

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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