

Lecture 3

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1 Objectives

- Global vision of Financial Management, I/S, B/S, CF
- Understand the fundamental concepts, language and practices of accounting and finance.
- Understand and manage accounting information to make effective decisions that create value.
- Acquire a set of general tools/techniques that are crucial to making sound business decisions.
- Apply those tools to a number of business cases and examples.
- United States' Generally Accepted Accounting Principles (GAAP) & International Financial Reporting Standards (IFRS)

1.1 IFRS Spain

- Spanish General Accounting Plan
 - Part 2: Accounting framework (p.27)
 - Accounting Principles
 - Components of annual accounts
 - Part 5: Standard format for annual accounts (p.113)
 - Part 7: Chart of accounts (p.179)
 - Part 8: Definitions and accounting entries (p.205)
-

1.2 Financial Statements

- The **balance sheet** includes assets (goods and producing assets) and financing sources (equity, debt, and reinvestments from net earnings) as of a point in time.
- The **income statement** is a measure of operations, the activities involved in selling the goods and services: EBITDA, EBIT, net income...
- The **statement of cash flows** reports the cash inflows and outflows associated with the operating, investing, and financing activities of the business.
- The **statement of shareholders' equity** keeps track of the investments made by the shareholders—either through equity investments or reinvested earnings—reduced by dividends paid to the shareholders.

1.3 Financial Statements

- Balance Sheet
 - Summarizes a company's assets, liabilities and shareholders' equity at one moment in time.
 - Give stakeholders an idea as to what the company **owns** and **owes**, as well as the amount invested by the shareholders.
- A standard company Balance Sheet has three parts:
 - Assets; what the company **owns**. Anything tangible (cash, trade receivables, inventories, buildings, equipment, etc.) or intangible (copyrights, goodwill, trademarks, patents,...) that is capable of being owned or controlled to produce value and that is held to have positive economic value.
 - Liabilities are an organization's responsibilities that come from past actions or events. To settle these liabilities, the organization may have to give up assets, provide services, or do something that results in an economic cost in the future.

- Shareholders' equity; represents the remaining interest in assets of a company, after all liabilities are paid.
- Balance Sheet is a snapshot (STATIC picture) of the company's financial position at one point in time (a single moment in time).

1.4 Financial Reports

Statement	Information	Purpose
Balance Sheet	Investments and Sources of funding	Financial Position, Financial Health
Income Statement	Revenues, Expenses and Results	Profitability, Margin
Cash Flow Statement	Collections, Payments and Cash generated	Uses and Sources of Cash

1.5 Balance Sheet

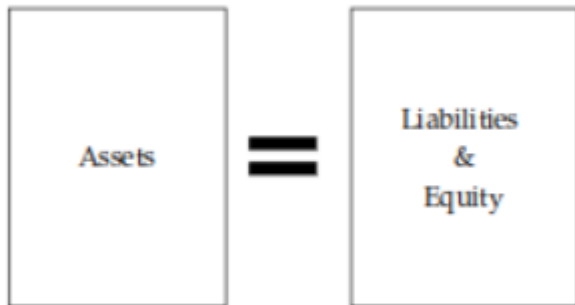
$$\text{Assets} - \text{Liabilities} = \text{Worth}$$

- “What you have, minus what you own, is what you're worth”
- “have” “owe” “value to owners”

$$\text{Assets} = \text{Liabilities} - \text{Worth}$$

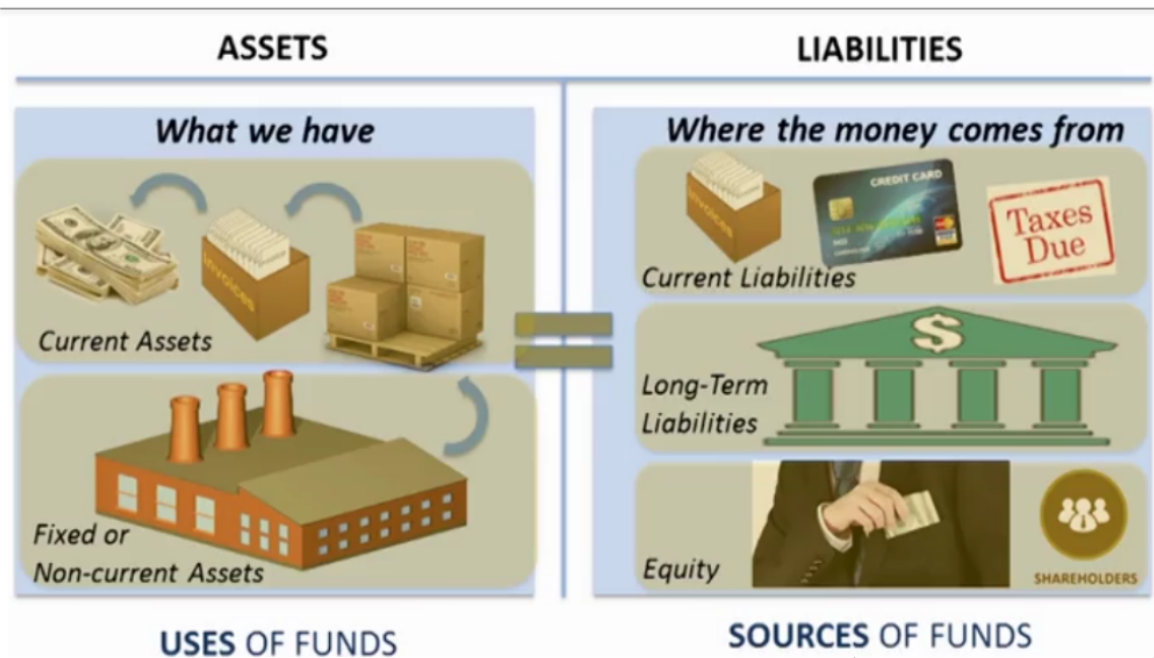
- Shareholder's equity must equal assets minus liabilities.
 - Shareholders equity is the WEALTH of the company.
 - This equation must always balance
-

