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Q#1

Answer : IAS 2 inventories :

The accounting standard IAS 2 sets out the accounting treatment for inventories and provides guidance on determining their cost. Find articles, books and online resources providing quick links to the standard, summaries, guidance and news of recent developments. (IASB) to provide guidance on the valuation and classification inventory.

IAS 2 defines inventories assets which are:

- (a) held for sale in the ordinary course of business,
- (b) in the process of production for such sale,
- (c) in the form of materials or supplies to be consumed in the production process or rendering of services.

IAS 2 requires that those assets that are considered inventory should be recorded at the lower of cost or net realisable value. Cost not only includes the purchase cost but also the conversion costs, which are the costs involved in bringing inventory to its present condition and location, such as direct labour. IAS 2 also allows for the capitalisation of variable overheads and fixed overheads so long as the fixed overheads are allocated on a systematic and consistent basis and in respect to usual output levels.

IAS 2 does not allow for the capitalisation of:

- (a) the cost of abnormal levels of waste,
- (b) storage costs where the storage is not part of the production process,
- (c) administrative costs,
- (d) selling costs.

IAS 2 allows for two methods of costing, the standard technique and the retail technique. The standard technique requires that inventory be valued at the standard cost of each unit; that is, the usual cost per unit at the normal level of output and efficiency. The retail technique values the inventory by taking its sales value and then reducing it by the relevant gross profit margin.

IAS 2 also requires the use of the (FIFO) principle whereby those items which have been in stock the longest are considered to be the items that are being used first, ensuring that those items which are held in inventory at the reporting date are valued at the most recent price. As an alternative, costs of inventories may be assigned by using the weighted average cost formula.

The value of inventories must be recorded at the lower of cost or net realisable value. Where net realisable value drops to below the cost of inventory the loss is to be recognised as an expense in the period in which the drop of value occurs.

IAS 7 Statement of Cash Flow:

The users of financial statements also take into account the entity's cash generating ability and cash needs to evaluate its liquidity position in order to take economic decisions as the entity needs cash to carry on its operations, for payment of its liabilities and distributions of returns to its investors. This standard prescribes the guidelines, which require an entity to present information about its historic cash flows and changes in those cash flows during the accounting period, to intimate the users of financial statements about the cash generating ability and cash needs of the entity, in the form of statement of cash flows by classifying such cash flows into operating, investing and financing functions or activities. *The statement of cash flows shows the ability of any company to generate cash. It is really simple as that.*

Some accountants look to the statement of cash flows as to some unnecessary and annoying issue and they prepare it because they must. But in reality, many investors explore the statement of cash flows, because they sometimes feel that the profit could be manipulated by some non-cash transactions, such as various provisions, fair value adjustments, etc.

So, looking to where the cash was generated and spent is as important as assessing the liquidity ratio, profitability ratio, and other financial indicators. The inflows and outflows in the normal conduct of the business, of cash and cash equivalents are termed as cash flows.

The principal business activities of the entity, which generate revenues for the entity are termed as operating activities

This information shall be provided in the statement of cash flows which classifies cash flows during the period from operating, investing and financing activities.

IAS 38 Accounting for research & development activities:

IAS 38 accounting for research and development can be argued that these costs should be treated as an asset rather than an expense, as they meet the definition of an asset prescribed by both the Statement of Principles and the IASB Framework for the Preparation and Presentation of Financial Statements.

Equally, the argument exists that it may be impossible to predict whether or not a project will give rise to future income. As a result, both the UK and International Accounting Standards provide accountants with more information in order to clarify the situation.

the profit and loss account as incurred, as with the expenditure on research. However, under SSAP 13, there is an option to defer the development expenditure and carry it forward as an intangible asset if the following criteria are met:

- there is a clearly defined project

- expenditure is separately identifiable
- the project is commercially viable
- the project is technically feasible
- project income is expected to outweigh cost
- resources are available to complete the project.

