Strategic Modeling Account Definitions

Related Topics:

(v3.00:220) Years of Loss Carryforward / (v3.00:240) Years of Loss Carryback

If Calculate Tax Effects Automatically is selected in Tax Effect of Losses, Strategic Modeling automatically carries forward or carries back Net Operating Losses (NOLs). Years of Loss Carryforward (v3.00:220) defaults to a carryforward period of 15 years. Years of Loss Carryback (v3.00:240) defaults to a carryback period of 3 years. Both time periods can be adjusted.

4.xx:xxxx Accounts

(v4.00:520) Perpetuity Growth Rate (%)

An input, when using the Growth in Perpetuity Method, to calculate residual value. It is the rate at which Taxable Operating Profit (v3210) increases or decreases in the residual period.

(v4.00:540) Perpetuity Value Growth Duration (years)

An input, when using the Value Growth Duration Method, to calculate residual value. It is the number of years at which Taxable Operating Profit (v3210) continues to grow beyond the forecast horizon.

(v4.00:720) Perpetuity Growth Rate

An input, when using the Growth in Perpetuity Method, to calculate residual value while using the Dividend Discount Method. It is the rate at which the Perpetuity Affordable Dividend (v5410) increases or decreases in the residual period.

(v4.00:740) Perpetuity Value Growth Duration (years)

An input, when using the Value Growth Duration Method, to calculate residual value. It is the number of years during which the Affordable Dividend (v5400) continues to grow beyond the forecast horizon.

(v4.00:760) Residual Value Target Leverage Ratio

Residual Value Target Leverage Ratio (%) (v4.00:760) is an input when using the Perpetuity, Growth in Perpetuity, and Value Growth Duration methods to calculate residual value. It is used to calculate both Affordable Dividend (v5400) and Perpetuity Affordable Dividend (v5410).

(v4.00:780) L-T Return on Book Equity

An input, when using the Dividend Discount Model, used to compute the Dividend Flow and the Perpetuity Affordable Dividend (v5410).

5.xx:xxxx Accounts

(v5.00:200) Current Stock Price

Enter the current market price of the stock, if available. This value can be compared to the Shareholder Value per Share (v5080), Equity Value Per Share (v5380), and Economic Profit Shareholder Value per Share (v5795) to see if the market seems to be undervaluing or overvaluing the stock.

Custom Ratios #1 - #10 (v6400.00 - v6445.00)

These accounts can be used to create your own calculations.

In addition, Custom Ratios (v6400.00-v6445.00) can be subaccounted; you can create up to 999 ratios under each Custom Ratio (v6400.00-v6445.00).

Any accounts with a formula appear in the Custom Ratios section of the Financial Ratios Report.

(v5.00:500) Market Value of Debt

Calculated using the yield to maturity of all debt instruments in a company's debt portfolio. The market value typically differs from the face value of debt when the coupon rate on a debt instrument differs from the rate of return currently required by investors on similar investments, because the market price increases or decreases to a level yielding their required return (the "yield to maturity").

(v5.00:520) Underfunded Pension Liabilities

Excess of vested benefits ("normal cost") over the sum of pension fund assets and balance sheet accruals. For a more conservative estimate, include the unvested portion with vested benefits. Underfunded Pension Liabilities (v5.00:520) is an obligation that must be deducted from Corporate Value (v5060) or Economic Profit Corporate Value (v5785) to arrive at Shareholder Value (v5070) or Economic Profit Shareholder Value (v5795), respectively.

(v5.00:560) Investments in Stocks and Bonds

Market value of the company's current portfolio of long-term investments in stocks and bonds. Include the market value of your Investments: Equity Method (v2420) and Investments: Cost Method (v2430).

Neither this account nor shorter-term investments, such as Marketable Securities (v2010), are accounted for in Cash Flow from Operations (v4100), but both increase the

value of the company and are included in Corporate Value (v5060). See Underfunded Pension Liabilities (v5.00:520).

(v5.00:700) Market Value of Other Liabilities: DDM

Calculated using the yield to maturity of all debt instruments in a company's debt portfolio. The market value is typically different from the face value of debt when the coupon rate on a debt instrument differs from the rate of return currently required by investors on similar investments, because the market price increases or decreases to a level yielding their required return "yield to maturity").

(v5.00:720) Market Value of Other Assets: DDM

Market value of the company's current portfolio of long-term investments in stocks and bonds. Include the market value of your Investments: Equity Method (v2420) and Investments: Cost Method (v2430).

Neither this account nor shorter-term investments, such as Marketable Securities (v2010), are accounted for in Cash Flow from Operations (v4100), but both increase the value of the company.

(v5.00:800) E.P. Residual Value Tax Rate

This tax rate is multiplied by Taxable Operating Profit (v3210) to calculate Residual NOPAT for Perpetuity (v5810) when analyzing Economic Profit.

(v5.00:820) Residual NOPAT Adjustment

Used to adjust Taxable Operating Profit (v3210) in the post-forecast period. Residual NOPAT Adjustment (v5.00:820) is added to Taxable Operating Profit (v3210) to calculate Residual NOPAT for Perpetuity (v5810).

(v5.00:900) Valuation Adjustment for Cost and Equity Methods: SVA

Dialog variable adjusts the SVA report for investments using the cost and equity consolidation methods. The product of the ownership percentage of the consolidating models and their respective valuations using SVA increase this variable (v5070 Shareholder Value).

(v5.00:910) Valuation Adjustment for Cost and Equity Methods: EP

Dialog variable adjusts the SVA report for investments using the cost and equity consolidation methods. The product of the ownership percentage of the consolidating models and their respective valuations using Economic Profit increase this variable (v5790 Economic Profit Shareholder Value).

(v5.00:920) Valuation Adjustment for Minority Interest: SVA

Dialog variable adjusts the SVA report for investments using the Minority Interest Method. The ownership percentage that is *not* owned by the consolidated company is multiplied by the target company's shareholder value to arrive at the adjustment. This value subsequently is subtracted from the consolidated models' overall shareholder value (v5070 Shareholder Value).

(v5.00:930) Valuation Adjustment for Minority Interest: EP

Dialog variable adjusts the Economic Profit report for investments using the Minority Interest Method. The ownership percentage that is *not* owned by the consolidated company is multiplied by the target company's shareholder value to arrive at the adjustment. This value is subsequently subtracted from the consolidated models' overall economic profit value (v5790 Economic Profit Shareholder Value).

1000.xx:xxxx to 1999.xx:xxx Accounts

(v1000.00) Sales

Sales (v1000.00) refers to gross sales revenues. Adjustments to gross sales are accounted for in Discounts & Returns (v1020). The dollar growth in sales over one or more periods is "incremental sales." For example, if sales increased over the prior period from $100 to $120, the incremental sales is $20.

Although Sales (v1000.00) by default is forecast using the Growth Rate method, you also can express your projections for Sales (v1000.00) in terms of price and quantity by using the Freeform forecast method with Memo Accounts (v300-v345).

(v1020.00) Discounts & Returns

Account for sales adjustments such as discounts taken, allowances, and returns.

(v1030.00) Sales (Net)

Sales (Net) (v1030.00) represents Sales (v1000) after Discounts & Returns (v1020). It is calculated as:

```
  (v1000.00)  Sales

- (v1020.00)  Discounts & Returns



= (v1030.00)  Net Sales
```

(v1040.00) Cost of Goods Sold

Also called Cost of Sales, refers to the expensed cost of units sold. It is generally determined as follows:

```
  Beginning Inventory

+ Cost of Goods Purchased or Manufactured

- Ending Inventory



= Cost of Goods Sold
```

Cost of Goods Sold (v1040.0) may contain direct and indirect costs. Examples of direct costs include raw materials, assembly components, and the labor costs directly associated with the manufacture of the products to be sold. Examples of indirect costs are the overhead expenses (utilities, taxes, and depreciation) associated with production and manufacturing.

(v1070.00) Gross Profit

This incomestatement account consists of Sales (v1030) less the Cost of Goods Sold (v1040):

```
  (v1030.00)  Sales (Net)

- (v1040.00)  Cost of Goods Sold
```

```
= (v1070.00)  Gross Profi
```

(v1080.00) SG&A Expense

The Selling, General and Administrative Expenses (v1080.00) (SG&A) appear on the company's Income Statement.

Examples of Selling Expenses:

- Sales office salaries and sales commissions

- Travel and entertainment

- Advertising expenses

- Depreciation of sales equipment

Examples of General and Administrative Expenses:

- Officers' salaries

- Clerical salaries and professional fees

- Utilities and insurance (not associated with manufacturing)

- Depreciation of office buildings and equipment

(v1090.00) Other Operating Income/(Expense)

Income or expense items directly associated with the production and the administrative functions of the business that you think should not be classified as Sales (v1000). Enter income in this account as a positive number and expense as negative number.

You can change the account description, to be consistent with your income or expense item, in the Financial Accounts view.

(v1100.00) Earnings Before Int., Taxes, Depr., and Amort.

This Income Statement item is calculated as:

```
    (v1070.00)  Gross Profit

-   (v1080.00)  SG & A Expense

+   (v1090.00)  Other Operating Income / Expenses



=   (v1100.00)  Earnings Before Int., Taxes, Depr., and Amort.
```

(v1110.00) Depreciation Expense

An accounting convention designed to expense the historical cost of a tangible asset over its useful life. Depreciation expense does not necessarily reflect the decline in the market value of an asset.

Many companies show depreciation expense on the Income Statement, the Cash Flow Statement, and Funds Flow Statement. Other companies include depreciation expense in COGS (v1040) and/or SG&A Expense (v1080) and do not report depreciation expense on the Income Statement.

Because the depreciation expense on the Funds Flow Statement must equal all depreciation expenses in Net Income (v1750), Depreciation Expense (Funds) (v2190.01)

must equal or exceed Depreciation Expenses (v1110.00) reported separately on the Income Statement.

To enter Depreciation Expense (v1110.00) for the Income Statement:

Depreciation Expense (v1110.00) uses a Freeform forecast method that calculates the Depreciation Expense (v1110.00) in forecast periods as equal to Depreciation Expense (Funds) (v2190.01). To allocate a portion of Depreciation Expense (Funds) (v2190.01) to other Income Statement items, change the forecast method to Percent of Another Account, using Depreciation Expense: (Funds) (v2190.01) as the Associated Account. Enter the unallocated percentage (0-99%) in Depreciation Expense (v1110.00). If the percentage entered in Depreciation Expense (v1110.00) is less than 100%, it is assumed that the remaining amount for Depreciation Expense (Funds) (v2190.01) have been included in other accounts on the Income Statement, such as SG&A Expense (v1080) or COGS (v1040).

To enter total Depreciation Expense (Funds) (v2190.01), see (v5745.00) Economic Profit NOPAT.

(v1115.00) Amortization Expense

Amortization expense is an accounting convention designed to expense the historical cost of an intangible asset over its useful life. Amortization expense does not necessarily reflect the decline in the market value of an asset.

Many companies show amortization expense as an item on the Income Statement, the Cash Flow Statement and Funds Flow Statement. Other companies include amortization expense in Cost of Goods Sold (COGS) (v1040) and/or Selling, General and Administrative (SG&A) Expense (v1080) and therefore do not report amortization expense as an item on the Income Statement.

Because the amortization expense on the Funds Flow Statement must equal all amortization expense included in Net Income (v1750), Amortization on Goodwill and Amortization for Other Intangibles must equal or exceed Amortization Expense (v1115.00) reported separately on the Income Statement.

