

How to Analyze an Income Statement and Balance Sheet

Use figures from <http://www.etrade.com/>. Type in the stock ticker symbol in the quote box and hit go. Then at the stock company home page scroll down below the chart and click on FINANCIALS. The Income Statement will appear—it lists the Annual income statement followed by Quarterly income statement. Print this document. Then select the tab that says Balance Sheet and print that document. When completing the chart below, be sure to only use the annual figures, NOT the quarterly figures.

To access Industry Averages enter www.etrade.com on your browser. Next enter the ticker for the company where it says “Quotes.” Click on “GO.” When the screen opens, open the window that says detailed quotes by clicking on the down arrow on the right side of the window. Scroll down until you see key ratios. Click on that and the Industry Averages will appear.

B=Balance Sheet I=Income Statement	Name of Company: Date:	Ticker:	Cur. Year	Past Year	Year Past Last	Industry Average
Measures of Liquidity--the ability to convert assets into cash						
B	Current Ratio: CA/CL=CR. Total Current Assets/Total Current Liabilities. Ratio of 2 to 1 is considered adequate but varies among industries. Want assets to exceed liabilities.					
B	Acid Test/Quick Ratio: (CA-Total Inventory)/CL .Want 1 to 1 or above. Means company can pay all creditors if they demanded immediate payment.					
I B	Inventory Turnover: Cost of Revenue or Sales/Average Total Inventory. To determine average total inventory, add Total Inventory for current and past year and divide by two. Means goods are bought and sold out ___ times per year on average. Rates vary from industry to industry. High turnovers reflect ability to use lean business concepts. Divide 365 days by the inventory turnover to determine average inventory days .		Inventory Turnover			
			Average Turnover Days			
I B	Receivables Turnover: Total Revenues or Sales/Total Receivables. Receivables are products or services that have been sold but for which cash has not been received. Want a high turnover. The quicker you get paid by customers, the less you have to finance. Divide 365 days by the receivables turnover to determine collection period . Values below 60 days are good.		Receivables Turnover			
			Collection Period			
Capital Structure and Productivity						
B	Debt/Equity Ratio: (Long Term Debt or LTD/Total Equity) x 100. If high, company is probably financing its growth with debt.					
I B	Sales Per Employee: Total Sales or Total Revenues/Employees Want to see amount increase over time					

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Measures of Profitability						
I	Net Profit Margin: (Net Income/Revenues or Sales) x 100. Should ↑ over time, should be ≥ industry profit margin					
I B	Asset Turnover: Total Revenues or Sales/Total Assets. Ratio should ↑ over time, should be ≥ industry turnover					
I B	Return on Assets: (Net Income/Total Assets) x 100. You want ≥ 10%-15% but depends on industry. Higher is better.					
I B	Return on Equity: (Net Income/Total Equity) x 100. Ideally you want ≥ 15% but depends on industry. If ↑ over time, it means management is improving profitability.					
Growth Statistics						
I	% Sales Growth: [(Current Total Revenues or Sales - Last Year's Sales)/Last Year's Sales] x 100. Want ≥ 15%, but depends on industry.					
I	% EPS Growth: [(Current Earnings - Last Year's Earnings)/Last Year's Earnings] x 100. For Current Earnings, use Basic or Primary EPS Incl. Extraordinary Items. You want ≥ 15%, but depends on industry.					
I	Cash Dividends. Dividends per Share on Common Stock					
I	Percent Dividend Payout: (Dividends Per Share on Common Stock/Diluted Normalized Earnings Per Share) x 100. This is the % of earnings paid out in dividends. Check industry average.					