

# Procedure for Developing Tariff for Electric and Gas Services

- Tariffs include rates, terms and conditions.
- Types of Companies:
  - Investor owned utilities (IOU)
  - Co-operatives
  - Municipalities and Cities

# Procedure for Developing Tariff for Electric and Gas Services

- Pursuant to Arizona Constitution/Statute the Arizona Corporation Commission (“ACC”) is the State Agency with the responsibility to regulate and oversee the activities of all the Investor Owned Utilities and Cooperatives providing utility services.
- I.O.U.’s are typically a monopoly.

# Procedure for Developing Tariff for Electric and Gas Services

- All rates, terms and conditions must be approved by the Commission
- Those rates, terms and conditions eventually translate into a document referred to as tariffs.
- The ACC develops/promogates rules and guidelines (electric/gas).

# Procedure for Developing Tariff for Electric and Gas Services

- Based on the rules and guidelines, the utilities develop proposed terms and conditions.
- The rates, terms and conditions proposed by the Utility are initially approved in a rate case proceeding
- Staff usually works with the Company during the initial process.

# Procedure for Developing Tariff for Electric and Gas Services

- Staff usually encourages the Company to maintain a line of communication with their end user/customers.

# Procedure for Developing Tariff for Electric and Gas Services

- **Total Revenue Requirement** – is the total level of revenues that are to be generated by the utility on a proforma basis. This is the target level defined by the regulating authority, and rates must be designed to meet, but not exceed, this target giving proper consideration to the number of customers in each customer class.

# Procedure for Developing Tariff for Electric and Gas Services

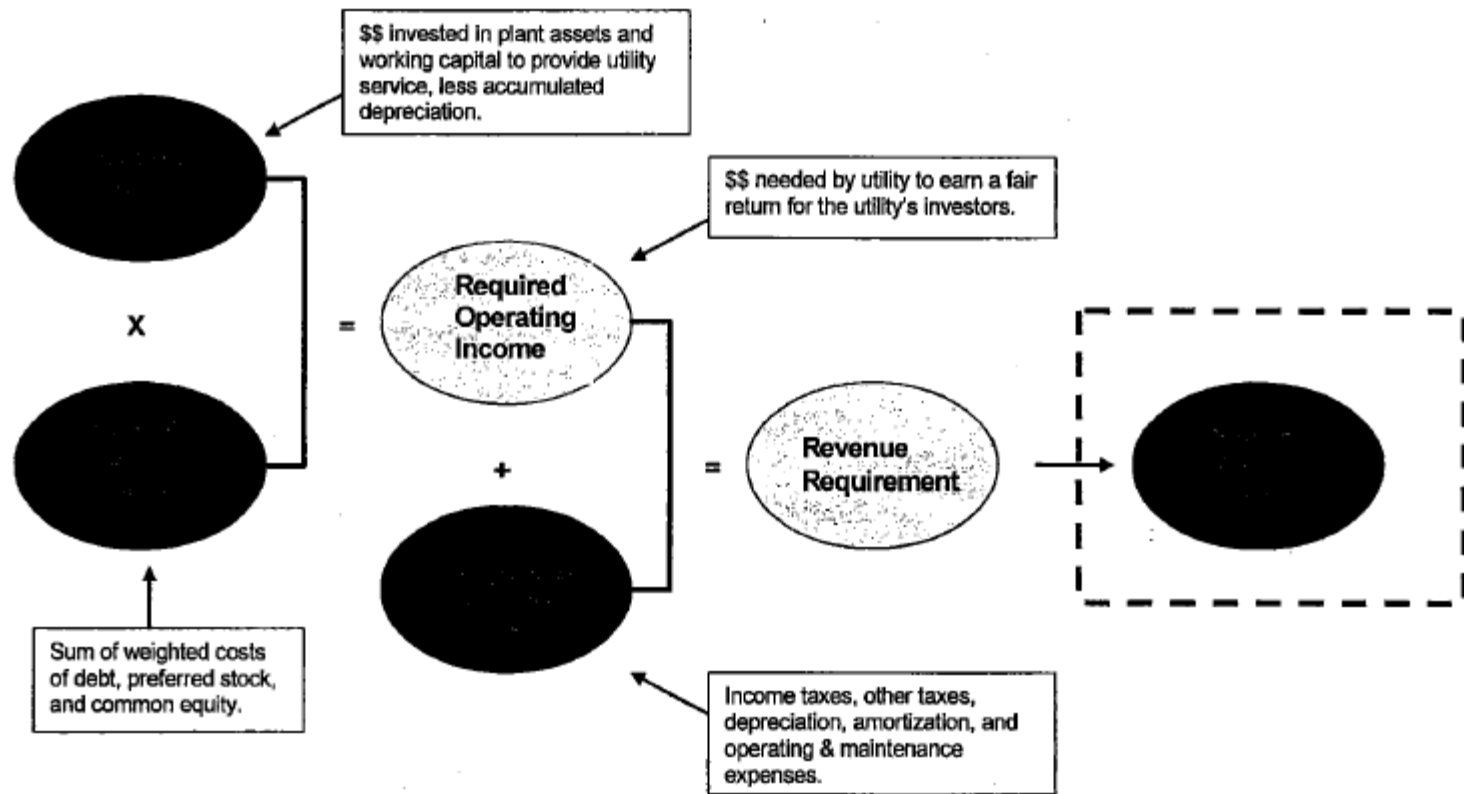
- Revenue Requirement is determined in a rate case proceeding.