To enter Amortization Expense (v1115.00) for the Income Statement:

Amortization Expense (v1115.00) uses a Freeform forecast method that calculates the Amortization Expense (v1115.00) in forecast periods as equal to Amortization of Other Intangibles (v2410.03) plus Amortization of Goodwill (v2400.03).

(v1150.00) Operating Profit

The income generated by the ongoing production and administrative functions of the business. The entries that follow Operating Profit (v1150.00) (with the exception of income gains or losses from the sales of assets), should be restricted to income and expenses related to:

1. Unusual or nonrecurring transactions

2. Investments outside the company

3. Interest income and expense

4. Taxes

Operating Profit (v1150.00) is calculated as follows:

```
    (v1100.00)   Earnings Before Int., Taxes, Depr., and Amort.

-   (v1110.00)   Depreciation Expense
```

```
-    (v1115)    Amortization Expense
```

```
=(v1150.00)  Operating Profit
```

(v1160.00) Other Revenues & Gains

This account can be used to enter nonoperating items that do not fit into other categories on the Income Statement or that should be highlighted as an account. Enter expenses as negative numbers.

You can rename this account with a label that is more consistent with your income or expense item in the Financial Accounts view.

(v1170.00) Gain on Sale of Assets

A gain is realized on the sale or retirement of assets when the proceeds received exceed the net book value of the assets sold. Similarly, a loss results when the proceeds are less than the net book value of the assets sold. Enter gains as a positive number and losses as a negative number. For historical periods, enter the before-tax gain or loss on the sale of assets as it should appear on the Income Statement. For forecast periods, enter the gain or (loss) on the sale of assets or use the default Freeform formula to enter the Proceeds from Sale of Assets.

Forecast Proceeds from Sale of Assets (Default Forecast Method)

Freeform formula:

```
  (@input)  Proceeds from Sale of Assets

- (v2170.03)  Gross Retirements

+ (v2190.03)  Accumulated Depreciation on Retirements


= (v1170.00)  Gain on Sale of Assets
```

The sale or retirement of assets also affects the Balance Sheet and the Cash Flow Statement. The Balance Sheet reflects the reduction in Gross Fixed Assets (v2170) and Accumulated Depreciation (v2190) due to the sale of assets. The Cash Flow Statement contains Proceeds from Sale of Assets (v4000) with the tax on the gain of sale of assets included in Total Taxes on Operations (v3280).

The Funds Flow statement shows the Gain on Sale of Assets as a source of funds.

(v1180.00) Other Expenses & Losses

Can be used to enter special nonoperating items that do not fit into the other categories on the Income Statement. This item is a subtraction, because such items are typically losses. Therefore, to represent a nonoperating gain or income, enter it as a negative number. Expenses or losses in this account are entered as positive number.

This account can be renamed in the Financial Accounts view with a description more consistent with the nature of your nonoperating items.

(v1190.00) Dividends from Investments: Cost

This nonoperating income statement item refers to dividends received from long-term investments in companies over which the investing company lacks "significant influence," presumably holding less than 20% of the stock and intending to hold it for

years. These investments are reported on the Balance Sheet in Investments: Cost Method (v2430).

If the investment is in marketable equity securities, the investing company reports the investments based on acquisition cost or market value, whichever is less. If the investment is in the form of nonequity or nonmarketable securities, it is reported at acquisition cost. Dividends from these investments are treated as revenue.

(v1200.00) Earnings Before Interest & Taxes

This Income Statement account is calculated as follows:

```
    (v1150.00)  Operating Profit

-   (v1180.00)  Other Expenses & Losses

+   (v1170.00)  Gain on Sale of Assets

+   (v1160.00)  Other Revenues & Gains

+   (v1190.00)  Dividends from Investments: Cost

    (v1200.00)  Earnings Before Interest & Taxes
```

(v1220.00) Other Interest Income

Can be used to summarize the income, in history and forecast, the company receives from its Marketable Securities (v2010) and Excess Marketable Securities (v2015), and other interest income earned. You can forecast this account using the default forecast method, Default Currency, or based on a percent of current, prior, or average balances of one or more investment accounts.

You may also choose to forecast the detail of interest on Marketable Securities (v2010.05) and Excess Marketable Securities (v2015.5) in their respective accounts.

Interest Income is considered a nonoperating income item and therefore is not included in the calculation of Cash Flow from Operations (v4100), which is used in calculating shareholder value.

(v1240.00) Total Interest Income

Calculated as:

```
  (v1220.00)  Other Interest Income

+ (v2010.05)  Interest on Marketable Securities

+ (v2015.05)  Interest on Excess Mkt. Securities

+ (v2460.05)  Interest on L-T Funding Asset


= (v1240.00)  Total Interest Income
```

(v1300.00) Total Short-Term Interest Expense

Nonoperating account that captures the total interest expense associated with interest-bearing obligations due within one year. This account, used only on the Funding Analysis Report, is calculated as follows:

```
  (v2510.05)  Interest on Curr. Portion of L-T Debt
```

```
+ (v2520.05)  Interest on Notes Payable



= (v1300.00)  Total Short-Term Interest Expense
```

(v1350.00) Total Interest on Long-Term Debt: Scheduled

The Total Interest on Long-Term Debt: Scheduled is calculated as follows:

```
  (v2660.05)  Interest on Long-Term Debt: Scheduled

+ (v2660.03)  Non-Cash Int on Long-Term Debt: Scheduled



= (v1350.00)  Total Interest on Long-Term Debt: Scheduled
```

(v1360.00) Other Interest Expense

Nonoperating item is input into historical and forecast periods. For more-detailed reporting, this account allows you to enter a summary interest expense amount or other interest expense. Interest expense detail typically is not displayed in historical periods on financial statements, but interest detail usually is forecast instead of the summary amount.

(v1370.00) Total Long-Term Interest Expense

Total Long-Term Interest Expense (v1370.00) due on long-term debt.

```
  (v1350.00)  Total Interest on Long-Term Debt: Scheduled

+ (v2690.05)  Interest on Long-Term Debt: Excess

+ (v1360.00)  Other Interest Expense



= (v1370.00)  Total Long-Term Interest Expense
```

(v1400.00) Interest Expense

The sum of various interest expense accounts, before accounting for Interest Capitalized (v1410).

```
    (v1300.00)  Total Short-Term Interest Expense

+   (v1370.00)  Total Long-Term Interest Expense

=   (v1400.00)  Interest Expense
```

(v1410.00) Interest Capitalized

Interest costs are "capitalized" in certain situations relating to financing the construction or acquisition of certain "qualified" fixed assets. For guidelines, see FASB Statement No. 34.

Interest Capitalized (v1410.00) represents the capitalized interest in each historical and forecast period. The period-by-period values you enter for Interest Capitalized (v1410.00) are subtracted from the total of all interest expense accounts to arrive at the Total Interest Expense (v1420) reported on the Income Statement.

Historical figures for Gross Fixed Assets (v2170) and Accumulated Depreciation (v2190) typically include capitalized interest. To forecast the change in Gross Fixed Assets (v2170) due to capitalized interest separately from other capital expenditures, create a subaccount of Gross Fixed Assets (v2170) to hold the accumulated balance of capitalized interest.

(v1420.00) Total Interest Expense

This account nets the sum of all interest expense accounts with Interest Capitalized (v1410).

```
   (v1400.00)  Interest Expense

-  (v1410.00)  Interest Capitalized


=  (v1420.00)  Total Interest Expense
```

(v1600.00) Earnings Before Taxes

```
    (v1200.00)  Earnings Before Interest and Taxes

-     (v1420.00)  Total Interest Expense

+     (v1240.00)  Total Interest Income


=     (v1600.00)  Earnings Before Taxes
```

(v1610.00): Trial Provision for Income Taxes

Contains the cash taxes paid by a company excluding refunds due to net operating losses carried forward or backward. Income taxes consist of domestic and foreign federal (national), state, and local (including franchise) taxes based on income. In historical periods, enter the taxes paid. In the forecast periods, the default forecast method is as a Percent of Taxable Income (v3140.00). The statutory tax rate must be entered into the Trial Provision for Income Taxes (v1610.00) account. This formula can be modified to model different tax calculations types (such as for various countries) using a Freeform formula.

(v1620.00) Unrealized Tax Benefit of Losses

Input in history and calculated in forecast periods, the period-by-period offset to Trial Provision for Income Taxes (v1610) in case of a tax loss.

(v1630.00) Current Provision for Income Taxes (Excl. NOL)

Calculated account displays the output of Trial Provision for Income Taxes (v1610) plus Unrealized Tax Benefit of Losses (v1620). Because Trial Provision for Income Taxes (v1610) receives the tax rate input and calculates a tax amount, and Unrealized Tax Benefit of Losses (v1620) adjusts the tax amount for NOL-related carryforwards, this account shows the result of the tax rate and the tax benefit on the Income Statement.

```
   (v1610.00)  Trial Provision for Income Taxes

+ (v1620.00)  Unrealized Tax Benefit of Losses
```

```
= (v1630.00)  Curr. Provision for Income Taxes (Excl. NOL)
```

(v1635.00) Additional Tax Refund

Input tax refunds manually in this account. If calculating tax refunds, this account acts as an adjustment to the calculated Tax Refund (v1640). Use this account, for example, to enter a more— refined estimate of your tax refund.

(v1640.00) Tax Refund

Tax refund associated with a loss carry forward or back. This account is automatically calculated if you select **Calculate Tax Effects Automatically** on the **Tax Effect of Losses** dialog . In the historical periods, the input for Additional Tax Refund (v1635) is used in this account. In the forecast periods, this account is calculated as:

```
  (v1635.00)  Additional Tax Refund

+ (v3150.00)  Tax Refund Due to Loss Carryforward

+  (v3160.00)  Tax Refund Due to Loss Carryback



= (v1640.00)  Tax Refund
```

(v1650.00) Current Provision for Income Taxes

Cash taxes paid by a company in a given year, including tax refunds resulting from net operating loss (NOL) carryforwards and carrybacks. It is calculated as:

```
  (v1630.00)  Current Provision for Income Taxes (Excl. NOL)

- (v1640.00)  Tax Refund



= (v1650.00)  Current Provision for Income Taxes
```

(v1660.00) Deferred Provision for Income Taxes

Measures taxes owed in future periods due to timing differences. These events occurred in the current period but generate future tax liabilities (or assets). See (v5070.00) Shareholder Value (PV).

One temporary difference results from accelerated depreciation schedules. Greater depreciation early in the life of an asset results in tax savings today (as compared to straight-line depreciation), but savings are offset in later years when book depreciation is greater than tax depreciation.

The default forecast method is as a Percent of Temporary Differences (v3120.00).

Deferred Provision for Income Taxes also can be calculated as the net change in deferred taxes, using the Freeform formula:

```
    (v2770.01)  Incr. in Deferred Income Taxes

+    (v2580.01)  Incr. in Current Deferred Tax Liability

-    (v2380.01)  Incr. in Deferred Tax Asset

-    (v2080.01)  Incr. in Current Deferred Tax Asset
```

```
=    (v1660.00)  Deferred Provision for Income Taxes
```

(v1670.00) Provision for Income Taxes

Company's net tax liability on all income regardless of when these taxes become payable. In most cases, this amount is less than the amount for which a company is liable using the statutory rate.

Calculated as follows:

```
  (v1650.00)  Current Provision for Income Taxes

+ (v1660.00)  Deferred Provision for Income Taxes



= (v1670.00)  Provision for Income Taxes
```

(v1680.00) Other Taxes

Represents additional tax obligations not captured in other tax accounts.

