



Exploring Business V2.1
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FLAT WORLD
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Week11

Exam Preparation Session

Industry

A group of related businesses

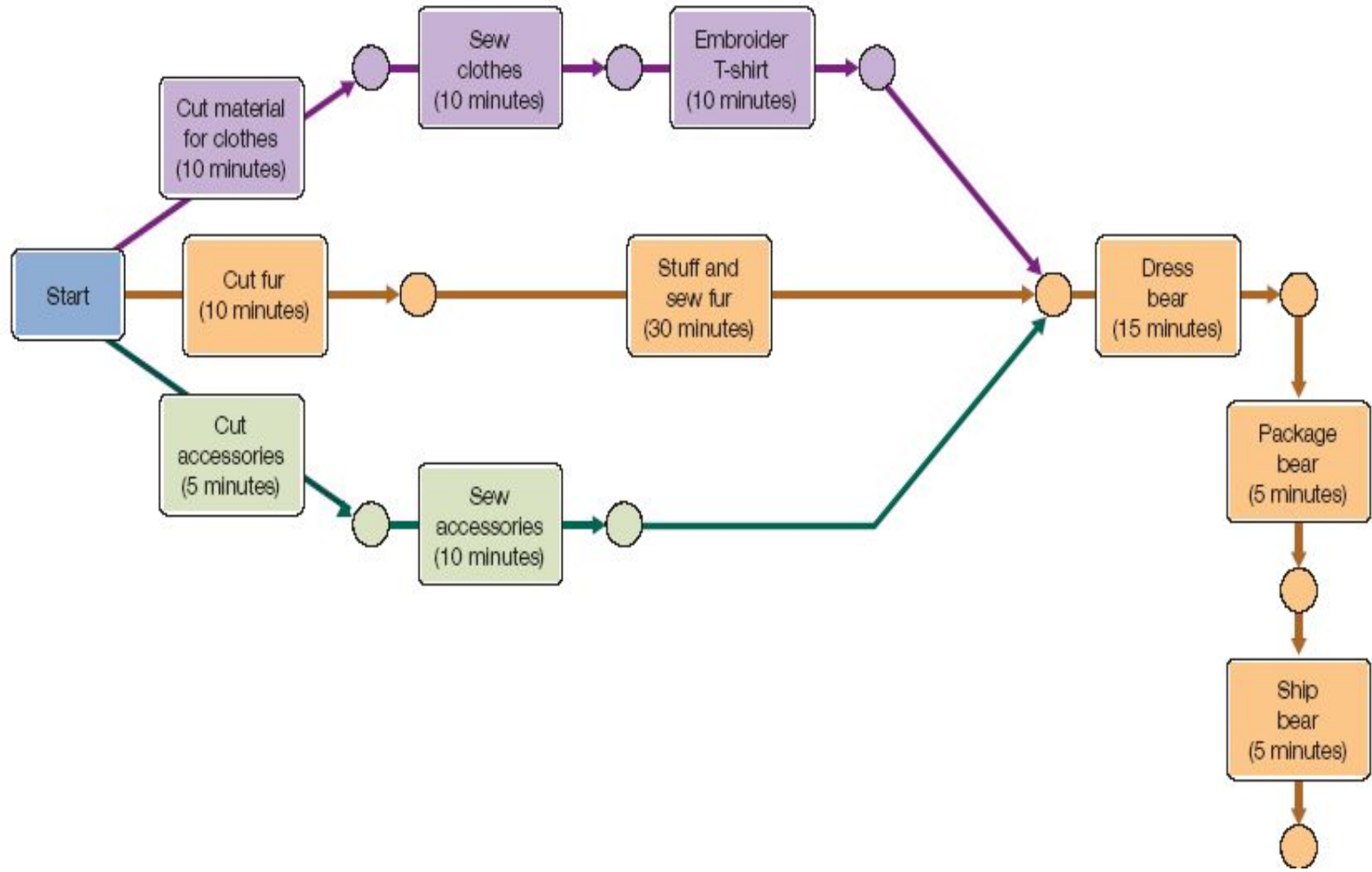


Breakeven Analysis

- Used to estimate the number of sales units at which net income is zero.
- Calculations:
 - Determine fixed costs
 - Identify variable cost per unit
 - Revenue per unit less variable cost per unit = contribution margin per unit
 - Fixed costs divided by contribution margin per unit = breakeven units

PERT Chart (*Program Evaluation and Review Technique*)

Click on [this link](#) to experience an active version of this figure.



