

7 Working capital turnover

- it indicates how efficiently the company generates Rev. with its working capital.
- High working capital turnover ratio indicates greater efficiency (the company is generating a high level of Rev. relative to working capital).

Example: given 40 = W.C.T Ratio, this means the company generates 4\$ of Rev. for every 1\$ W.C.

$$\text{Working capital} = \text{C.A} - \text{C.L.}$$

$$\text{W.C turnover} = \frac{\text{Rev}}{\text{average working capital}}$$

8 Fixed Assets turnover

- it measures how efficiently the company generates Rev. from its investments in Fixed assets.
- High F.A turnover Ratio indicates: more efficient use of F.A in generating Rev.
- Low F.A turnover Ratio indicates: inefficiently a capital intensive business environment or a New Business Not yet operating at full capacity

وملك مشروع كبير العمل بكفاءة مع الكفاءة
له نسبة الحجم الكفاءة أو نسبة الأعمال كفاءة
عدم وجود عمل جيد ومع ذلك نزل تكاليفه
نفسه = 5.5 + 5

Value of $\frac{1}{2}$ = $\frac{1}{2}$ in the F.A T. Ratio is not into New Fixed assets.

$$\text{Fixed assets turnover Ratio} = \frac{\text{Rev}}{\text{average Net F.A}}$$

g. Total assets turnover :-

→ it measures the company's overall ability to generate Rev. with a given level of assets.

and it reflects the strategic decisions by management.

→ if 1.20 is T.A T Ratio, it means the company generates 1.20 \$ of Rev for every \$ of average assets.

Higher Ratio indicates greater efficiency.

eg. 1.20

$$= \frac{\text{Rev}}{\text{average total assets}}$$

* current conversion cycle = Debt + Div + ...

Liquidity Ratios

- Liquidity analysis : - focuses on cash flow.
- measures a comp. ability to meet short term obligations.
- Liquidity : measures how quickly assets are converted into cash.
- Liquidity Ratios : - measures the ability to pay off short term obligations.
- it reflect comp. position
- * Liquidity management is ~~typically~~ typically achieved through efficient use of assets.

* Current ~~Ratio~~ ^{Ratio} = $\frac{\text{Current assets}}{\text{C. Liabilities}}$ ~~Ratio~~

* Quick ratio = $\frac{\text{C.A} - \text{Inv}}{\text{C.L}}$

* Cash ratio = $\frac{\text{Cash} + \text{Marketable Securities}}{\text{C.L.}}$

* current conversion cycle = $\text{Dott} + \text{DSO} + \text{\# of d. of payable}$

* C.Ratio ← مقياس لمدى قدرة الشركة على سداد ديونها / debt / مديونية / مديونية
C. Ratio ← إذا حلت كسيرة من الشركة بديها مثلاً
أو مثلاً مديونية مديونية

* C.A ← مديونية مديونية

بـ إذا كانت مديونية مديونية invest مديونية مديونية مديونية

* C.Ratio ← مقياس لمدى قدرة الشركة على سداد ديونها / debt / مديونية / مديونية
C. Ratio ← مقياس لمدى قدرة الشركة على سداد ديونها / debt / مديونية / مديونية

* كل ما زاد عدد الدورات كلما كان افضل

Current conversion cycle = days

$$\begin{aligned} & \rightarrow \text{DOH} + \text{DSO} - \text{# of d. of payable} \\ & \quad \downarrow \quad \quad \quad \downarrow \quad \quad \quad \downarrow \\ & \text{average age of inventory} \quad \text{average collection period} \quad \text{average payment period} \\ & \text{AAI} \quad \quad \quad \text{ACP} \quad \quad \quad \text{APP} \end{aligned}$$

Cash to cash cycle

من بداية فترة زمنية الى اخرها
تدفق الربح الى الشركة، تدفق الى suppliers

AAI / ACP

في يوم البيع بحد 60 يوم، او Payment for suppliers

ايضا 120 يوم - 60 = 60
في 60 يوما بعد ان تدفع لـ suppliers

Quick ratio is more conservative than Curr. Ratio.

