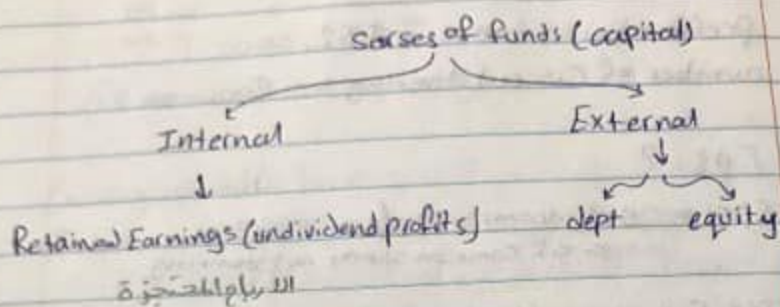


Wed. Oct. 30

* Chapter 2 *

The Financial Market Environment

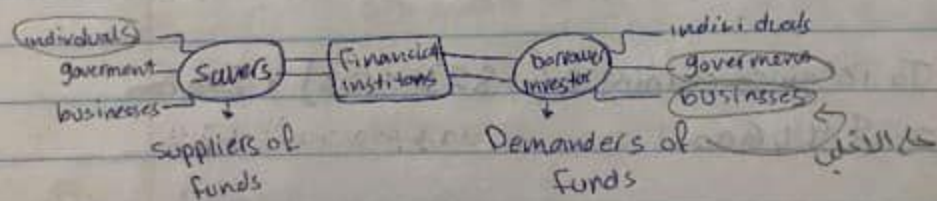


Sources of Capital

- External

we raise capital ^{نقوم برفع} 3 ways:

1. Financial Institutions (المؤسسات المالية)
it's an intermediary that helps transfer funds among individuals, businesses and the government indirectly
(savers) ^{الذين يوفرون} ^{المال} ^{من} ^{الأفراد} ^و ^{الشركات} ^و ^{الحكومة}
We need F.I. To raise capital



* Individuals → Net Suppliers of Funds

(borrowers) ← (savers) ^{الأفراد} ^{يطلبون} ^{المال} ^{من} ^{الأفراد} ^و ^{الشركات} ^و ^{الحكومة}

* أنواع Securities firms : شركات الوساطة المالية

- ① **brokerage firms** → help buyers and sellers of financial securities to be matched for a specific commission (عمولة)
شركات الوساطة المالية مثلاً: بينشري اسم
- ② **Investment banks** (بنوك استثمار) help in raising financial capital, mergers (اندماج) and acquisitions (مشتراة)

- ③ **mutual funds** صناديق الاستثمار
تقوم بجمع أموال من عدة مستثمرين وتشتري بها صناديق الاستثمار
وهي تصدر أسهمها بحدودها بتشريها الصناديق
issue shares of their own and the (pooling of funds) ← صناديق استثمار
are reinvested in other corporate and governmental securities

Finance Companies: شركات تمويل

Role → give loans only

ولا تستقبل

العوائد تكون عالية جداً (أعلى من فوائد البنوك) ويأتى إليها الناس
لأن البنك ما يربح منه يبيع في قروض

Nov. 2. Sat.

Financial institutions المالية

2.

Financial market (البورصة) مكان تداول الأوراق المالية

(Network) Financial sec. وهو مكان (أو شبكة)

it's a location or electronic (network) form where
demanders and supplies of funds can do their
business transactions directly.

* Financial securities are usually sold in financial

markets ... treasury المالية ... في البورصة

شركات الوساطة المالية (security firms) ويبيعون لكل

العام - general public وفي الأسهم، يكون في البورصة لكن لو كان

البيع لنا - specific people لا يتباع في البورصة لأنه البورصة

لا يتم التحويل بين بشري (يكون الكمال الذي يشترى) أخصر شركة مالية

- Types of offering financial securities:

① public offering → selling stocks for the general
public (publicly held corporation عامة شركة)

② Privat placement → selling stocks for a specific
group of people (privately held corporation خاصة شركة)
such as: insurance co., pension fund

* Types of market securities maturity: ③

- money market

it describes the financial relationship between short term demanders and suppliers of funds

- Capital market

it describes the financial relationship between long term demanders and suppliers of funds

• المال money, Capital/market : Note

• الربح profit : Note.

