BUS 302 – Managerial Finance

Midterm study guide

The midterm will focus on two areas; financial ratios (including FCF) and the time value of money.

RATIOS: You will be given a circumstance or problem in a business and then determine what the correct ratio is that can help us measure the problem and then calculate it. You should be familiar with: Current ratio, quick ratio, DSO, fixed assets turnover ratio, Inventory turnover, Total asset turnover, operating margin, profit margin, ROA, ROE, ROIC, TIE, Debt/total capital, DuPont, and Free cash flow.

TVM: You will be given a question and will determine which variable you need to solve for. Present value, future value, interest rate, number of periods, or payment amounts.

Current ratio = current assets/current liabilities

Quick ratio = current assets less inventories/current liabilities

DSO = receivables/ average sales per day

Inventory turnover = sales/inventories

Fixed assets turnover = sales/net fixed assets

Total asset turnover = sales/total assets

Operating margin = EBIT/sales

Profit margin = net income/sales

ROA = net income/total assets

ROE = net income/common equity

ROIC = EBIT (1-T) / Total invested capital

NOTE: Total invested capital (TIC) is: notes payable, long-term bonds, common stock, and retained earnings

TIE = EBIT/interest charges

Debt/total capital = total debt/total debt + equity

NOTE: total debt are long-term bonds and notes payable. Total equity is total debt + total common equity (common stock and retained earnings)

DuPont = profit margin X total asset turnover X Equity multiplier (See page 115)

Free Cash Flow = [EBIT (1-T) + Depreciation] – [capital expenditures + change in net operating working capital]