CHEAT SHEET

ANALYZING FINANCIAL STATEMENTS TO MAKE INVESTMENT DECISIONS

LEARN
ACCOUNTING WITH INDY

MASTERING FINANCIAL NUMBERS

Five Main Accounts?

Assets – Future Benefit

Liabilities – Future Obligation

Shareholders' Equity – Ownership Stake

Revenues – Income Earned

Expenses – Costs Incurred, Consumed or Used

The Four Financial Statements?

Income Statement: Revenues – Expenses = Net Income

Statement of Changes in Equity: Changes in Common Shares and Retained Earnings

Balance Sheet: Assets = Liabilities + Shareholders Equity

Statement of Cash Flows: Cash inflow and outflows in Operating, Investing and Financing Activities

Financial Statement Analysis

Horizontal Analysis:

Horizontal Percentage of Base-Period Amount = Analysis-Period Amount/Base-Period Amount

Horizontal Percentage Change for Period = (Analysis-Period Amount – Prior Period Amount)/Prior-Period Amount

Vertical Analysis:

Vertical Percentage of Base Amount = Analysis Amount/Base Amount

Ratio Analysis:

Liquidity Ratios

Working Capital = Current Assets - Current Liabilities – Higher the better

Current Ratio = Current Assets/Current Liabilities – Higher the better

Receivables Turnover = Net Credit Sales/Average Gross Receivables – Higher the better

Average Collection Period = 365 Days/Receivables Turnover – Lower the better

Inventory Turnover = Cost of Goods Sold/Average Inventory – Higher the better

Days in Inventory = 365 Days/Inventory Turnover – Lower the better

Average = (Beginning Balance + Ending Balance)/2

Solvency Ratios

Debt to Total Assets = Total Liabilities/Total Assets – Lower the better

Times Interest Earned = (Net Income + Interest Expense + Income Tax Expense (EBIT))/Interest Expense – Higher the better

Profitability Ratios

Gross Profit Margin = Gross Profit/Net Sales – Higher the better

Profit Margin = Net Income/Net Sales – Higher the better

Asset Turnover = Net Sales/Average Total Assets – Higher the better

Return on Assets = Net Income/Average Total Assets – Higher the better

Return on Common Shareholders Equity = (Net Income - Preferred Dividends)/Average Common Shareholders Equity – Higher the better

Earnings Per Share = (Net Income – Preferred Dividends)/Weighted Average Number of Common Shares - Higher the better

Payout Ratio – Cash Dividends Declared/Net Income - Higher is better for investors seeking dividend income/Lower is better for investors seeking price appreciation

Average = (Beginning Balance + Ending Balance)/2

Contact **IndyFreeMaterial@gmail.com** for questions or concerns