1.6 Balance Sheet



- Shows how assets were financed
 - Either by **borrowing** or **owners equity**

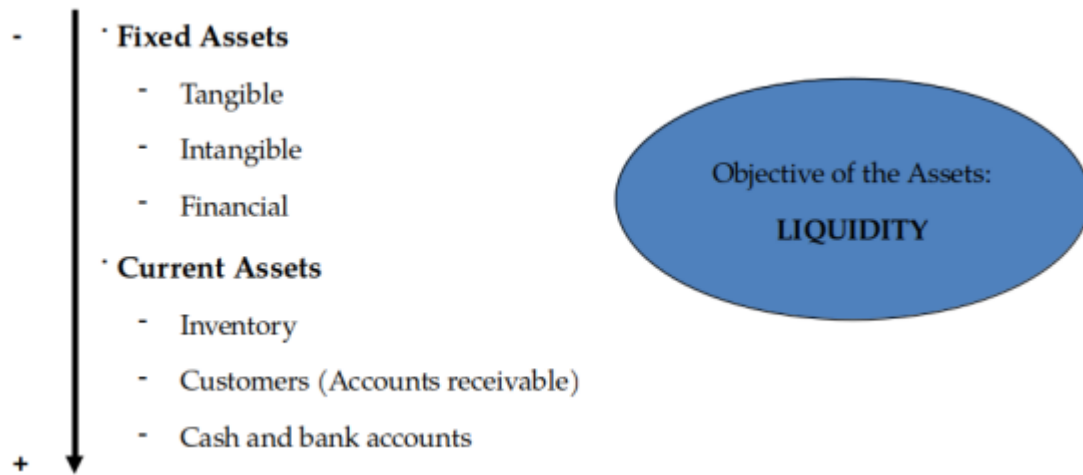
1.7 Balance Sheet



1.8 Balance Sheet

ASSETS	
-	Intangible assets
-	Fixed Assets (plant, property and equipment)
-	Financial assets
-	Inventories
-	Accounts Receivables
-	Short-terms Investments
-	Cash

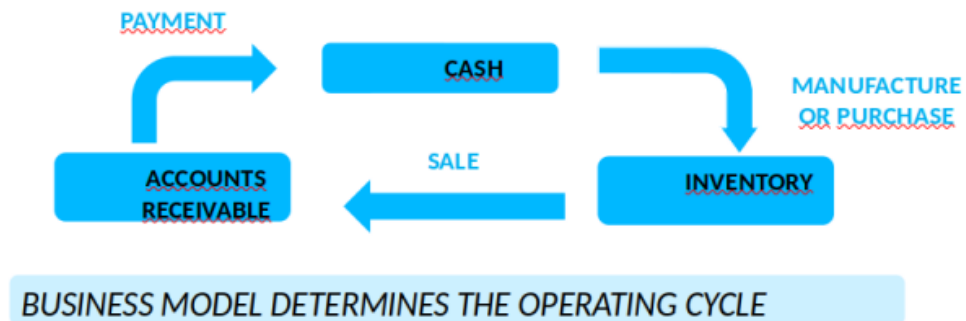
1.9 Balance Sheet



2 Balance Sheet

Operating Cycle

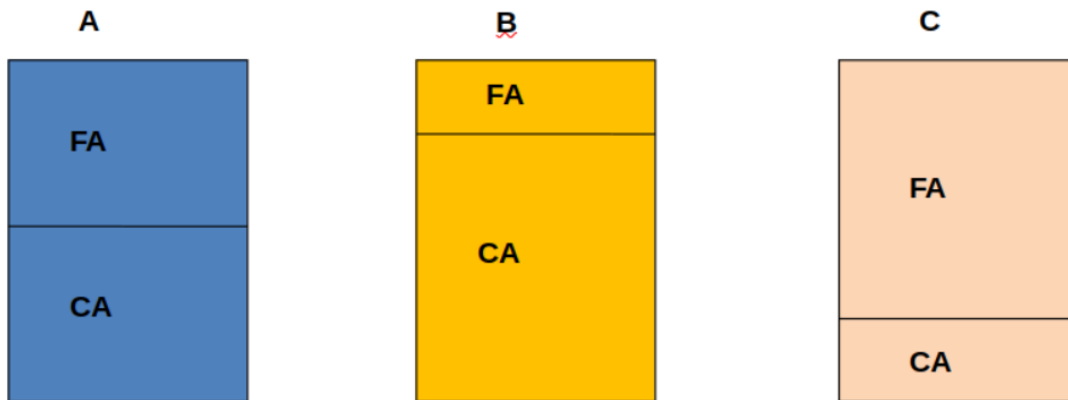
It depends on the business model:



2.1 Balance Sheet

💡 Question

1) What types of companies would you classify into each of the following balance sheet asset structures?



