

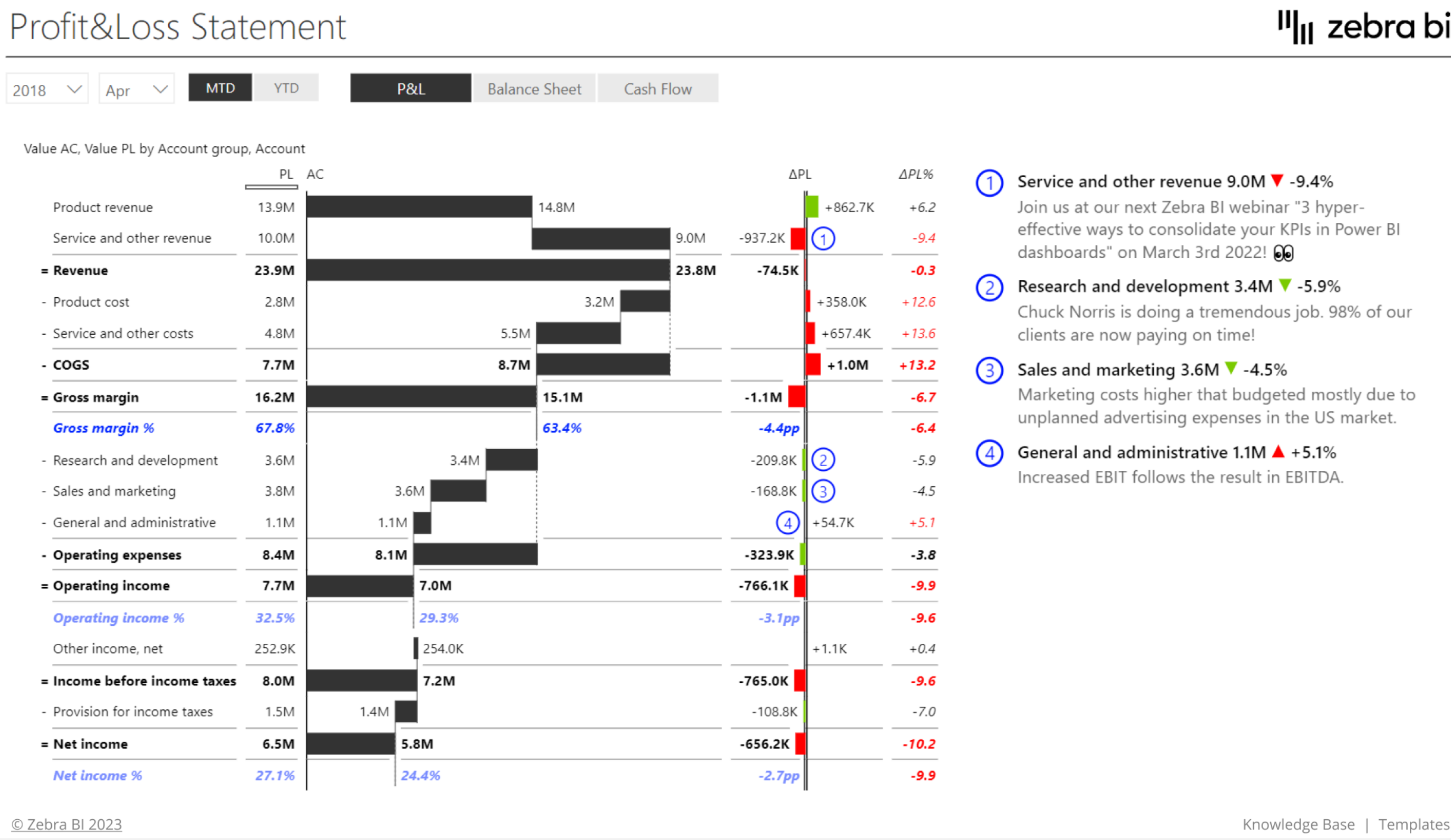
The 3 Financial Statements

Income Statement

or Profit & Loss (P&L) statement

- Shows:** Revenues, expenses, and profit/loss – bottom line for a specific period.
- Formula:** Income accounts – expense accounts = Net income
- Main items:** Revenue, COGS, Gross Profit, Operating Expenses (OPEX), Non-operating expenses and income, Financial items and income, Taxes, Net income.

