεγάλο βαθμό από τη μέθοδο των αποσβέσεων που ακολουθεί η διοίκηση της εταιρείας, δηλαδή από το αν ακολουθείται πολιτική αυξανόμενης ή σταθερής απόσβεσης. Γενικότερα, όσο υψηλότερος είναι ο δείκτης αυτός τόσο πιο αποτελεσματικά έχουν χρησιμοποιηθεί τα περιουσιακά της στοιχεία. Επίσης, είναι χρήσιμο να γίνεται σύγκριση αυτού του δείκτη με τις ισορροπίες του κλάδου.

3 Δείκτης ταχύτητας κυκλοφορίας αποθεμάτων: κόστος πωλήσεων / αποθέματα :

$$84.347 / 10.523 = 8, 365/8 = 46 \text{ ημέρες}$$

Ο αριθμοδείκτης αυτός επιτρέπει να δούμε πόσες φορές ανανεώθηκαν τα αποθέματα της επιχείρησης σε σχέση με τις πωλήσεις της μέσα στη χρήση. Χρησιμοποιείται δηλαδή για να διαπιστωθεί η ταχύτητα με την οποία τα αποθέματα διατέθηκαν και αντικαταστάθηκαν κατά τη διάρκεια της χρήσης. Αν διαιρέσουμε το 365 (συνολικές ημέρες του έτους) με τον αριθμό αυτόν διαπιστώνουμε τον αριθμό των ημερών που παρέμειναν τα αποθέματα στην επιχείρηση ώσπου να πωληθούν.

4 Δείκτης ταχύτητας είσπραξης απαιτήσεων: κύκλος εργασιών / απαιτήσεις :

$$106.856 / 1.593 = 67 \text{ ημέρες}$$

Ο συγκεκριμένος δείκτης καταδεικνύει αν οι απαιτήσεις μιας επιχείρησης είναι πολύ μεγάλες σε σύγκριση με τις πωλήσεις της. Ανάλογος με την ταχύτητα είσπραξης των απαιτήσεων είναι ο χρόνος δέσμευσης των απαιτήσεων. Μεγάλη ταχύτητα στην είσπραξη των απαιτήσεων σημαίνει μικρότερη πιθανότητα ζημιών από επισφαλείς πελάτες. Η παρακολούθηση της τάσης είναι διαχρονικά χρήσιμη για την αξιολόγηση της ποιότητας και της ρευστότητας των απαιτήσεων.

5 Δείκτης κάλυψης τόκων: κέρδη προ τόκων και φόρων / σύνολο χρεωστικών τόκων:

$$2.470 / 338 = 7,3 \text{ φορές}$$

Ο αριθμοδείκτης αυτός φανερώνει τη σχέση μεταξύ των καθαρών κερδών μιας επιχείρησης και των τόκων με τους οποίους αυτή επιβαρύνεται μέσα στη χρήση για τα ξένα κεφάλαια. Αποτελεί δηλαδή ένα μέτρο της δανειακής κατάστασής της σε σχέση με τη δυναμικότητά της να επιτυγχάνει κέρδη, καθώς εμφανίζει την ικανότητά της να εξοφλεί τους τόκους των ξένων κεφαλαίων από τα κέρδη της.

6 Δείκτης οικονομικής μοχλεύσεως: γενικό σύνολο ενεργητικού / σύνολο ιδίων κεφαλαίων :

$$44.649 / 12.798 = 3,4 \text{ φορές}$$

Με τον εν λόγω δείκτη παρατηρούμε την επίδραση που ασκεί η χρησιμοποίηση των δανειακών κεφαλαίων στην αποδοτικότητα των ιδίων κεφαλαίων της εταιρείας. Ανάλογα με το επίπεδο του δείκτη μεγαλύτερος, ίσος ή μικρότερος της μονάδας η επίδραση από τη χρήση ξένων κεφαλαίων στα κέρδη της επιχείρησης είναι αντίστοιχα θετική και επωφελής, μηδενική ή αρνητική.

