BUS-123 Fall 2026 | Fundamental Analysis: Financial | Name: _____
Instr: F. Paiano | Statements and Ratio Analysis | Chapter 5 **Study Guide**

financial statements

balance sheet: assets = liabilities + equity

income statement: net income = revenue - expense

cash flow statement (aka statement of cash flows) – What changes occurred in the company's cash position?

SEC EDGAR – 10K (annual report) – 10Q (quarterly update)

Regulation FD (Fair Disclosure)

financial ratios – financial ratio analysis

common stock ratios: (aka market ratios)
earnings per share (aka EPS): net income / number of shares outstanding (inc)
price / earnings ratio (aka P/E): market price of common stock / earnings per share – most popular ratio (inc)
price / earnings to growth ratio (aka PEG ratio): stock's P/E ratio / 3 or 5 year growth rate in earnings (inc)
dividends per share: annual dividends paid to stockholders / number of shares outstanding (inc)
payout ratio: dividends per share / earnings per share (inc)
book value (aka book value per share): common stockholders' equity / number of shares outstanding (bal)
price-to-book-value per share: market price per share / book value per share
price-to-cash flow per share: market price per share / cash flow per share
price-to-sales per share: market price per share / sales per share

profitability ratios:
net profit margin: net profit after taxes / net sales (aka total revenues) (inc)
gross margin: gross profit / net sales (inc)
operating margin: operating income / net sales (inc)
return on assets (aka ROA): net profit after taxes / total assets (bal/inc)
return on equity (aka ROE, return on investment): net profit after taxes / stockholders' equity (bal/inc)
return on invested capital (aka ROIC): (net income - dividends) / (long-term debt + stockholders' equity)

liquidity ratios:
current ratio: current assets / current liabilities (should be 1.0 or better) (bal)
net working capital: current assets - current liabilities (bal)
acid test ratio (aka quick ratio): (cash + accts receivables + short-term investments) / current liabilities (bal)
or
acid test ratio (aka quick ratio): (current assets - inventory) / current liabilities (bal)

activity ratios:
accounts receivable turnover: annual sales / accounts receivable (bal/inc)
inventory turnover: annual sales / inventory (bal/inc)
total asset turnover: annual sales / total assets (bal/inc)

leverage ratios:
debt-equity ratio: long-term debt / stockholders' equity (bal)
times interest earned: earnings before interest and taxes / interest expense (inc)
total debt to total assets: total debt / total assets (bal)
total debt to total capitalization: total debt / (total debt + shareholders' equity) (bal)