Zebra Tip: P&L can be recorded on the cash basis (based on cash coming in/out) or the accruals basis (based on when a transaction occurs vs. when payment is received or made).

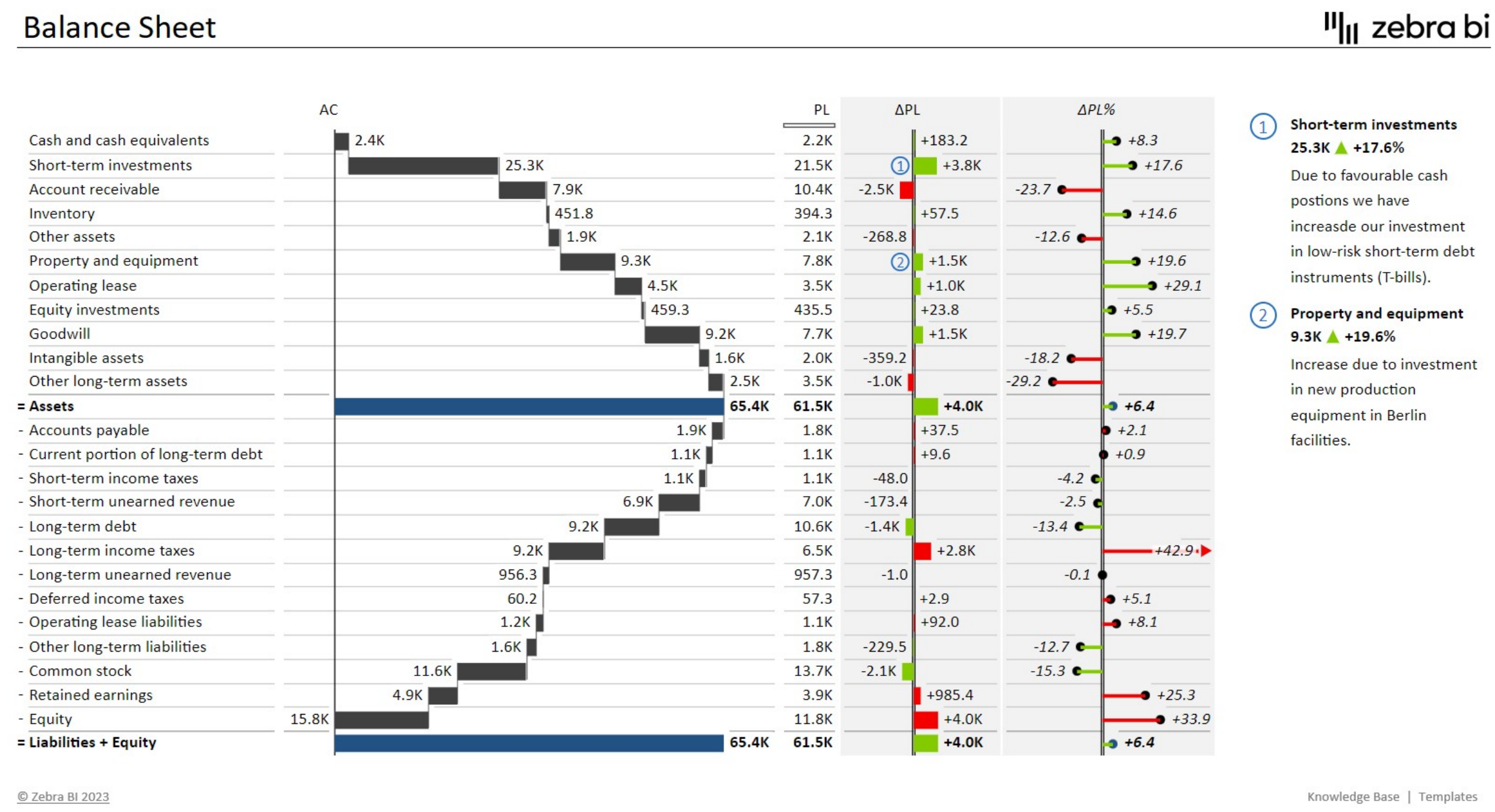


Balance sheet

(BS)

- Provides:** Information on a resource (assets) and its sources (liabilities) at a specific date (a snapshot).
- Formula:** Assets = Liabilities + Equity
- Main items:**
 - Assets:** Fixed asset (Property, Plant, Equipment), Current assets (Inventories, Account Receivables, Accrued income and deferred expense), Intangibles (Patents, Goodwill, Software)
 - Liabilities:** Long-term liabilities (LT financial liabilities), Short term-liabilities (Account Payables, Accrued expenses and deferred income, ST financial liabilities)
 - Equity:** Funding from owners, Retained earnings

Zebra Tip: Your retained earnings balance comes from last period's balance + this period's net income from P&L.