IAS 38 states that an intangible asset is to be recognised if, and only if, the following criteria are met:

- it is probable that future economic benefits from the asset will flow to the entity
- the cost of the asset can be reliably measured.

The above recognition criteria look straightforward enough, but in reality it can prove to be very difficult to assess whether or not these have been met. In order to make the recognition of internally-generated intangibles more clear-cut, IAS 38 separates an R&D project into a research phase and a development phase.

Research phase

It is impossible to demonstrate whether or not a product or service at the research stage will generate any probable future economic benefit. As a result, IAS 38 states that all expenditure incurred at the research stage should be written off to the income statement as an expense when incurred, and will never be capitalised as an intangible asset.

Development phase

Under IAS 38, an intangible asset arising from development must be capitalised if an entity can demonstrate all of the following criteria:

the technical feasibility of completing the intangible asset (so that it will be available for use or sale)

- o intention to complete and use or sell the asset
- p ability to use or sell the asset
- q existence of a market or, if to be used internally, the usefulness of the asset
- r availability of adequate technical, financial, and other resources to complete the asset
- s the cost of the asset can be measured reliably

research activities: aimed at obtaining new knowledge;

the search for, evaluation and final selection of research findings/other knowledge;

the search for alternatives for materials, devices, products, processes, systems or services; and

the formulation, design, evaluation and final selection of possible alternatives for new or improved materials, devices, products, processes, systems or services.

Development

the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use.

Examples of development activities are:

the design, construction and testing of prototypes and models; the design, construction and operation of a pilot plant that is not of a scale economically feasible for commercial production; and the design, construction and testing of a chosen alternative for new or improved materials, devices, products, processes, systems or services.

IAS18 Revenue:

IAS 18 defines revenue as ‘the gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity when those inflows result in increases in equity, other than increases relating to contributions from equity participant.

For almost all entities other than financial institutions, revenue is the largest single number in the financial statements. It is also a number that attracts a great deal of user attention. Whilst it might be accepted that profit is the most important single indicator of corporate financial performance revenue does not fall far behind. This standard deals with the accounting treatment of revenue and it includes the guidance for the main issues such as the recognition and the amount at which revenue will be measured.

- The requirements of this standard are applicable for the accounting treatment of revenue arising from:
 - (a) The sale of goods, which are either produced by the entity or purchased for resale.
 - (b) The rendering of services, which are offered by the entity as main part of its business
 - (c) Return on entity’s assets such as interest income, dividend income and royalty income.

Q#2

Answer :

IFRS are used to Offering transparency, accountability, and efficiency, IFRS provides an internationally recognised set of accounting standards. But what do they mean for your business? Find out everything you need to know about the international financial reporting standards with our comprehensive guide

IFRS stands for international financial reporting standards. It's a set of accounting rules and standards that determine how accounting events should be reported in your business's financial statements. Issued by the International Accounting Standards Board (IASB), IFRS aims to make financial statements consistent, comparable, and transparent across the world. the past, this sort of internationalism was hampered by different countries maintaining different accounting standards, adding cost, complexity, and risk to business deals. IFRS eliminates that problem by ensuring that different countries adopt the same, globally applicable set of accounting standards.

IFRS specifies how businesses need to maintain and report their accounts. Created to establish a common accounting language, the goal of the international financial reporting standards is to make financial statements coherent and consistent across different industries and countries. IFRS covers a broad range of topics, including revenue recognition, income taxes, inventories, fixed assets, business combinations, foreign exchange rates, and the presentation of financial statements.

There are many different that you need to pay attention to. Here are a couple of areas where IFRS provides comprehensive rules:

- Statement of Financial Position – More commonly referred to as a IFRS details the different components and how it should be reported.
- Statement of Comprehensive Income – This can be presented as a single statement or a profit and loss statement and a statement of other income.

International financial reporting standards are used in a wide range of countries and jurisdictions.

