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FORMULA SHEET

CFA® Program Level I

Financial Statement Analysis Formula Sheet

2027 curriculum · 12 readings · 95 formulas

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Version v2027.3 · October 2026

ABOUT THIS EDITION

CredGuild · CFA® Program Level I · Financial Statement Analysis Formula Sheet
2027 curriculum · Version v2027.3 · Generated October 6, 2026

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USING THIS BOOK

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Every formula in the CredGuild notes for the 2027 CFA® Program Level I curriculum, Financial Statement Analysis, reading by reading, each with what it is for. Worked numbers are left out. Use it for a last check of the equations; the notes explain where each one comes from.

To learn a reading in full, open its notes at credguild.com. This sheet is free to print and share: credguild.com/cfa/level-1/formula-sheet/

CFA® PROGRAM LEVEL I · FORMULA SHEET

Financial Statement Analysis

Exam weight 11–14% · 10 readings · 95 formulas

28 Analyzing Income Statements

Revenue over time (long-term contracts)	$\text{Cumulative revenue}_t = \dfrac{\text{Cumulative cost to date}}{\text{Total expected cost}} \times \text{Transaction price}$
Depreciation methods	$\text{Straight-line} = \dfrac{\text{Cost} - \text{Salvage}}{\text{Useful life}}$
Capitalized interest	$\text{Adjusted coverage} = \dfrac{\text{EBIT} + \text{Depreciation of capitalized interest}}{\text{Interest expense} + \text{Interest capitalized}}$
Basic EPS	$\text{Basic EPS} = \dfrac{\text{Net income} - \text{Preferred dividends}}{\text{Weighted average number of common shares outstanding}}$
Diluted EPS and the if-converted method	$\text{Diluted EPS} = \dfrac{\text{NI} - \text{Pref. div.} + \text{Conv. pref. div.} + \text{Conv. debt int}}{\text{Wtd. avg. shares} + \text{Shares from conv. pref.} + \text{Shares from conv. debt}}$ $\text{Incremental shares} = N - \dfrac{N \times X}{\bar{P}} = \dfrac{\bar{P} - X}{\bar{P}} \times N$
Testing for dilution	$\text{Conv. preferred: } \dfrac{\text{Preferred dividends}}{\text{Shares on conversion}}$ $\text{Conv. bonds: } \dfrac{\text{Interest} \times (1 - t)}{\text{Shares on conversion}}$
Vertical common-size income statement	$\text{Common-size line item} = \dfrac{\text{Line item}}{\text{Revenue}}$ $\text{Effective tax rate} = \dfrac{\text{Income tax expense}}{\text{Pretax income}}$
Margin ratios	$\text{Gross profit margin} = \dfrac{\text{Revenue} - \text{COGS}}{\text{Revenue}}$ $\text{Operating profit margin} = \dfrac{\text{Operating profit (EBIT)}}{\text{Revenue}}$ $\text{Pretax margin} = \dfrac{\text{Earnings before tax}}{\text{Revenue}}$ $\text{Net profit margin} = \dfrac{\text{Net income}}{\text{Revenue}}$

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29 Analyzing Balance Sheets

Goodwill	$\text{Goodwill} = \text{purchase price} - \text{fair value of identifiable net assets acquired}$
Vertical common-size balance sheet	$\text{Common-size item} = \frac{\text{balance sheet item}}{\text{total assets}}$
Liquidity ratios (short-term obligations)	$\text{current ratio} = \frac{\text{current assets}}{\text{current liabilities}}$ $\text{quick ratio} = \frac{\text{cash} + \text{marketable securities} + \text{receivables}}{\text{current liabilities}}$ $\text{cash ratio} = \frac{\text{cash} + \text{marketable securities}}{\text{current liabilities}}$
Solvency ratios (long-term obligations)	$\text{long-term debt-to-equity} = \frac{\text{long-term debt}}{\text{total equity}}$ $\text{total debt-to-equity} = \frac{\text{total debt}}{\text{total equity}}$ $\text{debt ratio} = \frac{\text{total debt}}{\text{total assets}}$ $\text{financial leverage ratio} = \frac{\text{total assets}}{\text{total equity}}$

30 Analyzing Statements of Cash Flows I

Why a separate cash flow statement?	$\text{CFO} + \text{CFI} + \text{CFF} = \Delta\text{Cash}; \quad \text{Beginning cash} + \Delta\text{Cash} = \text{Ending cash}$
Timing differences show up on the balance sheet	$\text{Beginning AR} + \text{Sales} - \text{Cash collected} = \text{Ending AR}$
The direct method	$\text{Cash collected} = \text{Net sales} - \Delta\text{AR} + \Delta\text{Unearned revenue}$ $\text{Purchases} = \text{COGS} + \text{Ending inventory} - \text{Beginning inventory} = \text{COGS} + \Delta\text{Inventory}$ $\text{Cash paid to suppliers} = \text{Purchases} - \Delta\text{AP} = \text{COGS} + \Delta\text{Inventory} - \Delta\text{AP}$ $\text{Cash paid for wages} = \text{Wage expense} - \Delta\text{Wages payable}$ $\text{Cash paid for interest} = \text{Interest expense} - \Delta\text{Interest payable}$ $\text{Cash paid for insurance} = \text{Insurance expense} + \Delta\text{Prepaid insurance}$ $\text{Cash taxes paid} = \text{Tax expense} - \Delta\text{Taxes payable} - \Delta\text{Deferred tax liability} + \Delta\text{Deferred tax asset}$
Starting point: net income	$\text{CFO} = \text{NI} + \text{NCC} - \text{WC}_{\text{INV}}$

