

Ch.7

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RUBA  
MTOOR

## long-term Debt-paying Ability

← القدرة على سداد الديون طويلة الأجل

\* The capital structure of an firm consists of debt and equity funds

\* long-term debt and preferred stock can provide leverage to a firm's capital structure and can possibly enhance the return to the common stockholders.

\* Solvency (Leverage and Debt Service)

الملاءة

↳ the firm's ability to satisfy long-term debt as it become due.  
"قدرة الشركة على الوفاء بالديون طويلة الأجل عند استحقاقها"

$$[\text{Solvency} = \text{Financial leverage}]$$

\* Balance Sheet consideration

↳ Debt Ratio

↳ Debt/Equity Ratio



②

$$\text{Debt Ratio} = \frac{\text{Total Liabilities}}{\text{Total Assets}}$$

The lower this ratio, the better the firm's position and the creditors are protected in case of solvency.

are more protected

Items that present particular problems as to a future payment of funds include:

- ① Reserves
- ② Deferred taxes
- ③ noncontrolling interests
- ④ Redeemable preferred stock

الأرصدة

الضرائب المؤجلة

القوة غير المسيطرة

الأصوات القابلة للاسترداد

**Deferred income tax** → Difference between income tax expenses based on financial statement income and taxes payable based on tax return

تعتبر كالتزام ضمن Total liabilities

بالنسبة لأغراض الضريبة وأغراض القوائم المالية تكون الضريبة بنفس القيمة في الحصة لكنها تختلف في التوزيع على مدار وعده السنوات.



(3)

## Noncontrolling Interest [Minority share holders Interest]

لم تفتح عندما تمتلك الشركة الأهم أقل من 100% من الشركة  
الناطقة.

~~XXXXXXXXXX~~

← الكتاب اعتبرها التزام ويجب تضمينه في  
Total liabilities

## Redeemable Preferred Stock

← الكتاب اعتبرها التزام ويجب تضمينه في TL

$$\text{Debt/equity Ratio} = \frac{\text{Total Liabilities}}{\text{Shareholders' Equity}}$$

→ Determine the firm's long term debt paying ability,  
and how well creditors are protected in case of insolvency.  
كلما انخفضت كان وضع الشركة أفضل.

→ more conservative.

$$\text{Debt to tangible net worth Ratio} = \frac{\text{Total liabilities}}{\text{Shareholders' equity} - \text{Intangible Asset}}$$

excludes

because they do not provide resources to pay creditors



(4)

## Income Statement Consideration

نسبة الفائدة العكسية  
→ Times interest earned.  
→ Fixed charge coverage.

Times Interest Earned = 
$$\frac{\text{Recurring Earnings, excluding [Interest expense, tax expense, Equity Earnings and noncontrolling interest]}}{\text{Interest expense [Including capitalized interest]}}$$

useful for evaluating the firm in the short run

This Ratio ~~indicates~~ indicates a firm's long-term debt-paying ability from the IS view.

يعني الربح قبل الفوائد  
Net Income هو الفرق بين  
الربح قبل الفوائد  
والفوائد

- ① Discontinued operations
- ② Extra ordinary items
- ③ Interest expense
- ④ Income tax expense
- ⑤ Net Income from noncontrolling interest
- ⑥ Equity earnings or losses of nonconsolidated subsidiaries.

This ratio should be computed for 3 to 5 year to evaluate the adequacy of coverage and compared to competitors and the industry average.

[Depreciation, Depletion, Amortization] Non-cash expense  
[less conservative] نسبة أقل حفاظاً



If time interest earned is adequate little danger exists that the firm will not be able to meet interest obligation and it should also be able to refinance the principal when it comes due. But the low, ~~low~~ fluctuating coverage from year to year indicates a poor record.

Fixed charge coverage indicates a firm's long term debt paying ability from the I.S. view and indicates a firm's ability to cover fixed charges.

What should be included in the fixed charges?

- Capital leases
- Operating leases

ملاحظات هذه النسب:

- ① F.S. don't record at FMV so certain assets may have FMV very greater than carrying value.
- ② certain assets may have earnings potential in the future.

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