7 Δείκτης αποδοτικότητας ιδίων κεφαλαίων: καθαρά κέρδη χρήσης / σύνολο ιδίων κεφαλαίων :

$$1.849 / 12.798 = 14,45\%$$

Ο αριθμοδείκτης αυτός απεικονίζει την κερδοφόρα δυναμικότητα μιας επιχείρησης και παρέχει ένδειξη του κατά πόσο επιτεύχθηκε ο στόχος πραγματοποίησης ενός ικανοποιητικού αποτελέσματος από τη χρήση των κεφαλαίων του μετόχου. Με άλλα λόγια, μετρά την αποτελεσματικότητα με την οποία τα κεφάλαια των φορέων της επιχείρησης απασχολούνται σε αυτήν. Αποτελεί τον βασικό δείκτη τον οποίο η διοίκηση μιας εταιρείας σε περίπτωση θετικού αποτελέσματος τείνει να προβάλλει με τον πιο επιφανή τρόπο στον ετήσιο απολογισμό χρήσης.

8 Δείκτης αποδοτικότητας ενεργητικού: καθαρά κέρδη χρήσης / σύνολο ενεργητικού X 100 :

$$1.849 / 44.649 = 4,14\%$$

Ο συγκεκριμένος αριθμοδείκτης μετράει την απόδοση των συνολικών περιουσιακών στοιχείων μιας επιχείρησης και επιτρέπει την αξιολόγηση της αποτελεσματικότητας της λειτουργίας της. Ο δείκτης φανερώνει την ικανότητά της να μπορεί να επιζήσει οικονομικά και να προσελκύσει κεφάλαια που προσφέρονται για επένδυση, «ανταμείβοντάς» τα ανάλογα.

9 Δείκτης μεικτού κέρδους: μεικτά κέρδη εκμετάλλευσης / κύκλος εργασιών :

$$22.508 / 106.856 = 21\%$$

Ο αριθμοδείκτης αυτός, γνωστός και ως μεικτό περιθώριο κέρδους, είναι πολύ σημαντικός διότι παρέχει ένα μέτρο αξιολόγησης της αποδοτικότητας των επιχειρήσεων. Δείχνει δηλαδή τη λειτουργική αποτελεσματικότητα μιας επιχείρησης και την πολιτική τιμών αυτής. Όσο μεγαλύτερος είναι ο αριθμοδείκτης μεικτού κέρδους τόσο καλύτερη από απόψεως κερδών είναι η θέση της επιχείρησης διότι μπορεί να αντιμετωπίσει, χωρίς δυσκολία, μια ενδεχόμενη αύξηση του κόστους των πωλούμενων προϊόντων της. Ένας υψηλός δείκτης μεικτού κέρδους δείχνει την ικανότητα της διοίκησης μιας επιχείρησης να επιτυγχάνει φθηνές αγορές και να πωλεί σε υψηλές τιμές.

10 Δείκτης καθαρού κέρδους: καθαρά κέρδη χρήσης / κύκλος εργασιών :

$$1.849 / 106.856 = 1,73\%$$

Ο αριθμοδείκτης αυτός, γνωστός και ως καθαρό περιθώριο κέρδους, προσδιορίζει το κέρδος από τις λειτουργικές δραστηριότητες, δηλαδή το ποσοστό κέρδους που μένει στην επιχείρηση μετά την αφαίρεση από τις καθαρές πωλήσεις του κόστους πωληθέντων και των λοιπών εξόδων. Όσο μεγαλύτερος είναι ο αριθμοδείκτης τόσο πιο επικερδής είναι η επιχείρηση.