* Business Taxes

- الجود 93 (taxing)

Ex: Taxable income = \$60,000

tax Expense = ?

tax rate = ?

$$\begin{aligned} * \text{Tax} &= 7500 + (25\% * (60,000 - 50,000)) \\ &= 7500 + (25\% * 10,000) \\ &= 7500 + 2500 = \$10,000 \end{aligned}$$

$$* \text{Tax rate} = \frac{\text{Tax expense}^{(\text{liability})}}{\text{Taxable income}} = \frac{10,000}{60,000} = \%16,6$$

a. Contractual saving organization

(1) Insurance companies :

IT collects premium to protect individuals and Businesses against losses

(2) Pension funds استثمار

collects premiums to protect individuals against Job losses

b. Securities Firms

Financial Securities :

- short-term

maturity: less than one year , دائري

- 1- Treasury bills
- 2- Negotiable CDs
- 3- Commercial bank paper

- Long term

maturity: more than one year

- 1- Bonds
- 2- preferred stocks
- 3- Common stock

No maturity من تاريخ استحقاق
ownership ملكية

* Business and the governments → Net demanders of Funds



* Types of Financial institutions

① Depository Institutions : مؤسسات الادخار

Role → Accept deposits and gives loans

a. Commercaill banks : البنوك التجارية ← [Most important]

Role → Accept deposits and gives loans to individual, businesses and governments. (الفترة الأكبر) عندهم استثمارات يوظفون قروض للكل.

b. Saving banks :

Role → accept deposits and gives loans mainly to individuals. متخصصة بأعمال القروض للأفراد

c. Credit union (تعاونيات)

Role → accept deposits and gives loans only to members. تقبل الودائع وتعطي قروض فقط للأفراد التعاونيات

② Non-Depository instit.

كل المؤسسات المالية التي لا تقبل الودائع ولا تعطي قروض لكن تتخذ اقراض (المقرض)

Financial market

(1) Primary market

سوق الأوراق المالية الأولية
Securities 1st market
(مشتري الأوراق المالية)

Where the initial sale of Securities happen

(The transaction happens between the issuer and the investor.)

(2) Secondary market

(البورصة)

سوق الأوراق المالية الثانوية

Where securities are

Sold between investors

(البورصة Secondary market)

[organized securities Exchange]
(Broker - market)

تتميز هذه السوق بالشفافية والنزاهة

الوساطة المالية (Brokers) يتوسطون

البيع والشراء ويؤخذون عمولة

- physical trading floor
- brokers usually match the buyers with the sellers of securities for a specific commission

Example: NYSE (new york stock exchange)

[over the counter]
(Dealer - market)

- Net work شبكة

- Dealers usually buy and sell

financial securities from their

own portfolio محفظة الأوراق المالية

(market-makers)

EX: Nasdaq NY

LS

(3)

(b) Average tax rate = $\frac{\text{tax expense}}{\text{Taxable income}}$

* year 2009 tax rate = $\frac{9,250}{57,000} = 16.23\%$

* year 2010 tax rate = $\frac{11,000}{64,000} = 17.19\%$

* year 2011 tax rate = $\frac{11,625}{66,500} = 17.48\%$

* year 2012 tax rate = $\frac{13,835}{75,250} = 18.39\%$

* There is a positive, direct relationship between The Taxable earning and the average

P2-3

Year	marginal tax rate
2009	25%
2010	25%
2011	25%
2012	34%
2013	34%

(a)

* As tax liability increase the marginal tax rate has increased

(b)

* As for the taxable earning: unless taxable earning are in another range, the marginal rate will not change
 marginal rate لا يتغير مع زيادة taxable earning إلا إذا دخلت في نطاق آخر

* لا يعرف في أمريكا كيف يمكن أن يكون لديك دخل (tax saving) وهو
التيقل الضريبة وتوفر لك في الدخل لك لا تعرف

5

Vehicle 2

Capital loss

tax rate 46%.

EAT

Recommendation:

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

Vehicle 1 should be sold (tax saving) \rightarrow less

4607440 n8 vehicle 2 الكو 2 Vehicle 1

P2-7

tax rate = 40% ..

