Fundamentals of Financial Reporting

Cheat Sheets

365

Fundamentals of Financial Reporting

BASICS OF ACCOUNTING

Basic Accounting Equation	**Assets =** Liabilities + Equity
Net income	**Net income =** Revenue – Expenses
Gross profit (income)	**Gross profit (income) =** Revenue – Cost of goods sold
Operating profit (income)	**Operating profit (income) =** **= Profit before interest and tax (PBIT) =** Gross profit – Operating expenses
Profit Before Tax (PBT)	**Profit before tax (PBT) =** PBIT – Interest expense
Net profit (income)	**Net profit (income) =** = PBT – Tax expense = = Operating profit – Interest Expense – Tax expense

365

Fundamentals of Financial Reporting

UNDERSTANDING INCOME STATEMENTS

Basic Earnings per Share (EPS)

$$\textbf{Basic EPS} = \frac{\text{Net Income - Preferred Dividends}}{\text{Weighted average number of common shares outstanding}}$$

Diluted Earnings per Share (DEPS)

$$\textbf{Diluted EPS} = \frac{\text{Adjusted income available for common shares}}{\text{Weighted average common and potential common shares outstanding}}$$

$$\textbf{Diluted EPS} = \frac{\left[\text{Net income} - \text{Preferred dividends}\right] + \left[\text{Convertible preferred dividends}\right] + \left[\text{Convertible debt interest}\right](1 - t)}{\left(\text{Weighted average shares}\right) + \left(\text{Shares from conversion of conv. pfd. shares}\right) + \left(\text{Shares from conversion of conv. debt}\right) + \left(\text{Shares issuable from stock options}\right)}$$

Gross profit margin

$$\textbf{Gross profit margin} = \frac{\text{Gross profit}}{\text{Revenue}}$$

Net profit margin

$$\textbf{Net profit margin} = \frac{\text{Net profit}}{\text{Revenue}}$$

Fundamentals of Financial Reporting

UNDERSTANDING BALANCE SHEETS

LIQUIDITY RATIOS

Current ratio	$\textbf{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$
Quick ratio	$\textbf{Quick ratio} = \frac{\text{Cash + Short-term marketable securities + Receivables}}{\text{Current liabilities}}$
Cash ratio	$\textbf{Cash ratio} = \frac{\text{Cash + Short-term marketable securities}}{\text{Current liabilities}}$

SOLVENCY RATIOS

Long-term debt-to-equity	$\textbf{Long-term debt-to-equity} = \frac{\text{Long-term debt}}{\text{Total equity}}$
Total debt-to-equity	$\textbf{Total debt-to-equity} = \frac{\text{Total debt}}{\text{Total equity}}$
Debt ratio	$\textbf{Debt ratio} = \frac{\text{Total debt}}{\text{Total assets}}$
Financial leverage	$\textbf{Financial leverage} = \frac{\text{Total assets}}{\text{Total equity}}$

365

Fundamentals of Financial Reporting

UNDERSTANDING CASH FLOW STATEMENTS

FREE CASH FLOW MEASURES

FCFF = CFO + [Int × (1 – tax rate)] – FCInv	**CFO =** Cash flow from operations **Int =** Cash interest paid **FCInv =** Fixed capital investment (net capital expenditures)
FCFF = NI + NCC + [Int × (1 – tax rate)] – FCInv - WCInv	**NI =** Net income **NCC =** Non-cash charges (depreciation and amortization) **Int =** Cash interest paid **FCInv =** Fixed capital investment (net capital expenditures) **WCInv =** Working capital investment
FCFE = CFO – FCInv + Net borrowing	**CFO =** Cash flow from operations **FCInv =** Fixed capital investment (net capital expenditures) **Net borrowing =** Debt issued – debt repaid

CASH FLOW RATIOS

PERFORMANCE RATIOS

Cash flow-to-revenue	$\text{Cash flow-to-revenue} = \dfrac{\text{Cash flow from operations}}{\text{Revenue}}$
Cash-to-income	$\text{Cash-to-income} = \dfrac{\text{Cash flow from operations}}{\text{Operating income}}$
Cash return-on-assets	$\text{Cash return-on-assets} = \dfrac{\text{Cash flow from operations}}{\text{Average total assets}}$
Cash return-on-equity	$\text{Cash return-on-equity} = \dfrac{\text{Cash flow from operations}}{\text{Average total equity}}$
Cash flow per share	$\text{Cash flow per share} = \dfrac{\text{CFO - Preferred dividends}}{\text{Weighted average number of common shares}}$

365

Fundamentals of Financial Reporting

UNDERSTANDING CASH FLOW STATEMENTS

CASH FLOW RATIOS

COVERAGE RATIOS

Debt coverage	**Debt coverage** = $\frac{\text{Cash fow from operations}}{\text{Total debt}}$
Interest coverage	**Interest coverage** = $\frac{\text{CFO + Interest paid + Taxes paid}}{\text{Interest paid}}$
Reinvestment ratio	**Reinvestment ratio** = $\frac{\text{Cash flow from operations}}{\text{Cash paid to acquire long-term assets}}$
Debt payment	**Debt payment** = $\frac{\text{Cash flow from operations}}{\text{Cash paid to repay long-term debt}}$
Dividend payment	**Dividend payment** = $\frac{\text{Cash flow from operations}}{\text{Dividends paid}}$
Investing and financing ratio	**Investing and financing ratio** = $\frac{\text{Cash flow from operations}}{\text{Cash outflows from investing and financing activities}}$

Email: team@365financialanalyst.com