Types of Questions
Discounted cash flows –debt (expedition problem)
Discounted cash flows – investment (contribution margin, jdc)
Accrual Basis Income (journal entries, nursery)
Financial statements (direc t or indirect)

Gross Profit (Gross Margin) = Sales Revenue – Cost of Goods Sold
Gross Profit (Gross Margin) Percentage = Gross Profit / Sales Revenue
Operating Income = Gross Margin = Operating Expenses + Other Net Operating Revenues
Operating Income Ratio = Operating Income / Sales Revenue
Ability to meet debt payments: **Times Interest Earned** = Income before Interest and Taxes / Interest Expense
Cost Behavior = how costs change as sales volume changes. Common model is to classify as Fixed and Variable Costs
Fixed Costs = do not change as sales volume changes
Variable Costs = costs that change proportionately as sales volume changes
Ability to pay current liabilities with current assets, aka liquidity: **Current Ratio** = Current Assets / Current Liabilities
Ability to meet immediate debt: **Quick Ratio** = Monetary Current Assets / Current Liabilities
number of dollars of sales generated during the year by each dollar of assets: **Asset turnover** = Sales / Average Total Assets
Extent to which the company is financed with borrowed resources (debt) and with investor resources (equity): **Debt-equity ratio** = Total Debt (or long term debt) / Stockholder's Equity
Percentage of total assets financed through debt of any kind: **Debt Ratio** = Total Liabilities / Total Assets
Proportion of assets financed by the direct and indirect investment of owners: **Equity Ratio** = Total Stockholders' Equity / Total Assets
Compares what the company earns to the amount it has invested: **Return on assets (ROA**) = Net Income / Total Assets
What the stockholders earn on their investment in the company: **Return on Equity** = Net Income / Total Stockholders' Equity
Difference between ROA and ROE**: Leverage** = Average Total Assets / Average Total Stockholders Equity
ROA = Profit Margin Ratio x Asset Turnover
ROE = Profit Margin Ratio x Asset Turnover x Leverage
Net income expressed on a per-share, basis**: Earnings per share** = Net income / Weighted number of shares outstanding
How the market values the firm's earnings: **Price-earnings ratio** = Market price per share / Earnings per share
Percentage of net income paid out to the stockholders as dividends: **Dividend payout** ratio = Cash dividends / Net income

Reasons for purchasing outstanding stock
- Employee Compensation plans – stock issued to employees in exchange for services
- Improve earnings per share – company repurchases shares, outstanding shares decreases allocating more earnings to each remaining share
- Corporate Acquisitions – company exchanges shares in exchange for shares of another company
- Stock Price – company may increase the market price of its stock by purchasing outstanding shares, thus reducing the supply

Reasons for issuing stock dividends
- Companies may wish to retain its cash yet still appear to offer some type of dividend to its shareholders
- Companies may also want to reduce the market price per share to make stock more attractive to small investors

Income Statement Accounts
Operating section: Revenue, Expenses, Cost of Goods Sold / Cost of Sales, Selling expenses, General and Administrative expenses, Depreciation / Amortization, Research and Develpment Expenses
Non-Operating section: Other revenues or gains, other expenses or losses, finance costs, income tax expense

Balance Sheet Accounts
Current assets: cash and cash equivalents, inventories, accounts receivable and prepaid expenses
Non-current assets: property (plant and equipment), investment property, intangible assets, financial assets, investments, biological assets
Liabilities: accounts payable, provisions, financial liabilities, liabilities and assets for current tax, deferred tax liabilities and assets, unearned revenue for services paid for by customers and not yet provided
Equity: Issued capital and reserves attributable to equity holders of the parent company (controlling interest), non-controlling interest in equity

Amortization table

Payment Date	Beginning Balance	Interest	Cash Payment	Change in Principal	Ending Balance
	Starting	(strating)(rate)	Standard	(payment – interest)	(starting) – (change in principal)

List of Revenues and Expenses for cash income model
Revenues
Cash from sales
NOT sales revenue on cash income
Expenses
Salaries, utility bills, rent, taxes, depreciation, insurance
Not cash paid for equipment or investment
Revenue – Expenses = Net Income

Cash from customers = accts receivable past yr + sales = accts receivable current yr

Notes for Accrual Journal Entries
1 Prepaid insurance-cash, insurance expense-prepaid insurance, 2 cash-notes payable, interest expense-cash, interest expense-interest payable, 3 supplies inventory-cash, supplies expense-supplies inventory, 4 cash-unearned revenue, unearned revenue-revenue

Assets- cash, prepaid insurance, supplies
Liabilities- notes payable, interest payable, unearned revenue

Direct Statement of Cash Flows
Cash from operating activities:
Cash from customers
Cash to suppliers
Cash for administrative
Cash for insurance
Cash for salaries
Cash for selling
Cash for interest
Cash for income taxes
Cash From Operating Activities___________

Cash from Operating Activities:		
Cash from customers	140,000	
Cash to suppliers	(57,500)	
Cash for rent	(5,000)	
Cash for salaries	0	
Cash for supplies	(10,000)	
Cash for interest	0	
Cash for income tax	0	
Cash from operating activities	------------	67,500
Cash from Investing Activities		
Cash paid for equipment	($42,000)	
Cash From investing activities		(42,000)
Cash from Financing Activities		
Cash from issue of stock	$75,000	
Cash from bank loan	25,000	
Cash from financing activities		100,000
Net Change in Cash		125,500
Beginning balance in cash		-
Ending balance in cash		**$125,000**

Find NI for Indirect		
Sales Revenue		750,000
-CGS		360,000
Gross Margin		390,000
Less Operating Expenses		
Wages	(280,000)	
Depreciation	(43,000)	
Other	(15,000)	338,000
Operating Income		52,000
+ Interest Revenue		6,000
Net Income		58,000

Indirect Statement of Cash flows (only balance sheet accounts)

Cash From Operating Activities

Net Income
+Bad Debt Expense
+Depreciation Expense
Change in Accounts Receivable
Change in Inventory
Change in taxes receivable
Change in prepaid insurance
Change in accounts payable
Change in salaries payable
Change in interest payable

Cash from operating activities_______________

Cash From Investing Activities

Cash paid for Equipment

Notes for indirect:

Change in Account: Ending Balance – Beginning Balance
Add back depreciation

Increase liability → add
Decrease liability → subtract
Increase asset → subtract
Decrease asset → add

Cash from Customers
Sales
+ Beginning Accounts Receivable
-Ending Accounts Receivable

Cash paid for interest
Interest expense
+Beginning interest payable
-Ending interest payable

Cash paid to suppliers
Cost of Goods Sold
-Beginning Inventory
+Ending Inventory
+Beginning Accounts Payable
-Ending Accounts Payable

Cash paid for Rent
Rent Expense
-Beginning Prepaid Rent
+Ending Prepaid Rent

Cash Paid for Supplies
Supply Expense
-Beginning Supplies Inventory
+Ending Supplies Inventory

Cash Paid for Salaries
Salary Expense
+Beginning Salary Payable
-Ending Salary Payable

Cash paid for income taxes
Income tax expense
+Beginning income tax payable
-Ending Income tax payable

JDC Setup
Cost of studio
-salvage value
=Depreciable basis
÷ expected life
=yearly depreciation
CM = #students*tuiton - salaries
Contribution Margin
-taxes
+taxshield (tax rate * yearly depreciation)
=ATCF
***PV(series, periods, rate)**
=NCF
+expected disposal * PV(single)
-cost of building
+value of old building
=value of project