Solvency Ratios

مقياس قدرة الشركة على سداد التزاماتها المالية

Solvency Ratios

Degree of indebtedness

- نسبة الدين إلى الأصول
- Debt to assets
- Debt to capital

ability to service debt.

- دفع الالتزامات المترتبة على
- ترا، لا يقول في كفاية الربح
- Interest coverage
- Fixed charge coverage

debt ← فوائد على short or long term interest

إذا ما قدرت ائحة debt to total liability

كل دولار من asset يقول بـ X في الدين Debt to assets
 70% ← كل دولار من الأصول يقول بـ 30 سنت في الدين
 كل ما زاد من المسؤولية بزيادة riskiness

Debt to capital (debt + Equity)

equity
 كل دولار من
 الدين

Debt to equity:

~~كل دولار من equity يقول بـ X في الدين~~
~~أو equity يقول بـ X في الدين~~
~~الدين = 1.7~~

مثال: 0.7 ← كل دولار من equity يقول بـ 70 سنت في الدين
 $\frac{D}{Total\ assets} = \frac{0.7}{1.7} = 41\%$

Financial leverage: Fixed financing cost

Fixed financing sources: preferred stocks
 مع تمويل على تلفة ثابتة

do Maximization for Risk and return through using
 Fixed financing cost

levering → Maximize Risk and return

$$F. \text{Leverage} = \frac{\text{total assets}}{\text{total equity}}$$

إذا كان نسبة الدين إلى حقوق الملكية فـ F. Leverage

Total Assets = Total Liabilities + Total Equity
 Total Assets = Total Debt + Total Equity
 Total Assets = Total Debt + Total Equity
 Total Assets = Total Debt + Total Equity

interest coverage = $\frac{\text{EBIT}}{\text{Interest}}$
 interest coverage = $\frac{\text{EBIT}}{\text{Interest}}$

كل ما زاد من نسبة الدين إلى حقوق الملكية
 لا يؤثر على الربحية فائدة نلتزم بتغطية Int. الدين

operating leverage Maximization for Risk and return through
 using Fixed operating cost

لأنه كلما زاد نسبة الدين إلى حقوق الملكية
 كلما زاد نسبة الدين إلى حقوق الملكية
 كلما زاد نسبة الدين إلى حقوق الملكية
 كلما زاد نسبة الدين إلى حقوق الملكية

	A			B	
	100	110		100	110
Sales	100	110		100	110
V.C	20	22		40	44
Fixed cost	40	40		20	20
EBET	40	48		40	46

V.C → التكاليف المتغيرة

level of output
 التكلفة المتغيرة
 التكلفة المتغيرة

op. profit

نسبة بين عينا اعتماد أكبر من F. op cost حار عينا EBIT
 (م) من الما بنسبم حار العنبر أكبر مع انو قتر النسبة 10 %

نسبة الاعتماد

$$\text{Degree of op. leverage (DOL)} = \frac{\% \Delta \text{ EBIT}}{\% \Delta \text{ sales}}$$

$$A = \frac{48 - 40}{110 - 100} =$$

$$B = \frac{46 - 40}{110 - 100} =$$

* الكاتب اسم، لهاد الان انو لا بغير العنبر اقل تا بار Sales
 رج بكونه العنبر اعين الشركة ال بتسجل ال F. op cost
 فرع بغير عينا EBIT اقل من الشركة ال بتسجل

Financial Leverage -

تقيد من مصدر تمويل عليه تكاليف ثابتة

مثل: preferred stock, divi, interest

Maximize return for equity holders. * اعتماد من F. F. cost

debt holders لاله زيادة

Risk ان اذا ما استغلنا عن مقرر نرفع الفائدة ال علينا

Degree of Financial leverage (DFL) → نسبة اعتماد من I.S

~~DFL~~

op. profit

EBIT

↓

N.I

$$\text{Financial leverage} = \frac{\text{total assets}}{\text{total equity}}$$

$$\text{interest coverage Ratio} = \frac{\text{operating Profit (EBIT)}}{\text{interest payments}}$$

↓
تقريباً قدرته على دفع
الدين
المترتبة على الدين

Profitability Ratios

$$\text{gross Profit} = \text{Sales} - \text{CGS}$$

→ gross profit Margin : مثال : 70%
يعني ما دام الرقم يتزايد فذلك يعني المتبقي من Rev بعد خصم التكاليف