2.2 Balance Sheet

A	B	C
Retail	- Service based companies	- Transport companies
Plenty of stores	- Startups (tech-driven)	- Lots of trucks
Plenty of inventory	- Low fixed assets, money received in cash	- Industrial companies
		- High FA (Fixed Assets) - use lots of buildings

2.3 Balance Sheet

2.3.1 Non-current Assets / Fixed Assets

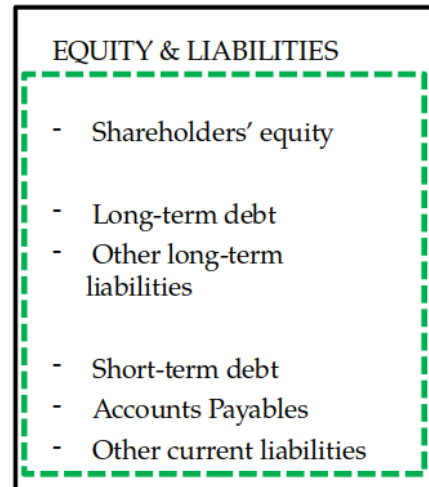
- Assets used in the operations of a business (not for resale) that provided benefits to the company extending **beyond the current operating period**.
 - Long-lived assets
 - Land
 - Property, Plant and Equipment (PP&E)
 - Intangible assets
 - * Goodwill
 - * Patents
 - * Trademarks
 - * Copyrights
 - Investments
-

2.4 Liabilities and equity

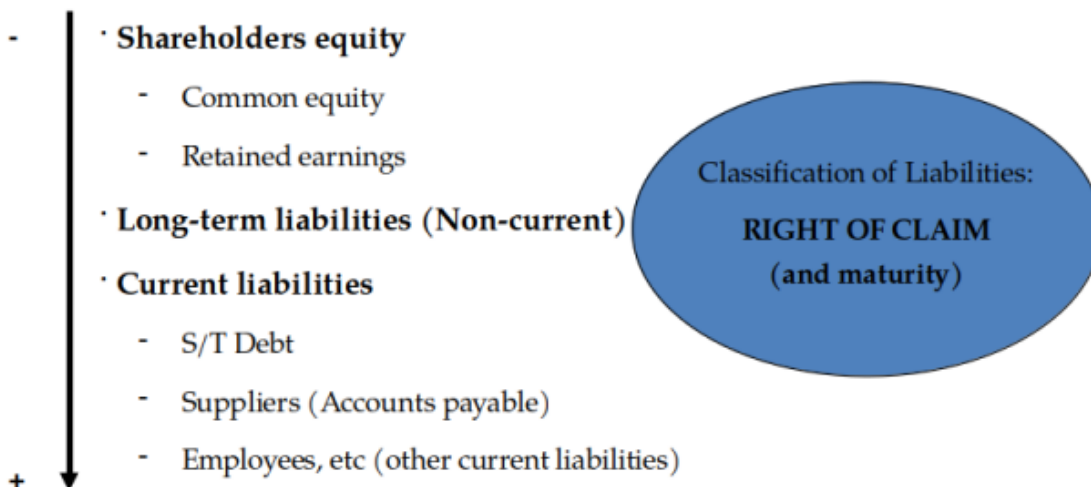
Liabilities and Equity

There two types of funding:

- Shareholders' equity; financial resources from the shareholders
- Long-term liabilities; are reasonably expected not to be liquidated within a year (long-term bonds, long-term leases, and long-term obligations,...)
- Current liabilities; are reasonably expected to be liquidated within a year (wages, taxes, accounts payables, short-term obligations,...)