Ο δείκτης «κεφαλαιοποίηση / πωλήσεις»

Η σχέση μεταξύ της χρηματιστηριακής αξίας (κεφαλαιοποίησης) και του κύκλου εργασιών (πωλήσεων) μιας εισηγμένης στο Χρηματιστήριο εταιρείας

Ο λόγος «κεφαλαιοποίηση / πωλήσεις» – price / sales ratio (PSR) δείχνει πόσο δημοφιλής είναι

μια εταιρεία στους επενδυτικούς κύκλους με βάση την ικανότητά της να «παράγει» πωλήσεις σε μια συγκεκριμένη χρονιά.

Margin vs Markup

Posted on 03/05/2009 by Paris Koutroumanos

Ένα από τα πιο σοβαρά θέματα που αντιμετωπίζουν οι άνθρωποι που ασχολούνται με το εμπόριο είναι ο υπολογισμός του μικτού κέρδους με το οποίο μεταπωλούν τα εμπορεύματά τους. Αφορμή για το άρθρο στάθηκε μια συζήτηση που είχαμε τυχαία με ένα φίλο μας, νέο επιχειρηματία που μεταπουλά είδη γάμου και που σε μια φιλική συζήτηση διαπίστωσε ότι τελικά δεν «δουλεύει» με ποσοστό 10% , όπως πίστευε, αλλά λιγότερο. (Όλα τα νούμερα στο άρθρο είναι υποθετικά).

Ας υποθέσουμε ότι ένα κατάστημα λιανικής αγοράζει χονδρικός ένα προϊόν 100€ και θέλει να το μεταπουλάει με λιανικό κέρδος 10%. Το συχνό λάθος που γίνεται εδώ είναι ότι οι περισσότεροι επιχειρηματίες ανοίγουν το συρτάρι, παίρνουν το κομπιουτεράκι και πληκτρολογούν:

$$100+10\% = \text{ και παίρνουν σαν αποτέλεσμα } 110$$

Το λάθος έγκειται στο γεγονός ότι με αυτόν τον τρόπο υπολογίζουν την τιμή πώλησης με μια προσαύξηση που στους αγγλικούς εμπορικούς όρους την ονομάζουμε **Markup** (μαρκ-απ).

Το λάθος είναι πιο ξεκάθαρο να φανεί στην περίπτωση που ο έμπορος αποφασίσει μετά από ένα διάστημα, με σκοπό να διώξει όλο απόθεμα του, να βάλει μια προσφορά με έκπτωση 10% , ώστε να πουλήσει χωρίς «χασούρα» τα τελευταία κομμάτια. Ξαναπαίρνει το κομπιουτεράκι και πληκτρολογεί

$$110-10\% \text{ και το αποτέλεσμα που θα πάρει είναι } 99,$$

δηλαδή εάν κάνει έκπτωση 10% θα «μπει μέσα και ένα ευρώ»!

Το λάθος εξηγείται ως εξής: Ως ποσοστό κέρδους **Margin** θεωρείται το ποσοστό που εξάγεται από τον εξής τύπο:

$$(\text{Τιμή Πώλησης} - \text{Τιμή αγοράς}) / \text{Τιμή πώλησης}$$

Στο παράδειγμα μας $(110-100)/110 = 10/110 = 0,0909$ δηλαδή ποσοστό κέρδους 9,09% και όχι 10% !

Οπότε, εάν θέλουμε να πουλήσουμε κάτι που αγοράσαμε 100€ με 10% κέρδος πρέπει να πληκτρολογήσουμε στο κομπιουτεράκι μας $100 / 90\% = 111,11$

Τόσο πρέπει να το πουλήσουμε αν θέλουμε να έχουμε 10% κέρδος. Εάν σε αυτό το ποσό αφαιρέσουμε το 10% , δηλαδή, $111,11 - 10\% = 100$ μας δίνει 100, όσο δηλαδή το αγοράσαμε. Προσοχή λοιπόν όταν υπολογίζετε τιμές πώλησης και μην ξεχνάτε ότι το Margin είναι αυτό που σας ενδιαφέρει και όχι το Markup.