الحل مع الكتاب
الاصلي

شركة (1)

شركة (2)

(3)

Earnings after tax = 102,000

\$120,000

Wed. Nov. 6

(1)

الدواجن التي تتوزع على الغير من الشركة هي (dividends)

- (3) Dividend income (70% - 80%) of dividend income is Excluded (مستثناة) from taxes.

20 أو 30

إذا كانت الشركة تمتلك 20% أو أكثر من أسهم شركة أخرى، تكون مستثناة من الضرائب

- IF a corporation owns less than 20% of other corporation's stocks then 70% of the dividend received will be Excluded from taxes

- IF a corporation owns more than 20% (20% - 30%) of other corporation's stocks then 80% of the dividend received will be excluded from taxes.

على ما زاد ملكيته (أسهم) في شركة أخرى بنسبة الاستثناء

إذا كانت الشركة تمتلك أكثر من 80% من أسهم شركة أخرى يكون الاستثناء كامل (ما يدفعه هو ربح)

(6)

* Tax will decrease because the corporation will receive an 80% dividend exclusion

(d) Interest income is taxable, whereas dividends income 70% - 80% is excluded from taxes

(e) Tax Liability = \$123,000

P2-5 EBIT = \$250,000

Tax rate = 35%

(a) Interest expense = \$0

(Earnings to be distributed) (EAT) net income

* EBIT 250,000

- Interest Exp 0

EBT 250,000

- Tax (35%) 87,500

EAT = Net income \$162,500

(b) Interest expense = \$8,500

* EBIT 250,000

- Interest Exp 8,500

EBT 241,500

- Tax (35%) 84,525

EAT = NI \$156,975

- ③ Tax Liability 87,000 ④ > tax Liability 84,525
(tax deductible) interest expense is the reason
behind the difference in the tax liability

بعض قبله سبب الضريبة قال (income) ياكسي taxable income
اقل فاكيد انك سادج يكون اقل .

P2-6

- ① Vehicle 1
Capital loss = $1350 - 2500 = (\$1,150)$

Vehicle 2

Capital loss = $1,900 - 3000 = (\$1,100)$

- ② Vehicle 1

السارة لا تدفع عليها ضريبة فقط السراج *

C. loss \$ - \$1,150

Tax 40% - \$460

EAT (\$690)

السارة لا تدفع ضريبة

ضريبة السراج تدفع

Tax saving

السارة تدفع الضريبة
Vehicle one

①

Capital gain = selling price - purchase price

العربية - مراكش والشرية

②

P2-2

(year)	EBT / taxable earning pretax earnings
2009	\$ 57,000
2010	\$ 64,000
2011	\$ 66,500
2012	\$ 75,250
2013	\$ 79,350

p. 99

②

$$\star \quad 2009, \text{ tax} = 7500 + (25\% \cdot (57,000 - 50,000))$$

$$= \$9,250$$

$$\star \quad 2010, \text{ tax} = 7500 + (25\% \cdot (64,000 - 50,000))$$

$$= \$11,000$$

$$\star \quad 2011, \text{ tax} = 7500 + (25\% \cdot (66,500 - 50,000))$$

$$= \$11,625$$

$$\star \quad 2012, \text{ tax} = 13,750 + (34\% \cdot (75,250 - 75,000))$$

$$= \$13,835$$

$$\star \quad 2013, \text{ tax} = 13,750 + (34\% \cdot (79,350 - 75,000))$$

$$= \$15,229$$

\star As taxable earnings increase the tax liability has also increased

P2-4

Worldwide Contractors Corporation

Gross profit = \$ 520,000

Operating Expenses = \$ 235,000

Interest income = \$ 15,000 (received)

owns 15% of multiple wine corporations stock

Dividend income = \$ 25,000

Tax rate = 40%

70% dividend exclusion (الغاء)

(a) Interest received = \$ 15,000 & Tax = 40%

* Tax liability on interest received = $(15,000 \times 40\%)$
= \$ 6,000

EAT (الربح) = \$ 9,000 $(15,000 - 6,000)$

* Tax liability on dividend received = $(25,000 \times 40\% \times 30\%)$
= \$ 3,000 70% dividend exclusion (يُحذف 30% من الأرباح)

EAT = \$ 22,000 $(25,000 - 3,000)$ هي الأرباح الخالية من الضرائب

(b) EACS : (الربح الخالي من الضرائب)