(v1690.00) Total Taxes

Sums the Provision for Income Taxes (v1670) and Other Taxes (v1680):

```
    (v1670.00)  Provision for Income Taxes

+   (v1680.00)  Other Taxes

=   (v1690.00)  Total Taxes
```

(v1700.00) Income After Taxes

This Income Statement account consists of:

```
    (v1600.00)  Earnings Before Taxes

-   (v1690.00)  Total Taxes



=   (v1700.00)  Income After Taxes
```

(v1720.00) Minority Interest

If the company you are analyzing (Company A) owns more than 50% but less than 100% of another company (Company B), it typically consolidates the financial statements of the two models. To recognize that a portion of the combined company's income and assets do not belong to the shareholders of Company A, the account Minority Interest (v1720, v2780) appears on both the Income Statement (as a deduction) and on the Balance Sheet (as equity). Enter Minority Interest (v1720.00) as an after-tax amount.

For example, assume Company A owns 60% of Company B, and Company A produces consolidated financial statements combining the two companies. All of Company B's earnings ($20 million) and equity ($100 million) are included in Company A's Income Statement and Balance Sheet. But because Company B's other shareholders own 40% of the earnings and equity contributed by Company B, Minority Interest (v1720.00), is calculated and recorded as 40% of the $20 million of Company B's earnings or $8 million.

(v1730.00) Extraordinary Items

These income statement items relate to transactions or events that are unusual and infrequent. Enter amounts as after-tax and add them to income after taxes. Enter an extraordinary loss as a negative number.

The company's environment is key to deeming a loss extraordinary. For example, damage sustained by forest products companies after Mount St. Helens erupted is an Extraordinary Item (v1730.00), because the volcano had not erupted since logging began in Washington State. But frost damage to Florida citrus crops is not extraordinary, because freezing temperatures are anticipated every few years.

Exceptional items that do qualify for classification as extraordinary:

- Material gains and losses from early extinguishment of debt

- Tax benefits of loss carryforwards recognized in periods after the loss

(v1750.00) Net Income

After-tax Income Statement item is calculated as:

```
    (v1700.00)  Income After Taxes

+   (v2420.03)  Earnings from Investments: Equity

-   (v1720.00)  Minority Interest

+   (v1730.00)  Extraordinary Items


=   (v1750.00)  Net Income
```

(v1800.00) Preferred Dividends

Dividends (v1800.00), classified as a distribution of income, not as an expense, to be paid to holders of Preferred Stock (v2820).

(v1850.00) Income Available for Common Shareholders

Portion of Net Income (v1750) available to pay Common Dividends (v1900), calculated by Net Income (v1750) minus Preferred Dividends (v1800).

(v1880.00) Common Dividends

Cash dividends to be paid to holders of common stock. Using the default forecast method, enter this item in Absolute Currency amounts in historical periods and as a Percent of Net Income (v1750) in forecast periods.

(v1890.00) Affordable Dividend

Affordable dividend is a calculated account in all forecasted years. The calculation runs as a balancing account when using Target Capital Structure in Funding Options. This account is useful when a user must decrease their equity without selling shares.

(v1900.00) Total Common Dividends

Calculated account sums Common Dividends (v1880) and Affordable Dividends (v1890). This account does not allow for inputs or subaccounting. Total Asset Turnover (v6085.00)

Total Asset Turnover (v6085.00) is an activity ratio that shows how intensively the company's assets are being used. The ratio is calculated as follows:

Sales (Net) (v1030.00)

2000.xx:xxxx to 2999.xx:xxx Accounts

(v2000.00) Cash

(Increase in Cash (v2000.01))

Cash (v2000.00) includes these accounts recorded at their stated book value:

1. Currency and coins

2. Negotiable checks

3. Balances in bank accounts

For valuation purposes, enter in Cash (v2000.00) only the minimum balances necessary for normal operations; include excess cash in Marketable Securities (v2010). Minimum cash balances include such accounts as compensating balances required by loan agreements and the level of cash and bank balances necessary to fulfill daily transactions.

(v2005.00) Cash Used in Transaction

Cash used to finance an acquisition. It is related only to the acquisition and therefore is separate from the cash balance (v2000.00). This account is used to calculate the ending cash balance (v4630) on the Cash Flows report.

(v2010.00) Marketable Securities

(Increase in Marketable Securities (v2010.01))

Marketable Securities (v2010.00) are short-term investments intended to be held for no longer than one year), such as short-term certificates of deposit, Treasury bills, Treasury bonds, and cash not entered in Cash (v2000). Their value has generally been recorded at acquisition cost, although an increasing number of companies are stating these securities at the lower of acquisition cost or market value.

For valuation purposes, enter current market values, even if the resulting Balance Sheet does not tie to published financials.

(v2010.05) Interest on Marketable Securities

The pretax rate or dollar amount of interest you can expect to earn on Marketable Securities (v2010), such as government securities and certificates of deposit.

Interest on Marketable Securities (v2010.05) is input in history and forecast periods. The default forecast method for Interest on Marketable Securities (v2010.05) is as a Percent of Prior Period Marketable Securities (v2010). You can also use the Percent of Another Account or the Percent of Average Account forecast methods.

(v2010.06) Minimum Marketable Securities

This account allows you to specify a minimum balance to be maintained for Marketable Securities (v2010) in all periods. If Marketable Securities (v2010) is selected as a Cash Deficit account in Funding Options, and Specify minimum balance is selected in Advanced Options, Marketable Securities (v2010) does not fund below the specified minimum balance in this account. If this setting in Advanced Options is not selected, amounts entered in this account does not affect other calculations or accounts in your model.

(v2010.07) Maximum Marketable Securities

(Incr. in Maximum Marketable Securities (v2010.08))

Used to specify the maximum balance for Marketable Securities (v2010) to reach when Funding Options is accumulating a Cash Surplus.

(v2010.09) Balance Correction Marketable Securities

This account, calculated in all periods, receives amounts, generated by the balancing routine in Strategic Modeling, that must make the funds flow balance (sources and uses of funds) in the forecast period.

(v2015.00) Excess Marketable Securities

(Incr. in Excess Market. Securities (v2015.01))

Excess Marketable Securities (v2015.00), like Marketable Securities (v2010), are short-term investments. When all funding instruments are reduced and funds remain, Excess Marketable Securities (v2015.00) accumulates excess funds. This account is the first funding source in the case of a Cash Deficit. Like Long-Term Debt: Excess (v2690), most attributes related to this account are unchangeable. You cannot subaccount Excess Marketable Securities (v2015.00), which has an unlimited maximum balance. A minimum balance cannot be specified, and the Cash Surplus Account and Cash Deficit Account orders cannot be changed.

(v2015.05) Interest on Excess Mkt. Securities

Pretax rate or dollar amount of interest you can expect to earn on Excess Marketable Securities (v2015), such as government securities and certificates of deposit.

Interest on Excess Marketable Securities (v2015.05) is input in history and forecast periods. The default forecast method for Interest on Excess Marketable Securities (v2015.05) is as a Percent of Prior Period Excess Marketable Securities (v2015). You can also use the Percent of Another Account or the Percent of Average Account forecast methods.

(v2015.09) Balance Correction Excess Market Securities

This account, calculated in all periods, receives amounts, generated by the balancing routine in Strategic Modeling, that must make the funds flow balance (sources and uses of funds) in forecast periods.

(v2017.00) Total Marketable Securities

(Increase in Total Marketable Securities (v2017.01))

Balance Sheet account sums the two marketable securities accounts in:

```
  (v2010.00)  Marketable Securities

+ (v2015.00)  Excess Marketable Securities


= (v2017.00)  Total Marketable Securities
```

(v2020.00) Accounts Receivable

(Increase in Accounts Receivable (v2020.01))

Accounts Receivable (v2020.00) are accounts that the company expects debtors to pay within one year. Factors determining Accounts Receivable (v2020.00): volume of Sales (v1000), proportion of sales made on account (versus cash), company credit policy, and customers' financial health.

By entering the Increase in Accounts Receivable (v2020.01) as a Percent of Change in Sales (v1000), the default forecast method, you can account for the fact that additional investments in this working capital account usually are necessary for sales growth.

(v2030.00) Allowance for Doubtful Accounts

(Increase in Allowance for Doubtful Accounts (v2030.01))

This Balance Sheet account represents the estimated amount of Accounts Receivable (v2020) that you cannot collect.

(v2035.00) Net Accounts Receivable

(Increase in Net Accounts Receivable (v2035.01))

Balance Sheet account nets Accounts Receivable (v2020) and uncollectable amounts. The formula:

```
    (v2020.00)  Accounts Receivable

-   (v2030.00)  Allowance for Doubtful Accounts



=   (v2035.00)  Net Accounts Receivable
```

(v2040.00) Inventory

(Increase in Inventory (v2040.01))

This account on the Balance Sheet represents:

1. For manufacturing firms: the total of Raw Materials, Work in Progress, and Finished Goods, recorded at the lower of cost or market value. (Or, using the Financial Accounts view, you can define subaccounts for each category.)

2. For non-manufacturing firms: total purchases

By entering the Increase in Inventory (v2040.01) as a Percent of Change in Sales (v1000), the default forecast method, you can account for the fact that additional investments in working capital usually are necessary to support sales growth. If you prefer, select the alternative forecast method, Turns, and enter your forecast data as an inventory turnover rate. Or select the Days forecast method and enter the number of inventory days. In both cases, specify the Associated Account as Cost of Goods Sold (v1040), or a subaccount of this account denoting goods purchased.

(v2050.00) Notes Receivable

(Increase in Notes Receivable (v2050.01))

Face value of outstanding notes that the company expects to collect within one year. Notes Receivable (v2050.00) usually differs from trade accounts in two ways:

1. Notes Receivable (v2050.00) are evidenced by a formal promissory note, whereas Accounts Receivable (v2020) involve only an informal promise to pay.

2. Notes Receivable (v2050.00) often earn interest, whereas Accounts Receivable (v2020) usually do not.

Any interest income from Notes Receivable (v2050.00) can be entered into Other Interest Income (v1220).

(v2060.00) Prepaid Expenses

(Increase in Prepaid Expenses (v2060.01))

Advance payments for future services. Examples of Prepaid Expenses (v2060.00) include rent and insurance premiums paid in advance.

(v2070.00) Intercompany Current Assets

(Increase in Intercompany Current Assets (v2070.01))

Carrying accounts that often are maintained between companies within a consolidated group. Depending on funding policies of the parent company, the balance may consistently be in a net asset or net liability position. The position may be represented by using Intercompany Current Assets (v2070.00) or Intercompany Current Liabilities (v2540).

(v2080.00) Current Deferred Tax Assets

(Increase in Current Deferred Tax Asset (v2080.01))

Temporary differences may lead to recording a Deferred Tax Asset (v2350); that is, a future expected tax benefit. The portion of the tax benefit that reverses within a year is a current asset, recorded in the Current Deferred Tax Asset (v2080.00) account.

See (v2510.05 Interest on Current Portion Long-Term Debt.

(v2090.00) Other Current Assets—Operating

(Increase in Other Current Assets— Operating (v2090.01))

Balance Sheet account includes other assets, which you expect to turn into cash, sell, or exchange within the usual operating cycle of the company (typically one year), to exclude from the other current asset categories (v2000 through v2070).

To rename this account, go to the Financial Accounts view. If you rename this account, you should also rename the related funds flow account Increase in Other Current Assets (v2090.01).