IFR 10 Consolidated of financial statement

The purpose of Consolidated Financial Statements is to present, primarily for the benefit of the shareholders and creditors of the parent company, the results of operations and the financial position of a parent company and its subsidiaries essentially as if the group were a single company with one or more branches or divisions.

The objective of IFRS 10 Consolidated Financial Statements is to establish principles for the **presentation and preparation of financial statements** when an entity controls another entity.

- requires an entity (a parent) that manage one or more other entities (subsidiaries)
- Defines the basis for consolidation and sets out how to identify whether the investor controls the investee;
- Sets out the preparation of consolidated financial statements, and
- Defines an consolidating particular subsidiaries of an investment entity.

Except for basic consolidation procedures, IFRS 10 prescribes number of other rules for preparing consolidated financial statements, IFRS 10 sets the guidance and rules about determining whether the entity is an investment entity or not. Typical characteristics of investment entities are:

- It has more than one investment;
- It has more than one investor;
- It has investors that are not related parties of the entity;
- It has ownership interests in the form of equity or similar interests.

Most investment entities present consolidated financial statements and instead, they need to measure an investment in a subsidiary at fair value through profit or loss in line with financial situation.

13 Fair value measurements:

IFRS 13 clarifies that fair value measurement is for a particular asset or liability and its characteristics should be taken into account when measuring fair value. Such characteristics can include the condition and location of the asset and any restrictions on the sale or use of the asset. The effect on the measurement arising from a particular characteristic will differ depending on how that characteristic would be taken into account by market participants

Many IFRS standards require you to measure the fair value of some items. Just name the examples: financial instruments, biological assets, assets held for sale and many other.

In the past, there was limited guidance on how to set fair value; the guidance was spread throughout the standards and often very conflicting.

IFRS 13 and they are deducted from fair value measurement if location is a characteristic of the asset. Transport costs are the costs that would be incurred to transport an asset from its current location to its principal (or most advantageous)

If possible, the fair value of a liability or entity's own equity instrument should be based on a quoted price for the transfer of an identical or a similar item (IFRS 13.37,40). This is however hardly ever possible as liabilities are rarely transferred.

Therefore, *IFRS 13 Fair Value Measurement* was issued. Also, IFRS 13 is a result of convergence project between IFRS and US GAAP and currently, the rules for measuring fair value are almost the same in IFRS and in US GAAP.

The objectives of IFRS 13 are:

- to define fair value;
- to set out in a single IFRS a framework for measuring fair value; and
- to require disclosures about fair value measurements.

Fair value is a *market-based* measurement, not an entity-specific measurement. It means that an entity:

shall look at how the **market participants** would look at the asset or liability under measurement

- shall not take own approach (e.g. use) into account.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

This is the notion of an **exit price**.

When an entity performs the fair value measurement, it must determine all of the following:

- the particular *asset or liability* that is the subject of the measurement (consistently with its unit of account)
- for a **non-financial asset**, the *valuation premise* that is appropriate for the measurement (consistently with its highest and best use)
- the *principal (or most advantageous) market* for the asset or liability
- the **valuation techniques** appropriate for the measurement, considering:
 - the *availability of data* with which to develop inputs that represent the assumptions that market participants would use when pricing the asset or liability; and
 - the level of the *fair value hierarchy* within which the inputs are categorized.

The asset or liability measured at fair value might be either:

- a *stand-alone* (individual) asset or liability (for example, a share or a pizza oven)
- a *group* of assets, a group of liabilities, or a group of assets and liabilities (for example, controlling interest represented by more than 50% of shares in some company, or cash-generating unit being pizzeria).

Whether the asset or liability is stand-alone or a group depends on its *unit of account*. Unit of account is determined in accordance with the other IFRS standard that requires or permits fair value measurement (for example, IAS 36 Impairment of Assets).

When measuring fair value, an entity takes into account the *characteristics* of the asset or liability that a market participant would take into account when pricing the asset or liability at measurement date.