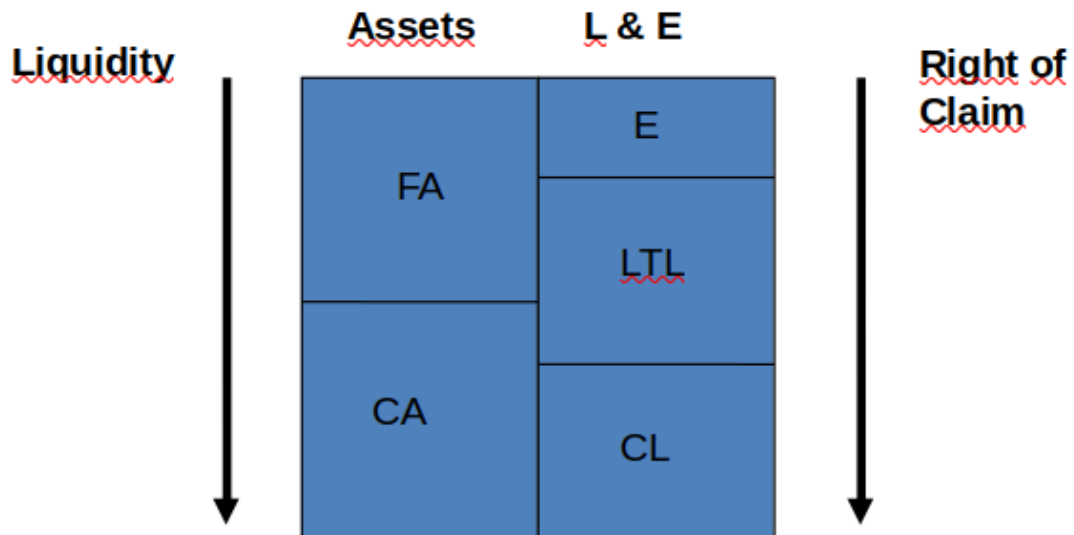


2.5 Liabilities and equity



2.6 Liabilities and equity

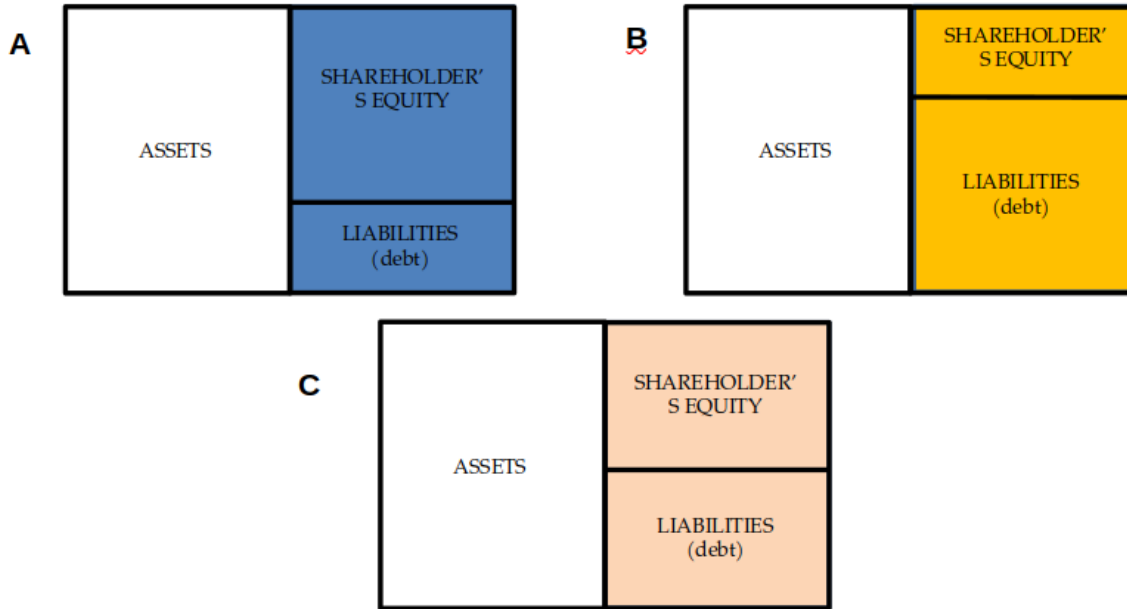
2.6.1 Liquidity and Right of claim



2.7 Liabilities and equity

💡 Question 10 minutes

Which capital structure do you prefer?



2.8 Liabilities and equity

Structure Type	Description of Capital Structure	Example Companies
A (Low Debt)	Low levels of liabilities (debt) and higher shareholder equity. Often seen in companies that are more risk-averse or in stable industries.	Alphabet (Google), Microsoft
B (Balanced Debt and Equity)	Balanced levels of liabilities and shareholder equity. Common in mature industries that need both equity and debt financing for growth.	General Electric, Ford
C (High Debt)	Higher levels of liabilities (debt) relative to equity. Often seen in industries that require large capital investments, such as manufacturing, or in companies leveraging debt for expansion.	Tesla, Boeing

2.9 Balance Sheet

- Go to “detective analysis” Balance Sheet question
-

3 Assets

3.1 Assets (Current Assets)

- What are current assets?

3.1.1 Cash and cash equivalents

- What is Cash and cash equivalents?
 - Items which will be converted into cash within 90 days
 - High liquidity (short time to turn into cash)
 - Examples, cash, foreign currency
 - Treasury bills (terms between 4 - 52 weeks) - short term U.S. debt
 - Note: Companies with high cash and cash equivalents are able to meet their short-term debt obligations
 - Note: Too much cash is bad!
 - Inflation erosion, could put to better use (investments), inefficient capital allocation
-

3.2 Assets (Current Assets)

3.2.1 Marketable securities

- – What is a marketable security?
- Liquid financial instruments
- Excess cash that is not needed immediately is invested into marketable securities.
- Earn a return on investment on liquid instruments.
- Changes in the price are included in **earnings** (buy low, sell high).
- Examples: Equity securities, debt securities (bonds).

