FORMULA SHEET
CORPORATE & MANAGEMENT ACCOUNTING

CHAPTER 1: INTRODUCTION TO FINANCIAL ACCOUNTING

Assets = Liabilities + Owner's equity
Owner's Equity = Assets – Liabilities

Net Profit = Income – Expenses

CHAPTER 8: CORPORATE FINANCIAL REPORTING

EVA = "Net Operating Profit after Taxes" – (Equity Capital X % Cost of Equity Capital).

Market Value-Added = Company's total Market Value – Capital Invested (OR)
Market Value-Added = Market Value of equity – Book value of equity (OR)
EVA = (ROI – WACC) x Capital employed

*Market value of equity = Book value of equity + Present value of all future EVA.

CHAPTER 9: CASH FLOW STATEMENT

Cash Collected from Debtors = Credit Sales + Decrease in Accounts Receivable or - Increase in Accounts Receivable
Purchases = Cost of Goods Sold + Closing Stock - Opening Stock (OR) **Purchases** = Cost of Goods Sold + Increase in Stock or - Decrease in Stock
Cash Paid to Suppliers = Purchases + Opening Balance of Creditors (Bills Payable) - Closing Balance of Creditors (Bills Payable). (or) **Cash Paid to Suppliers** = Purchases + Decrease in Accounts Payable or - Increase in Accounts Payable
Cash Paid for Wages and Salaries = Wages and Salaries Expenses + Opening Balance of Outstanding Wages and Salaries - Closing Balance of Outstanding Wages and Salaries.
Rent Received = Rent Revenue + Opening Balance of Rent Receivable - Closing Balance of Rent Receivable
Interest Paid = Interest Expenses + Opening Balance of Outstanding Interest - Closing Balance of Outstanding Interest
Cash Paid for Insurance = Insurance Expenses + Closing Balance of Unexpired Insurance - Opening Balance of Unexpired Insurance

CHAPTER 13: OVERVIEW OF COST

COST SHEET: ABSORPTION COSTING:

Particulars		Rs.
	Opening Stock of Raw Materials	
Add:	Purchases (including Carriage Inwards, Transit Insurance etc.)	
Less:	Closing Stock of Raw Materials	
	Direct Materials Consumed/Raw Materials Consumed	

Add: Direct Labour **Add:** Direct Expenses	
PRIME COST **Add:** Factory Overheads **Add:** Opening Stock of Work-in-Progress **Less:** Closing Stock of Work-in-Progress	
FACTORY COST/WORKS COST **Add:** Quality Control Cost **Add:** R & D Cost **Add:** Administration Overheads (related to Factory) **Less:** Credit for Recoveries/Scrap/ By Product/ Misc Income **Add:** Packing Cost	
COST OF PRODUCTION **Add:** Opening Stock of Finished Goods **Less:** Closing Stock of Finished Goods	
COST OF GOODS SOLD **Add:** Administrative Overheads (General) **Add:** Marketing Overheads - Selling Overheads - Distribution Overheads	
COST OF SALES	

CHAPTER 15: BUDGET, BUDGETING & BUDGETARY CONTROL

Capacity Ratio = Actual Hours Worked/ Budgeted Hours × 100
Efficiency Ratio = Standard Hours for Actual Production/ Actual Hours x 100
Activity Ratio= Standard Hours for Actual Production/ Budgeted Hours x 100 (or) Activity Ratio = Capacity Ratio x Efficiency Ratio
Calendar Ratio = Actual Working Days/ Budgeted Working Days

CHAPTER 16: RATIO ANALYSIS

BASED ON LIQUIDITY	
Current Ratio	Current Ratio: $\frac{\text{Current Assets}}{\text{Current Liabilities}}$ Where, **Current Assets** = Inventories + Sundry Debtors + Cash & Bank Balances + Loans & Advances + Disposable Investments **Current Liabilities** = Sundry Creditors + Short term loans + Bank Overdraft + Cash Credit + Outstanding Expenses + Proposed Dividends + Provision for Taxation + Unclaimed Dividend Standard Current Ratio is 2:1, for banks ideal ratio is 1.33:1.
Quick Ratio	Quick Ratio= $\frac{\text{Quick Assets}}{\text{Quick Liabilities}}$

	Quick Assets = Current Assets – Inventories Quick Liabilities = Current Liabilities – Bank Overdraft – Cash Credit. Ideal Ratio is 1:1
BASED ON LONG TERM SOLVENCY	
Debt Equity Ratio	**Debt Equity Ratio** = Total Debt / Shareholder's Equity Ideal Ratio is 2:1
Preference Dividend Coverage Ratio	**PSDR =** EAT / Preference Dividend
Capital Gearing Ratio	Formula = (Preference Share Capital + Debentures + Long term Loan) (Equity Share Capital + Reserves & Surplus – Losses)
TURNOVER RATIOS	
Inventory Turnover Ratio	Formula = Cost of Goods Sold / Average Inventory *Average Inventory = (Opening Stock + Closing Stock) / 2
Debtor Turnover Ratio	Formula = Credit Sales / Average Account Receivables
Creditor Turnover Ratio	Formula = Credit Purchase / Average Account Payables
Fixed Asset Turnover Ratio	Fixed Asset Turnover Ratio = Net Sales / Fixed Asset
Working Capital Turnover Ratio	WCTR = Net Sales / Working Capital
BASED ON PROFITABILITY (%)	
Gross Profit Ratio	GP Ratio = Gross Profit * 100 / Net Sales Gross Profit = Sales – Cost of Goods Sold Cost of Goods Sold = Opening Stock + Purchase – Closing Stock
Net Profit Ratio	Net Profit Ratio = Operating Profit *100 / Net Sales
Return on Equity (ROE)	Return on Equity = Profit after Tax *100 / Net worth
Return on	Return on Investment (ROI): Return * 100