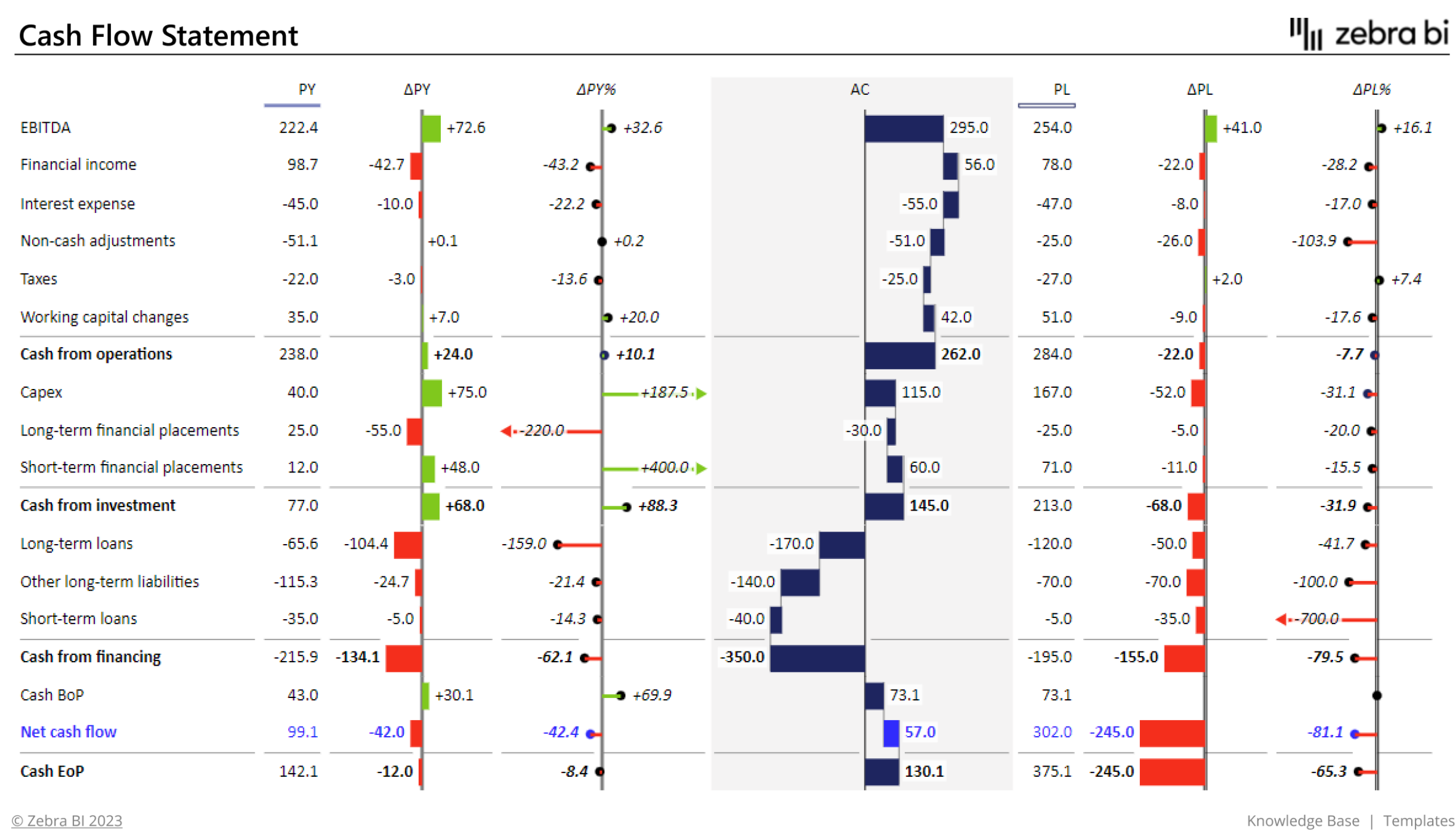


Cash Flow Statement

(CF)