المصاريف التشغيلية أو المصاريف التشغيلية و taxes

كل ما زاد الرقم كلما كان أعلى (المحسب)

عند النظر J.P.M. عالي من خلال : high Price

لكن إذا كانه حزيناً سعره قليل و credit بيع خارج منزل و صار قسراً
إذا كانه عالي مانته للسوق بـ quality فبالإضافة إلى ما ذكره

للمنتج و صار مقبلاً من

long run

إذا كانه Price أقل و quality أعلى و مع ذلك فذلك يكون المنتج

Operating Profit Margin: كفاءة الربح التشغيلية

Net Profit Margin: حافز الربح الخبير

$$ROA: \text{Return on assets} = \frac{N.I}{\text{Total assets}}$$

$$ROE: \text{Return on Equity} = \frac{N.I}{O.E}$$

$$\text{Return on common equity} = \frac{EACS}{\text{Common Equity}} = \frac{N.I - P.\text{stock}}{B.V \text{ for common equity}}$$

B/C/E $\rightarrow$ Preferred $\rightarrow$

~~as a capital budgeting technique~~ $\rightarrow$ R.O.C.E. / R.O.A.

as a capital Budgeting techniques

capital Provider

ROA $\rightarrow$ Weighted average cost of capital (WACC)

ROE $\rightarrow$ cost of equity (ke)

↓
صندوق الاستثمار

↓
الاستثمار

Equity

Sales

T.A



کارایی
تولید

Profitability

turnover

$$\left(\frac{\text{Income}}{\text{Sales}} \right) * \left(\frac{\text{Sales}}{\text{T.A.}} \right)$$

$$\text{ROA} = \frac{\text{Net Profit Margin}}{\text{Total assets}}$$

$$\text{Profit Margin} = \left(\frac{\text{Net Profit}}{\text{Sales}} \right)$$

Net profit

$$\text{Financial leverage} = \frac{\text{ROA} * \text{N.I.} * \text{Sales}}{\text{T.A.}}$$

ROE

Dup ont analysis

Chapter 5 (R. 26). Financial analysis Techniques

* الكتاب (288/769)

- Financial analysis tools can be useful in assessing a company's performance and trends in the performance
- Financial st. contain data about the ^①past performance ^②of a company (its income and cash flows) as well as its ^③current financial condition (assets, liab, OE) such statements do not necessarily provide all the info. useful for analysis nor do they forecast future results

* يتم إجراء التحليل المالي للأسرة للأسباب متفرقة مثل: تقييم الادارة المالية، وتقييم المخاطر، وتقييم الامدادية وغيرها.

- Equity analysis usually places a greater emphasis on:
 "growth"
- Credit analysis usually places a greater emphasis on:
 "Risk".

* The Financial analysis process :-

Exhibit L : A Financial st. Analysis Frame work (288/769)

* processing البيانات المالية = كيفية الا اذا تم معالجتها
 (cross-sectional analysis) مقارنة الشركة مع غيرها ومثلها.

2.2. Distinguishing between Computation and Analysis

An effective analysis encompasses both computation and interpretation

* Profit margin $\rightarrow$ common size.

* Analysis tools and techniques:

- 3 techniques:
- $\rightarrow$ Vertical analysis
 - $\rightarrow$ Horizontal analysis
 - $\rightarrow$ Ratio analysis

* الأداة والتحليلات
تستخدم لتحليل
الأداء والمقارنة

* Ratio analysis / common size: $\rightarrow$ مقارنة النسب مع النسب

أخرى من نفس الشركة أو من نفس القطاع

* استخدام النسب: $\rightarrow$ المقارنة بين النسب في نفس الشركة

في فترات مختلفة أو بين شركات مختلفة

* differences in accounting standards can limit comparability.

$\rightarrow$ Ratio analysis:

compound annual growth rate =

$$\left[\frac{\text{ending value}}{\text{Beginning value}} \right]^{(1/\text{number of periods})} - 1$$

Ratios (نوعان):

$\rightarrow$ Activity Ratios

$\rightarrow$ Liquidity Ratios

$\rightarrow$ Solvency Ratios

$\rightarrow$ Profitability Ratios

$\rightarrow$ Market / Valuation Ratios

* Profitability can be assessed by comparing the amount of Net income to revenue.

