

1
CHAPTER**RATIO ANALYSIS****① PROFIT & LOSS STAT****SALES**Cost of goods sold (COGS)**Gross profit****(-) Operating expenses**
(Admin, selling & dist exp)**Earnings before Int & Tax (EBIT) or operating profit****(-) Interest exp**
Earnings before Tax (EBT)**(-) Tax exp**
Earnings after Tax (EAT) or Net profit**(-) preference dividend**
Earnings avail. to eq. sh. (EATESH)**(-) Equity dividend**
Retained EarningsSequence of the payment :-**Debtors / Loan**
INTEREST**Government**
TAX**Pref. s/h**
PREF. DIVID**Equity s/h**
EQ. DIVID



② BALANCE SHEET

Equity share cap	XX	Fixed Asset :-	
Reserves & surplus	XX	Plant	XX
Preference share cap	XX	Machine	XX
		Furniture	XX
Non Current liab :-		Current Assets :-	
Debentures	XX	Inventory	XX
Long T. loan	XX	Debtor	XX
Current Liability :-		Cash	XX
Creditors	XX	Bank	XX
Bank OD	XX	Accumulated Loss	XX
Short T. loan	XX	Preliminary Exp	XX
o/s exp	XX	Advance pay of Exp	XX
Advance Income	XX	Accrued Income	XX

Important Terms :-

① CAPITAL :- Equity + R/s + pref s/cap + debenture

⊗ Fixed Assets + CA - CL

⊗ Fixed Assets + working Capital

② SHAREHOLDER'S EQUITY :- Equity + R/s - prelim. exp - Acc. loss
s/cap

(It means Book value of Eq. s. cap)

③ NETWORTH :- Equity + R/s + pref s/cap - prelim. exp - Acc. loss

(It means market value of Eq. s/cap)

⊗ Fixed Assets + CA - Total liability

③ PROFITABILITY RATIOS (BASED ON SALES)

BASIC TRICK :- $\frac{\text{ANY INCOME or ANY EXP}}{\text{SALES}}$

(GP Ratio / NP Ratio / COGS Ratio / Pre-tax profit Ratio)

OPERATING EXP = admin, selling & dist. OH

Operating profit ratio = $\frac{\text{EBIT}}{\text{Sales}}$

Operating exp ratio = $\frac{\text{admin, selling, dist exp}}{\text{Sales}}$

Operating Ratio = $\frac{\text{COGS + admin, selling, distr exp}}{\text{Sales}}$

④ PROFITABILITY RATIOS (BASED ON RETURN)

BASIC TRICK :- $\frac{\text{WHAT I EARNED}}{\text{WHAT I INVESTED}}$ क्या कमाया / क्या लगाया

ROE = $\frac{\text{EATESH}}{\text{eq s/h fund}}$

ROCE = $\frac{\text{EBIT}}{\text{Capital employ.}}$ (08) $\frac{\text{EBIT - Tax}}{\text{Capital employ.}}$



$$\text{ROA} = \frac{\text{EBIT} - \text{Tax}}{\text{Average Assets}}$$

$$\text{ROI} = \frac{\text{Return}}{\text{Investment}}$$

⑤ PROFITABILITY RATIOS (OWNERS P.O.V)

$$\text{Earning per share (EPS)} = \frac{\text{EATESH}}{\text{No of eq. shares}}$$

$$\text{Dividend per share (DPS)} = \frac{\text{Dividend paid}}{\text{No. of eq. shares}}$$

$$\text{Dividend payout ratio (d)} = \frac{\text{DPS}}{\text{EPS}} \text{ or } \frac{\text{Divid paid}}{\text{EATESH}}$$