(v2095.00) Other Current Assets—Non-Operating

(Increase in Other Current Assets—Non-Operating (v2095.01))

Nonoperating assets that you expect to turn into cash, sell, or exchange within the normal operating cycle (typically one year). Entries are not included in Cash Flow from Operations (v4100).

(v2100.00) Total Current Assets

(Increase in Total Current Assets (v2100.01))

This Balance Sheet account represents the total of Current Asset accounts (v2000, v2017, v2035, v2040, v2050, v2060, v2070, v2080 v2090 and v2095).

(v2170.00) Gross Fixed Assets

For historical periods, enter the total Gross Fixed Assets in (v2170.00) as it appears on the Balance Sheet. In forecast periods, you can forecast Gross Fixed Assets (v2170.00) or Gross Retirements (v2170.03). Strategic Modeling calculates Gross Fixed Assets (v2170.00) in forecast periods by default, where you are forecasting and entering Gross Retirements (v2170.03) as follows:

```
    (v2170.00)  Gross Fixed Assets (prior period)

+   (v2170.01)  Fixed Capital Investment

-   (v2170.03)  Gross Retirements
```

```
=    (v2170.00)  Gross Fixed Assets (current period)
```

or you can forecast and enter the ending balance for Gross Fixed Assets (v2170.00) and Gross Retirements (v2170.03) is calculated:

```
     (v2170.00)  Gross Fixed Assets (prior period)

+    (v2170.01)  Fixed Capital Investment

-    (v2170.00)  Gross Fixed Assets (current period)


=    (v2170.03)  Gross Retirements
```

You must enter Fixed Capital Investment (v2170.01) and Gross Retirements (v2170.03) or Fixed Capital Investment (v2170.01) and Gross Fixed Assets (v2170.00). Strategic Modeling calculates the remaining account.

(v2170.01) Fixed Capital Investment

This account represents total Fixed Capital Investment (v2170.01) for both new and replacement equipment included in Gross Fixed Assets (v2170). Use this account to enter all fixed capital investment (as listed in the Investing Cash Flow section of most FASB Cash Flow Statements).

(v2170.03) Gross Retirements

Reductions in Gross Fixed Assets (v2170) resulting from assets scrapped, retired, or sold. In cases in which assets were sold, you can enter the sale proceeds in Proceeds from Asset Sales (v4000) in the forecast periods.

(v2190.00) Accumulated Depreciation

For historical periods, enter the total Accumulated Depreciation as it appears on the Balance Sheet. In forecast periods, you can forecast Accumulated Depreciation (v2190.00) or Accumulated Depreciation on Retirements (v2190.03). Strategic Modeling calculates Accumulated Depreciation (v2190.00) in forecast periods by default, where you are forecasting and entering Accumulated Depreciation on Retirements (v2190.03) as follows:

```
  (v2190.00)  Accumulated Depreciation (prior period)

+ (v2190.01)  Depreciation Expense

- (v2190.03)  Accumulated Depreciation on Retirements


= (v2190.00)  Accumulated Depreciation
```

or you can forecast and enter the ending balance for Accumulated Depreciation (v2190.00) and Accumulated Depreciation on Retirements (v2190.03) is calculated:

```
  (v2190.00)  Accumulated Depreciation (prior period)

+ (v2190.01)  Depreciation Expense

- (v2190.00)  Accumulated Depreciation
```

```
= (v2190.03)  Accumulated Depreciation on Retirements
```

You must enter Depreciation Expense (v2190.01) and Accumulated Depreciation on Retirements (v2190.03) or Depreciation Expense (v2190.01) and Accumulated Depreciation (v2190.00). Strategic Modeling calculates the remaining account.

(v2190.01) Depreciation Expense (Funds)

The key depreciation account in Strategic Modeling must be entered in historical and forecast periods. This account is used on the Balance Sheet to calculate Accumulated Depreciation (v2190.00) and also on the Cash Flow Statement as an adjustment to Net Income (v1750).

Any depreciation expense amount entered on the Income Statement into accounts such as Depreciation Expense (v1110), Cost of Goods Sold (v1040) or SG&A Expense (v1080), is used in calculations on the Income Statement only and is not included in calculations on the Cash Flow Statement.

The default forecast method for Depreciation Expense (Funds) (v2190.01) is as a Percent of Prior Period Gross Fixed Assets (v2170).

(v2190.03) Accumulated Depreciation on Retirements

This account represents the total accumulated depreciation for an asset that is being retired or sold. The default forecast method for this account is as a percent of Gross Retirements (v2170.03).

(v2200.00) Net Fixed Assets

(Increase in Net Fixed Assets (v2200.01))

Balance Sheet account deducts Accumulated Depreciation (v2190) from Gross Fixed Assets (v2170):

```
    (v2170.00)  Gross Fixed Assets

-   (v2190.00)  Accumulated Depreciation


=(v2200.00)  Net Fixed Assets
```

(v2380.00) Deferred Tax Asset

(Increase in Deferred Tax Asset (v2380.01))

Temporary differences may lead to the recording of a Deferred Tax Asset (v2380.00) which is a future expected tax benefit. The portion of the tax benefit that reverses after a year is a non-current asset, recorded in the Deferred Tax Asset (v2380.00) account.

See (v1660.00) Deferred Provision for Income Taxes.

(v2390.00) Land

(Additions to Land (v2390.01))

The total acquisition cost of all Land (v2390.00) plus non-depreciable land improvements.

Additions to Land (v2390.01) are assumed to affect the ongoing productive capacity of the company, much like Fixed Capital Investment (v2170.01). As a result, Additions to Land (v2390.01) is included in the calculation of Cash Flow from Operations (v4100).

(v2400.00) Goodwill

Includes goodwill and other intangible assets for which amortization is not deductible for federal income tax purposes. All other intangible assets should be classified as Other Intangibles (v2410). These assets include mailing lists, organization costs, licenses, franchises, and permits (for exploration, import, export, and construction).

Using the default forecast method, enter only the annual additions to this account in the forecast period. Strategic Modeling calculates the balance, after deducting amortization charges, which you enter in Amortization of Goodwill (v2400.03):

```
    (v2400.00)  Goodwill (prior period)

+   (v2400.01)  Additions To Goodwill

-   (v2400.03)  Amortization of Goodwill


=   (v2400.00)  Goodwill
```

(v2400.01) Additions to Goodwill

This funds flow account represents additions to the Goodwill account (v2400) over the last year. Goodwill results from the purchase of identifiable assets at a cost exceeding the fair-market value. Additions to Goodwill (v2400.01) most commonly occur as a result of a merger or acquisition in which the purchase method of accounting is used. If the buyer pays a price that exceeds the fair value of the seller's revalued assets, the excess must be recorded as Goodwill (v2400) on the Balance Sheet of the combined companies.

(v2400.03) Amortization of Goodwill

This Balance Sheet account is the period-by-period allocation of the cost of the intangible assets included in Goodwill (v2400). Goodwill must be amortized over a period no longer than 40 years. Because this amortization is deducted for computing Operating Profit (v1150), but is not deductible for federal income tax purposes, it is added back to Earnings Before Taxes (EBT) (v1600.00) to arrive at Taxable Income.

The amount of Amortization of Goodwill (v2400.03) entered into the forecast period decreases the Balance Sheet amount of Goodwill (v2400).

(v2410.00) Other Intangibles

Goodwill (v2400) includes goodwill and other intangible assets for which the amortization is not deductible for federal income tax purposes. Classify all other intangible assets—accounts such as mailing lists, organization costs, licenses, franchises, and permits (for exploration, import, export, and construction—as Other Intangibles (v2410.00).

Using the default forecast method, enter only the annual additions to this account in the forecast period. Strategic Modeling calculates the balance after deducting amortization charges, which you enter in Amortization of Other Intangibles (v2410.03):

```
    (v2410.00)  Other Intangibles (prior period)

+   (v2410.01)  Additions to Other Intangibles

-   (v2410.03)  Amortization of Other Intangibles
```

```
=    (v2410.00)  Other Intangibles
```

(v2410.01) Additions to Other Intangibles

This account represents the additions to the Other Intangibles account (v2410) from the prior period.

(v2410.03) Amortization of Other Intangibles

This account refers to the period-by-period allocation of the acquisition cost of intangibles other than Goodwill (v2400). Typically, these assets have a limited useful life, and their amortization is deductible for federal income tax purposes. Entry of Amortization of Other Intangibles (v2410.03) in the forecast period automatically reduces the amount of Other Intangibles (v2410) on the Balance Sheet.

Examples of intangibles:

- Copyrights, patents, and trademarks

- Organization costs

- Franchises

- Capitalized advertising costs

- Mailing lists

- Licenses

- Permits (for exploration, import/export, construction)

- Leases

(v2420.00) Investments: Equity Method

(Increase in Investments: Equity Method (v2420.01))

This balance sheet account represents investments in companies that are reported using the Equity Method (specified by APB 18). This method applies when the company:

1. Owns at least 20% but not more than 50% of the subsidiary's stock; and,

2. Intends to hold the investment for years.

In the forecast periods, by default, Strategic Modeling forecasts this account as the Increase in Investments: Equity Method (v2420.01):

```
     (v2420.00)  Investments: Equity Method (prior period)

+    (v2420.01)  Increase in Investments:  Equity

+    (v2420.03)  Earnings from Investments:  Equity

-    (v2420.05)  Dividends from Subsidiaries


=    (v2420.00)  Investments: Equity Method
```

(v2420.03) Earnings from Investments: Equity Method

Nonoperating Income Statement item accounts for the after-tax earnings from investments in unconsolidated subsidiaries in which the investing company holds at

least 20% but less than 50% of the stock. Under the Equity Method, specified in APB 18, the investing company's proportionate share of the subsidiary's net income is included in the investing company's Net Income (v1750). For reporting purposes, the Balance Sheet investment account, Investments: Equity Method (v2420), is increased by earnings recognized in income. Enter Earnings from Investments: Equity Method (v2420.03) as an after-tax amount.

Notice that a corporation that accounts for an investment using the Equity Method receives only a portion of its total earnings in cash (as dividends).

(v2420.05) Dividends from Subsidiaries

Cash dividends received from investments in companies for which the Equity Method of accounting is used.

Under this method, the company's initial investment is recorded at acquisition cost. In each period, the account value increases automatically by the amount in Earnings from Investments: Equity (v2420.03) on the Balance Sheet, the account that recognizes the company's proportionate share of the earnings of the stock-issuing company.

Dividends recorded in Dividends from Subsidiaries (v2420.05), reduce the balance in this investments account.

Further adjustment may be necessary to ensure that the account balance reflects the lower of historic cost or market value as required by APB 18.

(v2430.00) Investments: Cost Method

(Increase in Investments: Cost Method (v2430.01))

This Balance Sheet account represents long-term investments in companies that are reported using the Cost Method. This method applies when the investing company lacks "significant influence," presumably holding less than 20% of the stock, and intends to hold the investment for years.

The investing company reports these investments based on acquisition cost or market value, whichever is lower. If the investment is in the form of non-equity or non-marketable securities, it is recorded at acquisition cost.

Any dividends from these investments can be entered in Dividends from Investments: Cost (v1190).

(v2440.00) Other Assets

(Increase in Other Assets (v2440.01))

Long-term assets to exclude from other long-term asset accounts (v2170 through v2430)

To rename this account, use the Financial Accounts view. If you rename this account, you should rename the related funds flow account Increase in Other Assets (v2440.01).