* gross profit 520,000

- operation expense 235,000

operating profit 285,000

- interest expense 0

Earnings before tax 285,000

Tax rate (40%) $(114,000) \rightarrow (40\% \times 285,000)$

Net income \$ 171,000

(from operations)

(4)

← Silbas
(photos)

(5)

(b)

(6,000 + 2,000)

$$* EACS = 171,000 + 9,000 + 22,000 = \$202,000$$

* (البيانات المالية)

gross profit 520,000

- operating expense 235,000

EBIT 285,000

- interest expense (0) ما عليه فوائد

EBT 285,000

+ interest received 15,000

+ taxable dividend received 7,500 $\rightarrow (25,000 \times 30\%)$

Taxable income \$307,500

- tax (40%) 123,000 $\rightarrow (307,500 \times 40\%)$

Net Income 184,500

+ non-taxable dividends 17,500 $\rightarrow (25,000 \times 70\%)$

EACS \$202,000

(c)

Dividend income = 25,000

القيمة (مفتوحة)

- exclusion 80% = 20,000

Taxable income 5,000

- tax 40% [2,000]

EAT 3,000

لصاحب الدخل
المعفى من
الضريبة

→

(4)

Ex: Taxable income = \$50,000

لوعسبة على الشريحة الأولى ببلغ 50,000 (الدينار)

$$\begin{aligned} * \text{Tax} &= 0 + (15\% * (50,000 - 0)) \\ &= 15\% * 50,000 = \$7,500 \end{aligned}$$

Note: إذا كانت الفائدة

— Corporations usually pay taxes on:

① ordinary income → income from operations

العربية على الربح

② interest income (e.g. interest received from bonds)

Note: Interest Expense is a tax deductible (corporations

don't pay taxes on interest Expense) يعني قبل دفع العربية

so اننا ندفع العربية على الربح شئنا اننا ندفع

— Example: p. 94

Tax rate = 40%

Tax Expense = \$

Earnings after tax = ?

	Dept company	No Dept Company
EBIT	\$200,000	200,000
Interest	\$30,000	0

$200,000 - 30,000 =$

* EBT → \$170,000

\$200,000

* Tax rate → \$68,000

\$80,000

Expense $(40\% \times 170,000)$

$(40\% \times 200,000)$

→

$$* \text{ Net cash flow} = CFO + CFI + CFF$$

المشروع → الموجبة

P168-169

Cash out flow ← طرح Cash in flow ← ايداع

$$* * \text{ Net cash flow} = \Delta \text{ in cash} + \Delta \text{ in marketable. Sec. (bal)}$$

Baker corporation

Cash flow statement (000)

for the year ended Dec. 31, 2015

Net Income \$180

+ Depreciation \$100

+ Decrease in A.R. \$100

+ Decrease in inventory \$300

+ increase in A.P. \$200

- decrease in Accruals \$100

Cash flow provided by operating act. \$780

Cash Flow From Investing act.

- gross fixed Assets 300

Cash flow used by Investing (300)

Cash inflows (sources of cash)

Cash outflows (uses of cash)

* Net income ($R-E, R>E$)	* Net loss ($R-E, E>R$)
* Depreciation (non-cash Expense)	
* Decrease in Assets بعت	* Increase in Assets شريت
* Increase in liability اتلانيته	* Decrease in liability تسديد ديون
* Sale of stocks بعت اسهم (preferred, common بعت السهم المفضل او العادي)	* repurchase of stocks شريت اسهم (Treasury stocks سهم الشركة نفسه)
	* Dividance paid الربح الموزعة

- Depreciation : it's a cash in flow يترجع to net income
! Cash out لانه غير (non-cash Expense)
- All Expenses are cash out like the Depreciation.