Comparative Income Statement

The College Shop

Comparative Income Statement
Years Ended December 31, 20X2 and 20X1

	<u>12/31/20X2</u>	<u>12/31/20X1</u>
Sales	\$600,000	\$500,000
Less Cost of goods sold	<u>387,000</u>	<u>275,000</u>
Gross profit	213,000	225,000
Less Operating expenses	<u>180,000</u>	<u>175,000</u>
Operating income	33,000	50,000
Less Interest	10,000	10,000
Less Income taxes	<u>5,000</u>	<u>10,000</u>
Net income	<u>\$ 18,000</u>	<u>\$ 30,000</u>

Income Statement With Vertical Percentage Analysis

The College Shop

Comparative Income Statement
Years Ended December 31, 20X2 and 20X1
[Using vertical percentage analysis
showing each item as a % of sales]

	<u>12/31/20X2</u>		<u>12/31/20X1</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Sales	\$600,000	100	500,000	100
Less Cost of goods sold	<u>387,000</u>	<u>64</u>	<u>275,000</u>	<u>55</u>
Gross profit	213,000	36	225,000	45
Less Operating expenses	<u>180,000</u>	<u>30</u>	<u>175,000</u>	<u>35</u>
Operating income	33,000	6	50,000	10
Less Interest	10,000	2	10,000	2
Less Income taxes	<u>5,000</u>	<u>1</u>	<u>10,000</u>	<u>2</u>
Net income	<u>\$ 18,000</u>	<u>3%</u>	<u>\$ 30,000</u>	<u>6%</u>

Ratio Analysis



- **Profit Margin**

How much of each sales dollar is left after certain costs have been covered

- **Management Efficiency**

measure a company's ability to use its assets and manage its liabilities

- **Management Effectiveness**

How well the company is performing with the invested money

- **Financial Condition**

Assess firm's financial strength

Gross Profit Margin

$$\text{Gross Profit Margin} = \frac{\text{Gross Profit}}{\text{Sales}}$$



Net Profit Margin

$$\text{Net Profit Margin} = \frac{\text{Net Profit}}{\text{Sales}}$$



Inventory Turnover

<http://www.investopedia.com/articles/basics/05/052005.asp?o=40186&l=dir&qsrc=999&go=investopediaSiteSearch&ap=investopedia.com>

$$\text{Inventory Turnover} = \frac{\text{Sales}}{\text{Inventory}}$$



Return On Assets

<http://www.investopedia.com/articles/basics/05/052005.asp?o=40186&l=dir&qsrc=999&qo=investopediaSiteSearch&ap=investopedia.com>

Return On
Assets

=

Net Profit
Total Assets



Daily Balance	
Date	Amount
10/20	\$ 738.97
10/21	526.82
10/22	580.53
10/23	524.21
10/26	382.24
10/27	308.42