$$\text{Retention Ratio (b)} = \frac{\text{Retained Earnings}}{\text{EATESH}}$$

$$\text{Dividend Yield Ratio} = \frac{\text{DPS}}{\text{MPS}}$$

$$\text{Earnings Yield Ratio} = \frac{\text{EPS}}{\text{MPS}}$$

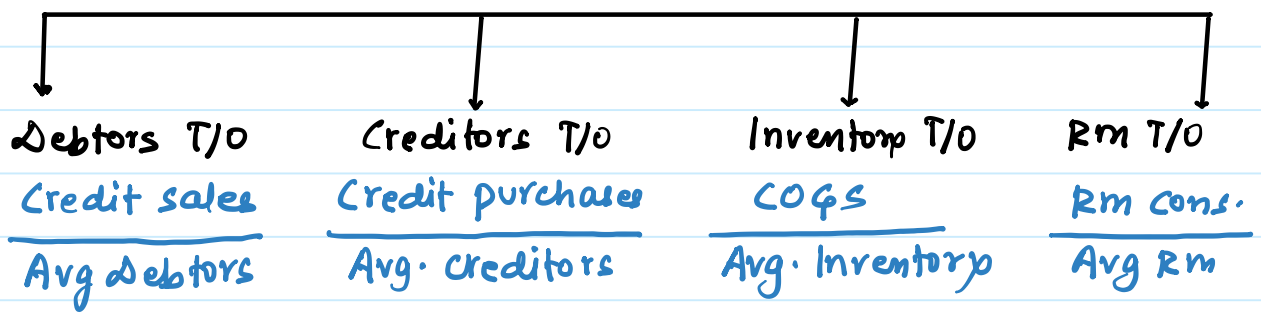
$$\text{Price-to-Earnings Ratio (P/E Ratio)} = \frac{\text{MPS}}{\text{EPS}}$$

⑥ ACTIVITY RATIOS (TURNOVER RATIO)

BASIC :- $\frac{\text{SALES}}{\text{whose T/O is asked}}$
TRICK

(FA T/O / CAPITAL T/O / WCAP T/O / CA T/O / TA T/O)

BUT THERE ARE 4 EXCEPTIONS TO IT



- Sometimes if sales is not available USE COGS
- $\text{COGS} = \text{Sales} - \text{Gross profit}$
- If opng & closing data are given USE AVERAGE

$$\text{Payables T/O} = \frac{\text{Credit purchases}}{\text{Bills payables} + \text{Creditors}}$$

$$\text{Receivables T/O} = \frac{\text{Credit sales}}{\text{Bills Receivable} + \text{Debtors}}$$

$$\text{Debtors Days (Debtors velocity)} = \frac{360 \text{ or } 365 \text{ Days or } 52 \text{ weeks or } 12\text{m}}{\text{Debtors T/O Ratio}}$$

$$\text{② Avg. Debtors} \times \frac{360 \text{ or } 365 \text{ Days or } 52 \text{ weeks or } 12\text{m}}{\text{Credit sales for year}}$$



$$\text{Creditor Days (Creditors velocity)} = \frac{360 \text{ or } 365 \text{ Days or } 52 \text{ weeks or } 12 \text{m}}{\text{Creditors T/O Ratio}}$$

$$\textcircled{08} \text{ Avg. Creditors} \times \frac{360 \text{ or } 365 \text{ Days or } 52 \text{ weeks or } 12 \text{m}}{\text{Credit purchases.}}$$

7 COVERAGE RATIOS

BASIC :- EARNINGS RELATED TO EXPENSE
 TRICK EXPENSE YOU WANT TO COVER

- | | | |
|--|--|--|
| <ul style="list-style-type: none"> • Interest coverg.
 $\frac{\text{EBIT}}{\text{Interest exp}}$ | <ul style="list-style-type: none"> • Pref. Divid coverg
 $\frac{\text{Net profit or EAT}}{\text{Pref. Divid.}}$ | <ul style="list-style-type: none"> • Eq. Divid coverg
 $\frac{\text{EATESH}}{\text{Eq. Divid}}$ |
| <ul style="list-style-type: none"> • Fixed charges coverg
 $\frac{\text{EBIT} + \text{Dep}}{\text{Interest} + \text{pay of principle}}$ | <ul style="list-style-type: none"> • Debt service coverg
 $\frac{\text{EBIT}}{\text{Interest} + \text{pay of principle}}$ | |