(v2460.00) Long-Term Funding Asset

(Increase in Long-Term Funding Asset (v2460.01))

Another funding asset account that appears as a non-current asset. Use this account to model intercompany funding or long-term assets that might be liquidated for funding purposes. Long-Term Funding Asset (v2460.00) can be selected as a Cash Surplus and/or Deficit account within Funding Options.

(v2460.05) Interest on Long-Term Funding Asset

Pretax rate or dollar amount of interest you can expect to earn on Long-Term Funding Asset (v2460).

Interest on Long-Term Funding Asset (v2460.05) is input in history and forecast periods. The default forecast method for Interest on Long-Term Funding Asset (v2460.05) is as a Percent of Prior Period Long-Term Funding Asset (v2460).

(v2460.06) Minimum Long-Term Funding Asset

This account allows you to specify a minimum balance to be maintained for Long-Term Funding Asset (v2460) in all periods. If Long-Term Funding Asset (v2460) is selected in Funding Options and Specify Minimum Balance is not selected in Advanced Options, amounts entered in this account do not affect other calculations or accounts in your model.

(v2460.07) Maximum Long-Term Funding Asset

(Increase in Maximum Long-Term Funding Asset (v2460.08))

Used to specify the maximum balance for the Long-Term Funding Asset to reach when Funding Options is accumulating a Cash Surplus.

(v2460.09) Balance Correction Long-Term Funding Asset

This account, calculated in all periods, receives amounts, generated by the balancing routine in Strategic Modeling, that are required to make the funds flow balance.

(v2470.00) Non-Current Operating Asset

(Increase in Non-Current Operating Asset (v2470.01))

This account, which can be used to represent operating long-term assets, is included in the Cash Flow from Operations (v4100) and as a result in the calculation of Shareholder Value (v5070).

(v2480.00) Total Non-Current Assets

(Increase in Total Non-Current Assets (v2480.01))

This account, which sums non-current assets, is calculated as:

```
  (v2200.00)  Net Fixed Assets

+ (v2380.00)  Deferred Tax Asset

+ (v2390.00)  Land

+ (v2400.00)  Goodwill

+ (v2410.00)  Other Intangibles

+ (v2420.00)  Investments: Equity Method

+ (v2430.00)  Investments: Cost Method

+ (v2440.00)  Other Assets

+ (v2460.00)  Long-Term Funding Asset

+ (v2470.00)  Non-Current Operating Assets


= (v2480.00)  Total Non-Current Assets
```

(v2490.00) Total Assets

(Increase in Total Assets (v2490.01))

Balance Sheet account consists of the sum of all current and non-current assets:

```
 (v2100.00)   Total Current Assets

+ (v2480.00)   Total Non-Current Assets



= (v2490.00)   Total Assets
```

(v2490.00) Total Assets

Best evaluated by analyzing the changes in turnover rates of individual asset categories such as Fixed Asset Turnover (v6080), Inventory Turnover (v6075), and Days in Receivables (v6065). Total Assets (v2490) is based on historical costs and depreciation policy. A high Total Asset Turnover (v6085.00) ratio does not mean you could buy replacement assets today and achieve the same efficiency.

(v2500.00) Accounts Payable

(Increase in Accounts Payable (v2500.01))

Accounts Payable (v2500.00), also referred to as "Trade Accounts Payable," are current liabilities. They represent debts that must be paid within the next year.

By entering the Increase in Accounts Payable (v2500.00) (a working capital account) as a Percent of the Change in Sales (v1000), you can account for the fact that the additional investments in working capital necessary to support sales growth usually can be partly financed with trade credit.

You can select the alternative forecast method, Days, and enter your forecast data in terms of Days in Payables, where the Associated Account is Cost of Goods Sold (v1040), or a subaccount of Cost of Goods Sold (v1040) denoting purchases.

(v2510.00) Current Portion of Long-Term Debt

(Increase in Current Portion of Long-Term Debt (v2510.01))

Portion of bonds, mortgage notes, and other long-term scheduled debt that matures (that is, for which some principal must be repaid) during the next fiscal year. This account refers only to repayment of the principal (face value), not to interest.

If part of a long-term obligation matures within the next year (such as serial bonds repaid in annual installments), classify the maturing portions in this account and include the balance of the obligation under Long-Term Debt: Scheduled (v2660).

(v2510.05 Interest on Current Portion Long-Term Debt

Interest expense you expect the company to pay on the Current Portion of Long-Term Debt (v2510).

Interest on Current Portion Long-Term Debt (v2510.05) is input in history and forecast periods. The default forecast method for Interest on Current Portion Long-Term Debt (v2510.05) is as a Percent of Prior Period Current Portion Long-Term Debt (v2510).

(v2520.00) Notes Payable

(Increase in Notes Payable (v2520.01))

Notes Payable (v2520) are current liabilities (payable within one year), including:

1. Trade Notes: Unpaid face amount of promissory notes for goods and services

2. Short-Term Loan Notes: Face amount of loans payable within one fiscal year

In historical periods, enter a currency amount. In forecast periods, enter the currency amount of Notes Payable (v2520.00) or choose another forecast method. For example, you can enter a Freeform formula to forecast the Maximum Notes Payable (v2520.07).

(v2520.05) Interest on Notes Payable

Interest expense you expect the company to pay on Notes Payable (v2520).

Interest on Notes Payable (v2520.05) is input in history and forecast periods. The default forecast method for Interest on Notes Payable (v2520.05) is as a Percent of Prior Period Notes Payable (v2520).

(v2520.06) Minimum Notes Payable

Allows you to specify a minimum balance to be maintained for Notes Payable (v2520) in all periods, if Notes Payable (v2520) is specified as a Revolver in Funding Options. If Notes Payable (v2520) is selected as a Cash Deficit account in Funding Options, and Specify minimum balance is selected in Advanced Options, Notes Payable (v2520) does not fund below the specified minimum balance in this account. If this setting in Advanced Options is not selected, and Notes Payable (v2520) is not specified as a Revolver in Funding Options, amounts entered in this account do not affect other calculations or accounts in your model.

(v2520.07) Maximum Notes Payable

(Increase in Maximum Notes Payable (v2520.08))

Used to specify the maximum balance for Notes Payable (v2520) to reach when Funding Options is accumulating a Cash Surplus and Notes Payable (v2520) is specified as a Revolver.

(2520.09) Balance Correction Notes Payable

This account, calculated in all periods, receives amounts, generated by the balancing routine in Strategic Modeling, that are required to make the funds flow balance (sources and uses of funds) in the forecast periods.

(v2525.00) Accrued Interest

(Increase in Accrued Interest (v2525.01))

The Increase in Accrued Interest (v2525.01) is included in Non-Operating Sources (v4110) on the Cash Flow Statement and in Cash bef. External Financing (v4440) on the Indirect Cash Flow Statement.

(v2590.00) Other Current Liabilities—Operating

(Increase in Other Current Liabilities—Operating (v2590.01))

Use this operating account to include current liabilities that you do not want to include in the other current liability accounts. This account can be useful for incorporating accounts such as:

- Accrued liabilities

- Payroll taxes payable

- Unremitted payroll withholding and sales taxes

- Advances from customers

- Rent received in advance

To rename this account, use the Financial Accounts view. If you do rename this account, you should also rename the related funds flow account Increase in Other Current Liabilities—Operating (v2590.01).

(v2530.00) Income Taxes Payable

(Increase in Income Taxes Payable (v2530.01))

The current portion of the company's income tax provision that has not been remitted. It is an operating account.

(v2540.00) Intercompany Current Liabilities

(Increase in Intercompany Current Liabilities (v2540.01))

The carrying accounts often maintained between companies within a consolidated group. Depending on funding policies of the parent company, the balance may consistently be in a net asset or net liability position. The position may be represented by using Intercompany Current Assets (v2070) or Intercompany Current Liabilities (v2540.00).

(v2580.00) Current Deferred Tax Liability

(Increase in Current Deferred Tax Liability (v2580.01))

Portion of the tax benefit attributable to temporary differences that reverse within a year is a current liability, such as installment sales, recorded in Current Deferred Tax Liability (v2580.00).

See (v1660.00) Deferred Provision for Income Taxes.

(v2595.00) Other Current Liabilities—Non-Operating

This account represents nonoperating liabilities you expect to owe within the normal operating cycle of the company (typically one year). Entries to this amount are not included in Cash Flow from Operations (v4100), and as a result the calculation of Shareholder Value (v5070).

(v2600.00) Total Current Liabilities

(Increase in Total Current Liabilities (v2600.01))

Balance Sheet account consists of the sum of Current Liabilities:

```
  (v2500.00)   Accounts Payable

+ (v2510.00)   Current Portion of Long-Term Debt

+ (v2520.00)   Notes Payable

+ (v2525.00)   Accrued Interest

+ (v2530.00)   Income Taxes Payable

+ (v2540.00)   Intercompany Current Liabilities

+ (v2580.00)   Current Deferred Tax Liability

+ (v2590.00)   Other Current Liabilities

+ (v2595.00)   Other Current Liabilities - Non-Operating


= (v2600.00)   Total Current Liabilities
```

(v2660.00) Long-Term Debt: Scheduled

(Increase in Long-Term Debt: Scheduled (v2660.01))

The face value of long-term obligations such as bonds, term debt, mortgages, and capitalized lease obligations. This account should not include long-term debt that matures during the current fiscal year; enter that portion in Current Portion Long-Term Debt (v2510).

In history, input your actual balances. In forecast periods, you can forecast the period-by-period outstanding balance or the increase in the balance of Long-Term Debt: Scheduled (v2660).

This account can be used as a term loan or revolving credit facility (Revolver) and can be adjusted in Funding Options.

(v2660.03) Non-Cash Interest on Long-Term Debt: Scheduled

Non-operating account used to calculate the noncash portion of interest expense on scheduled debt account. noncash interest typically takes the form of zero-coupon (deep-discount) debt or payments in kind (PIKs). Enter this account as a rate or as a currency amount, depending on the forecast method you choose.

Amounts entered into this account accrete to Long-Term Debt: Scheduled (v2660). For interest coverage ratio purposes, this account is ignored, because coverage ratios usually reflect cash-on-cash coverage, not accruals.

(v2660.06) Minimum Long-Term Debt: Scheduled

Allows you to specify a minimum balance to be maintained for Long-Term Debt: Scheduled (v2660) in all periods, if Long-Term Debt: Scheduled (v2660) is specified as a Revolver in Funding Options. If Long-Term Debt: Scheduled (v2660) is selected as a Cash Deficit account in Funding Options, and Specify Minimum Balance is selected in Advanced Options, Long-Term Debt: Scheduled (v2660) does not fund below the specified minimum balance in this account. If this setting in Advanced Options is not selected, and Long-Term Debt: Scheduled (v2660) is not specified as a Revolver in Funding Options, amounts entered in this account do not affect other calculations or accounts in your model.

(v2660.07) Maximum Long-Term Debt: Scheduled

(Increase in Maximum Long-Term Debt: Scheduled (v2660.08))

Used to specify the maximum balance for Long-Term Debt: Scheduled (v2660) to reach when it is specified as a Revolver in Funding Options.

(v2660.09) Balance Correction Long-Term Debt: Scheduled

This account, calculated in all periods, receives amounts, generated by the balancing routine in Strategic Modeling, that must make the funds flow balance (sources and uses of funds) in the forecast period.