# Procedure for Developing Tariff for Electric and Gas Services

- Rate design phase of a rate setting determines the manner in which the utility's annual Revenue Requirement will be recovered through the rates and charges for the services it provides to its customers or end users.



# Rate Setting Process



After the revenue requirement is identified, the next step is to determine how that revenue will be collected from the utility's various types of customers by developing customer rates.

# Typical Rate Issues in a Rate Case

- Should all fixed costs be recovered through the Customer Charge
- Weather normalization (what is the appropriate time period)
- Bill Impacts of revenue increases on Customer Classes

# Tariffs are not Just Rates

- Provides the Rates, Terms, and conditions of service from the utility to customers (similar to written contract between a buyer and seller).
- Rules and Regulations
- Rate Schedules

# Terminology

- **A tariff** is a published document setting forth the types of rates charged for specific utility services and the general terms and conditions under which such services will be provided.
  - To be effective, a utility tariff must be filed with, and approved by, the appropriate regulatory agency either at the Federal or State e.g. Arizona Corporation Commission, Federal Communication Commission, Federal Energy Regulatory Commission .
  - Sec. 9-201 of the Public Utilities Act requires tariffs in effect to be made publicly available.
- **A rate** is a standard unit charge for service rendered by a utility to its customers and is applicable under general circumstances.
- **A rider** is a form of tariff that represents a supplemental charge to specific customer classes. The costs recovered through a rider are not recovered through the base rates.
  - Examples include riders to recover costs of environmental clean-up; costs of purchased electricity; costs of energy efficiency programs or demand side management; costs of various taxes

# Types of Rates

- **Customer Charge** - A flat monthly charge to cover fixed costs incurred to provide service to the customer (e.g., cost of the service line; cost of billing and customer service).
- **Meter Charge** - Traditionally has been included in the customer charge, but is itemized separately for electric delivery service. A flat monthly charge that covers, among others, the cost of the meter and meter reading.
- **Usage Charges** (includes Commodity, Transmission and Distribution Charge) - A cents per kwh charge multiplied by the customer's usage volume. The distribution charge is a "base rate" developed in a rate case that mostly recovers the cost of delivering utility service.
- **Demand Charge** - Generally a flat charge multiplied by the size of the customer's load (where "load" is the maximum kw used per month). Typically applied to medium or larger, non-residential customers. It recovers the incremental cost of building larger facilities to meet these customers' higher load demands.

