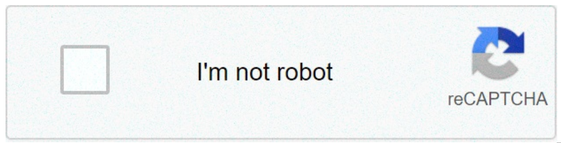

Continue

How to calculate the put call ratio

When you operate a small business, it’s essential that you periodically evaluate your processes to ensure that everything is being done as efficiently as possible. One important aspect of this evaluation should be an efficiency ratio. This ratio is used to determine how effectively your business is using its assets and liabilities internally. There are a few different kinds of efficiency ratios, including turnover of receivables, the repayment of liabilities, fixed-asset turnover and the quantity and usage of equity. Efficiency ratios are used by analysts to determine how well a company is performing. Essentially, they report on a business’s ability to use its available assets to generate income. To calculate them, you’ll need some basic financial statistics, including your company’s total expenses and total revenue for the period in question. Your expenses should not include interest expenses since these are usually based on investment decisions, rather than operational decisions. The basic formula for an efficiency ratio is expenses divided by revenue. Here’s an efficiency formula example. Say your expenses in a given quarter were $20,000 and your revenue was $60,000. By dividing $20,000 by $60,000, you would get an efficiency ratio of 33 percent. This would mean that it costs your business $0.33 to generate every $1.00 of revenue. Generally speaking, the lower this ratio, the better. If your ratio increases, it usually suggests an increase in expenses or a decrease in revenue. Another type of ratio your company may wish to calculate is its fixed-asset turnover ratio. To calculate this, you divide your net sales by the total of your net property, plant and equipment aka PP&E. This is an equation commonly used in the manufacturing industry to monitor and improve output. A higher ratio indicates a greater efficiency in managing your assets. Another type of cost efficiency ratio formula is used to calculate the turnover of receivables. This shows how effective the company is at collecting on its debts. To calculate it, divide the net value of credit sales by the average accounts receivable. Both figures must be from the same period for this calculation to be accurate. This figure is important because companies who have a high level of uncollected receivables are essentially extending interest-free loans to their customers. It’s critical to have processes in place to ensure payment is received in full and on time. The repayment of liabilities ratio or debt ratio of a company provides an assessment of the company’s total leverage. It is equal to total debt divided by total assets and can be expressed as either a percentage or a fraction. The higher the debt ratio of a business, the more it is leveraged. This signifies a greater level of financial risk for the company since more of its assets are unavailable for its use. However, leveraging your assets may be an important growth strategy, such as, in the case of purchasing new equipment for your factory, a new location for your restaurant or additional delivery vehicles. Consequently, it must be considered as part of a holistic look at the business. Additionally, debt ratios vary depending on the industry. What’s right for some companies may not be appropriate for others. To calculate a company’s equity, you must determine the difference between its total assets and total liabilities. This is considered one of the fundamental ways that a business can determine its net worth, and it’s a key figure in evaluating a company’s effective use of assets. In some instances, you might also need to calculate shareholders equity, which is the amount of money that would be left to distribute to the company’s shareholders once all debts were repaid and all assets liquidated. The big question for any investor is whether a company is worth putting money into. One of the measures for figuring this out is the retention ratio or plowback ratio. The higher the ratio, the more earnings the company retains rather than issuing them as dividends. To calculate the plowback ratio, divide the dividends per share by the earnings per share. Subtract the result from one and turn that figure into a percentage. The higher the number, the larger the retention ratio. Suppose a company wraps up the year and issues a $2-per-share dividend. The earnings per share are $4. The first step in calculating the plowback ratio is to divide earnings into dividends, giving you 1/2. If you subtract that from 1, you get 1/2; turn that into a percentage and you have a retention ratio of 50%. If, on the other hand, you had the same dividend but earnings of $5 per share, you'd end up with a 60% plowback ratio. If all the earnings are issued as dividends, the ratio would be 1 minus 1, equalling zero. That company is not plowing any of its earnings back into operations. Ratios help evaluate companies by taking size out of the picture. Whether a company declares $500 dividends and $2,000-a-share earnings or $5 dividends and $20 earnings, they'll have the same plowback ratio. That makes it easier to compare them. If a company is high growth, a high retention figure shows they're plowing back earnings into operations so that they can keep expanding. If a company's growth is sluggish, a high plowback ratio means they're simply hanging on to the money but not using it. Investors might prefer larger dividends. A retention ratio of zero or close to it shows the company's earnings are going overwhelmingly or entirely to dividends. The business may not be reserving enough money for its capital needs and probably won't be able to sustain its current dividends in future years. A high or low plowback ratio isn't automatically good or bad. If everything else about two companies is equal, different investors will favor different plowback ratios. An income-oriented investor might prefer a company with a