

Percentage-of-Sales Method

- Start with the most recent year's Income Statement and calculate all entries as a percentage-of-sales
- Forecast sales for the next period and estimate all Income Statement entries as a percentage of that sales forecast
- Unrealistic to assume that all expenses will remain the same % of sales

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Internal Growth Rate

Purpose: tells a company how much it can grow with only internal financing

Measured by: $ROA \times R$ divided by $1 - ROA \times R$

Recognize: it is the point where EFN is zero. At this point, the required increase in assets is exactly equal to the addition to retained earnings

Sustainable Growth Rate

Purpose: tells a company how much it can grow before it will need financing from external sources

Measured by: it is the point where EFN is zero and can be determined by using the EFN formula, with EFN equal to zero and solving for growth, g

Recognize: It is especially important for a company that already has high levels of debt and may have difficulty securing external financing.

Return on Assets

Purpose: tells a company how profitable a company is relative to its total assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings.

Measured by: dividing a company's annual earnings by its total assets; displayed as a %

Recognize: $ROA = PM(TAT)$

Pro Forma Statements

- Used to evaluate the future expected financial position
- Investors and creditors to evaluate the firm's ability to provide a return (ROI)
- Pro forma balance sheet will show EFN