

### Accounting Standards



### Shareholder's Ratios

18. Quality of earnings =  $\frac{\text{Cash flow from operating activities}}{\text{Net income}}$
19. Earnings per share (EPS) =  $\frac{(\text{Net income} - \text{Preferred dividends})}{\text{Average number of common shares outstanding}}$
20. Return on common equity =  $\frac{\text{Net income}}{\text{Average common equity}}$
21. Dividend yield ratio =  $\frac{\text{Dividends per common share}}{\text{Closing market price per share for the year}}$
22. Dividend payout ratio =  $\frac{\text{Common dividends paid}}{\text{Net income}}$
23. Price/earnings ratio =  $\frac{\text{Stock market share price}}{\text{Earnings per share}}$

### Effects of Inventory Errors

|      | Assets             | Liabilities | Equity             | Revenues  | Expenses            | Income              |
|------|--------------------|-------------|--------------------|-----------|---------------------|---------------------|
| 2017 | \$6,000 overstated | No effect   | \$6,000 overstated | No effect | \$6,000 understated | \$6,000 overstated  |
| 2018 | No effect          | No effect   | No effect          | No effect | \$6,000 overstated  | \$6,000 understated |

Yr 1. Over: A, SE, NI, RE, GP. Under: Exp

Yr 2. Over: Inv(s), Exp, COGS. Under: NI, GP

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