8 SOLVENCY RATIO

- | | |
|--|---|
| <ul style="list-style-type: none"> • CURRENT RATION
 $\frac{\text{CURRENT ASSETS}}{\text{CURRENT LIABILITY}}$ | <ul style="list-style-type: none"> • QUICK RATIO
 $\frac{\text{CA} - \text{prepaid exp} - \text{Inventory}}{\text{CURRENT LIABILITY}}$ |
| <ul style="list-style-type: none"> • WORKING CAPITAL = CURRENT ASSETS - CURRENT LIABILITY | |

$$\text{CASH RATIO} = \frac{\text{CASH} + \text{BANK} + \text{MARKET SEC.}}{\text{CURRENT LIABILITIES}}$$

$$\text{BASIC DEFENCE INTERVAL} = \frac{\text{CA} - \text{prepaid exp} - \text{Inventory}}{\text{Daily operating exp}}$$

$$\text{DAILY OPERATING EXP} = \frac{\text{COGS} + \text{selling} + \text{Admin} + \text{Distribution exp} - \text{Dep (non cash)}}{365 \text{ or } 360 \text{ days}}$$

$$\text{EQUITY RATIO} = \frac{\text{Shareh. Fund}}{\text{Total cap. employ}}$$

$$\text{DEBT RATIO} = \frac{\text{Total Debt}}{\text{Total cap. employ}}$$

$$\text{DEBT TO EQ RATIO} = \frac{\text{Debt}}{\text{Equity}}$$

$$\text{CAPITAL GEARING RATIO} = \frac{\text{बाह्य वाले}}{\text{घर वाले}} = \frac{\text{Pref} + \text{Debt}}{\text{EQ} + \text{R/S}}$$

$$\text{PROPRIETARY RATIO} = \frac{\text{EQUITY} + \text{R/S}}{\text{Total Assets}}$$

⑨ DU PONT ANALYSIS

$$\text{Return on Equity} = \frac{\text{Net profit}}{\text{Sales}} \times \frac{\text{Sales}}{\text{Total Assets}} \times \frac{\text{Total Assets}}{\text{sh. fund}}$$

(net profit) ratio (Assets T/o) ratio (Equity multiplier)

2
CHAPTER

LEVERAGE

① PROFIT & LOSS STAT

SALES

variable cost

Contribution

(-) Fixed operating cost
(admin, selling & dist exp)

Earnings before Int & Tax (EBIT) or operating profit

(-) Interest exp

Earnings before Tax (EBT)

(-) Tax exp

Earnings after Tax (EAT) or Net profit

(-) preference dividend

Earnings avail. to eq. sh. (EATESK)

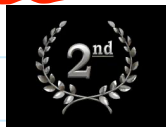
(-) Equity dividend

Retained Earnings

Sequence of the payment :-



Debentures / Loan
INTEREST



Government
TAX



Pref. s/h
PREF. DIVID



Equity s/h
EQ. DIVID

② TYPES OF FIXED COST

OPERATING FIXED COST
Admin. Selling. Distr. OH

Used for ΔOL

FINANCIAL FIXED COST
Interest, Pref. Divid

Used for ΔFL

③ LEVERAGE FORMULA

METHOD I :-
(RATIO METHOD)

$$\frac{\text{FIRST PROFIT}}{\text{SECOND PROFIT}}$$

$$\Delta OL = \frac{\text{Contribution}}{\text{EBIT}}$$

$$\Delta FL = \frac{\text{EBIT}}{\text{EBT}}$$

If pref. divd. given:
$$\frac{\text{EBIT}}{\text{EBIT} - \text{Int} - \frac{\text{PD}}{1 - \text{tax}}}$$

METHOD II :-
(% METHOD)

$$\frac{\text{Where you reached}}{\text{From where started}}$$

$$\Delta OL = \frac{\% \text{ change in EBIT}}{\% \text{ change in sales}}$$

$$\Delta FL = \frac{\% \text{ change in EPS}}{\% \text{ change in EBIT}}$$



$$DCL = DOL \times DFL$$

$$MOS = \frac{1}{DOL}$$

Pro-Tip :- Never use DCL to calculate EBIT or EBT or Contribution.