(v2690.00) Long-Term Debt: Excess

(Increase in Long-Term Debt: Excess (v2690.01))

The last source of funds in the case of a cash deficit. When all sources of funding (such as revolvers and funding assets) are exhausted, Funding Options borrows from Long-Term Debt: Excess (v2690.01), a revolving account with an infinite ceiling. In the event of a cash surplus, this account is repaid first. Most attributes related to this account are unchangeable. Long-Term Debt: Excess (v2690.01) has an unlimited maximum; a minimum balance cannot be specified; and the Cash Surplus Account and Cash Deficit Account orders cannot be changed within Funding Options.

(v2690.09) Balance Correction Long-Term Debt: Excess

This account, calculated in all periods, receives amounts, generated by the balancing routine in Strategic Modeling, that are required to make the funds flow balance (sources and uses of funds) in the forecast period.

(v2700.00) Total Long-Term Debt

(Increase in Total Long-Term Debt (v2700.01))

Summary Balance Sheet account represents the total face value of all long-term debt instruments (bonds, mortgages, long-term notes, etc.). Total Long-Term Debt excludes the Current Portion of Long-Term Debt (v2510). This is account is calculated as follows:

```
  (v2660.00)  Long-Term Debt:  Scheduled

+ (v2690.00)  Long-Term Debt:  Excess



= (v2700.00)  Total Long-Term Debt
```

(v2760.00) Other Deferrals

(Increase in Other Deferrals (v2760.01))

Long-term liability account in which you can record customer deposits and deferred compensation. Changes appear in Cash Flow from Operations (v4100).

(v2770.00) Deferred Income Taxes

(Increase in Deferred Income Taxes (v2770.01))

A deferred income tax liability results from timing differences in the recognition of some revenue and expense accounts for book and tax purposes.

As a result of these timing differences, the total tax expense reported on the Balance Sheet may not equal the income tax paid during the year. The difference between the accounts equals Deferred Income Taxes (v2770.00), which includes changes in current and non-current deferred tax assets and liabilities for that year.

(v2780.00) Minority Interest

(Increase in Minority Interest (v2780.01))

If the company you are analyzing (Company A) owns more than 50% but less than 100% of another company (Company B), it typically consolidates the financial statements of the two models. To recognize that a portion of the combined company's income and assets do not belong to the shareholders of Company A, Minority Interest accounts appear on both the Income Statement (v1720), as a deduction, and on the Balance Sheet (v2780.00), as an equity account. This account should be entered as an after-tax amount.

For example:

Assume Company A owns 60% of Company B, and Company A produces consolidated financial statements combining the two companies. All of Company B's earnings ($20 million) and equity ($100 million) are included in Company A's Income Statement and Balance Sheet. But because Company B's other shareholders own 40% of the earnings and equity contributed by Company B, Minority Interest (v1720, v2780.00) must be recorded as follows:

Minority Interest (v1720):

40% * \$20 million = \$8 million

Minority Interest (v2780.00):

40% * \$100 million = \$40 million

(v2785.00) Non-Current Operating Liability

(Increase in Non-Current Operating Liability (v2785.01))

This account, which can be used to represent operating long-term liabilities, is included in the Cash Flow from Operations (v4100), and, as a result, in the calculation of Shareholder Value (v5070).

(v2790.00) Other Liabilities

(Increase in Other Liabilities (v2790.01))

You can use these nonoperating accounts to include additional long-term liabilities that you want to exclude from other long-term liability accounts.

To rename Other Liabilities (v2790.00), use the Customize Accounts option. If you rename the account, rename the related funds flow account Increase in Other Liabilities (v2790.01).

(v2795.00) Total Non-Current Liabilities

(Increase in Total Non-Current Liabilities (v2795.01))

Balance Sheet account is calculated as:

```
  (v2700.00)  Total Long-Term Debt

+ (v2760.00)  Other Deferrals

+ (v2770.00)  Deferred Income Taxes

+ (v2785.00)  Non-Current Operating Liability

+ (v2790.00)  Other Liabilities


= (v2795.00)  Total Non-Current Liabilities
```

(v2800.00) Total Liabilities

(Increase in Total Liabilities (v2800.01))

Calculated Balance Sheet account represents the sum of all Current and Long-Term Liabilities.

```
  (v2600.00)  Total Current Liabilities

+ (v2795.00)  Total Non-Current Liabilities


= (v2800.00)  Total Liabilities
```

(v2820.00) Preferred Stock

Total cash received for preferred shares, including:

1. The par value ("face" or "stated" value) before shares are issued

2. Any additional paid-in capital

For example, if a company issues 1,000 preferred shares with a par value of $20 per share and sells them at $25 per share, it would record the Preferred Stock at $25,000 ($20,000 par value plus $5,000 additional paid-in capital). Preferred Stock generally is treated as debt in Strategic Modeling because, in the event of liquidation, holders of preferred stock, like holders of debt, are given priority over dividends and assets. Therefore, Preferred Stock (v2820.00) is:

1. Subtracted with other debt accounts from Corporate Value (v5060) to compute Shareholder Value (v5070); and

2. Included with debt accounts, in the Debt/Equity Ratio (v6040) and in calculating Unused Debt Capacity (v3560).

(v2820.01 Proceeds from the Sale of Preferred Stock

Total cash received from the issuance of additional Preferred Stock (v2820). The total cash received equals the par value of issued stock plus additional paid-in capital.

(v2820.06 Minimum Preferred Stock

Used for funding options. Enter a minimum, or lower-bound, value for preferred stock. To not calculate a number below this value, select **Minimum** on **Common Tab** of the **Funding Options** dialog.

(v2820.07 Maximum Preferred Stock

A funding options account calculated in Strategic Modeling in all forecasted periods. This account requires a maximum, or upper-bounded, value. The Maximum value can be entered in on the input sheet in the main account, otherwise known as the xxx. 00:xxxx account. When calculated, the maximum value appears in this xxx.07.xxxx account. The Maximum Preferred Stock account displays the input entered in the xxx. 00:xxxx account.

(v2820.09 Balance Correction Preferred Stock

This account, calculated in all periods, receives amounts, generated by the balancing routine in Strategic Modeling, that must make the funds flow balance (sources and uses of funds) in the forecast periods.

(v2830.00) Common Stock (Par Value)

Par value of stock (also called "face value" or "stated value"), which is established before it is issued.

For example, if a company issues 2,000 shares of Common Stock with par value of $15 per share and sells them at $20, it would record Common Stock of $30,000 and Additional Paid-In Capital (v2832.00) of $10,000. You can use this account to forecast additions to and reductions of common equity in forecast periods.

(v2830.01 Proceeds from the Sale of Common Stock and Paid-in Capital

Total cash received from the issuance of additional Common Stock and Paid-in Capital (v2830).

The total cash received equals the par value of the issued stock plus additional paid-in capital.

(v2832.00) Additional Paid in Capital (Common Stock)

Additional Paid in Capital is the total value of common stock less the total par value of common stock. It is generally defined as the total market value of common stock that has appreciated beyond the face value of the stock.

(v2835.00) Total Common Stock

Total Common Stock is a calculated account that sums the Common Stock at Par value (v2830.00) with the Common Stock for Additional Paid in Capital (v2832.00).

(v2836.00) Treasury Stock

Par value of Common Stock that is issued simultaneously and has been repurchased by the company. This value has not been retired but is being held by the company. Similar to Common Stock, there is an Additional Paid in Capital due to Treasury Stock (v2838.00).

(v2840.00) Common Stock (Net of Treasury)

Calculated account in Strategic Modeling. It indicates how much larger (smaller) the value of common stock is to treasury stock. The calculation:

```
  Common Stock (at Par Value) (v2830.00)

+ Common Stock Additional Paid in Capital (v2832.00)

- Treasury Shares (Par Value) (v2836.00)

+ Treasury Shares Additional Paid in Capital  (v2838.00


= Common Stock (Net of Treasury) (v2840.00)
```

(v2850.00) Retained Earnings

(Increase in Retained Earnings (v2850.01))

This calculated equity account on the Balance Sheet represents the Net Income (v1750) accumulated over the life of a corporation, less cumulative dividends and adjustments. In history, Retained Earnings (v2850.00) is calculated as Total Assets (v2490) less the sum of all liabilities (v2800) and equities other than Retained Earnings (v2850.00).

In historical periods, this account is calculated as:

```
  (v2490.00)  Total Assets

- (v2800.00)  Total Liabilities

- (v2780.00)  Minority Interest

- (v2820.00)  Preferred Stock

- (v2840.00)  Common Stock (Net of Treasury)

- (v2870.00)  Currency Translation Adjustments

- (v2880.00)  Other Equity


= (v2850.00)  Retained Earnings
```

In forecast periods, Retained Earnings (v2850.00) is calculated as:

```
  (v2850.00)  Retained Earnings (prior period)

+ (v1750.00)  Net Income
```

```
- (v1800.00)  Preferred Dividends

- (v1900.00)  Common Dividends

+ (v3000.00)  Funds Flow Adj: Source

- (v3020.00) Funds Flow Adj: Use


= (v2850.00)  Retained Earnings
```

These methods of determining Retained Earnings should yield the same result due to the interrelationships among the Balance Sheet, Funds Flow Statement, and the Income Statement. They may yield different results in historical periods if a transaction that affects equity but does not flow through the Balance Sheet is reflected on the historical financials you are replicating.

If this occurs, a warning message is printed on your reports indicating an out-of-balance condition. You will get this message if the out-of-balance condition in history is due to a data-entry error.

(v2865.00) Prior Retained Earnings

The prior period Retained Earnings on the Statement of Retained Earnings.

(v2867.00) Retained Earnings Variance

Calculates variances in beginning and ending Retained Earnings (v2850) other than Net Income (v1750), Dividends (v1800, v1900), and Funds Flow Adjustments (v3000, v3020). It appears on the Statement of Retained Earnings. This account can be used for troubleshooting a Funds Flow out-of-Balance error and is calculated as follows:

```
  (v2850.00)  Retained Earnings (prior period)

+ (v1750.00)  Net Income

- (v1800.00)  Preferred Dividends

- (v1900.00)  Common Dividends

+ (v3000.00)  Funds Flow Adj: Source

- (v3020.00)  Funds Flow Adj: Use

- (v2850.00)  Retained Earnings


= (v2870.00)  Retained Earnings Variance
```

(v2870.00) Currency Translation Adjustments

(Increase in Currency Translation Adjustments (v2870.01))

Account for the effect of nonmonetary foreign currency translations using this account.

(v2880.00) Other Equity

(Increase in Other Equity (v2880.01))

This account can be used to account for other equity items such as: Treasury Stock and Pension Liability Adjustments.

To rename this account, use the Financial Accounts view. If you rename this account, you should also rename the related funds-flow account Increase in Other Equity (v2880.01).

(v2890.00) Common Equity

No. of Common Shares Year End (v3400.00)

Capital Charge (BV * RROC) (v5730.00)

The Capital Charge is the amount, calculated by multiplying Adjusted Book Value in the prior period (v5725) by RROC (v5700), that a firm is charged for its invested capital.

(v2890.00) Common Equity

(Increase in Common Equity (v2890.01))

This Balance Sheet account is calculated as:

```
  (v2830.00)  Common Stock and Paid in Capital

+ (v2850.00)  Retained Earnings

+ (v2870.00)  Currency Translation Adjustments

+ (v2880.00)  Other Equity


= (v2890.00)  Common Equity
```

(v2895.00) Total Equity

(Increase in Total Equity (v2895.01))

Total Equity (v2895.01) is calculated as:

```
  (v2780.00)  Minority Interest

+ (v2820.00)  Preferred Stock

+ (v2890.00)  Common Equity


= (v2895.00)  Total Equity
```

(v2900.00) Total Liabilities and Equity

(Increase in Total Liabilities and Equity (v2900.01))

Calculated Balance Sheet account consists of the sum of all liability and equity accounts:

```
  (v2800.00)  Total Liabilities

+ (v2895.00)  Total Equity

= (v2900.00)  Total Liabilities and Equity
```

```
+ (v1240.00)  Total Interest Income

= (v1600.00)  Earnings Before Taxes
```

3000.xx:xxx to 3999.xx:xxx Accounts

(v3000.00) Funds Flow Adjustment: Sources

Sources of funds not captured by other funds flow accounts.

