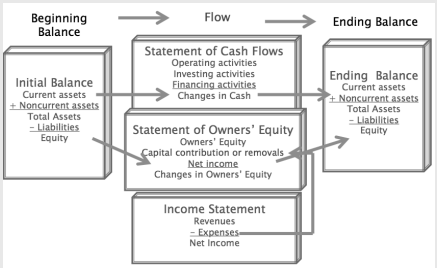
Cheatography

Financial Analysis Cheat Sheet

by O (kiol98) via cheatography.com/24251/cs/5924/

Links Between Financial Statements



Liquidity Ratios

Current Ratio = Current Assets / Current Liabilities

Ability of the firm to cover its short term debts

Quick Ratio = Cash + cash equiv + receivables / Curent Liabilities

Ability of the firm to cover its immediate short term debts

Cash Ratio = Cash + Cash Equivalents / Curent Liabilities

Measures cash available to pay short term debts

Working capital :

Margin of safety to pay current obligations

Current assets – current liabilities

FCF

Free Cash Flow for a project or a firm:

= Earnings Before Interest and Taxes (EBIT)

x (1- tax rate)

+ Depreciation

- Changes in working capital (without cash)

- Replacement Investments (Capex)

(+ Receipt from asset sale)

(Note: you can also get free cash flows from operating cash flows + investing cash flows – interest (1-tax%) and adjustment for dividends).

Solvency Ratios

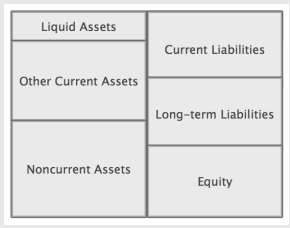
Times Interest Earned = Net Income + Interest Exp. +Tax Exp. / Interest Exp.

Shows the firm's ability to pay the cost of financing

Debt-to-Equity Ratio = Total Liabilities / Shareholder's Equity

Proportion of debt for each "dollar" invested by shareholders

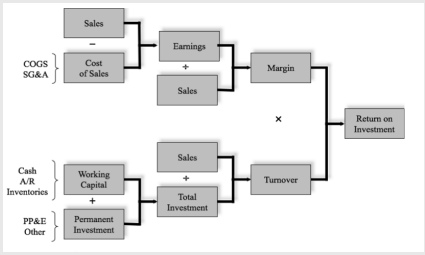
Balance Sheet



Income Statement

Profit Margin =	Net Income / Sales Revenue	*% of each "dollar" of sales that remains as net income.*
Quality of Income =	Cash Flow from Operating Activities / Net Income	*Compares the cash flows earned (real) to net income declared (accounting principles!)*
Fixed Assets Turnover =	Net Sales Revenue / Average Net Fixed Assets	*Shows the ability of the firm to use its fixed assets to generate revenue.*
Return on Equity =	Net Income / Average Shareholders' Equity	*How much income was earned for every "dollar" invested by owners?*

ROA (Dupont Chart)



SCF

Cash flows from operating activities	Net Income + Depreciation + Changes in ST balance sheet accounts
+ Cash flows from investing activities	Purchase and Sale of Fixed Assets
+Cash flows from financing activities	Increase in Capital Contribution or Debt – Debt Reimbursement – Distribution to Shareholders (Treasury Stock or Dividends)
= Changes in Cash	
+ Cash, beginning balance	
= Cash, ending balance	

Structure of Income Statement

Income Statement (summary of the operating results for a period)

Revenues or Sales
– Operating Expenses
= Operating Income
– Functional Expenses (Undistributed Expenses)
= Gross Operating Profit (GOP)
– Fixed Charges
= Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA)

– Depreciation and Amortization Expenses
= Earnings Before Interest and Tax (EBIT) or Net Operating Income
– Interest Expense
= Earnings Before Tax (EBT)
– Income Tax
= Net Income

Return on Asset Ratios

Profit Margin = EBIT x (1-tax) / Net Sales

Asset Turnover = Net Sales / Average Assets

ROA

= Profit margin x Asset turnover

= EBIT x (1-tax) / Average Assets

ROCE (return on capital employed) = EBIT x (1 – tax) / Capital Employed

Capital employed

= Total assets – short term liabilities OR

= Long term liabilities + Equity

Financial leverage: ROE – ROA

Shows the relationship between the return on assets (all forms of funding) and the return on equity (only shareholder's investment).

Should be positive (indicates that the company creates a bigger return than the cost of borrowing).

By **O** (kiol98)

cheatography.com/kiol98/

Published 31st October, 2015.

Last updated 1st November, 2015.

Return on Asset Ratios (cont)

When return on capital employed is more than the expected return on investment => Value Creation

Investor Ratios

EPS = Net Income* /Average Number of Shares Outstanding For The Period
Measures return on investment for shareholders.
*If there are preferred dividends, the amount is subtracted from net income.
Price-to-earnings ratio = Current Market Price Per Share / Earnings Per Share
Measures the relationship between the current share price and the earnings per share. Indicates market expectations.

By **O** (kiol98)
cheatography.com/kiol98/

Published 31st October, 2015.
Last updated 1st November, 2015.