



UNIVERSITY OF THE PEOPLE

BUS 4404-01 PRINCIPLES OF FINANCE 2 - AY2024-T3

WRITTEN ASSIGNMENT UNIT 1

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CURRENT RATIO: -

The Current Ratio demonstrates an organization's liquidity and capacity to pay short-term obligations within a year.

The Current Ratio equation is Total current assets divided by total current liabilities.

$$940,000/200,000$$

$$=4.7$$

QUICK RATIO: -

This measures a company's ability to meet short-term obligations with liquid assets. Also called the liquidity ratio, it assesses the company's capacity to transform near-cash assets into cash to pay current liabilities (Seth, 2023).

The formula is (cash & cash equivalent marketable securities + accounts receivable) divided by current liabilities.

$$= (500,000+350,000)/200,000$$

$$=4.25$$

DEBT-TO-TOTAL ASSETS RATIO: -

The debt to total assets ratio displays the percentage of a company financed by creditors versus the percentage held by shareholders. It is one of three metrics analyzing debt capacity along with the debt ratio and debt-to-equity ratio.

Total debt/total asset

$$1,000,000/2,375,000$$

$$=0.42$$

EARNINGS-PER-SHARE (EPS): -

EPS equals a company's profit divided by its total common shares outstanding, indicating profitability. It's commonly adjusted for extraordinary items and potential dilution. The higher the EPS, the more profitable the company is viewed (Fernando, 2023).

EPS= net income – preferred dividends/weighted average number of shares outstanding

$$\text{Net income} = \$160,000$$

$$\text{Less: Dividends paid} = \$50,000 \text{ (from Statement of Retained Earnings)}$$

$$\text{Net income available for common stockholders} = \$160,000 - \$50,000 = \$110,000$$

Common stock is \$0.50 par value per share.

$$\text{Common stock value (from balance sheet)} = \$100,000$$

$$\text{Par value per share} = \$0.50$$

$$\text{So, number of shares outstanding} = \$100,000 / \$0.50 \text{ per share} = 200,000 \text{ shares}$$

$$\text{Earnings per share} = \text{net income available for common stockholders} / \text{Number of shares outstanding}$$

$$= \$110,000 / 200,000 \text{ shares}$$

$$= \$0.55 \text{ per share}$$

MARKET CAPITALIZATION: -

The total dollar market value of a company's outstanding shares is its market capitalization.

Commonly known as a market cap, it is calculated by multiplying the company's outstanding shares by the current share price. The formula is the number of shares times market price per share.

$$= (100,000/0.5) * \$16$$

$$= (200,000) * 16$$

$$= 3,200,000$$

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References:

Fernando, J. (2023, December 20). Earnings per share (EPS): What it means and how to calculate it. Investopedia. <https://www.investopedia.com/terms/e/eps.asp>

Seth, S. (2023, December 14). Quick ratio formula with examples, pros and cons. Investopedia. <https://www.investopedia.com/terms/q/quickratio.asp>