University of Djillali Bounaama
Subject: finance and it scope
Level: 3l
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Lesson Structure:

Financial ratios
Financial institutions
Money market vs. capital market
Stocks vs. shares
Asset management

Financial ratios

A financial ratio can be well defined as a comparative magnitude of two selected statistical values taken from the financial statements of a business enterprise. Being used in accounting very often, numerous standard ratios are used for evaluation of the overall financial condition of an organization or corporation. These financial ratios might be used by the managers of a firm, creditors of a firm, and current and potential shareholders of a firm. The main sources used to calculate financial ratio include balance sheet, cash flow statement, income statement, and the statement of retained earnings. The data of these sources is based on the accounting methods and standards used by the organization.
Financial ratios can be categorized as follows:

- Liquidity ratios

The liquidity ratio is helpful in quantifying the availability of cash in a business to pay back its debts.

- Activity ratios (Asset management ratios)

The activity ratio is helpful in quantifying the time taken by a firm to convert its non-cash assets into cash-assets.

- Debt ratios

The debt ratio is helpful in assessing the ability of a firm to pay back long-term debts.

- Profitability ratios

The profitability ratio is helpful in quantifying the use of a firm's assets and its control over the expenses thereby producing a desirable return rate.

- Market ratios

The market ratio helps in quantifying the response of investor on owning and the cost of issuing stock of a company.

Most Important Financial Ratios

The most cost commonly and top five ratios used in the financial field include:

1. Debt-to-Equity Ratio

The debt-to-equity ratio, is a quantification of a firm's financial leverage estimated by dividing the total liabilities by stockholders' equity. This ratio indicates the proportion of equity and debt used by the company to finance its assets.
The formula used to compute this ratio is
Total Liabilities / Shareholders Equity

2. Current Ratio

The current ratio is a liquidity ratio which estimates the ability of a company to pay back short-term obligations. This ratio is also known as cash asset ratio, cash ratio, and liquidity ratio. A higher current ratio indicates the higher capability of a company to pay back its debts. The formula used for computing current ratio is:
Current Assets / Current Liabilities

3. Quick Ratio

The quick ratio, also referred as the "acid test ratio" or the "quick assets ratio", this ratio is a gauge of the short term liquidity of a firm. The quick ratio is helpful in measuring a company's short term debts with its most liquid assets.
The formula used for computing quick ratio is:
(Current Assets – Inventories)/ Current Liabilities
A higher quick ratio indicates the better position of a company.

4. Return on Equity (ROE)

The return on equity is the amount of net income returned as a percentage of shareholders equity. Moreover, the return on equity estimates the profitability of a corporation by revealing the amount of profit generated by a company with the money invested by the shareholders. Also, the return on equity ratio is expressed as a percentage and is computed as:

Net Income/Shareholder's Equity

The return on equity ratio is also referred as “return on net worth” (RONW).

5. Net Profit Margin

The net profit margin is a number which indicates the efficiency of a company at its cost control. A higher net profit margin shows more efficiency of the company at converting its revenue into actual profit. This ratio is a good way of making comparisons between companies in the same industry, for such companies are often subject to similar business conditions.

The formula for computing the Net Profit Margin is:

Net Profit / Net Sales

We calculated average ratios based on SEC data .

Financial institutions

Financial institutions are part of the financial system and are the financial markets of this system and regulate their operations, Control, and control. Financial institutions are similar in many respects to other business organizations, It uses inputs to produce production units of financial services provided, As well as a site in which it operates, and an organizational framework that operates through its members and other elements of production.

The importance of financial institutions:

Financial institutions facilitate payments between economic units against their liabilities, As well as by obtaining savers' funds against their own liabilities, and then by lending to others, They as well as their mediation between borrowers and savers are selling rights to themselves to depositors, And then buy rights on the borrowers from them mainly, and sell these institutions and buy future rights and this activity in the completion of payments and promises to make future payments, Which is very important in the modern economy, and that this mediation offers these economies many benefits.

Advantages of financial institutions:

Financial institutions provide many advantages that can be summarized as follows:

1-Creating the stock market issued by economic units and various institutions.

2-Risk distribution

3-Reducing the cost of conducting financial transactions.

4-Compilation of small savings

Types of financial institutions

Financial institutions are divided into several types:

1- Commercial banks:. Commercial banks are the banks that accept deposits paid on demand or after specified dates and then deposit these deposits in their operations.

2-Savings banks: It helps in mobilizing and mobilizing financial resources and employing them in investment projects by collecting large amounts of savers' funds and investing them in various investment fields.

3-Insurance companies: Insurance companies are another type of financial intermediaries that contribute to the provision of financial resources, and development of savings awareness.

4-Microfinance Institutions: Are institutions that provide financial services to the poor, most of which are institutions based on microcredit programs, and accept the deposit of micro amounts from their clients.

Money Market vs. Capital Market

What is the Money Market?

Money market basically refers to a section of the financial market where financial instruments with high liquidity and short-term maturities are traded. Money market has become a component of the financial market for buying and selling of securities of short-term maturities, of one year or less, such as treasury bills and commercial papers.

What is Capital Market?

A kind of financial market where the company or government securities are generated and patronised for the intention of establishing long-term finance to coincide the capital necessary is called as Capital Market.