Marketable securities	Amount (\$)
Equity securities	46,100
Debt securities	200
Total	46,300

3.3 Assets (Current Assets)

3.3.1 Case Study - Apple Cash and cash equivalents and marketable securities

- March 2024 - All quarterly
 - Sources: SEC & YF
 - AAPL \$32.7 Bn | MSFT \$18.3 Bn | GOOG \$11.8 Bn | META \$ 32 Bn
 - What to do with all this cash?
 - Invest in innovation (R&D - AI)
 - Return cash back to investors (dividends) / share buybacks (increasing stock prices, supply/demand)
 - Acquire companies
-

3.4 Assets (Current Assets)

3.4.1 Accounts Receivable

- What are accounts receivable?

- Amounts due from customers (not collected yet)
- Goods get shipped to customers before payment
- Usually 30, 60 or 90 days to pay you.
- Some customers fail to pay! (financial difficulties)

Description	Amount (\$)
Accounts receivable	158,375
Less: Doubtful accounts	(2,375)
Total	156,000

3.5 Assets (Current Assets)

3.5.1 Inventory

- What is inventory in manufacturing?
- Raw materials (examples?)
- Work-in-progress (unfinished goods) - car production?
- Finished goods
- Reflects the cost of manufactured items for sale to customers

3.6 Assets (Current Assets)

3.6.1 Prepaid expenses and other current assets

- What are prepaid expenses?
- Expenses that have already been paid upfront
- Insurance, advertising, rent
- Typically has a contractual right to pay
- Its an asset “right to use”
- Bills the company has already paid for but not yet received

3.7 Assets (Total Current Assets)

- What are Total Current Assets?
- Include, cash, marketable securities, accounts receivable, inventories and prepaid expenses
- Assets are “working” assets since they are liquid
- They will be converted in the near term into cash for other purposes
- I.e. inventories, when sold become accounts receivable, receivables, upon collection, become cash, cash can then be used to pay company’s debt and operative expenses.

3.8 Assets (Total Current Assets)

- Current Assets = Working Assets

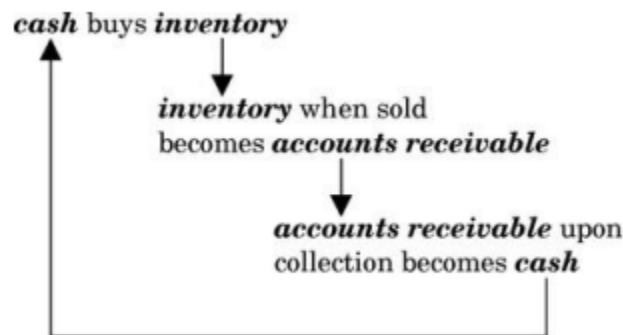


Figure 1: Working Assets

3.9 Assets (Non-current Assets)

- AKA - Fixed Assets - i.e. not intended for sale quickly (or in the normal course of business)

3.9.1 Property, Plant and Equipment (PPE)

- Used for manufacture, display, warehouse and transport the company’s products and offices for employees.
- Includes, land, buildings and machinery, trucks.
- Report FA as costs minus depreciation accumulated
- No intent to sell these assets in the near term

Property, Plant and Equipment	Amount (\$)
Land	30,000
Buildings	125,000
Machinery	200,000
Leasehold improvements	15,000
Furniture, fixtures, etc.	15,000
Total property, plant, and equipment	385,000

3.10 Assets (Non-current Assets)

- What is depreciation?

3.10.1 Less: accumulated depreciation

- The practice of charging to, or expensing against income
- i.e. the cost of a fixed asset over its estimated useful life / productivity
- i.e. the decline in useful value of a fixed asset due to “wear and tear” over time.
- i.e. cost of PPE must be allocated over its expected useful like
- e.g. suppose a delivery truck costs \$10,000 and is expected to last 5 years
 - “linear/straight line depreciation”
 - * \$2,000 is expensed each year to the Income Statement

3.11 Assets (Non-current Assets)

3.11.1 Less: accumulated depreciation

- After end of year 1

Description	Amount (\$)
<i>Truck (cost)</i>	10,000
Less:	
Accumulated depreciation	(2,000)
Net depreciated cost	8,000

-
- After end of year 2

Description	Amount (\$)
<i>Truck (cost)</i>	10,000
Less:	
Accumulated depreciation	(4,000)
Net depreciated cost	6,000

3.12 Assets (Non-current Assets)

3.12.1 Intangible Assets

- “Intangibles” - have no physical existence, but have value to a company
- Examples of intangible assets?
 - Patents for exclusive manufacturing
 - Trademark
 - Copywrite
 - Goodwill
 - Represents the price of an aquired company exceeds the “fair value” of the related net assets acquired (i.e. Tech companies vs plastics manufactures)
 - I.e. excess is the brang, compamny name, reputation, customer base, intellectual capital
- Intangible assets are amortized (gradually reduced or written off) - Amortisation through periodic charges against income over their estimated useful lives.