# Rate Characteristics

- **Flat rate**- Same rate applies regardless of usage volume or season.

- **Declining Block** - Rates decrease as usage increases.

Example:           10 cents/kwh up to 1,000 kwh;  
                          8 cents/kwh for the next 5,000 kwh;  
                          6 cents/kwh for > 6,000 kwh.

- **Inclining Block** - Rates increase as usage increases.

Example:           6 cents/kwh for up to 1,000 kwh;  
                          8 cents/kwh for the next 5,000 kwh;  
                          10 cents/kwh for > 6,000 kwh.

- **Seasonal rate** - Different rate applies depending on time of year.

Example: summer and non-summer rates.

- **Time-of-day rate** - different rate applies depending on time of day.

Example:

- 8 cents/kwh from 10 a.m. to 8 p.m., Monday- Friday
- 5 cents/kwh for all other kwh in a month.

- **Real time pricing rate** - charge for the supply of electricity changes by the hour based on the published price. For example it is published by Independent System Operator.

# How Customer Rates Are Developed

- A Cost of Service Study (COSS) develops charges for service that will apply to each rate class.
- Rate classes are determined by grouping customers with similar usage patterns.
  - Customers with similar usage characteristics impose similar costs on the utility.

Examples: Residential, Commercial, and Industrial Class

- Some classes are further divided into Sub-Classes as needed.

Examples: Residential Space Heating  
Residential Non-Space Heating  
Commercial Grain Drying  
Non-residential > 10 mw  
Non-residential High Voltage

STATEMENT OF RATES  
EFFECTIVE SALES RATES APPLICABLE TO ARIZONA SCHEDULES <sup>1/</sup> <sup>2/</sup>

Description	Delivery Charge	<sup>3/</sup> Rate Adjustment	Monthly Gas Cost	Currently Effective Tariff Rate
<u>G-5 – Single-Family Residential Gas Service</u>				
Basic Service Charge per Month	\$ 10.70			\$ 10.70
Commodity Charge per Therm:				
All Usage	\$ .70314	(\$ .07559)	\$ .48221	\$ 1.10976
<u>G-6 – Multi-Family Residential Gas Service</u>				
Basic Service Charge per Month	\$ 9.70			\$ 9.70
Commodity Charge per Therm:				
All Usage	\$ .70314	(\$ .07559)	\$ .48221	\$ 1.10976
<u>G-10– Single-Family Low Income Residential Gas Service</u>				
Basic Service Charge per Month	\$ 7.50			\$ 7.50
Commodity Charge per Therm:				
Summer (May–October):				
All Usage	\$ .70314	(\$ .07433)	\$ .48221	\$ 1.11102
Winter (November–April):				
First 150 Therms	\$ .36983	(\$ .07433)	\$ .48221	\$ .77771
Over 150 Therms	.70314	( .07433)	.48221	1.11102
<u>G-11– Multi-Family Low Income Residential Gas Service</u>				
Basic Service Charge per Month	\$ 7.50			\$ 7.50
Commodity Charge per Therm:				
Summer (May–October):				
All Usage	\$ .70314	(\$ .07433)	\$ .48221	\$ 1.11102
Winter (November–April):				
First 150 Therms	\$ .36983	(\$ .07433)	\$ .48221	\$ .77771
Over 150 Therms	.70314	( .07433)	.48221	1.11102
<u>G-15– Special Residential Gas Service for Air Conditioning</u>				
Basic Service Charge per Month	\$ 10.70			\$ 10.70
Commodity Charge per Therm:				
Summer (May–October):				
First 15 Therms	\$ .70314	(\$ .07433)	\$ .48221	\$ 1.11102
Over 15 Therms	.13077	( .07433)	.48221	.53865
Winter (November–April):				
All Usage	\$ .70314	(\$ .07433)	\$ .48221	\$ 1.11102