2. Profitability Ratios

$\rightarrow$ Gross Profit Margin $\left(\frac{\text{gross profit}}{\text{revenue}} \right)$

$\rightarrow$ Net Profit Margin $\left(\frac{\text{Net income}}{\text{revenue}} \right)$

3.1 Ratios

→ Ratios express one quantity in relation to another (usually as quotient).

→ Financial statements ratios are effective in selecting investments and in predicting financial distress.

→ Practitioners routinely use ratios to drive and communicate the value of companies and securities.

aspects of ratio analysis

→ ① The computed ratio is **Not the answer**, the ratio is an **indicator of some aspects of a company's performance**, telling what happened but **Not why** it happened.

	A	B
N.I	100,000	200,000
Rev.	200,000	600,000
$\frac{N.I}{Rev.}$	5%	3.33%
Net Profit Margin		

↓
More Profitable

→ Company size sometimes confers economies of scale, so the absolute amounts of Net income and revenue are useful in financial analysis. However, ratios reduce the effect of size, which enhances ~~comparisons~~ comparisons between companies and over time.

→ ① Differences in accounting policies (across companies and time) can distort ratios and meaningful comparison may, therefore involve adjustments to financial data.

→ ② Not all ratios are necessarily relevant to a particular analysis.

* The ability to select a relevant ratio to answer the research question is an **analytical skill**.

→ ③ Ratio analysis does not stop with interpretation of result is essential.

* in practice differences in ratios across time and companies can be subtle (خفیه) and interpretation is situation specific (موقعیت خاص).

* **The Universe of Ratios:-**

→ The ratio can be interpreted as the amount of operating income generated per unit of assets.

$$= \frac{\text{Operating income}}{\text{Average total assets}}$$

(indicator of profitability ~~ratio~~)

→ dividing losses and exp. incurred by ^{net} premiums earned.
this (combined ratio) is a profitability measure. the ratio explains how cost (losses and exp) were incurred for every dollar of Rev.

Common size Analysis :-

- involves expressing financial data, including entire financial statements, in relation to single financial statement item, or base.
- Common size analysis creates a ratio between every financial statement item and the base item.

* Common-size Analysis of the Balance Sheet

- A vertical CS. BS, prepared by dividing each item on the BS by the same period's total assets.

- A Horizontal CS. BS, prepared by computing the increase or decrease in percentage terms of each BS item for the prior year or prepared by dividing the quantity of each item by a base year quantity of items.

* Common-size Analysis of the income statements

- A vertical CS. IS divides each IS item by Rev. or sometimes by total assets (especially in the case of financial institutions).

* Cross-sectional Analysis (relative analysis)

- compares a specific metric for one company with the same metric for another company or group of companies allowing comparisons even though the companies might be of significantly different size and/or operate in different currencies.

- * The use of graph as an analysis tool →

Common Ratios used in Financial Analysis:-

all of the 5 categories are useful in evaluating a company's overall ability to generate cash flows from operating its business and the associated risks.

→ (1) Activity Ratios:-

measures how efficiently a company performs day to day tasks, such as the collection of receivables and management of inventory.

→ (2) Liquidity Ratios:-

measures the company's ability to meet its short term obligations.

→ (3) Solvency Ratios:-

measures a company's ability to meet long-term obligations. Subsets of these ratios are also known as "leverage" and "long term debt" ratios.

→ (4) Profitability Ratios:-

measures the company's ability to generate profits from its resources (assets).

→ (6) Valuation Ratios:

measures the quantity of an asset or flow (e.g. earnings) associated with ownership of a specified claim (e.g. a share or ownership of the enterprise).

- * These categories are Not mutually exclusive, some ratios are useful in measuring multiple aspects of the business.
- * an activity ratio measuring how quickly a company collects accounts receivable is also useful in assessing the company's liquidity because collection of rev increases cash.
- * Some profitability ratios also affect the operating efficiency of the business.