Description	Amount (\$)
Intangibles (goodwill, patents)	2,250
Less:	
Accumulated amortization	(300)
Net intangible assets	1,950

3.13 Liabilities (Current Liabilities)

- Current liability is an obligation that is due and payable within 12 months.
- Companion to “current assets” since CA are a source of payment of current debts.

3.13.0.1 Accounts Payable

- Is the amount the company owes to its business creditors which they have bought goods and services (on open account)

3.13.0.2 Notes Payable

- Money owed to a bank or lender (due within 1 year)
-

3.14 Liabilities (Current Liabilities)

3.14.0.1 Accrued Expenses

- Salaries **owed** to employees
- Interest **owed** on funds borrowed from banks
- Legal fees **owed**
- Expenses that are owed/unpaid at the date of the balance sheet

3.14.0.2 Other current Liabilities

- Short term liabilities payable within 12 months

3.14.1 Long-term liabilities

- Amounts due after 1 year
-

3.14.1.1 Shareholders equity

- Total equity/ownership that shareholders have in the corporation.
- Its the companies value after subtracting its liabilities.

3.14.1.2 Preferred stock

- Equity ownership which has preference over common shares
 - Receive dividends sooner
 - More right to assets in case of liquidation
-

4 Income Statement

5 Income Statement Summary

Description	Calculation	Formula
Net Sales		1
Cost of Goods Sold (COGS)		2
Gross Margin	Net Sales - COGS	$1 - 2 = 3$
Sales & Marketing		4
Research & Development		5
General & Administrative		6
Operating Expenses	S&M + R&D + G&A	$4 + 5 + 6 = 7$
Income from Operations	Gross Margin - Opex	$3 - 7 = 8$
Interest Income		9
Income Taxes		10
Net Income	Op Income + Interest - Taxes	$8 + 9 - 10 = 11$

6 Accounting Ledger

6.1 Accounting Ledger (journal entries)

- A ledger account is a record that contains all transactions in a company's financial records.
- Contains all information about an account's opening and closing balances.
- Contains information on periodical debit and credit adjustments based on daily journal entries.

- Essential when constructing a company's financial statements.
-

6.2 Accounting Ledger

6.2.0.1 Debit

- Debit is an entry made on the left side of an account.
- Increases an asset or expenses
- Decreases equity, liabilities or revenue accounts

6.2.0.2 Credit

- Credit is an entry made on the right side of an account.
 - Increases equity, liabilities or revenue accounts
 - Decreases an asset or expenses.
-

6.3 Accounting Ledger

- Can contain some of the following “accounts”

Cash	Debt	Interest Income
Inventory	Accounts Payable	Opex
Fixed Assets	Non-fixed assets	Administrative Expenses
Accounts Receivable	Sales or Revenue	Depreciation
Capital	Dividend	Taxes

6.4 Accounting Ledger

6.4.0.1 How credit and debits affect different accounts.


ACCOUNT	INCREASED BY	DECREASED BY
Assets	Debit	Credit

ACCOUNT	INCREASED BY	DECREASED BY
Expenses	Debit	Credit
Liabilities	Credit	Debit
Equity	Credit	Debit
Revenue	Credit	Debit

6.4.0.2 How does an account ledger look like

Date	Account	Debit	Credit
X/XX/XXXX	Account	X	
	Opposite Account		X

6.5 Questions

 Question 10 minutes

- 1) On 1st April 2023, we start a business with 5,000,000
- 2) What is the “Ledger Folio” number? - we assign a number to an “account”

6.6 Answers

Date	Particulars	L.F.	Amount(Dr.)	Amount(Cr.)
2023 April 1	Cash A/c Dr. To Capital A/c <i>(Being a business started with cash)</i>		5,000,000	5,000,000

6.7 Questions

💡 Question 10 minutes

- 2) On 1st April 2023, start a business with cash 100,000, furniture 200,000 and building 1,000,000

6.7.1 Answers

Date	Particulars	L.F.	Amount(Dr.)	Amount(Cr.)
2023 April 1	Cash A/c Dr.		100,000	
	Furniture A/c Dr.		200,000	
	Building A/c Dr.		1,000,000	
	To Capital A/c			1,300,000
	<i>(Being business started with cash, furniture, and building)</i>			

6.8 Accounting Ledger

6.8.1 Question

💡 Question (5 minutes)

- We purchase a new machine for our company for \$15,000 on credit.


6.8.2 Answer

- Machinery is an asset
- Debit \$15,000 to our Fixed Assets account (increase)
- We purchased the machine on **credit** so we increased our liabilities.
- Credit the Accounts Payable \$15,000
- We now owe the supplier of the machine (we did not pay for yet)

Date	Account	Notes	Debit	Credit
XX/XX/XXXX	Fixed Assets	Purchase of equipment	15000	
	Accounts Payable	Owe client		15000

6.9 Account Ledger

6.9.1 (Question)

 Question (5 minutes)

- We make a \$500 sale to a customer who pays with credit.

