Access the Rest of the Fundamentals Course

Quick Reference – Linking the 3 Financial Statements

http://breakingintowallstreet.com

Income Statement

+ Revenue
– Cost of Goods Sold
= Gross Profit

– Operating Expenses
– Depreciation
– Amortization
– Stock-Based Comp.
= Operating Income

(+ / –) Interest
– PP&E Write-Down
– Goodwill Impairment
+ Gains / (–) Losses
= Pre-Tax Income

– Income Tax Expense
= Net Income

÷ Shares Outstanding
= Earnings Per Share

Balance Sheet

Current Assets:
+ Cash & Cash-Equivalents
+ Short-Term Investments
+ Accounts Receivable
+ Inventory
+ Prepaid Expenses

Long-Term Assets:
+ Long-Term Investments
+ Goodwill
+ Property & Equip. (PP&E)
+ Other Intangible Assets
= Total Assets

Current Liabilities:
+ Short-Term Debt
+ Accounts Payable
+ Accrued Expenses
+ Deferred Revenue

Long-Term Liabilities:
+ Long-Term Debt
+ Deferred Tax Liabilities
= Total Liabilities

Equity
+ Common Stock & APIC
+ Treasury Stock
+ Accum. Other Comp. Income
+ Retained Earnings
= Total Liabilities + Equity

Assets = Liabilities + Equity

Cash Flow Statement

Cash Flow from Operations:
+ Net Income
+ Depreciation
+ Amortization
+ Stock-Based Comp.
+ PP&E Write-Down
+ Goodwill Impairment
+ Losses / (–) Gains
+ Deferred Income Taxes

Changes in Working Capital:
(+ / –) Change in Accounts Receivable
(+ / –) Change in Inventory
(+ / –) Change in Prepaid Expenses
(+ / –) Change in Accounts Payable
(+ / –) Change in Accrued Expenses
(+ / –) Change in Deferred Revenue
= Cash Flow from Operations (CFO)

Cash Flow from Investing:
– Capital Expenditures
– Buy / (Sell) Short-Term Investments
– Buy / (Sell) Long-Term Investments
= Cash Flow from Investing (CFI)

Cash Flow from Financing:
+ Short-Term Debt Raised (Paid Off)
+ Long-Term Debt Raised (Paid Off)
+ Issue / (Repurchase) Shares
– Dividends Issued
= Cash Flow from Financing (CFF)
(+ / –) FX Rate Effects
Net Change in Cash = CFO + CFI + CFF + FX Rate Effects

Ending Cash = Beginning Cash + Net Change in Cash

Legend

Green arrows indicate that the exact value flows in.
Blue arrows indicate a simple addition or subtraction.
Red arrows indicate a more complex formula.

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Equity Links

Retained Earnings

Beginning Retained Earnings
+ Net Income
– Dividends Issued
= Ending Retained Earnings

Common Stock & APIC

Beginning Common Stock & APIC
+ (Shares Issued * Share Price)
+ Stock-Based Compensation
= Ending Common Stock & APIC

Treasury Stock

Beginning Treasury Stock
– (Shares Repurchased * Share Price)
= Ending Treasury Stock

Accumulated Other Comprehensive Income (AOCI)

Beginning AOCI Balance
+ Effect of FX Exchange Rates
+ Other Misc. Income / Expenses
= Ending AOCI Balance

Shares Outstanding

Beginning Shares Outstanding
+ Shares Issued
+ Shares Created from SBC
– Shares Repurchased
= Ending Shares Outstanding

Assets & Liabilities Links

Cash & Cash-Equivalents

Beginning Cash Balance
+ Net Change in Cash
= Ending Cash Balance

Accounts Receivable

Beginning Accounts Receivable
+ Revenue Not Collected in Cash
– Cash Collection of Revenue
= Ending Accounts Receivable

Inventory

Beginning Inventory
+ Inventory Purchased
– Inventory Sold and Recorded as COGS
= Ending Inventory

PP&E

Beginning PP&E Balance
+ Capital Expenditures
– Depreciation
– PP&E Write-Down
= Ending PP&E Balance

Accrued Expenses

Beginning Accrued Expenses
+ Expenses Not Yet Paid in Cash
– Cash Pay of Prior Expenses
= Ending Accrued Expenses

Debt

Beginning Debt Balance
+ Debt Issuances
– Debt Repayment
= Ending Debt Balance

Deferred Tax Liabilities

Beginning DTL Balance
(+ / –) Deferred Income Taxes
= Ending DTL Balance

Accounting Rules

Cash Flow (CF) Rules

Asset **UP** → Cash Flow **DOWN**
Asset **DOWN** → Cash Flow **UP**

Liability **UP** → Cash Flow **UP**
Liability **DOWN** → CF **DOWN**

Cash Flow from Operations includes **Net Income**, **Non-Cash Adjustments**, and changes to **Current Assets Excluding Cash and Investments** and changes to **Current Liabilities Excluding Debt**.

Cash Flow from Investing includes changes to many **Long-Term Assets** and also **non-operational Current Assets**, such as investments.

Cash Flow from Financing includes changes to many **Long-Term Liabilities** and **Equity** items, and also **non-operational Current Liabilities**, such as debt.

Record **Revenue** and **Expenses** only in the period when the associated product or service is **delivered**. If there's no **delivery**, you have to use Balance Sheet items like Deferred Revenue and Prepaid Expenses to track these items.