* Business Activities:

- ① operating activities : اي اسئله الى علاقة بتبيع البضاعة وبيعها
 Δ (changes) in Current Assets (Excluding change in Cash & marketable securities)

- Δ in current liabilities

- ② Investing activities : الاسئله اطلع على الشراء والمبيعات
 Δ in investments اذا قلته يعني بعت يعني cash in
في شئله بل Fixed assets

(3)

Δ in gross Fixed Assets
 (Fixed assets) $\frac{\text{the Accumulated Depreciation}}{\text{من مخصص}} \rightarrow$
 (cash in) \rightarrow إذا زاد يعني شريك (cash out) وإذا قلته يعني بيع

③ Financing activities:

إذا زاد يعني اذات (إشراك) وإذا قلته يعني سحب الدين (كاشاوت)

Δ in short-term interest-bearing debts (Notes payable) \rightarrow

***Note:** أي دين قصير الاجل عليه فوائد يعتبر التغيير فيه ليس تحويل
 V.m.p!

- Δ long-term debts, liabilities
 - Δ preferred stocks
 - Δ common stocks @ par
 - Δ additional paid in excess of par
 - Δ Dividends paid
- } \rightarrow O.Eq

****** Any increase in Receivables (A/R...) is cash out
 لأن يزيد الدين (شركه مصريه)

****** إذا ال Depreciation حايك واضح من ال income statement عيكن
 الحصول عليه من ال B.S. من خلال الفرق بين ال
 Accumulated depreciation.

$$[[\text{Depreciation} = \text{the Acc. Dep. بين الوقت}]]$$

****** Dividends paid is Always cash out (طرح)

Nov. 27. Wed.

Cash Flow from Financing act.

- Note payable 100

+ long term debt 200

- Dividance 80

Cash flow provided by financing 20

* $RE_{2015} = RE_{2014} + NI - \text{dividance}$ ← عرفت مال
 $600 = 500 + 180 - \text{dividance}$ RE مال
 $[80 = \text{Dividance}]$

→ (common st. @ par) و (preferred stocks) مال
لا یوما فی تغییر بین السنتین خاذا (مخرجه)

* $\text{Net cash flow} = CFO + CFI + CFF$
 $(1000 + 780 - 300) + 20 = 500$

* $500 = D \text{ cash} + D \text{ in marketable securities.}$
لازم یباشد

* Free Cash Flow
is cash flow available to both owners and creditors after all activities.

* $FCF = OCF - NFAI - NCAI$

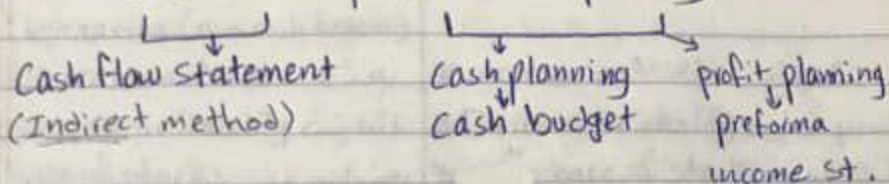
Free cash flow operating cash flow Net fixed assets investment Net current Assets investment

Sat. Nov. 23

①

* Chapter 4 *

Cash Flow & Financial planning



- ④ Cash Flow statement:
is a financial statement that shows cash in flows & cash out flows from 3 business activities which include:
Operating, investing and financing

①

②

③

* To prepare a cash flow statement one income st. and two balance sheets are needed.

Ex: IF we want to prepare a cash flow statement for the year ended Dec. 31, 2018 we need:

- 1- Income st. for the year 2018
- 2- Balance Sheet for the year 2018
- 3- Balance Sheet for the year 2017

→

(4)

Indirect method

* Cash Flow Statement *

For the year ended Dec. 31, 2019

operating activities

- Net Income
- + Depreciation (non-cash Expense)
 - increase in Account. R \ + decrease in Account. R
 - increase in inventory \ + decrease in inventory
 - + increase in Accounts. p \ - decrease in Accounts. p
 - + increase in Accruals \ - decrease in Accruals
 - + increase in Accrued liabilities \ - decrease in Accrued Liab.

Cash Flow [provided (+)] [Used (-)] by operating activities

* Cash Flow from investing activities *

- increase in gross fixed assets \ + decrease in gross. F. assets
- increase in investments \ + decrease in investments.

Cash Flow provided by / used by investing activities

* Cash Flow from financing activities *

- + increase in notes payable \ - decrease in Notes payable.
- + increase in long term debts \ - decrease in long term debts
- + increase in preferred. st \ - decrease in p.s
- + increase in C.S @ par \ - decrease in C.S @ par
- + increase in additional paid \ - decrease in additional
in excess of par paid in excess of par

always - Dividends paid

Cash Flow provided / used by financing act.