- **Trend analysis** provides important info. regarding historical performance and growth and given a sufficiently long history of accurate seasonal information, can be of greater assistance as a planning and forecasting tool and management and analysts.

يوفر تحليل الاتجاه معلومات مهمة فيما يتعلق بالبيانات التاريخية والوقت والموسم (التاريخ الموسمي) مما يساعد الكفاءة في التنبؤات المستقبلية الدقيقة على أنه يمكن من ساعد غير كفاءة للتنبؤ والتنبؤ للإدارة والمحللين.

* يمكن أن يؤدي تغير النسبة المئوية الأخيرة (أو اعتبار تغيير مجرى التلة والعكس صحيح).

* Horizontal analysis can serve as a basis for developing expectations.

* Understanding of past trends is helpful in assessing whether these trend are likely to continue or if the trend is likely to change direction.

* One measure of success is for a company to grow at a rate greater than the rate of the overall market which it operates.

Relation ship among financial statements

* If **Rev** is growing more quickly than **assets**
 ↳ the company may be increasing its efficiency (generating more Rev. for every \$ invested in assets)

* **Net income** is growing faster than **Rev** which indicates
 ↳ increasing Profitability

وذلك لأن المبيعات تزيد الزيادة في **NI** أكثر من **Rev** مما يدل على زيادة الأرباح
 أو غير متوقعة وغيره.

- * assets have grown faster than Rev. indicates
↳ the company's efficiency may be declining.
- * it is generally more desirable to ^{invest in} observe inventory and receivables growing at a slower (or smaller) rate compared to Rev. growth.
- * Receivables growing faster than Rev. can indicate
↳ operational issues, such as lower credit standards or aggressive accounting policies for Rev. recognition
- * inventory growing faster than Rev. can indicate
↳ operational problem with obsolescence or aggressive accounting policies, such as an improper overstatement of inventory to increase profits.

- Interpretation and context :-

An analyst should evaluate financial Ratios based on :-

- * company goals and strategy :-

بما لا يمكن معرفة شئ إذا قاربت مع النتائج الزمنية

- * industry Norms (cross-sectional analysis).

A company can be compared with others in its industry by relating its F. Ratios to industry norms or to a subset of the comp. in an industry.

- * not all ratios are important.
- * it is better to examine industry specific ratios by lines of Business.
- * Differences in accounting methods used by companies can distort financial ratios.
- * Differences in corporate strategies can affect certain F. ratios.

* Economic conditions

F. Ratio = $\frac{\text{Firm's Assets}}{\text{Firm's Liabilities}}$

Activity Ratios (asset utilization // operating efficiency Ratios)

- it is a measure of how well a company manages its various activities (efficiency in managing act))
working capital long term assets.
- Activity Ratio is an indicator of:
 - * ongoing operational performance (effectively)
 - * ~~its usefulness~~
- efficiency have a direct impact on Liquidity
(the ability of a company to meet its short term obligations)
activity ratio is useful in assessing liquidity.

Definitions of commonly used Activity Ratios

Activity Ratio	Numerator (year)	Denominator ($\frac{\text{year}}{\text{year}}$)
inventory turnover	Cost of sales or cost of goods sold	Average inventory
Days of inventory on hand (DOH)	# of days in period	inventory turnover
Receivables turnover	Revenue	Average receivables
Days of sales outstanding (DSO)	# of days in period	Receivables turnover
payables turnover	Purchases	Average trade payable
Number of days of payables	# of days in period	payable turnover
working capital turnover	Revenue	Average working capital

نسبة دوران رأس المال العامل = $\frac{\text{Revenue}}{\text{Average working capital}}$

↑
نقد
Fixed assets turnover

Revenue

نسبة دوران الأصول الثابتة = $\frac{\text{Revenue}}{\text{Average net fixed assets}}$

Total assets turnover

Revenue

Average total assets

Recivable Invoice : معاملة عام اذا كانت اكر من فام كل مكان

1. $\text{account receivable turnover}$
 = $\frac{\text{المبيعات الصافية}}{\text{متوسط المدينين}}$

منه - منتهى - منتهى ما في الدنيا ، كل عام على ما كان
فيما مضى - في الماضي - في الماضي

reinvestment في الاستثمار

(فترة العيدين) Average collection period $\rightarrow$ Days of Sales $\times$
(ACP) outstanding

