

Income Statement Analysis

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Vertical Analysis $x / \text{total revenue} \times 100$ comparing by benchmark

Horizontal Analysis $\text{TY} - \text{LY} / \text{LY} \times 100$ increase or decrease of value year on year

Profit Margin $\frac{\text{net income} / \text{net sales revenue}}{\text{EBIT}^* (1 - \text{tax rate}) / \text{net sales}}$ measures profitability, percentage of sales that remains as net income

Quality of Income $\frac{\text{cash flow from operating activities (NI + dep + change in current assets + change in STL) / net income} > 1$ compares the cash flow earned to net income declared

Fixed Asset Turnover $\frac{\text{net sales revenue} / \text{average (BB+EB/2) net fixed assets (assets-acc. depreciation)}}{\text{shows the ability of the firm to use its fixed assets to generate revenue}}$ measures productivity

Income Statement Analysis (cont)

ROE $\frac{\text{net income} / \text{average share-olders equity (CS, RE, TS, APIC)}}{\text{how much are you getting back for the amount investors are giving it to you}}$

Asset Turnover $\frac{\text{net sales}}{\text{average assets}}$

ROA $\frac{\text{profit margin} \times \text{asset turnover}}{\text{EBIT}^* (1 - \text{tax rate}) / \text{average assets}}$ combines profit-ability and produc-tivity

Financial Leverage $\frac{\text{ROE} - \text{ROA} \%}{\text{should be positive (since it indicates that company creates a bigger return than the cost of borrowing)}}$

ROCE $\frac{\text{EBIT}^* (1 - \text{TAX}) / \text{capital employed}}{\text{creates value when return on capital employed is greater than the expected return on investment (total assets-STL) or (LTL+E-quity)}}$

Liquidity Analysis

Current Ratio $\frac{\text{current assets} / \text{current liabilities} (< 1 \text{ in hospit-ality})}$ ability of the firm to cover it's short term debts

Quick Ratio $\frac{\text{cash} + \text{cash equiv} + \text{receivables} / \text{CL}}$ measures cash available to pay short term debts

Cash Ratio