Q#3

Answer: Income statement:

The analysis of income statement involves comparing the different line items within a statement, as well as individual line items over multiple periods. This analysis is used to understand of a business and its ability to earn proper analysis of the income statement requires that the following activities be addressed:

- Ratios analysis :Several ratios can be extracted from an income statement, each of which reveals different types of information about a business. They are as follows:

It indicates the amount of money earned from the sale of goods and services, before taxes and interest are considered. In essence, it reveals the ability of an organization to earn a reasonable return on its offerings.

This is revenues minus all variable costs divided by revenues. This margin is used to construct the break-even point, which reveals the revenue level at which a business earns a profit of zero. The break-even calculation is all fixed costs divided by the contribution margin.

This is the profit earned after all operating expenses have been subtracted from the gross margin, divided by revenues. It reveals the amount that a business has earned before financing and other costs are considered.

This is the profit earned after all operating and non-operating costs have been subtracted from the gross margin, divided by revenues. This is the ultimate analysis item - can a business earn a profit when all deductions are considered?

- Horizontal Analysis :This is a side-by-side comparison of income statements for multiple periods. A good comparison is for every month or quarter in a year. Items to look for in this analysis are the financial statement that depicts the revenues, expenses and net income generated by an organization over a specific period of time. It is one of the most heavily scrutinized financial statements issued by every organization. And though the data contained within this document is relatively simple, there is a great deal of useful information that can be garnered from it to help assess a firm's historical financial performance and develop an estimate of its prospects. Because of this, it is critical for users to have a sound understanding of the story every income statement is trying to tell.

While almost no two income statements look the same, they all possess a common set of data: total revenue, total expenses. Though this represents the minimum amount of data that must be provided, additional details for each section are frequently included to give users more insight into the organization's financial activities. Some of the most common line items and the order in which they appear are listed below.

Product-level revenue: This line item depicts the revenue associated with a specific product the firm sells. There may be multiple lines if the organization sells several different products.

Income statements are meant to provide users with insights into the financial performance of an organization. Numerous metrics and analyses can be developed with this data to provide more in-depth assessments of the organization. However, when used in these metrics become valuable. In this type of analysis, income statement metrics such as total revenue growth and gross profit margin are calculated for similar companies within an industry and compared to one another.

Cost of Goods Sold (COGS) :

Though operating differently than traditional retail companies, online businesses can claim most of these same costs.

If a business has no real costs of production and only engages in the purchasing and reselling of goods over the internet, it may still list the amount spent on purchases as COGS. Packaging may even be included, but only so long as the packaging is unique and resembles what would appear on a shelf in a physical location. The bubble wrap, tape, and cardboard used to deliver the widget to a customer are not COGS. The cost of shipping to the customer is also not included in COGS.

Balance sheet :

Balance sheet analysis can be defined as an analysis of the assets, liabilities, and equity of a company. This analysis is conducted generally at set intervals of time, like annually or quarterly. The process of balance sheet analysis is used for deriving actual figures about the revenue, assets, and liabilities of the company.

Goal of Balance Sheet Analysis

The balance sheet analysis is helpful for the investors, investment bankers, share brokers, and financial institutions, for verifying the profitability of investment for a specific company.

How to perform a Balance Sheet Analysis

It is not a difficult task to perform a Balance Sheet Analysis. The main steps include:

- The primary step involves adding up liabilities and the paid up equity share capital. The sum must tally with the sum of total assets. After the process of tallying is done, contrast the total assets with total liabilities. However, this evaluation does not include the issued shares' amount in the liabilities. If the total assets are exceeding the total liabilities, the financial standing and performance of the company is considered to be good.
- The next step involves looking at the current assets and liabilities. Sometimes, it is considered as a good sign to have more unsecured liabilities.
- Another important step is calculating the ROA by dividing the net income by assets. Producer companies feature a high ROA unlike the real estate and leasing companies which feature a low ROA.
- The fourth step involves special concern for copyrights and patents. It is important to consider the ratio between invested amount for research and the consequent returns.

