

Use **cost of sales (excluding depreciation)** if purchases are not disclosed.

Cash operating cycle

- = Average time raw materials are in inventory
- Period of credit taken from suppliers
- + Time taken to produce goods
- + Time taken by customers to pay for goods

Reasons for changes in liquidity

- + Changes in credit control effectiveness
- + Modifying the payment timeframe to suppliers as a means of acquiring funds
- + Minimizing inventory levels to ensure sufficient liquidity

Shareholder investor ratios

Dividend yield

$$\text{Dividend yield} = \frac{\text{Dividend per share}}{\text{Market price per share}} \%$$

Low yield. The organization preserves a significant portion of its earnings for reinvestment.

- **High yield.** This company poses a certain level of risk or exhibits a slow growth rate.

The dividend yield is typically lower than the interest yield. Shareholders anticipate an increase in stock prices and desire a return (dividends + capital gain) that surpasses the return obtained from fixed interest securities.

Earnings per share (EPS)

$$\text{EPS} = \frac{\text{Profits distributable to ordinary shareholders}}{\text{Number of ordinary shares issued}}$$

Investors seek opportunities for growth, and it is crucial to maintain stable earnings levels in order to provide dividends and invest in the business. To ensure accurate comparisons over time, a consistent basis of calculation must be established. It is important to acknowledge the potential manipulation of EPS. Additionally, one must take into account the possibility of dilution through the exercise of warrants or options, as well as the conversion of bonds.

Dividend cover

$$\text{Dividend cover} = \frac{\text{EPS}}{\text{Dividend per share}}$$

The extent of profit retention or the safety of the dividend is demonstrated by this. Variations occur when the dividend is maintained despite declining profits.

The dividend payout ratio is the opposite of dividend cover.