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ENGLISH FOR THE FINANCIAL SECTOR

Courses for master students in Finance and Accounting

The academic year 2022/2023

INTRODUCTION

English for the financial sector is reading, speaking, and writing courses for undergraduate students in finance and accounting who need to understand and express the key concepts of finance and accounting and even other related areas of business and economics.

These courses aim to:

* present you with the language and concepts found in books, newspapers, magazine articles, and websites on finance and accounting.

* develop your comprehension of finance and accounting texts.

* provide you with opportunities to express finance and accounting concepts by reformulating them in your own words while summarizing and discussing ideas.

UNIT 12 FINANCIAL RATIO 1

A Types of financial ratio

Financial ratios express the relationships between two or more items on financial statements. They allow investors and creditors to compare a company's present situation and performance with its past performance, and with other companies. Ratios measure:

* Liquidity: how easily a company can turn some of its assets into cash
* Solvency: whether a company has enough cash to pay short-term debts, or whether it could go bankrupt— have, its assets sold to repay creditors
* Efficiency: how well a company uses its resources

B Liquidity and solvency ratios

$$\frac{Liquid\ assets}{current\ liabilities}$$

This is the current ratio, which is a calculation of current assets divided by current liabilities. It measures liquidity and shows how much of a company's assets will Have to be converted into cash in the next year to pay debts. The higher the ratio, the more chance creditors have of being paid. For example, if MacKenzie Inc has current assets of $23,244,000 and current liabilities of $15,197,000, its current ratio is 1.53, which is acceptable. It is often argued that the current ratio of a healthy company should be closer to 2.0 than 1.0, meaning that it has nearly twice as many assets as liabilities.

Suppliers granting short-term credit to a company prefer the current ratio to be high because this reduces their risk. Yet shareholders usually prefer it to be low, because this means that the company has invested its assets for the future.

$$\frac{Liquid\ assets}{current\ liabilities}$$

This is the quick ratio or acid test, which is a calculation of liquid assets divided by current liabilities. It measures short-term solvency. Liquid assets are current assets minus stocks or inventory, as these might be difficult to sell. MacKenzie Inc’s quick ratio is 1.15.

C Earnings and dividends

Shareholders are interested in ratios relating to a company's share price, earnings, and dividend payments.

$$\frac{toral\ earnings\ for\ the\ year}{the\ number\ of\ ordinary\ shares}$$

This is earnings per share (EPS), It tells investors how much of the company’s profit belongs to each share, If a company makes a post-tax profit of €1.5 million, and it has issued 2 million shares, EPS = €0.75.

$$\frac{the\ market\ price\ of\ an\ ordinary\ share}{the\ past\ year's\ EPS}$$

It shows how expensive the share is. It shows how expensive the share is. If a company has an EPS of €0.75 and the share is selling for €9.00, the P/E ratio is 12 (€9 per share divided by €0.75 earnings per share = 12 P/E.) A high P/F. ratio shows that investors are prepared to pay a high multiple of the earnings for a share because they expect it to do well in the future.

$$\frac{ordinary\ share\ dividend}{net\ profit}$$

This is dividend cover or times dividend covered, which shows how many times the company’s total annual dividends could have been paid out of its available annual earnings. If a company has EPS of 75 cents and it pays out a dividend of 30 cents, the dividend cover is 75/30 =2.5. A high dividend cover shows that the company has a lot of money, but that it is not being very generous to its shareholders. A ratio of 2.0 or higher is generally considered safe (it means that the company can easily afford the dividend), but anything below 1.5 is risky. A low dividend cover — below 1.0 - means the company is paying out retained surpluses from previous years.

EXERCISE:

Make word combinations using a word from each box, One word can be used twice, Then use the word combinations to complete the sentences below, Look at B and C opposite to help you.

acid	assets
current	cover
dividend	ratio
liquid	test
quick	

1................................ consist of cash and things that can be easily sold and converted to cash.

2 A high ....shows that the company is retaining a lot of money belonging to its shareholders.

3 The .... or .... does not count stock or inventory this might be difficult or impossible to turn into cash.

4 The ....shows a company's ability to pay its short-term debts.