**STATEMENT OF RATES**  
**EFFECTIVE SALES RATES APPLICABLE TO ARIZONA SCHEDULES <sup>1/2/</sup>**  
*(Continued)*

Description	Delivery Charge	<sup>3/</sup> Rate Adjustment	Monthly Gas Cost	Currently Effective Tariff Rate
<u>G-20—Master-Metered Mobile Home Park Gas Service</u>				
Basic Service Charge per Month	\$ 66.00			\$ 66.00
Commodity Charge per Therm:				
All Usage	\$ .47189	(\$ .07559)	\$ .48221	\$ .87851
<u>G-25—General Gas Service</u>				
Basic Service Charge per Month:				
Small	\$ 27.50			\$ 27.50
Medium	43.50			43.50
Large-1	80.00			80.00
Large-2	470.00			470.00
Transportation Eligible	950.00			950.00
Commodity Charge per Therm:				
Small, All Usage	\$ .83914	(\$ .07433)	\$ .48221	\$ 1.24702
Medium, All Usage	.45834	( .07433)	.48221	.86622
Large-1, All Usage	.41263	( .07433)	.48221	.82051
Large-2, All Usage	.28856	( .07433)	.48221	.69644
Transportation Eligible	.10923	( .07433)	.48221	.51711
Demand Charge per Month—				
Transportation Eligible:				
Demand Charge <sup>4/</sup>	\$ .082459			\$ .082459
<u>G-30—Optional Gas Service</u>				
Basic Service Charge per Month	As specified on A.C.C. Sheet No. 27.			
Commodity Charge per Therm:				
All Usage	As specified on A.C.C. Sheet No. 28.			
<u>G-40—Air-Conditioning Gas Service</u>				
Basic Service Charge per Month	As specified on A.C.C. Sheet No. 32.			
Commodity Charge per Therm:				
All Usage	\$ .13077	(\$ .07433)	\$ .48221	\$ .53865
<u>G-45—Street Lighting Gas Service</u>				
Commodity Charge per Therm of Rated Capacity:				
All Usage	\$ .69242	(\$ .07433)	\$ .48221	\$ 1.10030
<u>G-55—Gas Service for Compression <sup>5/</sup> on Customer's Premises</u>				
Basic Service Charge per Month:				
Small	\$ 27.50			\$ 27.50
Large	250.00			250.00
Residential	10.70			10.70
Commodity Charge per Therm:				
All Usage	\$ .21470	(\$ .07433)	\$ .48221	\$ .62258
<u>G-60—Electric Generation Gas Service</u>				
Basic Service Charge per Month	As specified on A.C.C. Sheet No. 40.			
Commodity Charge per Therm:				
All Usage	\$ .15421	(\$ .07433)	\$ .48221	\$ .56209
<u>G-75—Small Essential Agricultural User Gas Service</u>				
Basic Service Charge per Month	\$ 120.00			\$ 120.00
Commodity Charge per Therm:				
All Usage	\$ .28037	(\$ .07433)	\$ .48221	\$ .68825

# GENERAL DISCUSSION TOPICS

- Accounting Principles and Concepts
- Financial Statements and Definitions
- Cost of Service

# ACCOUNTING

- Accounting is the art of identifying, measuring, recording, and communicating financial information about an economic unit.

# GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

- Uniform set of principles, rules, procedures, standards and guidelines of financial accounting and reporting
- GAAP is subject to change
  - As needs of users of financial statements change
  - As new issues arise
  - To attempt to conform US and International standards

# GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

- Must be used in the preparation of accounting records and financial statements
- Must be complied with in order to obtain an unqualified (“clean”) opinion from independent auditor
- Must be complied with for securities to be listed on a stock exchange and to issue new securities

# DIFFERENT REPORTS FOR SHAREHOLDERS AND REGULATORS

- May be different for different purposes
  - Financial Reporting (Reports to Shareholders)
  - Income Tax Computations (Different depreciation rates; differences in what is expensed to compute net income)
  - Rate Regulation (May not include disallowed items such as lobbying costs or non-regulated items)

# BASIC ACCOUNTING CONCEPTS

- **MATCHING**

- Revenues and Expenses shown on the income statement must be matched for the period. (cut off)

- **BUSINESS ENTITIES**

- Every business unit/enterprise is treated as a separate entity, separating the business from the owners.