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Investing activities (CFI)	$\text{Proceeds} = \text{Carrying value of asset sold} + \text{Gain (or} - \text{Loss)}$ $\text{Gross cost of disposals} = \text{Beginning gross PP\&E} + \text{Purchases} - \text{Ending gross PP\&E}$ $\text{Accumulated depreciation removed} = \text{Beginning AD} + \text{Depreciation expense} - \text{Ending AD}$ $\text{Carrying value disposed} = \text{Beginning net PP\&E} - \text{Depreciation} + \text{Purchases} - \text{Ending net PP\&E}$
Financing activities (CFF)	$\text{CFF} = (\text{New borrowing} - \text{Principal repaid}) + (\text{Stock issued} - \text{Stock repurchased}) - \text{Cash dividends paid}$ $\text{Dividends declared} = \text{Beginning retained earnings} + \text{Net income} - \text{Ending retained earnings}$ $\text{Dividends paid} = \text{Dividends declared} - \Delta\text{Dividends payable}$

31 Analyzing Statements of Cash Flows II

Free cash flow to the firm (FCFF)	$FCFF = NI + NCC + [Int \times (1 - t)] - FC_{INV} - WC_{INV}$ $FCFF = CFO + [Int \times (1 - t)] - FC_{INV}$
Free cash flow to equity (FCFE)	$FCFE = CFO - FC_{INV} + \text{net borrowing}$ $FCFE = FCFF - [Int \times (1 - t)] + \text{net borrowing}$

32 Analysis of Inventories

Inventory ratios	$\text{Inventory turnover} = \dfrac{\text{COGS}}{\text{average inventory}}$ $\text{Days of inventory on hand (DOH)} = \dfrac{365}{\text{inventory turnover}}$

33 Analysis of Long-Term Assets

Goodwill	$\text{Goodwill} = \text{Purchase price} -$ $\text{Fair value of identifiable net assets acquired}$
Impairment of assets held for use: IFRS and US GAAP	$\text{IFRS loss} = CV - \max(\text{FV} - \text{costs to sell},\ \text{VIU})$ $\text{US GAAP loss} = CV - \text{FV}\ \ (\text{only if } CV > \text{undiscounted CF})$

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Ratios built from the disclosures	$\text{Fixed asset turnover} = \dfrac{\text{Revenue}}{\text{Average fixed assets}}$ $\text{Average age} \approx \dfrac{\text{Accumulated depreciation}}{\text{Annual depreciation expense}}$ $\text{Total useful life} \approx \dfrac{\text{Gross (historical cost) PP\&E}}{\text{Annual depreciation expense}}$ $\text{Remaining useful life} \approx \dfrac{\text{Net PP\&E}}{\text{Annual depreciation expense}} = \text{Total useful life} - \text{Average age}$

34 Topics in Long-Term Liabilities and Equity

Lessee accounting	$\text{Lease liability}_0 = \sum_{t=1}^{N} \dfrac{PMT}{(1+r)^t} = PMT \times \dfrac{1-(1+r)^{-N}}{r}$
Defined contribution vs. defined benefit plans	$\text{Funded status} = \text{Fair value of plan assets} - \text{PV of the defined benefit obligation}$

35 Analysis of Income Taxes

The income tax expense equation	$\text{income tax expense} = \text{taxes payable} + \Delta DTL - \Delta DTA$

36 Financial Reporting Quality

Depreciation, amortization and impairment	$\text{Annual depreciation (straight-line)} = \dfrac{\text{cost} - \text{salvage value}}{\text{useful life}}$
Linking the signs to what is being manipulated	$\text{Days payables} = \dfrac{\text{accounts payable}}{\text{COGS (or purchases)}/365}$
Cash flow versus earnings	$\text{CFO-to-net-income ratio} = \dfrac{\text{cash flow from operations}}{\text{net income}}$

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37 Financial Analysis Techniques