11 $\frac{365}{\text{Acc. receivable}}$

كل ما تدور أو turnover كل ما تدور * على حرة منقصة
التدور

inventory turnover : هو المرات التي يكون عليها البضاعة في فترة زمنية معينة
 (تقلب البضاعة)
 اذا كانت ال inventory turnover عالية فذلك يعني ان البضاعة تتحرك بسرعة

المعدل = $\frac{\text{inventory}}{\text{turnover}}$ مع نسبة من نفس القطاع

Average age of inventory $\times$ Days of inventory on hand

بكر كل مرة منه مرات نقلت العناية

إذا قلب الصفحة 10 من الكتاب

$$\begin{array}{r} 549 \\ \times 365 \\ \hline 10 \end{array}$$

Average age of account payable $\checkmark$ is # of days of payable or average payment period.

acc. payable $\times$ turnover

$$\text{# of days of payable} = \frac{\text{Purchases}}{\text{Average account payable}}$$

$$\text{Purchases} \rightarrow \frac{\text{Beg inv.} + \text{Purchases} - \text{CGS}}{\text{End inv.}}$$

* كل ملكية اقل كل ملكية اخرى لانها غير ارجع ائري
 فيل اعز من رة قبل ما اقدم
 * فيل اعز من رة (اخر كل رة) تكونه كبير

$$\text{Current assets} - \text{Current Liabi} = \text{working Capital turnover}$$

لـ كل \$ ما ...
 current long term assets
 (Total assets turnover)

efficient ~~asset utilization ratio~~ : قد بين ان ...
 to generate sale ...
 لـ كل \$ ما ... assets ...

Fixed assets turnover ...
 to generate sales ...

كل طرازات ...
 لانها ...
 الـ عنده ...

Activity ratios: measure how efficiently the company utilizes assets.

income statement: measures what happened during a period.

Balance sheet: shows the condition only at the end of the period, average BS. data are normally used for consistency.

to measure inventory management $\rightarrow \frac{CGS}{\text{average inv.}}$

- * semiannual data prepared $\rightarrow$ an average can be taken over 3 points
- * quarterly data prepared $\rightarrow$ a 5 point average can be computed

$\rightarrow$ Because cost of good sold measures the cost of inventory that has been sold, this ratio measures: How many times per year the entire inventory was theoretically turned over or sold.

Annual Period:

Example: $CGS = 120,000$ inventory turnover + D.O.H $\text{average inv.} = 10,000$

$\rightarrow \text{inventory turnover ratio} = \frac{120,000}{10,000} = 12$
(the company theoretically turn over its entire inventory 12 times per year)

* theoretical لا ف باحالة النظر لا يتكهن على ان هذا هو
الواقع في الواقع
نفسه

Days of inventory on hand

$$= \frac{\text{Days}}{\text{inv. turnover}} = \frac{365}{12} = 30.42$$

(on average the company's inv. was on hand for about 30 days.)

* interim period (quarter)

CGS first quarter (90 days) = 35,000
average inventory = 11,000

$$\rightarrow \text{inventory turnover} = \frac{35000}{11000} = 3.18 \text{ } \overset{\text{time}}{\text{per quarter}}$$

12 time per year

* in this case we can annualize the quarter inventory turnover by :-

① multiplying the quarter turnover by $\frac{12}{3} \rightarrow 4$

$$= 3.18 \times \frac{12}{3} = 12.72 \text{ times per year}$$

② multiplying the quarter turnover by 4.06 $\rightarrow \frac{365}{90}$

$$= 3.18 \times 4.06 = 12.91$$

Days of inventory on hand (DOH) :-

① ~~using~~ using quarterly data.

$$= \frac{90}{\text{quarter turnover}} = \frac{90}{3.18} = 28.30$$

② use annualized turnover rate and 365 days.

$$= \frac{365}{\text{annualized turnover}} = \frac{365}{12.91} = 28.27$$

Receivables turnover + # of days of sale outstanding (DOS)

Example:

Trade receivable as of 31 March 2009	482,086
" " " " " " 2010	1,021,062
Revenue for year ended 31 March 2010	16,604,815