- Next step involves calculating the debt asset ratio by dividing total liabilities by total assets. A lower liability dimension reflects a better performance by the company.
- Another step includes estimating the receivables turnover ratio which signifies the relation between investment in sales and money receivable. A better financial status is reflected in high amount of money receivables.
- Another important ratio is the inventory turnover ratio which indicates the company's capability of producing goods with available assets.
- The final step includes analyzing other features of company including goodwill, credit ratings, and current projects. This analysis is helpful in evaluating the company activities in near future.

Statement of retain earnings & statement of cash flow:

the retained earnings at the start of the period. Retained earnings is listed on the balance sheet and is one of the most-prominent entries in the equity section. Most often, it is listed after capital stock.

Net income is equal to revenues minus expenses. Corporate net income minus dividends declared is equal to that corporation's change to its retained earnings due to the company's running of its operations for the period. Retained earnings is an account that records the accumulated profits that the corporation has reinvested into its operations rather than distribute as dividends. In contrast, net-cash flow is the total change in the business' cash and cash equivalents due to its operational expenses for the period. Since retained earnings has no connection to net-cash flow, it does not appear on the cash-flow statement that lists all changes in cash and cash equivalents for the period. Instead, retained earnings has its own separate financial statement called the retained-earnings statement.

the change in retained earnings to retained earnings at the start of the period. For example, if a corporation had \$250,000 in retained earnings at period's start, earned \$80,000 in net income for the period and declared \$15,000 in dividends, then it adds \$65,000 to its retained earnings at the end of the period.

Statement of cash flow:

A cash flow statement is one of the most important financial statements for a project or business. The statement can be as simple as a one page analysis or may involve several schedules that feed information into a central statement.

A cash flow statement is a listing of the flows of cash into and out of the business or project. Think of it as your checking account at the bank. Deposits are the cash inflow and withdrawals (checks) are the cash outflows. The balance in your checking account is your net cash flow at a specific point in time.

A cash flow statement is a listing of cash flows that occurred during the past accounting period. A projection of future flows of cash is called a cash flow budget. You can think of a cash flow budget as a projection of the future deposits and withdrawals to your checking account.

Working capital is an important part of a cash flow analysis. It is defined as the amount of money needed to facilitate business operations and transactions, and is calculated as current assets (cash or near cash assets) less current liabilities (liabilities due during the upcoming accounting period). Computing the amount of working capital gives you a quick analysis of the liquidity of the business over the future accounting period. If working capital appears to be sufficient, developing a cash flow budget may not be critical. But if working capital appears to be insufficient, a cash flow budget may highlight liquidity problems that may occur during the coming year.

The Cash flow statement is one of the three financial statements a business owner uses in cash flow analysis. Businesses rely on the statement of cash flows to determine their financial strength. Cash flow is the driving force behind the operations of a business.

A cash flow analysis uses ratios that focus on the company's cash flow. It consists most commonly of the price to cash flow ratio, cash flow coverage ratio, and cash flow margin ratio.

Cash flow from operating cash comes from the firm's statement of cash flows. Net sales are taken from the income statement. The larger the percentage, the better the firm is at converting sales to cash flow.

Cash flow from operations is taken from the statement of cash flows. Total debt is total liabilities, both short and long term. This ratio demonstrates the ability of the company to use its operating cash flows to pay off its debt.

A higher ratio reflects the firm's financial flexibility, and its ability to pay its debts. A ratio of more than 1 is desired. For example, if the cash flow coverage ratio were 1.5, the company could pay its debts 1.5 times with operating cash flows. The higher this ratio, the more cash you have leftover from operations after paying debts.

Q#4

Answer: Liquidity Analysis : Liquidity Analysis is your company's ability to pay the bills as they come due. We've all heard the saying "Cash is king," so here are seven quick and easy ways to improve your company's liquidity.