Only use DCL to calculate DOL or DFL

3
CHAPTER

CAPITAL STRUCTURE

The only target of this chapter is to have such Capital structure which maximises EPS.

So either have
HIGHER EPS

or have
LOWER WACC

① **INDIFFERENCE POINT** = Such a level of EBIT so that

$$\text{EPS}_{\text{Option 1}} = \text{EPS}_{\text{Option 2}}$$

$$\text{EPS (option 1)} = \frac{[\text{EBIT} - \text{Int}_1] \times (1-t) - \text{Pref Divid}_1}{\text{No. of eq shares in option 1}}$$

$$\text{EPS (option 2)} = \frac{[\text{EBIT} - \text{Int}_2] \times (1-t) - \text{Pref Divid}_2}{\text{No. of eq shares in option 2}}$$

② **BREAK-EVEN POINT** means such a level of sales where
Total Fixed cost = Contribution

FINANCIAL BEP = such a level where
EBIT = Financial Fixed Cost

$$\text{FINANCIAL F. cost} = \text{Interest} + \frac{\text{Preference Dividend}}{(1-\text{tax})}$$

4
CHAPTER

CAPITAL STRUCTURE THEORY

① NET INCOME APPROACH

For two different firm k_e and k_d will be same
only WACC

$$\text{Value of Unlevered Firm} = \frac{\text{EATESH of unlevered}}{k_e}$$

$$\begin{aligned} \text{Value of levered firm} &= \text{Value of equity in levered firm} + \text{Value of debt in lever. firm} \\ &= \frac{\text{EATESH of lev.}}{k_e} + \frac{\text{Int}(1-t)}{k_d} \quad (\text{given}) \end{aligned}$$

② NET OPERATING INCOME (without tax)

For two different firms k_d and WACC is same
 k_e changes.

$$\text{Value of Unlevered Firm} = \frac{\text{EATESH of unlevered}}{k_e \text{ of unlever.}}$$

$$\text{Value of levered firm} = \frac{\text{EBIT}}{k_o \text{ of levered}}$$

(or)

$$\frac{\text{EBIT}}{k_e \text{ of unlevered}}$$

Value of debt in levered co = given

Value of Equity in levered co = Value of levered firm - Value of debt in levered firm

③ MM APPROACH (WITHOUT TAX)

Here also Value of unlevered firm = Value of levered firm

So solve it just like Net operating Income without tax

$$\text{But } k_e = k_o + (k_o - k_d) \times \frac{D}{E}$$

④ MM APPROACH (WITH TAX)

Value of unlevered firm = $\frac{\text{EATESH of unlevered firm}}{k_e \text{ of unlevered}}$

Value of levered firm = Value of unlevered firm + Debt (1-tax)

Value of debt in levered co = given

Value of Equity in levered co = Value of levered firm - Value of debt in levered firm



5 ARBITRAGE

Step 1:- Calculate value of levered firm and value of unlevered firm.

Step 2:- Find whose value is higher?
(let say V_{levered} firm is higher and we hold 20% in it)

Step 3:- Sell 20% equity of levered co.
Borrow debt = 20% debt of levered co.

Step 4:- Invest Entire amount in unlevered company

Step 5:- Return from unlevered co
% of EATESH on our invest in unlevered co.

Cost incurred

Interest of debt borrowed
+ loss on EATESH in levered co

5
CHAPTER

COST OF CAPITAL

① COST OF DEBENTURE (k_d)

If life ∞ $k_d = \frac{\text{Interest (1-tax)}}{\text{Price}_0}$

If life fixed $k_d = \frac{\text{Interest (1-tax)} + \left[\frac{RV - NP}{\text{life}} \right]}{\left[\frac{RV + NP}{2} \right]}$