# FINANCIAL STATEMENTS

- Primary means of communicating important accounting information
- Balance Sheet
- Income Statement
- Cash Flow Statement
- Auditor's Opinions



# DEFINITIONS OF TERMS

- **Assets**

- The resources, property and property rights owned by a business that will provide benefits over more than one year (e.g., land, cash, inventory, accounts receivables)
- For regulatory purposes, shown at original cost

- **Intangible Assets**

- Assets which are neither physical nor financial in character (e.g., Licenses, rights of way, etc.)

- **Current Assets**

- Cash or assets that can be turned into cash fairly rapidly in the normal course of business

# DEFINITIONS OF TERMS

- **Liabilities**

- Current or future economic obligations that a business is obligated to pay

- **Current Liabilities**

- Recognized claims against the business that are considered to be payable within one year

# DEFINITIONS OF TERMS

- **Deferrals (Deferred Assets; Deferred Liabilities)**
  - The postponement of the recognition of an expense already paid or of a revenue already received (e.g., purchased gas expense subject to a purchased gas adjustment)
  
- **Accumulated Depreciation**
  - The sum of the past years' depreciation expense
  - Represents the cost of the asset that has already been recorded as an expense
  - May include estimated amounts for salvage or cost of removal

# DEFINITIONS OF TERMS

- **Capital Stock**

- A unit of ownership in a corporate entity
- Par Value of the stock is the per share amount paid by the original shareholders for the stock

- **Retained Earnings**

- The accumulated earnings of a corporation from its inception minus any losses or dividends

# DEFINITIONS OF TERMS

- **Expenses**

- Charges against current earnings but not necessarily involving a cash outlay (e.g., depreciation)

# BALANCE SHEET

- A financial statement that details the assets, liabilities, and owner's equity of a firm as of a point in time
- $\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$   
(AKA Accounting Equation)

# ASSETS AND OTHER DEBITS

## PLANT

General Plant in Service	\$1,145,294,058
Gas Plant Held for Future Use	215,036
Completed Construction Not Classified	8,659,411
Construction Work in Progress	5,733,962
Accumulated Provision for Depreciation	(496,455,392)
Accumulated Provision for Amortization	(8,820,014)
Gas Plant Acquisition Adjustments	6,870,844
Accumulated Provision for Amortization	<u>(841,993)</u>
NET GAS PLANT	\$660,655,912

# ASSETS AND OTHER DEBITS

## CURRENT AND ACCRUED ASSETS

Cash	\$2,231,584
Customer Accounts Receivables	52,011,626
Misc. Accounts Receivable	1,139,328
Accumulated Provision for Bad Debt	(3,094,898)
Notes Receivable from Affiliates	32,200,000
Accounts Receivable from Affiliates	863,060
Plant Materials and Operating Supplies	3,776,217
Gas Stored Underground	8,117,947
Prepaid Expenses	<u>732,496</u>
NET CURRENT AND ACCRUED ASSETS	\$97,977,360



# ASSETS AND OTHER DEBITS

## NET DEFERRED DEBITS

Unamortized Debt Expense	\$1,981,846
Other Regulatory Assets	11,649,103
Clearing Accounts	(598,305)
Miscellaneous Deferred Debits	41,036
Unamortized Loss on Reacquired Debt	6,921,536
Accumulated Deferred Income Tax	2,939,044
Unrecovered Purchased Gas Costs	<u>(21,865,260)</u>
NET DEFERRED DEBITS	\$1,069,000

# • EQUITY AND DEBT

Common Stock Issued	\$22,974,065
Premium on Common Stock	121,875,000
Inappropriate Retained Earnings	<u>170,486,414</u>
TOTAL PROPRIETARY CAPITAL	\$315,335,479