Receivable turn over

$$\frac{\text{Rev.}}{\text{average receivables}} = \frac{16,604,815}{751,574} = 22.093 \text{ or } 22.1 \text{ times.}$$

$$\begin{aligned} \text{average receivables} &= \left(\frac{\text{receivable 2010} + \text{2009}}{2} \right) \\ &= \frac{1,021,062 + 482,086}{2} = 751,574 \end{aligned}$$

DOS

$$\frac{\text{\# of days in period}}{\text{Receivable turnover}} = \frac{365}{22.1} = 16.5 \text{ days.}$$

it took the company 16.5 days to collect receivables during the fiscal year ended 31, March 2010

1/2 Activity Ratios:

- inventory turnover and DOH indicate: inventory management effectiveness.
- A Higher inventory turnover $\Rightarrow$ shorter period that the inventory is held.
C/W $\Rightarrow$ lower DOH.
- High inventory turnover ratio (low DOH) indicates the company does Not carry adequate inventory. So shortages could hurt rev.
- Slow Rev growth + High inventory T. $\Rightarrow$ inadequate inventory levels.
- Higher same Rev growth $\&$ industry growth $\Rightarrow$ the higher turnover reflects greater inventory management efficiency.

Low inventory turnover ratio (High DOH) indicates at slow-moving inventory.

$$\text{* inventory turn over} = \frac{\text{CGS}}{\text{average inventory}}$$

$$\text{* DOH} = \frac{\text{Days}}{\text{inventory turnover}}$$

average age of inventory.

DOH: days of inventory on hand

3/4 Receivables turnover and DSO

→ DSO represents the time between a sale and cash collection, reflecting how fast the company collects from customers to whom it offers credit.

→ Higher receivables turnover ratio (low DSO) indicates: highly efficient credit and collection

ارتفاع دوران المبيعات يعني ان الشركة تبيع منتجاتها بسرعة كبيرة او ان عملائها يدفعون ثمن مشترياتهم بسرعة كبيرة. هذا يعني ان الشركة لديها عملاء يدفعون ثمن مشترياتهم بسرعة كبيرة. هذا يعني ان الشركة لديها عملاء يدفعون ثمن مشترياتهم بسرعة كبيرة.

$$* \text{Receivables turnover} = \frac{\text{Rev سنة الكمية}}{\text{average receivables}}$$

$$* \text{average receivables} = \frac{\text{receivable 1 سنة} + \text{receivable 2 سنة}}{2}$$

$$* \text{DSO} = \frac{\text{\# days in the period}}{\text{Receivables turnover}}$$

* DSO: days of sales outstanding

516 Payable turnover and # of days of payables

→ Payable turnover measures how many times per year the company theoretically pays off all its creditors.

→ # of days of payable reflects the average # of days the company takes to pay its suppliers.

→ High payable turnover ratio (low days payable) indicate that the company is Not making full use of available credit facilities (استغلال الائتمانية المتاحة)

من ناحية أخرى يجب أن نلاحظ أنه عندما تكون نسبة دوران المدفوعات عالية، فإن الشركة قد تكون تستفيد من خصومات الدفع المبكر (early payment discount).

→ Low payable turnover ratio (High days payable) indicate trouble making payments on time or exploitation of lenient supplier term.

لذلك، فإن انخفاض نسبة دوران المدفوعات قد يشير إلى مشاكل في الدفع في الوقت المحدد أو استغلال شروط الموردين المتساهلة.

مقاييس مالية Ratios: في جملة أمور، يمكن استخدام النسبة المئوية للمشتريات المستحقة (Credit) وقيمة المشتريات المستحقة (Debit) في حساب النسبة المئوية للمشتريات المستحقة (Credit) وقيمة المشتريات المستحقة (Debit).

$$\text{Purchases} = \text{CGS} + \text{End. inv.} - \text{Beg. inv.}$$

$$\star \text{ Payable turnover} = \frac{\text{Purchases}}{\text{average trade payable}}$$

$$\star \text{ \# of days of payable} = \frac{\text{\# of days in period}}{\text{Payable turnover}}$$

$$\text{average} = \frac{1 + 2}{2}$$