This account directly affects the Retained Earnings (v2850) account and could throw your Funds Flow Statement out of balance.

(v3008.00) Debt Schedule Interest Currency Translation Adjustments

When Currency Translator is used with a Debt Schedule, this account sums .54 and .64 accounts and subtracts the total in the formula for Total Sources of Funds (v3010).

(v3010.00) Total Sources of Funds

This funds flow account consists of all sources of accounting "funds" for any period. The formula:

```
  (v1750.00)  Net Income

- (v1170.00)  Gain on Sale of Assets

- (v2420.03)  Earnings from Investments: Equity

+ (v4000.00)  Proceeds from Sale of Assets

+ (v2420.05)  Dividends from Subsidiaries

+ (v2190.01)  Depreciation Expense: Funds Flow

+ (v2400.03)  Amortization of Goodwill

+ (v2410.03)  Amortization of Other Intangibles

+ (v2780.01)  Change in Minority Interest

+ (v2800.01)  Increase in Total Liabilities

+ (v2820.01)  Proceeds from Sales of Preferred Stock

+ (v2840.01)  Chg. in Common Stock (Net of Treasury)

+ (v2880.01)  Increase in Other Equity

+ (v2870.01)  Increase in Currency Translation Adjustments

+ (v3000.00)  Funds Flow Adjustment: Sources


= (v3010.00)  Total Sources of Funds
```

(v3020.00) Funds Flow Adjustment: Uses

Funds not captured by alternative funds flow accounts.

This account directly affects the Retained Earnings (v2850) account and could throw your Funds Flow Statement out of balance.

(v3030.00) Total Uses of Funds

This funds flow account represents all uses of accounting funds. Total Uses of Funds (v3030.00) is calculated as follows:

```
+ (v2000.01)  Increase in Cash

+ (v2017.01)  Increase in Total Marketable Securities

+ (v2035.01)  Increase in Net Accounts Receivable

+ (v2040.01)  Increase in Inventory

+ (v2050.01)  Increase in Notes Receivable

+ (v2060.01)  Increase in Prepaid Expenses

+ (v2070.01)  Increase in Intercompany Current Assets

+ (v2080.01)  Increase in Current Deferred Tax Asset

+ (v2090.01)  Increase in Other Current Assets — Operating

+ (v2095.01)  Incr. in Other Current Assets — Non-Operating

+ (v2170.01)  Fixed Capital Investment

+ (v2380.01)  Increase in Deferred Tax Asset

+ (v2390.01)  Additions to Land

+ (v2400.01)  Additions to Goodwill

+ (v2410.01)  Additions to Other Intangibles

+ (v2420.01)  Increase in Investments: Equity Method

+ (v2430.01)  Increase in Investments: Cost Method

+ (v2470.01)  Increase in Non-Current Operating Asset

+ (v2440.01)  Increase in Other Assets

+ (v2460.01)  Increase in L-T Funding Asset

+ (v1800.00)  Preferred Dividends

+ (v1900.00)  Common Dividends

+ (v3020.00)  Funds Flow Adjustment: Uses


= (v3030.00)  Total Uses of Funds
```

(v3040.00) Net Funds Flow Source (Use)

The difference between total sources of funds and uses of funds, helpful when troubleshooting a funds-flow out-of-balance error in historical periods.

(v3100.00) Tax Depreciation

This account contains depreciation expense for tax purposes. Tax Depreciation (v3100.00) uses a Freeform formula in both history and forecast equal to Depreciation Expense (Funds) (v2190.01). To be considered in the calculation of taxable income, the difference between this account and Depreciation Expense: Funds (v2190.01), should be included in Other Temporary Differences (v3110).

(v3110.00) Other Temporary Differences

Differences between GAAP income and taxable income that are expected to reverse in future periods. The account is an input in all periods and can be forecast using a Freeform forecast method to incorporate them into this account.

(v3120.00) Temporary Differences

In historical periods, the amount is calculated using a Freeform formula, which can be adjusted; in the forecast periods, it is a calculated account.

In historical periods, the amount is calculated using this Freeform formula:

```
(v1660.00) / @input
```

where:

(v1660.00) = Trial Provision for Income Taxes

@input = The input into Trial Provision for Income Taxes (v1660.00)

The calculated equation in the forecast periods is:

```
(v3100.00) - (v2190.01) + (v3110.00)
```

where:

(v3100.00) Tax Depreciation

(v2190.01) Depreciation Expense (Funds)

(v3110.00) Other Temporary Differences

(v3130.00) Permanent Differences

This holds permanent differences between GAAP income and taxable income. The default formula:

- (v2400.03) Amortization of Goodwill

This assumes that anything deducted as Amortization of Goodwill (v2400.03) is a permanent difference. This may not be true, or you may have other permanent differences. Adjust the formula as needed.

(v3140.00) Taxable Income

Taxable income is earnings before tax reduced by permanent and temporary differences.

Taxable Income (v3140.00) is calculated as follows:

```
  (v1600.00)  Earnings Before Taxes

- (v3120.00)  Temporary Differences

- (v3130.00)  Permanent Differences
```

```
= (v3140.00)  Taxable Income
```

(v3150.00) Tax Refund Due to Loss Carryforward

Based on NOL generated in prior periods that is used to offset current period taxable income, this account reduces the current provision before NOL to arrive at the proper current provision.

It is calculated as: v1630.00 / v3140.00 * v3150.02

where:

(v1630.00) Current Provision for Income Taxes (Excl. NOL)

(v3140.00) Taxable Income

(v3150.02) Tax Gains Offset

(v3150.01) Maximum Carryforward

Amount that can be applied against current year taxable income.

(v3150.02) Tax Gains Offset

Amount actually applied against current-year taxable income. If taxable income is less than the maximum carryforward, this account is limited to taxable income. Unused carryforward may be used in subsequent years if it has not expired.

(v3150.03) Tax Loss Pool

Current year loss reduced by amounts carried back. This forms the basis for future carryforwards.

(v3150.04) Tax Loss Pool Used

During the carryforward period, the losses used by gains and thus unavailable for future carryforwards.

(v3160.00) Tax Refund Due to Loss Carryback

Refund generated for carrying back current year losses back to previous years.

(v3160.01) Maximum Carryback

At the beginning of a period, the largest loss that could be sustained in the current period and still be fully carried back, determined by adding the tax gains pool for each year during the carryback period and subtracting such gains previously used.

(v3160.02) Tax Losses Offset

In a period with a loss, the loss actually carried back. It is the lesser of the amount of the loss and the maximum carryback.

(v3160.03) Tax Gains Pool

Taxable income net of amounts carried forward into the current period. These gains are the basis for carrybacks, because future losses are carried back against them.

(v3160.04) Tax Gains Pool Used

During the carryback period, this represents the gains used by other losses.

(v3160.05) Tax Pool

Current provision for income taxes net of refunds due to loss carryforwards, similar to Tax Gains Pool (v3160.03), because this variable holds the taxes made refundable by carrybacks.

(v3205.00) Additions to Taxable Operating Profit

This account can be used to make adjustments to Taxable Operating Profit (v3210).

(v3210.00) Taxable Operating Profit

Used as the basis for computing the income tax attributable to the company's basic operations.

(v3220.00) Interest Tax Shield

Tax savings a company realizes in conjunction with its interest cost. The input value for this account, the marginal tax rate, is the tax rate used for the interest tax shield. The output value is the actual interest tax shield.

It is calculated as follows:

```
(v3220.00) * (v1420.00)
```

where:

- (v3220.00) Input marginal tax rate into Interest Tax Shield

- (v1420.00) Total Interest Expense

Note that this Total Interest Expense (v1420) is the net of Interest Capitalized (v1410). This does not mean that no tax benefits exist associated with Interest Capitalized. Rather, companies that capitalize a portion of their total interest expense defer the tax benefit to future periods, when their taxable income is reduced by greater depreciation charges.

(v3225.00) Non-Operating Profit

Represents the total profit generated from sources other than the direct operations of the business. This account is calculated as follows:

```
    (v3140.00)  Taxable Income

-   (v3210.00)  Taxable Operating Profit

+   (v1420.00)  Total Interest Expense



=   (v3225.00)  Non-Operating Profit
```

Because Non-Operating Profit (v3225.00) consists of income and expense accounts that are unrelated to the ongoing production and administrative functions of the business, they are not included in the discounted cash flows used in valuation.

Enter nonoperating income accounts as before-tax amounts. Taxes applicable to nonoperating income accounts are calculated as Tax on Non-Operating Profit (v3230).

(v3230.00) Tax on Non-Operating Profit

Income taxes applicable to Non-Operating Profit (v3225). The input value is the tax rate on nonoperating profit. The output value is the tax on nonoperating profit. The formula for Tax on Non-Operating Profit (v3230.00):

```
(v3225.00) * (v3230.00)
```

where:

(v3230.00) Input tax rate into Tax on Non-Operating Profit

(v3225.00) Non-Operating Profit

(v3235.00) Additions to Operating Income Taxes

This is an input that allows the user to modify the system calculation of total taxes on operations.

(v3240.00) Income Taxes on Operations

The tax on taxable income adjusted by the interest tax shield, tax on nonoperating profit, and additions to operating income taxes.

```
    (v1610.00)  Trial Provision for Income Taxes

+   (v3220.00)  Interest Tax Shield

-   (v3230.00)  Tax on Non-Operating Profit

+   (v3235.00)  Additions to Operating Income
Taxes

=   (v3240.00)  Income Taxes on Operations
```

(v3242.00) Unrealized Benefit of Tax Loss

Offsets negative income taxes on operations. You cannot get a tax benefit by losing money. You must be able to carry the loss back or forward. This functions like Unrealized Tax Benefit of Losses (v1620).

(v3245.00) Current Provision for Operating Income Taxes Before NOLs

```
  (v3240.00)  Income Taxes on Operations

+ (v3242.00)  Unrealized Benefit of Tax Loss


= v3245.00)  Current Provision. for Operating Income Taxes Before NOLs
```

Unrealized Benefit of Tax Loss (v3242) has a value only if Income Taxes on Operations (v3240) is negative. Thus, this equals Income Taxes on Operations (v3240) when Income Taxes on Operations (v3240) is positive and zero when Income Taxes on Operations (v3240) is negative.

(v3250.00) Operating Tax Refund Due to Loss Carryforward

Account, based on NOL generated in prior periods, used to offset current period operating profit. Not technically a refund, it reduces the current provision before NOL arrives at the correct current provision.

Calculated as: (v3245.00) / (v3210.00) * (v3250.02)

where:

- (v3245.00) Curr. Provision for Operating Inc. Taxes Before NOLs

- (v3210.00) Taxable Operating Profit

- (v3250.02) Tax Gains Offset

(v3250.01) Maximum Carryforward

Amount that can be applied against current year taxable operating profit.

(v3250.02) Tax Gains Offset

Amount actually applied against current year taxable operating profit. If taxable operating profit is less than the maximum carryforward, this account is limited to taxable operating profit. Unused carryforward may be used in subsequent years if it has not expired.