low plowback ratio, showing the firm prioritizes dividends over growth. Other investors would sooner see a high ratio, showing the company is investing in growing its operations. One drawback to using retention ratio as a measure is that the earnings per share don't match the cash flow per share, which is the net cash flow for the year divided by the number of shares. If the earnings are $2.50 per share but cash flow is only $1.50, the company doesn't have the cash on hand to pay $2.50 per share dividends. The plowback ratio doesn't reveal this. A high plowback ratio shows the company is putting money into growth. Even so, it's possible the company is growing faster than it can support without borrowing more money or issuing more stock. Investors concerned about that can use the sustainable growth rate formula to get an answer. First, figure the dividend payout ratio, which is total dividends divided by net income. Subtract this from 1 and then multiply it by the return on equity to get the sustainable growth rate. For example, suppose you have a company with 20% dividend payout ratio and a 20% return on equity. One minus 20% equals 80%; multiply that by 20% to get 16%. That's the rate of growth the company can manage without needing extra money. Impact ratio is the selection rate for a group belonging to a protected category divided by the selection rate of the most selected group. Adverse impact occurs when identical selection procedures are used for all groups, but systematically negatively affect a particular group. Adverse impact is determined using the four-fifths rule as defined in the Uniform Guidelines for Employee Selection Procedures. The four-fifths rule states “a selection rate for any race, sex, or ethnic group which is less than four-fifths (or 80 percent) of the rate for the group with the highest rate will generally be regarded by the Federal enforcement agencies as evidence of adverse impact, while a greater than four-fifths rate will generally not be regarded by Federal enforcement agencies as evidence of adverse impact.” Determine the selection rate for protected groups comprising more than 2 percent of the entire applicant group by dividing the number of applicants hired within a group by the total number of applicants in the group. Designate a majority group by observing which group has the greatest selection rate. Divide the selection rate for each group by the selection rate of the majority group to calculate the impact ratio. Remember, majority is defined as the group with the highest selection rate. Analyze the selection rates for variance. If the impact ratio is less than 80 percent, there is a violation of the four-fifths rule. Warnings This ratio is vulnerable to error, especially if the sampling group is small. What a Four-Function Calculator Does A four-function calculator typically performs the four most basic operations of math. It can: Add Subtract Multiply Divide Depending on the complexity of the operation, a four-function calculator can be limiting. Since it might not be able to display many digits on its screen, it can be limited in terms of the size of numbers it can add. It's also not able to perform operations that would produce imaginary numbers. When You Can Use a Four-Function Calculator There are many instances in life when a four-function calculator can come in handy. You might find that you use one when creating your household budget, when measuring for furniture and deciding what will fit in your home or in a particular room, or when figuring out how to split a restaurant check with friends. If you're a student, there might be times when you are allowed to use a four-function calculator in class or on exams. Some standardized tests allow students to use simple calculators on certain parts of an exam. Students who have certain learning disabilities might be allowed to use a four-function calculator during exam sections that usually forbid the use of a calculator. Limitations of a Four-Function Calculator While a four-function calculator can perform basic addition, subtraction, division and multiplication, it can't perform more complex operations such as calculating logarithms or performing trigonometry. Usually, the display on a four-function calculator is small, allowing for a single line of numbers. Meanwhile, the displays on other types of calculators can be much larger, allowing you to input more complex equations or to display images and graphs. Additional Features You Might Find on a Four-Function Calculator The most basic of four-function calculators will let you perform the four basic mathematical operations. But some simple calculators have a few more bells and whistles. For example, it's not uncommon for a four-function calculator to also be able to calculate the square root of a number. Many models also have a "%" button that lets you work with percents, rather than inputting the number as a decimal. Other Types of Calculators If you only need a calculator for day-to-day, basic math problems, a four-function calculator will most likely meet your needs. You most likely won't even have to purchase a separate machine, as many cell or smartphones and computer operating systems include a simple calculator. But if you're taking an algebra course or are in a higher-level math course, you might be on the lookout for a calculator that can do a bit more than basic math. A scientific calculator is a device designed to perform mathematical, scientific and engineering functions. It usually has a memory setting and can store information about equations. A graphing calculator is even more complex and advanced than a scientific calculator. It usually has a relatively large screen, which allows it to display graphs and charts. Typically, a graphic calculator can come in handy if you're taking a math class such as calculus or are in a field that requires you to solve advanced equations regularly.

how do you calculate put call ratio