Bonds – Long Terms	\$285,000,000
Long Term Notes	0
Unamortized Premium on Long Term Debt	0
Unamortized Discount on Long Term Debt	<u>0</u>
TOTAL LONG-TERM DEBT	\$285,000,000

# • CURRENT AND ACCRUED LIABILITIES

Accounts Payable - General	\$13,769,694
Accounts Payable to Affiliates	20,933,673
Customer Deposits	2,173,283
Taxes Accrued	23,444,586
Interest Accrued	3,803,665
Dividends Declared	6,125,000
Tax Collections Payable	2,974,442
Misc. Current and Accrued Liabilities	<u>1,395,097</u>
Total Current & Accrued Liabilities	\$74,619,440

# • MISCELLANEOUS AND DEFERRED LIABILITIES

Misc. Long Term Liabilities	\$428,209
Other Deferred Credits	48,884
Accum. Deferred Invest. Tax Credit	4,795,283
Other Regulatory Liabilities	2,939,044
Deferred Taxes - Federal	75,203,537
Deferred Taxes - State	6,810,697
Deferred Taxes - Other	<u>(5,478,301)</u>
TOTAL MISC. AND DEFER.	\$84,747,353

# BALANCE SHEET SUMMARY

## ASSETS

Net Gas Plant	\$660,655,912
Current and Accrued Assets	97,977,360
Net Deferred Debits	<u>1,069,000</u>
TOTAL	\$759,702,272

## EQUITIES AND LIABILITIES

Total Proprietary Capital	\$315,335,479
Total Long Term Debt	285,000,000
Misc. Current and Accrued Liab.	74,619,440
Misc. Deferred Liabilities	<u>84,747,353</u>
TOTAL	\$759,702,272

# INCOME STATEMENT

- Sometimes called a Profit and Loss Statement
- Report of Operations summarizing the revenues, expenses, and income attributed to a specified period

# • INCOME STATEMENT

Operating Revenues	\$323,079,710
Gas Purchase Expense	213,733,609
Operating Expense	40,530,868
Maintenance Expense	2,484,107
Depreciation Expense	16,330,805
Amortization Expense	25,022
Taxes Other than Income Taxes	4,770,606
Income Taxes	21,301,902
Provision for Deferred Income Taxes	<u>(7,486,893)</u>
Total Utility Operating Expenses	\$291,690,026
<b>NET OPERATING INCOME</b>	<b>\$31,389,684</b>

# • NET OPERATING INCOME

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# NET OPERATING INCOME

- $\text{Revenues} - \text{Expenses} = \text{Net Operating Income}$
- Reflects the income from the primary operations of the company, and excludes income from peripheral activities
- Excludes interest expense

# • NET INCOME

Net Operating Income	\$31,389,682
Other Income and Deductions	830,203
Interest Charges	<u>(9,479,864)</u>
NET INCOME	\$22,740,021

- **NET INCOME**

- Net Operating Income + Other Income and Deductions – Interest Expense
- The ultimate profit or loss of the company from all operations (including extraordinary events)
- Impacts the Retained Earnings for the year

# • CASH FLOW

Net Income	\$22,740,021
Depreciation and Amortization	17,645,976
Deferred Federal Income Tax	(8,872,383)
Deferred Investment Tax Credits	<u>(164,381)</u>
CASH PROVIDED FROM OPERATIONS	31,349,233
CHANGE IN ASSETS AND LIABILITIES	91,089,275
CASH FLOWS FROM INVESTMENTS	(17,553,698)
CASH PROVIDED BY FINANCINGS	111,050,000
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(\$6,165,178)</b>

# CASH FLOW

- Cash Flow Statement shows a company's sources and uses of cash – or cash inflows and outflows – during a specified period (usually a one-year period)

# CASH FLOW

- Required to classify cash receipts and payments into categories
  - Operating Activities
  - Investing Activities
  - Financing Activities

# CASH FLOW

- Used to:
  - Evaluate management's abilities to manage cash now and in the future
  - Assess the company's ability to pay dividends and to pay creditor
  - Better understand the changes of assets and liabilities which occurred during the period.