Top 10 Difference between Money Market and Capital Market

Money Market	**Capital Market**
Definition	
A random course of financial institutions, bill brokers, money dealers, banks, etc., wherein dealing on short-term financial tools are being settled is referred to as Money	A kind of financial market where the company or government securities are generated and patronised for the intention of establishing long-term finance to coincide with the capital necessary is called as Capital

Market.	Market.
Market Nature	
Money markets are informal in nature.	Capital markets are formal in nature.
Instruments involved	
Commercial Papers, Treasury Certificate of Deposit, Bills, Trade Credit, etc.	Bonds, Debentures, Shares, Asset Secularisation, Retained Earnings, Euro Issues, etc.
Investor Types	
Commercial banks, non-financial institutions, central bank, chit funds etc.	Stockbrokers, insurance companies, Commercial banks, underwriters etc.
Market Liquidity	
Money markets are highly liquid.	Capital markets are comparatively less liquid.
Risk Involved	
Money markets have low risk.	Capital markets are riskier in comparison to money markets.
Maturity of Instruments	
Instruments mature within a year.	Instruments take longer time to attain maturity
Purpose served	
To achieve short term credit requirements of the trade.	To achieve long term credit requirements of the trade.

Functions served	
Increasing liquidity of funds in the economy	Stabilising economy by Increase in savings
Return on investment achieved	
ROI is usually low in money market	ROI is comparatively high in capital market

Stocks vs Shares

STOCKS: Whenever a company plans to raise capital, it can issue stocks or it can try to borrow some money. They are the securities that represent a part of ownership in the corporation. Some stocks pay monthly, quarterly or annual dividends, which are a portion of the issuing company's earnings. **SHARES:** Whenever a company issues stock, each of the units of a stock is considered a share. Therefore, one share of stock is equal to one unit of ownership in a given company. Shares are the owner of one particular company.

Stocks vs Shares

- Stocks are the collection of shares of multiple companies or are a collection of shares of a single company.
- Shares are the smallest unit by which the ownership of any company or anybody is ascertained.
- A stock is a collection of something or a collection of shares. Shares are a part of something bigger i.e. the stocks.

- Shares represent the proportion of ownership in the company while stock is a simple aggregation of shares in a company.
- Shares are issued at par, discount or at a premium. It is known as stock when the shares of a member are converted into one fund. It is when any company gets listed it is basically changing its shares into stocks.

Stocks vs Shares are both important in their own terms. And they both Stocks vs Shares help in determining the ownership in the company or companies in their respective cases. They both Stocks vs Shares are used interchangeably when they talk about company ownership and stock markets.

What is an asset manager?

Quite simply, an asset manager monitors and maintains things of value within a business. By developing an effective asset management plan, they are able to develop, operate, maintain, upgrade and dispose of assets cost effectively. To do this, they assist in all aspects of the administrative, financial, capital and operations of the assets within their portfolio. An asset manager therefore needs a good grasp of both the strategic and operational processes within a company.

Alternatively, asset management companies are external specialists brought in to manage the assets on behalf of a business. They are a team of professionals that will look at the assets, cash flow and finances available to a company. From this, they can then determine how a company should reinvest to maximise the profitability of the business.

What are the benefits of asset management?

In order for an asset management plan to be effective, it needs to be supported by an asset management system with the capabilities to monitor and maintain things of value – both tangible and intangible. They are similar to fleet management systems, but can be implemented on a much wider business scale.A correct and implemented asset management software can:

1- Keep a track of all assets

2- assets from different locations

3- Provide an opportunity to plan against financial, operational and legal risk

4- Define the service levels

5-Organise the asset portfolio

6- Create a more efficient operation with the ability to track performance

7- Improve time management

8-Measure and monitor life-cycle costs

9- Promote the economic stability and growth of your company

Developing an asset management plan

1. Set the objectives :Ask yourself, what is the business trying to achieve and how should objectives in the asset management plan help achieve this? When setting objectives, always make sure that they are SMART – Specific, Measurable, Achievable, Realistic and Time-bound. They need to be aligned with the company mission, vision and goals.

2. Create a strategy: Objectives can only be met if you have a strategy and action in place to meet them!At this stage, it is a good opportunity to carry out an audit of your assets and create an up to date inventory. When reviewing your assets, consider the following questions:

3. Manage risk :There are four main reasons why an asset can fail:

A failure to meet demand

A failure in levels of service

An economic failure – the operation costs exceed the cost of the asset

End of life – it ceases to function

Once this task is complete, the level of risk can then be measured against the impact on the rest of the business. The asset management plan can then prioritise between those assets that have a higher detrimental risk to the business so that they can be acted upon first – planning ahead to prevent that failure.

4. Monitor and review

The final step in the process but once an asset management plan is operational, this process is live throughout the asset lifecycle. Such a practice permits you to monitor the efficiency and cost effectiveness of your assets. Accurate decisions can be made against your assets such as updating or amending maintenance policies, injecting cash into upgrades or investing capital into new assets.

Effective asset management software gives a much broader, holistic overview of a business than a fleet management system alone. This in turn allows managers greater scope and transparency towards supporting growth and development across the entire business.