- Shows:** How cash entered (inflows) and exited (outflows) during a specific period.
- Formula:** Cash at beginning of period + cash from operations + cash from investing activities + cash from financing activities = Cash at end of period
- Main items:**
 - Cash from operating activities (Net income + non-cash items + change in current assets and liabilities/working capital)
 - Cash from investing activities (Purchases or sales of assets, loans made to vendors or received from customers, or any payments related to mergers and acquisitions)
 - Cash from financing activities (Includes the sources of cash from investors and banks, as well as the way cash is paid to shareholders)

Zebra Tip: CF statement can be prepared using direct or indirect method (calculated from P&L and BS).



Glossary

of time abbreviations

- MTD – month to date
- SM – single month
- YTD – year to date
- YEND – year-end
- AC – actuals
- FC – forecast
- PY – previous year (actuals – 1 year)
- PPY – previous previous year (actuals – 2 years)
- BOP – beginning of period
- LT – Long-term
- ST – Short-term
- LTM – Last twelve months
- YTG – year to go
- PL – plan
- EOP – end of period

Cash flow

ratios and measures

Operating Cash Flow: Net Income + D&A + Other Non-Cash items – Changes in Working Capital – CapEx
A measure of cash inflows and outflows from primary business activities.

Free Cash Flow: Operating Cash Flow – Capital Expenditures
Measures cash flow available for financing and investment activities.

Cash Conversion Cycle: DIO + DSO – DPO
Expresses the time (measured in days) that it takes for a company to convert its investments in inventory and other resources into cash flows from sales.

Present Value: $CF/(1+r)^t$, where CF is cash flow, r is the discount rate, and t is the number of periods.
Measures the present value of a cash flow in the future.

Future Value: $CF * (1+r)^t$, where CF is cash flow, r is the discount rate, and t is the number of periods.
Measures the future value of a cash flow.

Payback Period: Initial investment/Annual Cash Flow
The amount of time (usually in years) it takes to recover an initial investment.

Profitability/P&L

ratios and measures

Gross Profit: Revenue – Cost of Goods Sold (COGS)
Profit a business makes after subtracting costs related to manufacturing and selling its products or services.

Gross Profit margin: Gross Profit/Revenue
Percentage of Revenue that exceeds the COGS.

OPEX as % of revenue: OPEX/Revenue
Costs expressed as percentage of Revenue to track your cost structure.

EBITDA: Gross profit – OPEX
Earnings before interest, taxes and D&A (depreciation and amortization).

Profitability/P&L

ratios and measures (Cont.)

Operating profit: EBITDA – D&A (depreciation and amortization)
Profit from core business functions for a given period, excluding the deduction of interest and taxes.

Operating profit margin: Operating profit/Revenue
Percentage of Revenue that exceeds all expenses for core business functions.

Net income: Total Revenues – Total Expenses

Net income margin: Percentage of Revenue that remains after deducting all expenses

Return on investment (ROI): Net income/Total investment
The return on capital invested.

Return on equity (ROE): Net Income/Shareholders' Equity
The amount of net income a company generates in relation to its equity.

Return on assets (ROA): Net Income/Total Assets
The amount of net income a company generates in relations to its total assets.

Earnings per share (EPS): Net income/Total Shares Outstanding
The portion of profit allocated to each outstanding share.

Price-to-Earnings (P/E): Price per share/EPS
Relationship between stock price and earnings per share.

Balance sheet

ratios and measures

Debt-to-Equity: Total Debt/Shareholders' Equity
It is a measure of the degree to which a company is financing its operations with debt rather than its own resources.

Debt-to-Assets: Total Debt/Total Assets
How much debt a company owns compared to its assets.

Balance sheet

ratios and measures (Cont.)

Equity Multiplier: Total Assets/Shareholders' Equity
Measures how much of a company's assets are financed through stockholders' equity.

Current Ratio: Current Assets / Current Liabilities
Measures company's ability to pay ST obligations.