Liquidity ratios are financial ratios which measure a company's ability to pay off its short-term financial obligations i.e. current liabilities using its current assets. Most common liquidity ratios are current ratio, quick ratio, cash ratio and cash conversion cycle. A high current ratio, quick ratio and cash ratio and a low cash conversion cycle shows good liquidity position.

In analyzing a company's financial position, we are concerned with two timelines, the short-run and the long-run. The short-run represents a time period of 12 months and the long-run means a time period of more than 1 year. Liquidity is relevant to the short-run while solvency is applicable in the long-run. Almost all liquidity ratios measure relationships between current assets and current liabilities. Current assets are assets which are expected to generate cash flows within one operating cycle or with 12 months and current liabilities are obligations which must be paid within one operating cycle or within 12 months.

The following table shows the most common liquidity ratios, their calculation and analysis:

Current ratio :

Current ratio is the most popular liquidity ratio. It is calculated by dividing the current assets by the current liabilities. It is also called working capital ratio. A ratio greater than 1 shows that the company expects to receive more cash inflows from liquidation of current assets than it expects to pay on account of current liabilities in next 12 months. The balance sheets typically show current assets and current liabilities separately from non-current assets and non-current liabilities. Typical current assets include prepayments, inventories, accounts receivable, short-term marketable securities and cash and typical current liabilities include accounts payable, short-term notes payable, short-term loans payable, taxes payable, unearned revenue and accrued expenses.

Formula : Current ratio $\frac{\text{Current Assets}}{\text{Current Liabilities}}$

Quick ratio:

Quick ratio (also called acid-test ratio) is a liquidity ratio that compares those current assets that can be quickly liquidated with current liabilities. Quick assets include cash, short-term marketable securities and accounts receivable. Other current assets such as prepayments and inventories are excluded in calculating quick ratio because prepayments and inventories must first become receivable and only then can they be expected to be liquidated. Quick ratio is also called acid test ratio. An alternative less common formula to calculate quick ratio is to exclude prepayments and inventories from current assets and divide it by current liabilities.

Formula : Quick ratio (Cash + Short-term Marketable Securities + Receivables)/Current Liabilities

Cash ratio :

Cash ratio is an even more stringent liquidity measure. It effectively compares cash and cash equivalents balance with current liabilities. It is calculated by dividing cash and short-term marketable securities by the current liabilities.

Formula : Cash ratio (Cash + Marketable Securities)/Current Liabilities

Cash conversion cycle

Cash conversion cycle (also called net operating cycle) calculates the net number of days a company's cash is tied up. It equals the days it takes a company in selling its inventories i.e. days inventories outstanding (DIO)) plus the days it takes it to collect cash from receivables i.e. days sales outstanding (DSO) minus days it takes in paying its creditors i.e. days payables outstanding (DPO). A shorter cash conversion cycle is better. Liquidity analysis should include a trend analysis and a cross-sectional analysis. The trend analysis involves comparing liquidity ratio in past periods with current period while the cross-sectional analysis involves comparing one company at one point of time with its competitors.