RV = Redemption value

NP = Net proceeds received on issue of deb

Confusion about what to take as NP

(i) If only market value given

Use only MARKET VALUE = NP

(ii) If Face value and Float cost given

Use FACE VALUE - FLOAT COST on FV = NP

(iii) If Both market value, Float cost & Face value given

IRR Method Use MARKET VALUE - FLOAT COST on MV = NP

DIRECT METHOD Use FACE VALUE - FLOAT COST on FV = NP

② COST OF PREF. SHARE (K_p)

$$\text{If life } \infty \quad K_p = \frac{\text{Preference Divid}}{\text{Price}_0}$$

$$\text{If life fixed } K_p = \frac{\text{Preference Divid} + \left[\frac{RV - NP}{\text{life}} \right]}{\left[\frac{RV + NP}{2} \right]}$$

RV = Redemption value

NP = Net proceeds received on issue of deb

③ IRR METHOD

Step 1 Calculate your outflow at year 0

Step 2 Calculate your all inflows. (let's say 10% & 15%)

Step 3 Take two different disc rates and calculate
PV of Inflows - PV of Outflows

Step 4 IRR =

$$\text{Small rate (10\%)} + \frac{\text{NPV at small rate} - \text{NPV at high rate}}{\text{NPV at small rate} - \text{NPV at high rate}} \times \left[\text{High rate} - \text{Small rate} \right] (15 - 10)$$

④ COST OF EQUITY (k_e)

Gordon's Formula :-
$$P_0 = \frac{D_0 (1+g)}{k_e - g}$$

Walter's Formula :-
$$P_0 = \frac{D}{k_e} + \frac{\delta \times \text{Retained Earnings}}{k_e^2}$$

D_0 = Divid Today / Divid paid / Divid pays

g = growth rate = $b \times \delta$

b = Retention ratio = % EPS retained = $(1-d)$

δ = return on Invest

CAPM :-
$$k_e = R_f + \beta (R_m - R_f)$$

R_f = Risk free Rate = Return on govt bonds

β = Beta = Risk

R_m = market rate of return

$R_m - R_f$ = market risk premium

EPS method :-
$$k_e = \frac{\text{EPS}}{\text{MPS}} \text{ or } \frac{1}{\text{P/E ratio}}$$

(use ↑ this method only as last option if nothing available)

⑤ REALISED YIELD

$$k_e = \sqrt[n]{(1+Yield_1) + (1+Yield_2) \dots (1+Yield_n) - 1}$$

Yield :-
$$\frac{\text{Divid of CY} + \text{Price at year end}}{\text{Price at start of year}}$$

⑥ WACC

Type of Capital	Amount	Weight (a)	Cost (b)	WACC (a×b)
Equity	P	P/Total		
R/E	Q	Q/Total		
Debt	r	R/Total		
Pref	S	S/Total		
	Total			

Weights can be

Book value weights where we use Book value

or Market Value weights where we use market value

Always remember

R/earnings has no market value
 So in WACC using market value either ignore R/E or distribute market value of equity between Equity & R/E in ratio of their Book value.

Marginal cost of capital means

We calculate WACC only for the new capital raised and not old values.

6
CHAPTER

DIVIDEND

⑦ MM APPROACH FOR DIVIDEND

WHEN DIVIDEND IS NOT DECLARED

Step 1 :- Calculate price at end of year 1 (P_1)

$$P_0 = \frac{P_1}{(1+k_e)} \quad \therefore P_1 = P_0 \times (1+k_e)$$

Step 2 :- Calculate the amount of Funds required

$$\text{Investment needed} - \text{Earnings avail}$$

Step 3 :- Calculate no of new eq shares to be issued

$$\frac{\text{Funds required as calculated in step 2}}{\text{Price at end of year calculated in step 1}}$$

Step 4 :- Calculate PV of value at end of the year.

$$\frac{\left[\begin{array}{l} \text{Old eq} + \text{New eq} \\ \text{shares} \quad \text{shares} \end{array} \right] \times P_1 + \text{Earnings} - \text{Invest}}{(1+k_e)}$$



WHEN DIVIDEND IS DECLARED

Step 1 :- Calculate price at end of year 1 (P_1)

$$P_0 = \frac{P_1 + D_1}{(1 + k_e)} \quad \therefore P_1 = P_0 \times (1 + k_e) - D_1$$