Activity ratios

$$\text{receivables turnover} = \frac{\text{revenue}}{\text{average receivables}}$$

$$\text{days of sales outstanding (DSO)} = \frac{365}{\text{receivables turnover}}$$

$$\text{inventory turnover} = \frac{\text{cost of goods sold}}{\text{average inventory}}$$

$$\text{days of inventory on hand (DOH)} = \frac{365}{\text{inventory turnover}}$$

$$\text{payables turnover} = \frac{\text{cost of goods sold}}{\text{average trade payables}}$$

$$\text{number of days of payables (DPO)} = \frac{365}{\text{payables turnover}}$$

$$\text{purchases} = \text{ending inventory} - \text{beginning inventory} + \text{COGS}$$

$$\text{total asset turnover} = \frac{\text{revenue}}{\text{average total assets}}$$

$$\text{fixed asset turnover} = \frac{\text{revenue}}{\text{average net fixed assets}}$$

$$\text{working capital turnover} = \frac{\text{revenue}}{\text{average working capital}}$$

Liquidity ratios

$$\text{current ratio} = \frac{\text{current assets}}{\text{current liabilities}}$$

$$\text{quick ratio} = \frac{\text{cash} + \text{marketable securities} + \text{receivables}}{\text{current liabilities}}$$

$$\text{cash ratio} = \frac{\text{cash} + \text{marketable securities}}{\text{current liabilities}}$$

$$\text{defensive interval} = \frac{\text{cash} + \text{marketable securities} + \text{receivables}}{\text{average daily expenditures}}$$

$$\text{average daily expenditures} = \frac{\text{COGS} + \text{SG\&A} + \text{R\&D} - \text{noncash charges (e.g., depreciation, amort}}{365}$$

$$\text{cash conversion cycle} = \text{DSO} + \text{DOH} - \text{number of days of payables}$$

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Solvency ratios	$\text{debt-to-equity} = \dfrac{\text{total debt}}{\text{total shareholders' equity}}$
	$\text{debt-to-capital} = \dfrac{\text{total debt}}{\text{total debt} + \text{total shareholders' equity}}$
	$\text{debt-to-assets} = \dfrac{\text{total debt}}{\text{total assets}}$
	$\text{financial leverage ratio} = \dfrac{\text{average total assets}}{\text{average total equity}}$
	$\text{interest coverage} = \dfrac{\text{EBIT}}{\text{interest payments}}$
	$\text{debt-to-EBITDA} = \dfrac{\text{total debt}}{\text{EBITDA}}$
	$\text{fixed charge coverage} = \dfrac{\text{EBIT} + \text{lease payments}}{\text{interest payments} + \text{lease payments}}$
Profitability ratios	$\text{gross profit margin} = \dfrac{\text{gross profit}}{\text{revenue}}$
	$\text{operating profit margin} = \dfrac{\text{operating income}}{\text{revenue}} \text{ or } \dfrac{\text{EBIT}}{\text{revenue}}$
	$\text{pretax margin} = \dfrac{\text{EBT}}{\text{revenue}}$
	$\text{net profit margin} = \dfrac{\text{net income}}{\text{revenue}}$
	$\text{ROA} = \dfrac{\text{net income}}{\text{average total assets}}$
	$\text{adjusted ROA} = \dfrac{\text{net income} + \text{interest expense}(1 - \text{tax rate})}{\text{average total assets}}$
	$\text{operating ROA} = \dfrac{\text{operating income (or EBIT)}}{\text{average total assets}}$
	$\text{ROE} = \dfrac{\text{net income}}{\text{average total equity}}$
	$\text{return on common equity} = \dfrac{\text{net income} - \text{preferred dividends}}{\text{average common equity}}$
Two-part decomposition	$\text{ROE} = \dfrac{\text{net income}}{\text{average total equity}} = \underbrace{\dfrac{\text{net income}}{\text{average total assets}}}_{\text{ROA}} \times \underbrace{\dfrac{\text{average total assets}}{\text{average total equity}}}_{\text{financial leverage}}$
Original (three-part) DuPont equation	$\text{ROE} = \underbrace{\dfrac{\text{net income}}{\text{revenue}}}_{\text{net profit margin}} \times \underbrace{\dfrac{\text{revenue}}{\text{average total assets}}}_{\text{total asset turnover}} \times \underbrace{\dfrac{\text{average total assets}}{\text{average total equity}}}_{\text{financial leverage}}$

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Extended (five-part) DuPont equation	$\text{ROE} = \underbrace{\frac{\text{net income}}{\text{EBT}}}_{\text{tax burden}} \times \underbrace{\frac{\text{EBT}}{\text{EBIT}}}_{\text{interest burden}} \times \underbrace{\frac{\text{EBIT}}{\text{revenue}}}_{\text{EBIT margin}} \times \underbrace{\frac{\text{revenue}}{\text{average total assets}}}_{\text{total asset turnover}} \times \underbrace{\frac{\text{average total assets}}{\text{average total equity}}}_{\text{financial leverage}}$
Business risk and the coefficient of variation	$\text{CV} = \frac{\text{standard deviation of the item}}{\text{mean (expected value) of the item}}$

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- **Cheat sheet and formula sheet:** every reading's bottom line and every formula, by topic. credguild.com/cfa/level-1/cheat-sheet/

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