- ②
- ③
- ⑥ To divide every ^{كل مصروف كمال} expense shown in the previous year's income statement over the Sales.

(Excluding taxes) (استثناء ضريبة الدخل)

$$\frac{\text{Every Expense}}{\text{Sales}} = \% \text{ percent of sales}$$

→ not the forecasted sales

- ⑦ The Expense in the proforma income statement = percent of sales X Forecasted sales (estimated)

Ex: p. 185

- ① Forecasted sales = Q X P

model X → $1500 \times 25 = \$37,500$

model y → $1950 \times 50 = \$97,500$

Total forecasted sales = \$135,000

(Expenses)

② * COGS → $\frac{80,000}{100,000} = 80\%$

* operating expense → $\frac{10,000}{100,000} = 10\%$

* interest Expense → $\frac{1,000}{100,000} = 1\%$

C.S. dividants Tax لا يجب ال Tax في مبيعات ولا يجب ال

③
 — To calculate (operating cash flow) \Rightarrow $\text{EBIT} - \text{Interest} - \text{Tax}$

$$** \text{OCF} = \text{NOPAT} + \text{Depreciation} - \text{Interest}$$

$$= \text{EBIT} (1 - \text{tax rate}) + \text{Dep.} - \text{Interest}$$

$$= 370 (1 - 40\%) + 100$$

$$= 222 + 100 = 322$$

$$= 322$$

$$= 322$$

$$** \text{NFAI} = \Delta \text{Net fixed assets} + \text{Depreciation}$$

$$= (1200 - 1000) + 100$$

$$= 300$$

$$** \text{NCAI} = \Delta \text{CA} - (\Delta \text{A/P} + \Delta \text{Accruals})$$

$$= (2000 - 1900) - ((700 - 500) + (100 - 200))$$

$$= 100 - (200 - 100)$$

$$= 0$$

الافاق

$$** \text{FCF} = \text{CFO} - \text{NFAI} - \text{NCAI}$$

$$= 322 - 300 - 0$$

$$= 22$$

P4-6:

p: 196

$$\begin{aligned}\textcircled{A} \quad \text{NOPAT} &= \text{EBIT} (1 - \text{tax rate}) \\ &= 2900 (1 - 40\%) \\ &= 1740\end{aligned}$$

$$\begin{aligned}\textcircled{B} \quad \text{OCF} &= \text{NOPAT} + \text{Depreciation} \\ &= 1740 + 1600 \\ &= 3340\end{aligned}$$

$$\begin{aligned}\textcircled{C} \quad * \text{NFAI} &= \Delta \text{net Fixed Assets} + \text{Depreciation} \\ &= (14600 - 14800) + 1600 \\ &= 1400\end{aligned}$$

$$\begin{aligned}* \text{NCAI} &= \Delta \text{CA} - [\Delta \text{AP} + \Delta \text{Accruals}] \\ &= (9600 - 8200) - ((1700 - 1600) + (100 - 200)) \\ &= 1400 - 0\end{aligned}$$

$$= 1400$$

$$\begin{aligned}* \text{FCF} &= \text{OCF} - \text{NFAI} - \text{NCAI} \\ &= 3340 - 1400 - 1400 \\ &= 540\end{aligned}$$

③	Sales Revenue	135,000
-	CGS ($(80\% \times 135,000)$)	108,000
	gross profit	27,000
-	operating Expenses ($(10\% \times 135,000)$)	13,500
	operating profit	13,500
-	Interest ($(1\% \times 135,000)$)	1,350
	EBT	12,150
-	Taxes ($(15\% \times 12,150)$)	1,823
	net profit after tax	10,327
-	C.S dividends	4,000
	Retained earnings.	\$16,327

* This method is not as accurate.