Step 2 :- Calculate the amount of Funds required

$$\text{Investment needed} - \left[\begin{array}{l} \text{Earnings} \\ \text{avail} \end{array} - \begin{array}{l} \text{Dividend} \\ \text{paid} \end{array} \right]$$

Step 3 :- Calculate no of new eq shares to be issued

$$\frac{\text{Funds required as calculated in step 2}}{\text{Price at end of year calculated in step 1}}$$

Step 4 :- Calculate PV of value at end of the year.

$$\frac{\left[\begin{array}{l} \text{Old eq} \\ \text{shares} \end{array} + \begin{array}{l} \text{New eq} \\ \text{shares} \end{array} \right] \times P_1 + \text{Earnings} - \text{Invest}}{(1 + k_e)}$$

7
CHAPTER**CASH MANAGEMENT****① OPTIMUM CASH BALANCE**

$$OCB = \sqrt{\frac{2 \times A \times T}{C}}$$

A = Annual cash requirement

T = Transaction cost per transaction

C = Carry cost per unit per annum.

② ECONOMIC ORDER QTY

$$EOQ = \sqrt{\frac{2 \times A \times O}{C}}$$

A = Annual cash requirement

O = Ordering cost per order

C = Carry cost per unit per annum.

8
CHAPTER

DEBTORS MANAGEMENT

① EVALUATION OF CREDIT POLICY

Totality Basis

Sale	xxx	xxx	xxx
(-) variable cost	(xx)	(xx)	(xx)
(-) fixed cost	(xx)	(xx)	(xx)
(-) Bad debt	(xx)	(xx)	(xx)
(-) Cash discount	(xx)	(xx)	(xx)
(-) Collection exp	(xx)	(xx)	(xx)
Net profit before tax	xx	xx	xx
(-) tax expenses	(xx)	(xx)	(xx)

① EXPECTED NET PROFIT AFTER TAX xx xx xx

② Opportunity cost locked up in debtors (xx) (xx) (xx)

A-B NET BENEFIT xx xx xx

Opportunity cost locked up in the debtors

$$= \frac{\text{Total Sales}}{\text{Sales}} \times \text{Credit Sales \%} \times \text{Cost \%} \times \frac{\text{Collection period}}{365 \text{ days}} \times \text{Rate of Return}$$

Totality Basis

Sale	xxx	xxx	xxx
(-) variable cost	(xx)		
(-) Incremental VC		(xx)	(xx)
(-) fixed cost	(xx)		
(-) Incremental FC		(xx)	(xx)
(-) Bad debt	(xx)		
(-) Incremental B. debt		(xx)	(xx)
(-) Cash discount	(xx)		
(-) Incremental C. disc		(xx)	(xx)
(-) Collection exp	(xx)		
(-) Incremental Coll. exp		(xx)	(xx)
Net profit before tax	xx	xx	xx
(-) tax expenses	(xx)	(xx)	(xx)
(A) INCREMENTAL EXPECTED PROFIT	xx	xx	xx
(B) INCREMENTAL OPP COST	(xx)	(xx)	(xx)
NET BENEFIT	xx	xx	xx



② FACTORING

Part A :- COST SAVED DUE TO FACTORING

Bad debts saved	XX
+ Collection cost saved	XX
+ Admin cost saved	XX
+ Interest saved due to less	XX
+ Collection period	
COST SAVED	XX

Part B COST INCURRED DUE TO FACTOR

Commission paid to factor	XX
+ Interest paid on advance to factor	XX
COST INCURRED	XX

A - B NET SAVINGS in ₹ XX

NET SAVINGS in % A - B
 Net amount received from factor.