# Types of Cost of Service Study

## □ **Embedded Costs**

- Based on historical information
- Information can be verified
- Less complex than marginal

## □ **Marginal Costs**

- Based on projected information and assumptions
- Much more complex than embedded
- Most utilities do not have the capabilities in-house, and the expense for Consultant capabilities can be very high
- Resulting rates may not be very different from rates under an embedded approach.



# Cost of Service Study (COSS)

- Cost Allocation : The costs of providing service are caused by all customers and, therefore, are charged to all customers on a weighted basis in a COSS.
- How does it work? By applying allocation factors developed by analyzing the relationships (i.e., cause and effect) among various cost categories.

## Examples:

- Customer Records and Collection Expenses are allocated to customer classes based on the average number of customers per class.
- Meter Reading Expenses are allocated based on the number of meters in each customer class.

# Cost of Service Study

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## □ Functionalize

- Identification of costs as related to functions within each type of utility service.  
Examples:
  - **Electric utility:** How much cost is identifiable with generation, transmission, distribution?

## □ Allocate

- Determine how much of each functionalized cost is apportioned to each customer class.
  - All costs are allocated.
  - Allocation factors are developed to appropriately weight costs to the customer classes.

## □ Classify

- Determine how much of each allocated cost should be in the customer charge, the meter charge, the demand charge, or the usage charge.
  - All costs that have been allocated to the customer classes are designated either to the customer charge, the meter charge, the demand charge or the usage charge.

# Cost of Service Allocation Factors

Allocation factors can be developed from various characteristics, such as:

- ❑ Customer class Peak Demands
- ❑ Customer class Usage
- ❑ Number of Customers
- ❑ Number of Meters
- ❑ Number of Services
- ❑ Many Others

# Ratio Analysis

## I. OVERVIEW

Ratios are financial indicators that distill relevant information about a business entity by quantifying the relationship among selected items on the financial statements. Comparative analysis of an entity's ratios from one period to another, or comparative analyses of ratios of an enterprise to industry ratios, identifies trends that may be important to investors, lenders and other interested parties.

## II. BASIC FINANCIAL ANALYSIS RATIOS

Using the information presented on the balance sheet for Gi Company (December 31, 19x2 and 19x1), we shall compute key financial ratios which are classified as:

### A. LIQUIDITY RATIOS

Liquidity ratios are measures of a firm's short-term ability to pay maturing obligations.

### B. ACTIVITY RATIOS

Activity ratios are measures of how effectively the enterprise is using its assets.

### C. PROFITABILITY RATIOS

These ratios are measures of the success or failure of an enterprise for a given time period..

### D. INVESTOR RATIOS

These ratios are measures of interest to investors.

### E. LONG-TERM DEBT-PAYING ABILITY RATIOS

Coverage ratios are measures of security for long-term creditors/investors.

# Profitable Ratios cont.

5. 

Return on investment

$$\begin{aligned}
 &= \frac{\text{Net Income} + \text{interest expense} (1 - \text{tax rate})}{\text{Average liabilities} + \text{equity}} \\
 &= \frac{\$000,000 + \$00,000 (1 - 0.00)}{\$000,000 + \$0,000,000 + \$000,000 + \$0,000,000} \\
 &= 00.0\%
 \end{aligned}$$

ROI measures the performance of the firm without regard to the method of financing.

