

## Key Terms

### Long Term Funds

The long term funds of a company consists of money contributed by the owners (Capital), money generated by the business (accumulated profit) and money contributed by the outsiders on a long term basis (Long term debt).

### Debt

Long term borrowings of a company. It consists of long term loans, bonds, public deposits, and debentures.

### Equity

Equity is the money contributed by the owners and the money generated by the company. Equity is also known as the net-worth.

### Debt Equity Ratio

The ratio shows the relationship between debt and equity. It shows the components of the capital employed.

### Total Debt to Equity:

This ratio will show the relationship between the outsiders money and the owners money. Outsiders money reflects the total debt and includes both long term liabilities and short term liabilities. Equity includes both capital (equity capital and preference capital) and reserves.

### Fixed Charge Securities to Equity

Fixed charge securities include bonds, debentures, loans, and preference shares. The denominator consists of equity capital and reserves

### Profit distributing ability

Profit distributing ability of a company is reflected through the earning per share (EPS) or the return on equity (ROE) or return on net worth (RONW).

### Trading on Equity

Process of improving EPS by using more of debt is called trading on equity.

### Cost of capital

Cost of capital is the summation of the cost of debt and cost of equity. So the cost of capital depends on Cost of Capital( $K_e$ ), Cost of Debt ( $K_d$ ) and Debt equity ratio (DER)

### DER and Interest Coverage Ratio

Interest coverage ratio shows the ability of a company to cover the interest on borrowing. In other words, it shows whether the profits of the company are sufficiently covering the interest.

**Debt Service Coverage Ratio (DSCR)**

DSCR shows the funds available from the operations to meet annual interest and principal.

**Long Term Funds to Total Assets Ratio**

This ratio shows the percentage of asset funded by the capital employed.

**Preference Shares**

Preference shares have preference over the equity shares for dividend and return of capital.

**Deferred Tax**

Deferred tax is the tax on the timing difference between accounting profit and tax profit.

**Taxable Income**

Taxable income (tax loss) is the amount of the income (loss) for a period, determined in accordance with the tax laws, based upon which income tax payable (recoverable) is determined.

**Accounting Income**

Accounting income (loss) is the net profit or loss for a period, as reported in the statement of profit and loss, before deducting income tax expense or adding income tax saving.

**Current Tax**

Current tax is the amount of income tax determined to be payable (recoverable) in respect of the taxable income (tax loss) for a period

**Contingent Liabilities**

Contingent liabilities are those liabilities which will become liabilities on the happening of some future event.