9
CHAPTER

WORKING CAPITAL

① OPERATING CYCLE

$$R + W + F + D - C$$

$$(i) \text{ RAW MATERIAL HOLDING PERIOD} = \frac{365 \text{ Days}}{\text{Raw mat. T/O}}$$

$$= \frac{365 \text{ Days} \times \text{Average RM}}{\text{RM consumed during year}}$$

$$(ii) \text{ WORK IN PROGRESS HOLDING PERIOD} = \frac{365 \text{ Days}}{\text{WIP T/O}}$$

$$= \frac{365 \text{ Days} \times \text{Average WIP}}{\text{Cost of prod. during year}}$$

$$(iii) \text{ FINISHED GOODS HOLDING PERIOD} = \frac{365 \text{ Days}}{\text{FG T/O}}$$

$$= \frac{365 \text{ Days} \times \text{Average FG}}{\text{Cost of good sold during year}}$$

$$(iv) \text{ CREDIT DAYS GIVEN TO DEBTORS} = \frac{365 \text{ Days}}{\text{Debtors T/O}}$$

$$= \frac{365 \text{ Days} \times \text{Average Debtor}}{\text{Credit sales during the year}}$$



$$(v) \text{ CREDIT DAYS GIVEN BY CREDITORS} = \frac{365 \text{ Days}}{\text{Creditors T/O}}$$

$$= \frac{365 \text{ Days} \times \text{Average Creditors}}{\text{Credit purchases during the year}}$$

$$(vi) \text{ HOW MANY WCAP CYCLES IN A YEAR} = \frac{365 \text{ Days}}{\text{Days taken to complete one working capital cycle}}$$

$$(vii) \text{ WHAT IS THE AMOUNT OF W.CAP} = \frac{\text{Annual Operating cost}}{\text{No of W.cap cycles in 1 year.}}$$

Important point to Note :-

- ① Question can ask vs to use 360 Days instead of 365 Days. If nothing is given use 365 Days & give note.
- ② If details are given in months, try to do calculation in months only.

② COST SHEET

Direct material
 + Direct labour
 + Direct exp.

 PRIME COST

+ Factory OH

GROSS FACTORY COST

+ Opening WIP

- closing WIP

NET FACTORY COST

+ Qty control cost

+ R&D cost

+ Admin related to prod

+ Primary pack

- scrap of FG

COST OF PRODUCTION

+ Opening FG

- closing FG

COST OF GOODS SOLD

+ Secondary pack

+ selling & dist OH

+ General Admin OH

COST OF SALES

+ profit

SALES

③ AMOUNT INVESTED

$$(i) \text{ Amount in RAW MATERIAL} = \text{Avg cost of consumption of Rm per day} \times \text{Rm Holding period}$$

$$= \frac{\text{Annual units prod}}{365 \text{ days}} \times \text{Rm Cost p. unit}$$



$$(ii) \text{ Amount in FINISHED GOODS} = \text{Avg cost of production per day} \times \text{Fg Holding period}$$

$$= \frac{\text{Annual Cost of prod.}}{365 \text{ days}}$$

$$(iii) \text{ Amount in DEBTORS} = \text{Avg cost of sales per day} \times \text{credit period to debtors}$$

$$= \frac{\text{Annual Cost of sales}}{365 \text{ days}}$$

$$(iv) \text{ Amount in WIP} = \text{Avg cost of consumption of wip per day} \times \text{Rm Holding period}$$

$$= \frac{\text{Annual units prod}}{365 \text{ days}} \times \text{WIP Cost per unit}$$

$$\begin{aligned} \text{WIP cost/unit} &= \text{Rm Cost p unit} \times 100\% \\ &+ \text{Labour Cost p unit} \times 50\% \\ &+ \text{OH Cost p unit} \times 50\% \end{aligned}$$

$$(v) \text{ Amount in Creditors} = \frac{\text{Credit purchase for year}}{365 \text{ days}} \times \text{Credit period given to us by creditors}$$

$$(vi) \text{ Amount in O/s exp} = \frac{\text{Total expenses for year}}{365 \text{ days}} \times \text{lag in pay}$$

	<u>CASH COST BASIS</u>	<u>TOTAL BASIS</u>
Cost of prod.	COP - dep.	COP
Cost of sales	COS - dep	COS
Fg calculated at	COP	COS
Debtors calculated at	COS	Sales



Lined writing area for notes.

