

Ch.7

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RUBA
MTOOR

long-term Debt-paying Ability

← القدرة على صداد الديون طويلة الأجل

* The capital structure of an firm consists of debt and equity funds

* long-term debt and preferred stock can provide leverage to a firm's capital structure and can possibly enhance the return to the common stockholders.

* Solvency (Leverage and Debt Service)

الملاءمة

↳ the firm's ability to satisfy long-term debt as it become due.
" قدرة الشركة على الوفاء بالديون طويلة الأجل عند استحقاقها "

$$[\text{Solvency} = \text{Financial leverage}]$$

* Balance Sheet consideration

↳ Debt Ratio

↳ Debt/Equity Ratio

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$$\text{Debt Ratio} = \frac{\text{Total liabilities}}{\text{Total Assets}}$$

The lower this ratio, the better the firm's position and the creditors are protected in case of solvency

are more protected ←

Items that present particular problems as to a future payment of funds include:

- ① Reserves الأحياطات
- ② Deferred taxes الضرائب المؤجلة
- ③ noncontrolling interests القوة غير المسيطرة
- ④ Redeemable preferred stock الأحتم المصانة القابلة للاسترداد

Deferred income tax → Difference between income tax expenses based on financial statement income and taxes payable based on tax return

تعتبر كالتزام ضمن Total liabilities

بالنسبة لأغراض الضريبة وأغراض القوائم المالية تكون الضريبة بنفس القيمة في الحصلة لكنها تختلف في التوزيع على مدار وعده السنوات.

Noncontrolling Interest [Minority share holders Interest]

لم تبيع عندما تمتلك الشركة الأمام أقل من 100% من الشركة
التابعة.

~~XXXXXXXXXX~~

← الكتاب اعتبرها التزام ويجب تضمينه في
Total liabilities

Redeemable Preferred Stock

لم الكتاب اعتبرها التزام ويجب تضمينه في TL

$$\text{Debt/equity Ratio} = \frac{\text{Total Liabilities}}{\text{Shareholders' Equity}}$$

→ Determine the firm's long term debt paying ability and how well creditors are protected in case of insolvency.
كلما انخفضت كان وضع الشركة أفضل.

→ more conservative.

$$\text{Debt to tangible net worth Ratio} = \frac{\text{Total liabilities}}{\text{Shareholders' equity} - \text{Intangible Asset}}$$

excludes
→ because they do not provide resources to pay creditors

(4)

Income Statement Consideration

- ↳ Times interest earned. نسبة الفائدة العكسية
- ↳ Fixed charge coverage.

Times Interest Earned =
$$\frac{\text{Recurring Earnings, excluding [Interest expense, tax expense, Equity Earnings and noncontrolling interest]}}{\text{Interest expense [Including capitalized interest]}}$$

useful for evaluating the firm in the short run

This Ratio ~~indicates~~ indicates a firm's long-term debt-paying ability from the IS view.

Net Income يعني الربح بعد خصم

- ① Discontinued operations
- ② Extra ordinary items
- ③ Interest expense
- ④ Income tax expense
- ⑤ Net Income from noncontrolling interest
- ⑥ Equity earnings or losses of nonconsolidated subsidiaries.

This ratio should be computed for 3 to 5 year to evaluate the adequacy of coverage and compared to competitors and the industry average.

[Depreciation, Depletion, Amortization] Non-cash expense في مال صفت
 [less conservative] نسبة اقل تحفظا

If time interest earned is adequate little danger exists that the firm will not be able to meet interest obligation and it should also be able to refinance the principal when it comes due. But the low, ~~low~~ fluctuating coverage from year to year indicates a poor record.

Fixed charge coverage indicates a firm's long term debt paying ability from the I.S. view and indicates a firm's ability to cover fixed charges.

What should included in the fixed charges?

- ↳ Capital leases
- ↳ Operating leases

ملاحظات هذه النسب:

- ① F.S don't record at FMV so certain assets may have FMV very greater than carrying value.
- ② certain assets may have earnings potential in the future.

J. RUBA
MTCOR