**FIN 440 LECTURE 3**

**REVIEW OF BASIC CONCEPTS contd…**

**CHAPTER REFERENCE – CHP 2 & 3**

**Q. What is the letter to stockholders?**

**Q. What are the 4 key financial statements?**

**INCOME STATEMENT**

SALES

 - Cost of Goods Sold

 GROSS PROFIT OPERATING ACTIVITIES

 - Operating Expenses

 OPERATING INCOME (EBIT)

 - Interest Expense

 EARNINGS BEFORE TAXES (EBT)

 - Income Taxes

 EARNINGS AFTER TAXES (EAT) FINANCING ACTIVITIES

 - Preferred Stock Dividends

 - NET INCOME AVAILABLE

 TO COMMON STOCKHOLDERS

 **BALANCE SHEET**

***Assets***

**Current Assets**

Cash

 Marketable Securities

 Accounts Receivable

 Inventories

 Prepaid Expenses

**Fixed Assets**

Machinery & Equipment

 Buildings and Land

**Other Assets**

Investments & patents

***Liabilities (Debt) & Equity***

**Current Liabilities**

 Accounts Payable

Accrued Expenses

 Short-term notes

**Long-Term Liabilities**

 Long-term notes

 Mortgages

**Equity**

Preferred Stock

 Common Stock (Par value)

 Paid in Capital

 Retained Earnings

* Current Assets: assets that are relatively liquid, and are expected to be converted to cash within a year.
* Cash, marketable securities, accounts receivable, inventories, prepaid expenses.
* Fixed Assets: machinery and equipment, buildings, and land.
* Other Assets: any asset that is not a current asset or fixed asset.
* Intangible assets such as patents and copyrights
* Net Working Capital (NWC) = Current Assets – Current Liabilities
* Capital Structure => Liabilities Vs Equity
* Capital Intensity => In general, higher the investment in fixed assets, higher is the risk of the company / project
* Liquidity: Higher the NWC, higher is the liquidity, lower are the returns at lower risk and vice versa.
* Debt Capital: financing provided by a creditor.
* Short-term debt: borrowed money that must be repaid within the next 12 months.
	+ Accounts payable, other payables such as interest or taxes payable, accrued expenses, short-term notes.
* Long-term debt: loans from banks or other sources that lend money for longer than 12 months.
* Equity Capital: shareholders’ investment in the firm.
* Preferred Stockholders: received fixed dividends, and have higher priority than common stockholders in event of liquidation of the firm.
* Common Stockholders: residual owners of a business. They receive whatever is left after creditors and preferred stockholders are paid.

*Financial Analysis Components*

1. Calculations: The interpretation
2. Comparisons: The comparison of the company to its past and comparison of the company to its industry (Industry average)
3. Decision - **Are our decisions maximizing shareholder wealth?**

Catagories of Ratios

1. Liquidity
2. Activity
3. Debt
4. Profitability
5. Market