**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