Current Ratio

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$



Debt-To-Equity

Total Debt
to Equity

=

Total Liabilities
Total Equity



Interest Coverage

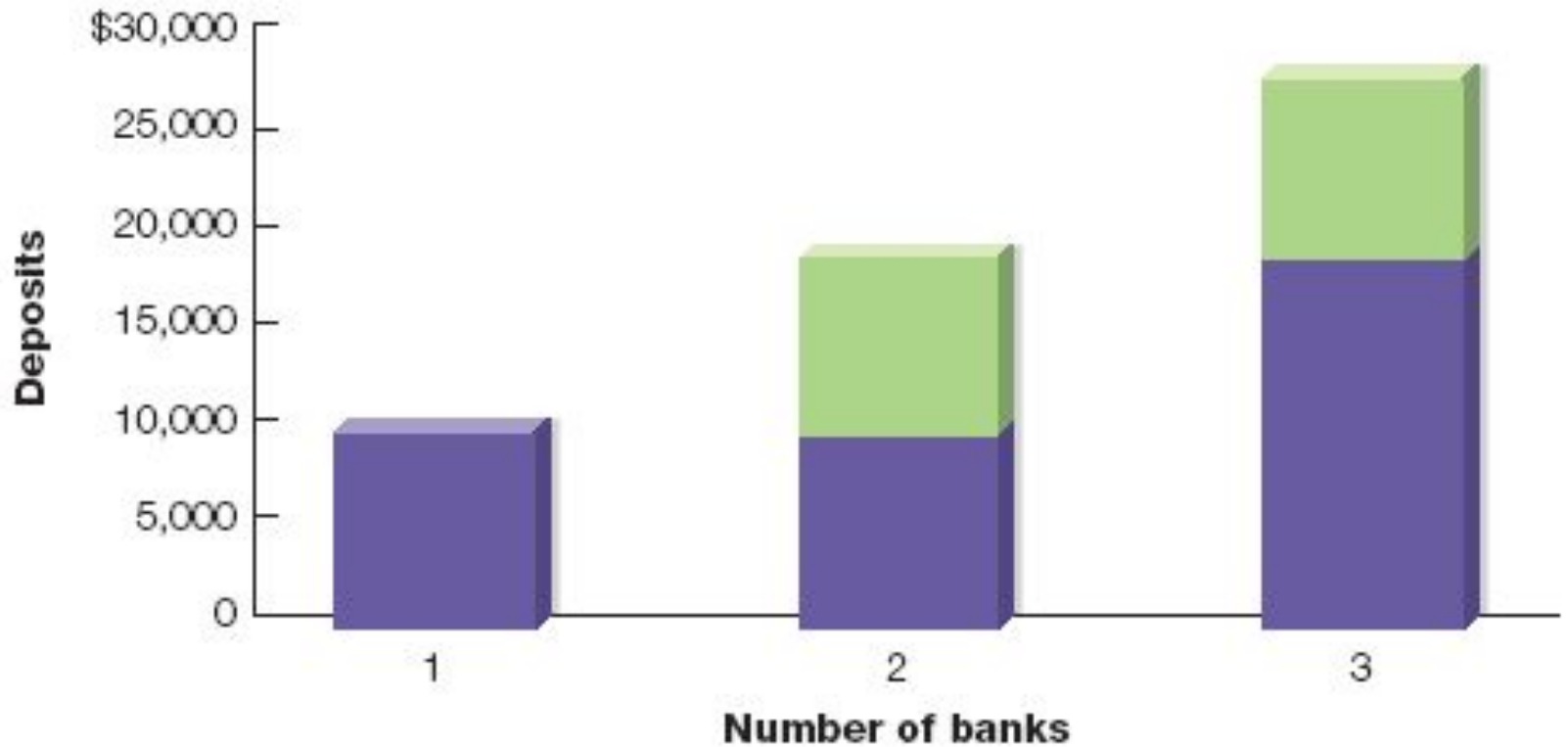
Interest
Coverage

=

Operating Income
Interest Expense



Money Multiplier



Fluctuating Reserve Rates

You just won \$10 million in the lottery and used the money to start a bank. On the day you open your doors, the reserve requirement set by the Fed is 10 percent. What's the maximum amount of money you can loan out? What if the reserve requirement is raised to 12%? Then how much could you loan out? In changing the reserve requirement, what is the Fed trying to do?

Stock Listing For Hershey Foods

1		2	3	4	5	6	7	8
52-Week: High: Low:		STOCK (SYMBOL)	DIV:	YLD %:	PE:	Vol 100s:	CLOSE:	NET CHG:
65.23	48.20	Hershey Foods HSY	0.98	1.7	28	9429	57.00	0.09

Interpreting A Stock Quotation

<u>Term</u>	<u>Explanation</u>
52-Week HI	Highest price in last year
52-Week LO	Lowest price in last year
Stock (Symbol)	Symbol of listing
DIV	Annual dividend per share
YLD %	D/E yield on closing price
PE	Investors pay on \$1 earnings
VOL	Volume of shares traded
Close	Price at close of business day