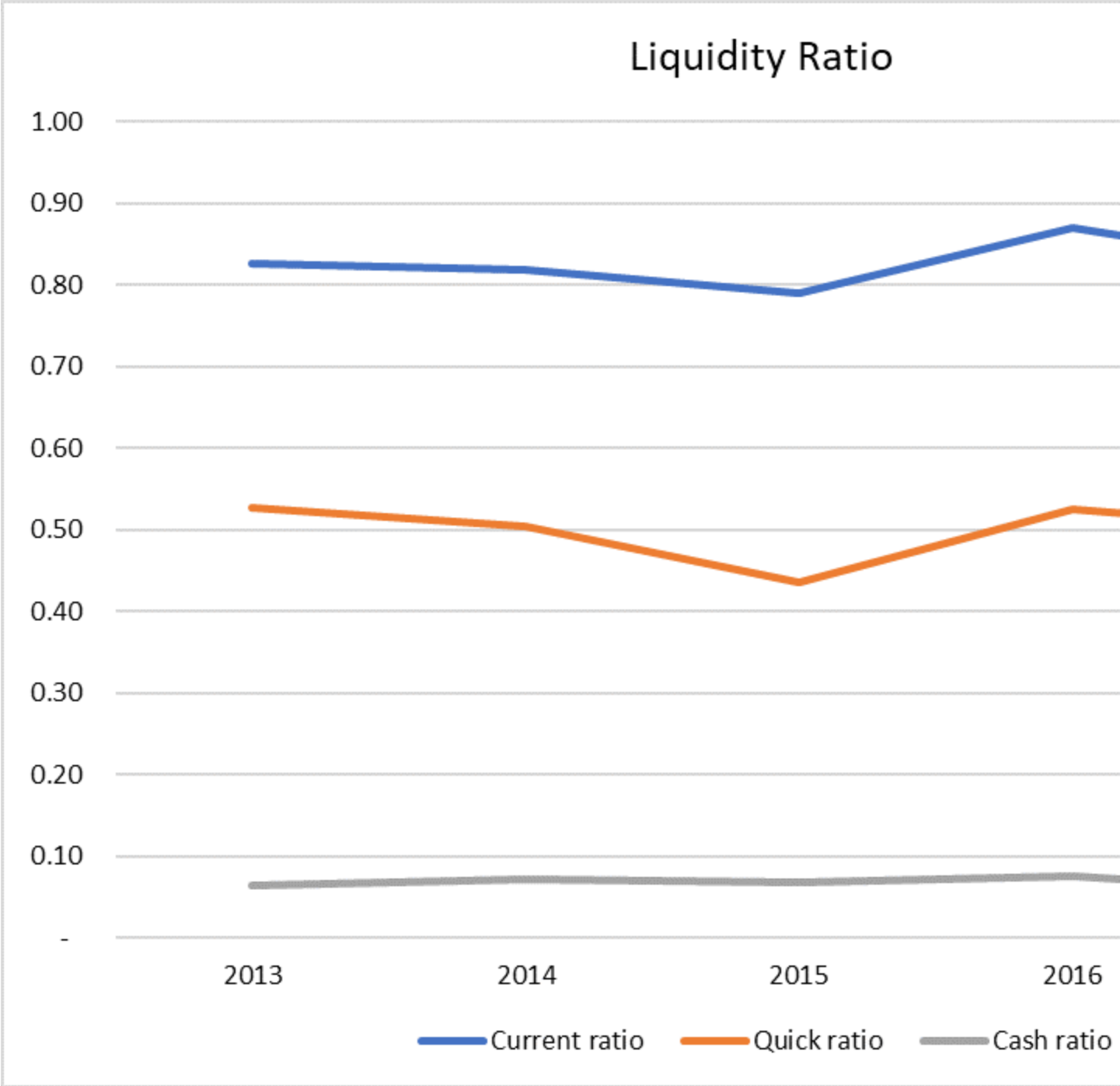
Please note all the three main liquidity ratios are balance

Formula: Cash conversion cycle DIO + DSO – DPO

wing is an extract from balance sheet of ExxonMobil (NYSE: XOM) and calculation of relevant ratios:

USD in million	Calculation	2013	2014	2015	2016	2017
Current assets						
Cash and cash equivalents	C	4,644	4,616	3,705	3,657	3,177
Receivables	AR	33,152	28,009	19,875	21,394	25,597
Inventories	I	16,135	16,678	16,245	15,080	16,992
Other current assets		5,377	3,607	2,798	1,285	1,368
Total current assets	CA	59,308	52,910	42,623	41,416	47,134
Current liabilities						
Accounts payable		30,920	25,286	18,074	17,801	21,701
Short-term debt		15,808	17,468	18,762	13,830	17,930
Income taxes payable		7,831	4,938	2,802	2,615	3,045
Other current liabilities		17,165	16,941	14,338	13,392	15,095
Total current liabilities	CL	71,724	64,633	53,976	47,638	57,771
Current ratio	CA/CL	0.83	0.82	0.79	0.87	0.82
Quick ratio	(C+AR)/CL	0.53	0.50	0.44	0.53	0.50
Cash ratio	C/CL	0.06	0.07	0.07	0.08	0.05

The following chart shows the results graphically:



The current ratio has hovered between 0.8 and 0.9 in the last five years which seems safe because its close to 1. However, its lower than its main competitor Chevron whose current ratio has been greater than 1 in 4 out the last 5 years.

Activity Analysis:

Activity ratios measures how efficiently the business is running. We often call this as “Assets Management Ratio” i.e. how efficiently the assets of the company is being used by the management to generate maximum possible revenue. Usually, this ratio indicates how much sales have taken place in comparison to various categories of assets.

Let’s understand in detail about Activity Ratio.

1. Importance of Activity Ratios

This ratio helps to understand how efficient the management of the company is. As this ratio measures the efficiency of the utilization of assets of the company.

2. Types of Activity Ratios

A. Total Assets Turnover Ratio

B. Fixed Assets Turnover Ratio

C. Current Assets Turnover Ratio

D. Working Capital Turnover Ratio

i. Stock Turnover ratio

ii. Debtor Turnover ratio

iii. Creditors Turnover ratio

A. Total Assets Turnover Ratio

This ratio measures the efficiency of the firm in utilizing its Assets. A high ratio represents efficient utilization of total Assets in generating sales.

Formula: $(\text{Sales or Cost of Goods Sold}) / \text{Total Assets}$

B. Fixed Assets Turnover Ratio

This ratio measures the efficiency of the firm in utilizing its Fixed Assets. A high ratio represents efficient utilization of Fixed Assets in generating sales.

Formula: $(\text{Sales or Cost of Goods Sold}) / \text{Fixed Assets}$

C. Current Assets Turnover Ratio

This ratio measures the efficiency of the firm in utilizing its Current Assets. A high ratio represents efficient utilization of Current Assets in generating sales.

Formula: $(\text{Sales or Cost of Goods Sold}) / \text{Current Assets}$

D. Working Capital Turnover Ratio

This ratio measures the efficiency of the firm in utilizing its Working Capital. A high ratio represents efficient utilization of working Capital in generating sales.

Formula: $(\text{Sales or Cost of Goods Sold}) / \text{Working Capital}$

i. Stock Turnover ratio

This ratio describes the relationship between the cost of goods sold and inventory held in the business. This ratio indicates how fast inventory/ Stock is consumed/ sold. A high ratio is good for the company. Low ratio indicated that stock is not consumed/ sold or remains in a warehouse for a longer period of time.

Formula: $\text{Cost of Goods Sold} / \text{Average Inventory}$

Average Inventory = $(\text{Opening Stock} + \text{Closing Stock}) / 2$

ii. Debtor Turnover ratio

This ratio helps the company to know the collection and credit policies of the firm. It measures how efficiently the management is managing its accounts receivable. A high ratio represents better credit policy as compared to a low ratio.

Formula: $\text{Credit Sales} / \text{Average Debtors}$

Average Debtor = $(\text{Opening Debtor} + \text{Closing Debtor}) / 2$

iii. Creditors Turnover ratio

This ratio helps the company to know the payment policy that is being offered by the vendors to the company. It also reflects how management is managing its account payable. A high ratio represents that in the ability of management to finance its credit purchase and vice versa.

Formula: $\text{Credit Purchase} / \text{Average Creditors}$

Average Creditor = $(\text{Opening Creditor} + \text{Closing Creditor}) / 2$