6. Return on common equity

$$\begin{aligned}
 &= \frac{\text{Net Income} - \text{preferred dividends}}{\text{Average common equity}} \\
 &= \frac{\$000,000 - \$0}{(\$0,000,000 + \$0,000,000) / 0} \\
 &= \frac{\$000,000}{\$0,000,000} \\
 &= 00.0\%
 \end{aligned}$$

7. Gross profit margin

$$\begin{aligned}
 &= \text{Gross profit} \div \text{Net Sales} \\
 &= \$000,000 / \$0,000,000 \\
 &= 0\%
 \end{aligned}$$

8. Operating cash flow per share

$$\begin{aligned}
 &= \text{Operating cash flow} \div \text{Common shares o/s} \\
 &= \$000,000 / 100,000 \text{ shares} \\
 &= \$0.00 \text{ per share}
 \end{aligned}$$

# Investor Ratios

1.  Degree of financial leverage
 
$$= \frac{\text{Earnings before interest \& taxes}}{\text{Earnings before taxes}}$$

$$= (\$000,000 + \$00,000) / \$000,000$$

$$= 0.000$$

The degree of financial leverage is the factor that net income will change with a change in earnings before interest and taxes. The degree of financial leverage indicates the leverage factor for recurring earnings.

2. Earnings per share
 
$$= \frac{\text{Net Income - preferred dividends}}{\text{Weighted average no. common shares outstanding}}$$

$$= \frac{\$000,000 - 0}{\$100,000 \text{ shares}}$$

$$= \$2/ \text{ share}$$

3. Price/earnings ratio
 
$$= \frac{\text{Market price per share}}{\text{Fully diluted earnings per share}}$$

$$= \$12 / \$2$$

$$= 6$$

This statistic indicates the investment possibility of an enterprise; a rise in this ratio indicates that investors are pleased with the firm's growth potential.

4. Dividend payout ratio
 
$$= \text{Dividends per common share} \div \text{Fully diluted earnings per share}$$

$$= \$0.00 / \$2$$

$$= 40\%$$

This ratio indicates the portion of current earnings being paid out in dividends.

# Investor Ratios cont.

5. ☐ Dividend yield

$$\begin{aligned} &= \text{Dividends per common share} \div \text{Market price per common share} \\ &= \$0.00 / \$12 \\ &= 0.00 \% \end{aligned}$$

This ratio indicates the relationship between dividends and market price.

6. Book value per share

$$\begin{aligned} &= \frac{\text{Total stockholders' equity - preferred stock}}{\text{No. common shares o/s}} \\ &= \$0,000,000 / 100,000 \text{ shares} \\ &= \$00.00 \end{aligned}$$

This ratio indicates the amount of stockholder' equity that relates to each share of common stock. Note that preferred stock should be stated at liquidity value if other than book value.

# Long-Term Debt-Paying Ability Ratios

1. Debt/Equity =  $\frac{\text{Total liabilities}}{\text{Average common stockholders' equity}}$

(19x2) =  $\$0,000,000 / \$0,000,000 = 0.00$

(19x1) =  $\$0,000,000 / \$0,000,000 = 0.00$

This ratio indicates the protection to creditors in case of insolvency. The lower this ratio the better the company's position. In Gi's case, the ratio is very high, indicating that a majority of funds come from creditors. However, the ratio is improving.

2. Debt ratio =  $\text{Total liabilities} \div \text{Total assets}$

(19x2) =  $\$0,000,000 / \$0,000,000 = 00.0\%$

(19x1) =  $\$0,000,000 / \$0,000,000 = 00.0\%$

The debt ratio indicates that more than half of the assets are financed by creditors.



# Long-Term Debt-Paying Ability Ratios

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(19x1) =  $\$0,000,000 / \$0,000,000 = 0.00$

This ratio indicates the protection to creditors in case of insolvency. The lower this ratio the better the company's position. In Gi's case, the ratio is very high, indicating that a majority of funds come from creditors. However, the ratio is improving.

2. Debt ratio =  $\text{Total liabilities} \div \text{Total assets}$

(19x2) =  $\$0,000,000 / \$0,000,000 = 00.0\%$

(19x1) =  $\$0,000,000 / \$0,000,000 = 00.0\%$

The debt ratio indicates that more than half of the assets are financed by creditors.