

Accounting Standards



Shareholder's Ratios

- Quality of earnings = $\frac{\text{Cash flow from operating activities}}{\text{Net income}}$
- Earnings per share (EPS) = $\frac{(\text{Net income} - \text{Preferred dividends})}{\text{Average number of common shares outstanding}}$
- Return on common equity = $\frac{\text{Net income}}{\text{Average common equity}}$
- Dividend yield ratio = $\frac{\text{Dividends per common share}}{\text{Closing market price per share for the year}}$
- Dividend payout ratio = $\frac{\text{Common dividends paid}}{\text{Net income}}$
- 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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By **BurkAmy**
cheatography.com/burkamy/

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