2. <u>Jobs in finance-</u>

- Banking
- Investments
- Insurance
- Corporations
- Government

3. <u>Forms of Business Organization</u>

- **Sole proprietorships**
  - ➢ Unincorporated business
  - ➢ Owned by 1 individual
  - ➢ 3 advantage:
    - I. They are easily & inexpensively formed
    - II. They are subject to few government regulations
    - III. They are subject to lower income taxes than are corporations
  - ➢ 3 important limitations :
    - I. Have unlimited personal liability for the business's debts-can lose more than the amount money they invested in the company.
    - II. The life of the business is limited to the life of the individual who created it, & to bring in new equity, investors require a change in the structure of the business.
    - III. Used primarily for small businesses.
- **Partnership**
  - ➢ Legal arrangement between 2/ more people who decide to do business together.
  - ➢ Established relatively & inexpensively
- **Corporation**
  - ➢ Legal entity created by state & it is separate & distinct from its owners and managers.
  - ➢ Separation-limits stockholders' losses to the amount they invested in the firm-coproration lose all the money but owners lose only the funds they invested in the company.
- **Limited liability company(LLCs)**
  - ➢ New type of organization that is hybrid between a partnership & corporation.
  - ➢ LLP- similar to LLC , but used for professional firms in the fields of accounting, law & architecsture
  - ➢ Have limited liabilty
    - I. Limited liability-reduces the risks borne by investors
    - II. A firm's value is dependent on its growth opportunities-which are dependent on its ability to attract capital.
    - III. The value of an asset also depends on its liquidity- means time & effort it takes to sell the asset for cash at a fair market value.

- **Balance sheet equation**
  - Asset = liabilities +net worth
  - <u>Current assets</u>
    - I. Asset to be sold / otherwise used up within 1 year.
    - II. Short-term investments
    - III. Account receivables- money owed to a company by customers for products & services provided on credit.
    - IV. Inventory-raw materials, work in process, finished products for sale.
    - V. *Cash & cash equivalents:*
      - a) Cash- physical currency
      - b) Cash equivalents- asset that can be easily converted into cash.(saving a/c, checking a/c, bonds near their maturity)
  - <u>Fixed assets</u>
    - I. Company hold equipment, buildings, & furniture.
    - II. Not expected to be converted into cash in 1 year
    - III. Used to support the firm's operations.
    - IV. *Intangible assets:*
      -assets that do not physically exist
      -intellectual properties
    - V. *Depreciation :*
      -deduction from the original value of the fixed assets
      -has no cash flow effect
      -Help to reduce taxable income & the amount for income tax.
    - VI. *Tangible asset:*
      - assets held for business use to generate income
      -not expected to be converted to cash in a year
      -building, real estate, equipment & furniture.
  - <u>Current liabilities</u>
    - I. Liabilities that must be repaid in 1 year.
    - II. Short-term loans, trade credits, dividends & interests payable, consumer deposits, unpaid taxes, & long term debt that are due within 1 year.
    - III. Legal obligations require future payments of cash/ services/ the creation of other liabilities as a result of past transactions.
    - IV. They are trade-related liabilities.
    - V. They are due within 1 year.
  - <u>Long –term liabilities</u>
    - I. Company obligations due more than 1 year into the future.
    - II. 2 types:
      -Long-term debts
      -Long-term accrued liabilities
  - <u>Owners' equity</u>
    - I. Represents a company's net worth
    - II. Difference between value of all assets & liabilities.

CHAPTER 3: ANALYSIS OF FINANCIAL STATEMENTS

- **Show how the statement are used.**
- **Ratio analysis:**
  - Evaluate financial statements
  - Comparing each firm's debt to its asset & comparing interest expense to the income & cash available to pay that interest.
  - 5 categories:
  I. *Liquidity ratios*-firm's ability to pay off debts that are maturing within a year.
  II. *Asset management ratios*- how efficiently the firm is using its assets.
  III. *Debt management ratios*- how the firm has financed its assets as well as the firm's ability to repay its long-term debt.
  IV. *Profitbility ratios*- how profitably the firm is operating & utilizing its assets.
  V. *Market value ratios*- bring in stock price, & give us an idea of what investors think about the firm & its future prospects.
- **Liquidity ratios:**
  - **Liquid asset-***an asset that can be converted to cash quickly w/ot having to reduce the asset's price very much.*
  - **Liquidity ratios-** *ratios that show the relationship of a firm's cash & other current assets to its current liablities.*
  - **Current ratio-** *this ratio is calculated by dividing current assets by current liabilities.it indicates the extent to which current liabilities are covered by those assets expected to be converted to cash in the near future.*
  - **Current ratio= current assets/current liabilities**
  - **Industry average:**
  - **Quick/ acid test, ratio-** *this ratio is calculated by deducting inventories from current assets & then dividing the remainder by current liabilities.*
  - **Quick/ acid test, ratio= (current asset-inventories)/current liabilities**
- **Asset management ratios:**
  - Give us an idea how efficiently the firm is using its assets.
  - **Inventory turnover ratio-** measure how many times the inventory is turned over a year.
  - **Inventory turnover ratio=** sales/inventories
  - **Day sales outstanding(DSO)-**the ratio indicates the average ;ength of time the firm must wait after making a sale before it receives cash.
  - **Day sales outstanding(DSO)=** (receivables/average sales per day)=(receivables/annual sales/365)
  - **Fixed asset turnover ratio-** the ratio of sales to net fixed assets.
  - **Fixed asset turnover ratio=** sales/nett fixed assets
  - **Total asset turnover ratio(TATO)-**The ratio is calculated by dividing sales by total assets.
  - **Total asset turnover ratio(TATO)=**sales/ total assets