Investment (ROI)	Capital Employed Where, Return = Profit after Tax + Interest on long term debts + Provision for Tax - Interest/Dividend from non-trade investments Capital Employed = Equity Share Capital + Reserves and Surplus + Preference Share Capital + Debenture and long term loan - Miscellaneous Expenditure and Losses - Non Trade Investments OR Capital Employed = Fixed Assets + Working Capital
Return on Total Assets (ROA)	Return on Total Assets = Net Profit after Tax * 100 Total Assets
Return on Shareholder's Fund or Return on Net Worth	Return on Shareholders Fund = Net Profit after Interest & Tax Shareholders Fund
BASED ON MARKET TEST	
Earnings Per Shares (EPS)	Earnings Per Share (EPS) = Net profit available for equity shareholders Number of ordinary shares outstanding
Dividend Per Share (DPS)	Dividend Per share**:** Total Profits distributed to equity shareholders Number of Equity Shares
Price Earnings Ratio (P/E)	P/E Ratio = Market Price per share Earnings per Share
Pay Out Ratio	Payout Ratio = Dividend Per Share Earnings per Share
Dividend Yield Ratio	Dividend Yield Ratio = Dividend Per Share Market Price Per Share

CHAPTER 17: DECISION MAKING TOOLS

MARGINAL COSTING:

Contribution = Sales – variable Cost = fixed cost + profit
Profit Volume Ratio = Contribution/sales (or) Change in contribution/change in sales
Break Even Point (Rs.) = $\frac{\text{Fixed Cost}}{\text{PV Ratio}}$ (or)

Break Even Point (Units) = $\frac{\text{Fixed Cost}}{\text{Contribution}}$ (or) Break Even Point (% Capacity)= $\frac{\text{Fixed Cost}}{\text{Contribution at 1\% Capacity}}$ (or) Overall Break Even Point (Rs.) (of all products) = $\frac{\text{TOtal Fixed Cost of All Products}}{\text{Overall PV Ratio}}$
Contribution = Sales * PV Ratio
Margin of Safety = Actual Sale – Break even sales (or) Profit/Contribution per unit (or) Profit/PV Ratio
Sale Value at Desired Profit = $\frac{\text{Fixed Cost + Desired Profit}}{\text{PV Ratio}}$
Variable Cost Ratio = $\frac{\text{Change in total cost}}{\text{Change in total Sales}}$
Variable Cost per unit = $\frac{\text{Change in total cost}}{\text{Change in output}}$
Contribution per unit = $\frac{\text{Change in Profit}}{\text{Change in output}}$
Net profit = MOS * PV Ratio

COST SHEET UNDER MARGINAL COSTING

SALES
Less: Variable Cost
CONTRIBUTION
Less: Fixed Cost
PROFIT

Activity Cost Driver Rate = $\frac{Total\ Cost\ of\ Activity\ (cost\ pool)}{Activity\ cost\ Driver}$

Assignment of Cost = Resources Consumed * Activity Cost Driver Rate

CHAPTER 19, 20, 22: VALUATION

GOODWILL VALUATION:

CAPITALISATION METHOD:
Goodwill = Normal Capital Employed – Actual Closing Capital Employed
*Normal Capital employed = Future Maintainable Profits/Normal Rate of Return

SUPER PROFIT METHOD:
Goodwill = Super profit × No. of years for which Super Profit can be maintained

*Super profit = Future maintainable profit minus (Actual Capital employed × Normal rate of return)

ANNUITY METHOD:
Goodwill = Super profit × Annuity Factor

*Super profit = Future maintainable profit minus (Actual Capital employed × Normal rate of return)

VALUATION OF SHARES:

1. ***ASSET APPROACH***:

Total Assets (Excluding Fictitious Assets)	
Less: Total Outside Liabilities	
Net Assets Value (NAV)	
(Or)	
Share Capital	
Add: Reserves & Surplus	
Less: Fictitious Assets	
Net Assets Value (NAV)	

Value per Share = $\frac{\text{Net Assets Value}}{\text{No. of Shares}}$

2. ***INCOME APPROACH****:*

BASED ON EARNINGS:
Value = $\frac{Net\ Operating\ Income}{Capitalization\ Rate}$

Capitalization Rate = Discount Rate – Growth Rate

BASED ON YIELD (DIVIDEND)

Value = $\frac{Expected\ Dividend\ per\ share}{Normal\ Rate\ of\ Dividend\ \%}$

3. ***MARKET BASED APPORACH****:* PRICE EARNING MULTIPLE

Value = P/E * EPS

P/E = $\frac{Market\ Price\ per\ share}{Earnings\ per\ share}$

Earnings per Share = $\frac{Earnings\ available\ for\ Equity\ Shareholders}{No.of\ Equity\ Shares}$

FAIR VALUE OF EQUITY SHARES = Value by Net Asset Method + Value by Yield Method
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VALUATION OF PREFERNCE SHARES = Total Yield per Share * 100
Normal Rate of Yield