6.9.2 (Answer)

- Increase our Revenue account (Income Statement) through a credit
 - Increase our Accounts Receivable (Asset) with a debit
-

6.10 Account Ledger

Date	Account	Notes	Debit	Credit
XX/XX/XXXX	Accounts Receivable	Sale to customer on credit	500	0
XX/XX/XXXX	Revenue	Sale to customer on credit	0	500

6.11 Accounting Ledger

6.11.1 Example 3 (Question)

- 1) Want to start a clothing business with a sum of \$100,000
- 2) Can purchase equipment for the store for \$15,000
- 3) Hires 2 staff for \$5,000 each for customer support.
- 4) Purchased stock for \$75,000 which was re-sold for \$95,000.

6.11.2 Create a ledger account for April 2019.

6.12 Accounting Ledger

6.12.1 1/4/2019 - Capital Investment

Date	Account	Notes	Debit	Credit
1/4/2019	Cash A/c	Capital invested	\$100,000.00	
1/4/2019	Capital A/c			\$100,000.00

- **Current Assets (Cash):** Increases by \$100,000.00
- **Equity (Capital):** Increases by \$100,000.00

6.12.2 1/4/2019 - Purchase of Furniture and Equipment

Date	Account	Notes	Debit	Credit
1/4/2019	Furniture and Equipment A/c	Purchase of furniture and equipment	\$15,000.00	
1/4/2019	Cash A/c			\$15,000.00

- **Non-Current Assets (Furniture and Equipment):** Increases by \$15,000.00
- **Current Assets (Cash):** Decreases by \$15,000.00

6.12.3 1/4/2019 - Purchase of Goods

Date	Account	Notes	Debit	Credit
1/4/2019	Purchase A/c	Purchase of goods	\$75,000.00	
1/4/2019	Cash A/c			\$75,000.00

- **Expenses (Purchase):** Increases by \$75,000.00 (This would later reduce Equity)
- **Current Assets (Cash):** Decreases by \$75,000.00
- Expenses reduce equity (i.e. expenses increase, so net income decreases).
- Net income (or loss) over a period is added to (or subtracted from) retained earnings, a

component of equity.

- Higher expense leads to lower net income, which in turn reduces the retained earnings and, consequently, the overall equity

6.12.4 30/4/2019 - Payment of Salaries

Date	Account	Notes	Debit	Credit
30/4/2019	Salaries A/c	Payment of salaries	\$10,000.00	
30/4/2019	Cash A/c			\$10,000.00

- **Expenses (Salaries):** Increases by \$10,000.00 (This would later reduce Equity)
- **Current Assets (Cash):** Decreases by \$10,000.00
- **Equity Reduction:** The \$10,000.00 salary expense reduces the net income for the period, which in turn reduces retained earnings (a component of equity).

6.12.5 Apr-19 - Sales made against Cash

Date	Account	Notes	Debit	Credit
Apr-19	Cash A/c	Sales made against cash	\$95,000.00	
Apr-19	Sales A/c			\$95,000.00

- **Current Assets (Cash):** Increases by \$95,000.00
- **Revenue (Sales):** Increases by \$95,000.00 (This would later increase Equity)
- Revenue directly contributes to increasing equity through its impact on net income and retained earnings.

7 The Balance Sheet

ASSETS	LIABILITIES & EQUITY
CASH	ACCOUNTS PAYABLE
ACCOUNTS RECEIVABLE	ACCRUED EXPENSES
INVENTORY	Other types of short term debt
PREPAID EXPENSES	INCOME TAXES PAYABLE
CURRENT ASSETS	CURRENT LIABILITIES
OTHER ASSETS	LONG-TERM DEBT
FIXED ASSETS AT COST	CAPITAL STOCK
ACCUMULATED DEPRECIATION	RETAINED EARNINGS
NET FIXED ASSETS	SHAREHOLDER'S EQUITY
TOTAL ASSETS	TOTAL LIABILITIES & EQUITY

8 The Balance Sheet

ASSETS	
CASH	A
ACCOUNTS RECEIVABLE	B
INVENTORY	C
PREPAID EXPENSES	D
CURRENT ASSETS	$A + B + C + D = E$
OTHER ASSETS	F
FIXED ASSETS AT COST	G
ACCUMULATED DEPRECIATION	H
NET FIXED ASSETS	$G - H = I$
TOTAL ASSETS	$E + F + I = J$

- Most liquid Cash to least liquid Net Fixed Assets
- Assets also are “rights” we own which have monetary value
 - i.e. right to collect cash from customers
 - **Liquid:** Cash | **Productive:** Plant and machinery | **Assets for sale:** Inventory

8.1 Financial recording examples

- Initial capital contributed 100k
- Month 1
 - Hire staff 2k

- Office supplies 2k
 - Furniture 2k
 - PC 3k
 - Marketing 5k
 - Revenues 30k
-

8.2 Financial recording examples

- Invested \$100 cash in a business
- Purchased a used car for \$2000
- Purchased supplies on account for \$500
- Paid our credit of \$500 from purchase of supplies
- Paid \$350 cash for advertising
- Billed a customer \$5000 for services
- Received \$2000 payment in cash from the \$5000 billed to the customer

8.3 Financial recording examples

- Began our business on January 1, 2010. Record the following entries, accounting journal, t-accounts, trial balance, income statement and balance sheet.
 - January 1st Company XYZ shareholders contributed \$750,000 in cash in exchange for equity
 - January 1st Company XYZ paid \$70,000 for a truck
 - The truck is estimated to have a 15 year life - use straight-line depreciation.
 - December 31st Company XYZ total sales were \$700,000, but only \$50,000 paid in cash. Customers owed the remaining balance.
 - Assume Cost of Goods Sold is zero.

