

FORMULAS OF MGT201 CHAPTER NO 3 ANALYSIS OF FINANCIAL STATEMENTS

1. $\text{Asset} + \text{Expense} = \text{Liabilities} + \text{Shareholders' Equity} + \text{Revenue}$
2. $\text{Current liabilities} = \text{Account Payables} + \text{Short Term Loans} + \text{Accrued Expenses}$
3. $\text{Net working Capital} = \text{Current Assets} - \text{Current Liabilities}$
4. $\text{Total Equity} = \text{Common Equity} + \text{Paid In Capital} + \text{Retained Earnings}$
(Retained Earnings is NOT cash always)
5. $\text{Assets} - \text{Liabilities} = \text{Equity} = \text{Net Worth}$
6. $\text{Revenue} - \text{Expense} = \text{Income}$
7. $\text{Sales revenue} - \text{Cost of Goods Sold} = \text{Gross Profit (Revenue)}$
8. $\text{Gross Revenue} - \text{Admin \& Operating Expenses} = \text{Operating Revenue}$
9. $\text{Operating Revenue} - \text{Other Expenses} + \text{Other Revenue} = \text{EBIT}$
10. $\text{EBIT} - \text{Financial Charges \& Interest} = \text{EBT Note: Leasing Treatment}$
11. $\text{EBT} - \text{Tax} = \text{Net Income}$
12. $\text{Net Income} - \text{Dividends} = \text{Retained Earnings}$
Net Income is NOT cash (it can't pay for bills), EBIT stands for Earning Before Interest and Tax, EBT stands for Earning Before Tax.
13. $\text{Total Equity} = \text{Common Par Stock issued} + \text{Paid In Capital} + \text{Retained Earnings.}$
14. $\text{Current ratio} = \text{Current Assets} / \text{Current Liabilities}$
15. $\text{Quick/Acid Test ratio} = (\text{Current Assets} - \text{Inventory}) / \text{Current Liabilities}$
16. $\text{Average Collection Period} = \text{Average Accounts Receivable} / (\text{Annual Sales} / 360)$
17. $\text{Profit Margin (on sales)} = (\text{Net Income} / \text{Sales}) \times 100$
18. $\text{Return on Assets} = (\text{Net Income} / \text{Total Assets}) \times 100$
19. $\text{Return on equity} = (\text{Net income} / \text{Common Equity})$
20. $\text{Inventory Turnover} = \text{Sales} / \text{inventories}$
21. $\text{Total Assets Turnover} = \text{Sales} / \text{Total Assets}$
22. $\text{Debt-Assets} = \text{Total Debt} / \text{Total Assets}$
23. $\text{Debt-Equity} = \text{Total Debt} / \text{Total Equity}$
24. $\text{Time-Interest-Earned} = \text{EBIT} / \text{Interest Charges}$
25. $\text{Price Earning Ratio} = \text{Market Price per share} / \text{*Earning per share}$
26. $\text{Market / Book Ratio} = \text{Market Price per share} / \text{Book Value per share}$
27. $\text{*Earning Per Share (EPS)} = \text{Net Income} / \text{Average Number of Common Shares Outstanding}$
28. $\text{MVA (Rupees)} = \text{Market Value of Equity} - \text{Book Value of Equity Capital}$
29. $\text{EVA (Rupees)} = \text{EBIT (or Operating Profit)} - \text{Cost of Total Capital}$
MVA stands for Market Value Added and EVA stands for Economic Value Added