⑤ Fixed and variable method:

According to fixed and variable method

- 1- Fixed ~~asset~~ expense will remain the same
 (تغير مع تغير المبيعات)
- 2- Variable expense will be divided over sales and the
 new variable expense = percent of \times Forecasted sales
 (تغير مع تغير المبيعات)

في الطريقة الأولى لا يتغير مع التغير في المبيعات

* العوارض لا تتغير مع التغير في المبيعات لكن تتغير مع التغير في المبيعات

الدكتور أيمن

١٧٦-١٩٩٩ / ١٢/١٥/١٦

For the year ended Dec. 31, 2015

Sales	100,000
less: CGS Fixed	
variable	

Dec. 7. Sat. (21.91 X 221) 200 ①

① Fixed and variable method

Exp: 187

*

vetra manufacturing proforma IN. st

For the year ended Dec. 31, 2016

Sales 135,000

less: CGS (Fixed) 40,000

method Fixed & Variable IN. st

(Fixed) Variable $\rightarrow (40\% \times 135,000)$ 54,000

no a. in. st. 1000

gross profit 41,000

less: Operating expenses fixed 5000

variable $\rightarrow (5\% \times 135,000)$ 6750

operating profit 29,250

less: interest (always fixed) 1000

EBT 28,250

less: Tax (15%) $\rightarrow (15\% \times 28,250)$ 4,238

Net profit after tax \$24,012

Ex: p: 166

Installed Cost = \$40,000

recovery period = 5 years

Depreciation Expense per year = ?

* Year	Depreciation
1	$20\% \times 40,000 = \$8,000$
2	$32\% \times 40,000 = \$12,800$
3	$19\% \times 40,000 = \$7,600$
4	$12\% \times 40,000 = \$4,800$
5	$12\% \times 40,000 = \$4,800$
6	$5\% \times 40,000 = \$2,000$

Financial planning

Cash planning

Cash budget

(Cairo)

profit planning

Proforma In. statement

(Estimated)

* Methods Used to prepare a proforma income statement:

II Percent of sales method :-

(a)

To determine forecasted sales (Revenues) :-

$$\text{Forecasted Sales} = Q (\text{quantity}) \times P (\text{price})$$

b. (Fixed & variable method):
 Bell's manufacturing
 preformed income statement
 For the year ended Dec. 31, 2016

Sales	2,250,000
less: CGS	750,000
variable $\rightarrow (.194 \times 2,250,000)$	437,500
	<u>250,000</u>
	1,800,000

gross profit	1,062,500
less: operating expenses fixed	155,000
variable $\rightarrow (.1638 \times 2,250,000)$	368,750
	<u>295,000</u>
	1,800,000

operating profit	538,750
less: interest	24,500

EBT	514,250
less: Tax (40%)	205,700

Net income	308,550
less: cash dividends	85,000

To retained earnings	223,550
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c. Fixed and variable method is more accurate.

①

Dec. 4: Wed.

* Depreciation:

طريقة حساب الاستهلاك

— MACRS method → method used to calculate depreciation expense.

— MACRS method divided Fixed assets into Four groups according to recovery period (useful life)
تقسيم الأصول الثابتة إلى أربع مجموعات حسب فترة الاستهلاك
تكون الخيارات

① 3 years

② 5 years

③ 7 years

④ 10 years

p: 166
الجدول
المعتمد

الخيارات الأخرى

According to MACRS:

* * $\text{Depreciation Expense} = \text{MACRS rate} \times \text{Installed Cost}$
(Per year) The asset

الاستهلاك ما بعد التركيب

(شركة ماكينة بـ 1000 وجبتنا صيرت في ايها وبيعها بـ 500 فيكون 1500)

* * $\text{Installed cost} = \text{cost of the asset} + \text{installation cost}$

p4-15: Sales 2016 = 2,250,000 p.200
Interest = 24,500 (all fixed (remained unchanged))

Dividends 2016 = 85,000

a. (percentage method): Expense على

* Bells manufacturing الشركة

preforma Income Statement اياي

For the year ended Dec. 31, 2016

Sales 2,250,000

less: COGS $\rightarrow (.61 \times 2,250,000)$ 1,375,000

$\frac{COGS}{Sales} = \frac{1,375,000}{2,250,000}$

gross profit 875,000

less: Operating expenses $\rightarrow (.25 \times 2,250,000)$ 562,500

$\frac{48,000}{180,000}$

operating profit 312,500

→ less: interest 24,500

EBT 288,000

less: Tax (40%) $\rightarrow (.40 \times 288,000)$ 115,200

Net income 172,800

less: Cash dividends 85,000

To retained earnings \$87,800