Quick Ratio: (Cash and cash equivalents + marketable securities + Account Receivables)/Current Liabilities
Indicator of a company's ST liquidity position and measures the ability to meet its ST obligations with its most liquid assets.

Cash Ratio: Cash and cash equivalents/Current Liabilities
A liquidity measure that shows the ability to cover its ST obligations using only cash and cash equivalents.

Working Capital: Current Assets – Current Liabilities
A measure of a company's liquidity and ST financial health.

Days Inventory Outstanding (DIO): Average Inventory/COGS * Number of days
Average number of days that a company holds its inventory before selling it.

Days Sales Outstanding (DSO): Average Account Receivable/Revenue * Number of days
The average number of days it takes a company to receive payment for a sale.

Days Payables Outstanding (DPO): Average Account Payables * Number of days / COGS
The average number of days a company needs to pay its bills and obligations.

Net debt: Total Financial Liabilities – Cash and cash equivalents
Metric used to determine how well a company can pay all its debts if they were due immediately.

Net debt to EBITDA: Net debt / EBITDA
Shows how many years it would take for a company to pay back its debt if net debt and EBITDA are held constant.

CapEx: Capital Expenditure are funds used by a company to acquire, upgrade, and maintain physical assets such as property, plants, buildings, technology, or equipment.

Examples of Financial Statement Accounts

Revenue

(top line)

- Sales revenue:** This is the revenue generated from the sale of goods or services to customers.
- Rental revenue:** This is the revenue generated from renting out a property, such as an apartment or commercial space.
- Advertising revenue:** This is the revenue generated from displaying ads on a website, app, or other media platform.
- Subscription revenue:** This is the revenue generated from selling subscriptions to a service or product, such as a streaming service.
- Licensing revenue:** This is the revenue generated from licensing intellectual property, such as patents, trademarks, or copyrights.
- Royalty revenue:** This is the revenue generated from the use of an asset, such as a song or book, by another party in exchange for a fee or percentage of sales.
- Commission revenue:** This is the revenue generated from earning a commission on sales made by others, such as a real estate agent or affiliate marketer.
- Consulting revenue:** This is the revenue generated from providing consulting services to businesses or individuals.
- Interest revenue:** This is the revenue generated from interest payments on loans or investments, such as savings accounts or bonds.
- SaaS revenue:** This is the revenue generated from providing Software as a Service, such as cloud-based software applications or online tools.

Liabilities

- Accounts Payable:** Money owed by a company to its suppliers or vendors for goods or services received but not yet paid for.
- Loans Payable:** Money borrowed by a company that must be repaid according to agreed-upon terms.
- Accrued Expenses:** Expenses that have been incurred but not yet paid.
- Deferred Revenue:** Money received from customers for goods or services that have not yet been delivered or performed.
- Lease Obligations:** Obligations under lease agreements for equipment, property, or vehicles.
- Bonds Payable:** Long-term debt securities issued by a company with a fixed interest rate and maturity date.
- Pension and Benefit Obligations:** Obligations to pay pensions and other employee benefits, such as health insurance or retirement plans.
- Income Taxes Payable:** Taxes owed to the government on income earned during a specific period.
- Customer Deposits:** Money received from customers as a deposit for goods or services that will be delivered or performed in the future.
- Warranty Liabilities:** Liabilities set aside to cover potential costs associated with warranties provided to customers.

Assets

- Cash:** Money held in bank accounts or in physical form.
- Accounts receivable:** Money owed to the company by customers who have not yet paid for goods or services provided.
- Inventory:** The value of goods held for sale or used in the production of goods for sale.
- Property, plant, and equipment:** The value of assets used in the production of goods or services, such as buildings, machinery, and vehicles.
- Investments:** The value of investments made by the company, such as stocks, bonds, and other securities.
- Intellectual property:** The value of intangible assets owned by the company, such as patents, trademarks, and copyrights.
- Goodwill:** The value of the company's reputation, brand recognition, and other intangible assets that add value to the business.
- Prepaid expenses:** Payments made in advance for goods or services that have not yet been received, such as prepaid insurance premiums or rent.
- Land:** The value of land owned by the company for use in operations or investment purposes.
- Loans receivable:** The value of loans made by the company to other parties, such as customers or partners.