8.4 Financial recording examples

- 1) Paid rent €5000
- 2) Paid salary €10,000
- 3) Cash withdrawal €50,000 (money out of the business)
- 4) Paid income tax €70,000
- 5) Commission received € 25,000
- 6) Commission Paid € 10,000
- 7) Purchased PC with cheque €20,000
- 8) Purchased goods with cash €50,000

- 9) Sold goods for cash €100,000
- 10) Depreciation on machinery @ 10%, cost 5,000,000

8.5 Financial recording examples

- A firm is incorporated on 1/1/22, initial capital contributed by shareholders is 10.000€ and deposited in the company's bank account.
- 1/1/22: A machine is bought for 1.000€, paid in cash.
- 1/1/22: A truck is bought for 5.000€, on short-term credit.
- 31/12/22: The machine is sold for 800€, paid in cash. Amortize?
- 31/12/22: The truck is sold for 4.000€ on short-term credit. Amortize?
- Merchandise purchased for 200€, paid in cash.
- Merchandise purchased for 200€ on short-term credit.
- A consultant is hired for a 1 week project and paid 800€.
- The firm sold 10.000€ of their products in 2022 (half paid in cash and half still owed by clients).

8.6 Financial Ratios

8.6.1 Liquidity Ratios

- **Current Ratio:** Measures a company's ability to cover short-term liabilities with short-term assets.
 - Definition: Calculated as **Current Assets / Current Liabilities**. A higher ratio indicates better liquidity.
 - **Quick Ratio (Acid-Test Ratio):** Evaluates the company's ability to pay short-term obligations without relying on inventory sales.
 - Definition: Calculated as **(Current Assets - Inventory) / Current Liabilities**. This ratio excludes inventory from current assets, providing a more conservative liquidity measure.
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8.6.2 Solvency Ratios

- **Total Liabilities to Total Assets Ratio:** Measures a company's ability to meet its liabilities using its assets. A higher ratio suggests the company relies more on debt to finance its operations, indicating greater financial leverage.

- A higher ratio indicates that a company is heavily reliant on debt. If the company faces declining revenues or economic downturns, it may struggle to meet debt repayments, potentially leading to financial distress or bankruptcy.
 - **Reduced Flexibility:** High leverage limits a company's ability to take on additional debt - i.e. no bank will be willing to lend them more money!
 - **Higher Interest Costs:** With more debt, the company will incur higher interest expenses - higher costs for the company
 - **Creditworthiness Concerns:** Creditors and investors often view a high liabilities-to-assets ratio as a sign of potential instability, which can lead to lower credit ratings
- **Debt to Equity Ratio:** Shows the proportion of debt relative to shareholder equity, indicating the financial leverage a company uses.
 - Definition: Calculated as $\text{Total Debt} / \text{Shareholder's Equity}$. A higher ratio means a company is more reliant on debt for financing.
 - **Interest Coverage Ratio:** Assesses a company's ability to cover its interest payments on outstanding debt.
 - Definition: Calculated as $\text{Earnings Before Interest and Taxes (EBIT)} / \text{Interest Expense}$. A higher ratio indicates greater ability to meet interest obligations.
-

8.6.3 Profitability Ratios

- **Net Profit Margin:** Represents how much profit a company makes for every dollar of revenue, showing operational efficiency.
 - Definition: Calculated as $\text{Net Income} / \text{Revenue}$. A higher margin means the company retains more profit from its sales.
 - **Return on Assets (ROA):** Measures how efficiently a company uses its assets to generate profit.
 - Definition: Calculated as $\text{Net Income} / \text{Total Assets}$. A higher ROA indicates better asset utilization for generating income.
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8.6.4 Efficiency Ratios

- Asset Turnover Ratio: Indicates how efficiently a company uses its assets to generate revenue.
 - Definition: Calculated as $\text{Net Sales} / \text{Average Total Assets}$. A higher ratio means the company generates more revenue per dollar of assets.
 - Inventory Turnover Ratio: Shows how many times inventory is sold and replaced during a period, reflecting inventory management efficiency.
 - Definition: Calculated as $\text{Cost of Goods Sold} / \text{Average Inventory}$. A higher turnover means faster inventory movement.
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8.6.5 Market Value Ratios

- Price-to-Earnings (P/E) Ratio: Compares a company's current share price to its earnings per share, helping investors evaluate stock value.
 - Definition: Calculated as $\text{Market Price per Share} / \text{Earnings per Share (EPS)}$. A higher P/E suggests the stock is more expensive relative to earnings.
- Dividend Yield: Measures the dividend income relative to the price of a company's shares, indicating the return an investor receives in dividends.
 - Definition: Calculated as $\text{Annual Dividends per Share} / \text{Market Price per Share}$. A higher yield means better return on investment through dividends.