

Chapter 11: Financial Management

Statement of Income (P&L)

Profit or loss

$$\text{Revenue} - \text{Expenses} = \text{Profit (Loss)}$$

Prime cost

$$\text{Prime Cost} = \text{Total Cost of Sales} + \text{Total Labor}$$

Controllable income

$$\text{Controllable Income} = \text{Total Sales} - (\text{Prime Cost} + \text{Total Other Controllable Expenses})$$

Operating income

$$\text{Operating Income} = \text{Controllable Income} - \text{Total Noncontrollable Expenses}$$

Income before income taxes

$$\text{Income before Income Taxes} = \text{Operating Income} - [\text{Corporate Overhead} + \text{Interest Expense} + \text{Other (Income)/Expense}]$$

Net income

$$\text{Net Income} = \text{Income before Income Taxes} - \text{Income Tax}$$

Percent of total sales column

Cost of sales line items

$$\text{Percent Total Sales} = \frac{\text{Amount (In Dollars)}}{\text{Product Sales}} \times 100$$

All other line items

$$\text{Percent Total Sales} = \frac{\text{Amount (In Dollars)}}{\text{Total Sales}} \times 100$$

Balance Sheet

Assets

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$

Comparative Analysis of Statements of Income

Difference %

$$\text{Difference \%} = \frac{\text{Difference \$}}{\text{Prior-Year Value}} \times 100$$

Percent Change

$$\text{Percent Change} = \text{Current Period \%} - \text{Prior Period \%}$$

Operating Ratios (Activity Ratios)

Average check ratio

$$\text{Average Check} = \frac{\text{Sales}}{\text{Customer Count}}$$

Profit margin ratio

$$\text{Profit Margin} = \frac{\text{Net Income}}{\text{Sales}} \times 100$$