(v3250.03) Tax Loss Pool

Current year loss reduced by amounts carried back. This forms the basis for future carryforwards.

(v3250.04) Tax Loss Pool Used

During the carryforward period, losses used by gains and thus unavailable for future carryforwards.

(v3260.00) Operating Tax Refund Due to Loss Carryback

Refund generated for carrying back current year losses back to previous years.

(v3260.02) Tax Losses Offset

In a period with a loss, the loss actually carried back. It is the lesser of the amount of the loss and the maximum carryback.

(v3260.01) Maximum Carryback

At the beginning of a period, this is the largest loss that could be sustained in the current period and still be fully carried back, determined by adding the tax gains pool for each year during the carryback period and subtracting such gains previously used.

(v3260.03) Tax Gains Pool

Taxable operating profit net of amounts carried forward into the current period. These gains are the basis for carrybacks, because future losses are carried back against them.

(v3260.04) Tax Gains Pool Used

During the carryback period, the gains used by other losses.

(v3260.05) Tax Pool

Current provision for operating income taxes net of refunds due to loss carryforwards. This is similar to Tax Gains Pool (v3260.03), because this variable holds the taxes made refundable by carrybacks.

(v3265.00) Additional Operating Tax Refund

This account is often linked using a Freeform formula to Additional Tax Refund (v1635). The additional tax refund might not be operating. For cash-flow purposes, this account allows us to separate what is operating from what is not.

(v3270.00) Total Operating Tax Refund

Two variables are used to handle the tax refund, Additional Tax Refund (v1635) and Total Operating Tax Refund (v3270.00). Additional Tax Refund (v1635) is reused from regular taxable income. Its use here means Strategic Modeling treats user-defined refunds as coming from operations. Total Operating Tax Refund (v3270.00) is calculated in all periods but is different in historical periods than in forecast periods.

In historical periods, it is:

(v1635.00) Additional Tax Refund

Because Additional Tax Refund (v1635) is an input, the tax refund is essentially an input in history.

In forecast periods, it is

```
      (v1635.00)  Additional Tax Refund

+     (v3250.00)  Oper. Tax Refund Due to Loss Carryforward

+     (v3260.00)  Operating Tax Refund Due to Loss Carryback

=   (v3270.00)  Total Operating Tax Refund
```

The refund due to NOL carryforwards and carrybacks are calculated only in the last period of a year and if Calculate Tax Effects Automatically is selected in Tax Effect of Losses dialog . If you do not check the box, the tax refund is an input.

Total Taxes on Operations (v3280.00)

```
      (v3275.00)  Current Provision for Operating Taxes

+     (v1680.00)  Other Taxes

=   (v3280.00)  Total Taxes on Operations
```

Strategic Modeling assumes that anything entered in Total Taxes on Operations (v3280.00) relates to operations. If this is not true, use Additions to Operating Income Taxes (v3235) to adjust Income Taxes on Operations (v3240).

(v3275.00) Current Provision for Operating Taxes

Calculated as:

```
  (v3245.00)  Curr. Prov. for Oper. Inc. Taxes Before NOLs

- (v3270.00)  Total Operating Tax Refund


= (v3275.00)  Current Provision for Operating Taxes
```

(v3290.00) Current Non-Operating Taxes

Portion of taxes payable in the current period that is a result of accounts that are not included in operations for the purpose of valuation, such as Non-Operating Income and Interest Expense.

Current Non-Operating Taxes can be calculated as:

```
  (v1650.00)  Current Provision for Income Taxes

+ (v1680.00)  Other Taxes

- (v3280.00)  Total Taxes on Operations


= (v3290.00)  Current Non-Operating Taxes
```

(v3400.00) Common Shares Outstanding: Year End

Total common shares outstanding at the period end, calculated as the difference between the total common shares issued at period end and the total treasury shares held at period end.

(v3410.00) Common Shares Outstanding: Wtd. Avg.

Weighted-average number of common shares outstanding over the period, calculated by the difference between the weighted average of the total issued common shares over the current and prior periods and the weighted average of the total number of treasury shares held over the current and prior periods.

(v3430.00) Potentially Dilutive Securities

Number of common stock equivalents, or dilutive securities (as defined by APB No. 15 and amended by FASB 85), to be added to the Number of Common Shares: Weighted Average (v3410) for use in calculating Primary Earnings Per Share (v6130) or Fully Diluted Earnings Per Share (v6135).

"Common Stock Equivalents" for the Primary EPS calculation include such securities as:

- Convertible debt

- Convertible preferred stock

- Options

- Warrants

- Stock purchase contracts

- Stock subscription agreements

- Contingent issuance agreements

"Potentially Dilutive Securities" for the Fully Diluted EPS calculation include all common stock equivalents plus such securities as these:

- Shares assumed to be issued upon conversion of debentures

- Participating securities and two-class common

(v3450.00) Diluted EPS Adj. to Net Income

In computing Primary EPS and Fully Diluted EPS, convertible securities are treated as being converted at the beginning of the period (or when issued, if issued during the period). On the assumption that these securities were converted, the company would not pay interest charges or preferred dividends on them. So an adjustment must be added back to Income Available for Common Shareholders (v1850) for interest charges (net of tax) and preferred dividends related to the common stock equivalents (for Primary EPS) or all dilutive securities (for Fully Diluted EPS).

The number of Common Stock Equivalents or Potentially Dilutive Securities (v3420 or v3430) is added to the Number of Common Shares: Weighted Average (v3410) in calculating Primary EPS (v6130) or Fully Diluted EPS (v6135).

In general,

```
                              Adjusted Income

Primary or Fully Diluted EPS =

                           Adjusted Number of Shares
```

Adjusted Income and Adjusted Number of Shares are calculated as follows:

```
Adjusted Income = (v1850.00) + (v3450.00)
```

where:

(v1850.00) Income Available for Common Shareholders

(v3450.00) Fully Diluted EPS Adj. to Net Income

Adjusted Number of Shares = (v3410.00) + (v3420.00 or v3430.00)

where:

- (v3410.00) Number of Common Shares: Wtd. Avg.

- (v3420.00) Common Stock Equivalents

- (v3430.00) Potentially Dilutive Securities

(v3460.00) Number of Common Shares Issued: Year End

(Increase in Number of Common Shares Issued: Year-End (v3460.01))

Balance account measures the number of common shares that a company has issued at year end.

Enter the total shares issued for the corporation using the default currency units that you specified in Model Options. For example, if your data is in millions, enter 950,000 shares as .95.

This account is used to calculate Number of Common Shares Outstanding: Year-End (v3400).

(v3460.05) Number of Common Shares Issued: Wtd. Avg.

Weighted average number of shares issued accounts for the issuance of shares during a period. Common shares issued during the period are *weighted* (that is, multiplied by the fraction of the period for which they were outstanding), and the weighted number of these shares is added to the number of shares issued during the period.

Enter the total shares for the corporation using the default currency units that you specified in Model Options. For example, if your financial data is in millions, enter 950,000 shares as .95.

This account is used to calculate Number of Common Shares Outstanding: Wtd. Avg. (v3410).

(v3460.06) Minimum Common Shares Issued

Allows you to specify a minimum balance to be maintained for Common Shares Issued (v3460) in all periods, if Common Shares Issued (v3460) is selected as a Cash Surplus account in Funding Options. If Common Shares Issued (v3460) is selected as a Cash Surplus account, and Specify Minimum Balance is selected on the Standard tab, funding options will not retire additional common shares once it has reached the minimum balance specified in this account.

(v3460.07) Maximum Common Shares Issued

(Increase in Maximum Common Shares Issued (v3460.08))

Used to specify the maximum balance for the Common Shares Issued to reach when Funding Options is funding a Cash Deficit.

(v3460.09) Balance Correction Common Shares Issued: Year-End

This account, calculated in all periods, receives amounts, generated by the balancing routine in Strategic Modeling, that are required to make the funds flow balance.

(v3470.00) Number of Treasury Shares: Year-End

(Increase in Treasury Shares: Year-End (v3470.01))

Balance account measures the total treasury shares that a company has issued at year end.

Enter the total shares issued for the corporation using the default currency units that you specified in Model Options. For example, if your financial data is in millions, enter 950,000 shares as .95.

This account is used to calculate Number of Common Shares Outstanding: Year-End (v3400).

(v3470.05) Number of Treasury Shares: Wtd. Avg.

The weighted average number of treasury shares accounts for the issuance of shares during a period. Treasury shares issued during the period are *weighted* (that is, multiplied by the fraction of the period for which they were outstanding), and the weighted number of these shares is added to the number of shares issued during the period.

Enter the total shares for the corporation using the default currency units that you specified in Model Options. For example, if your financial data is in millions, enter 950,000 shares as .95.

This account is used to calculate Number of Common Shares Outstanding: Wtd. Avg. (v3410).

(v3470.06) Minimum Treasury Shares (Y-E)

Allows you to specify a minimum balance to be maintained for Treasury Shares (v3470) in all periods, if Treasury Shares (v3470) is selected as a Cash Deficit account in Funding Options. If Treasury Shares (v3470) is selected as a Cash Deficit account and Specify Minimum Balance is selected on the Standard tab, funding options will not re-issue additional treasury shares once it has reached the minimum balance specified in this account.

(v3470.07) Maximum Treasury Shares (Y-E)

(Increase in Maximum Treasury Shares Issued (Y-E) (v3470.08))

Used to specify the maximum balance for the Treasury Shares to reach when Funding Options is accumulating a Cash Surplus.

(v3470.09) Balance Correction Treasury Shares (Y-E)

This account, calculated in all periods, receives amounts, generated by the balancing routine in Strategic Modeling, that are required to make the funds flow balance.

(v3490.00) Transaction price for Common Shares

Used to specify the transaction price applied when common or treasury shares are issued or purchased as a result of Strategic Modeling's funding options.

(v3500.00) Debt Due Within One Year

Nonoperating account represents the total of interest-bearing obligations due within one year. It is calculated as follows:

```
  (v2520.00)  Notes Payable

+ (v2510.00)  Current Portion of L-T Debt
```

```
= (v3500.00)  Debt Due Within One Year
```

(v3510.00) Total Debt and Preferred Stock

Sums the Debt Due Within One Year (v3500.00), Total L-T Debt (v2700.00)v1680), and Preferred Stock (v2820.00):

```
   (v3500.00)  Debt Due Within One Year

+  (v2700.00)  Total L-T Debt

+  (v2820.00)  Preferred Stock

=  (v3510.00)  Total Debt and Preferred Stock
```

(v3520.00) Total Capital

Calculated account, found on the Balance Sheet, is the total of all sources of capital in the company: Debt, Preferred Stock, and Common Equity.

```
  (v2780.00)  Minority Interest

+ (v3510.00)  Total Debt and Preferred Stock

+ (v2890.00)  Common Equity


= (v3520.00)  Total Capital
```

(v3525.00) Total Debt

Calculated as:

```
  (v3500) Debt Due within One year

+ (v2700) Total Long-Term Debt

+ (v2820) Preferred Securities


= (v3525) Total Debt
```

This account differs from Total Debt and Preferred Stock (v3510.00) in that Preferred Stock is used in the calculation only if it is being allocated as debt in the Target Capital Structure tab of the Funding Options dialog and the Target Capital Structure method is being used for funding.

(v3550.00) Target Debt Capacity

Represents the dollar amount of debt (including preferred stock) a company will have in its capital structure over the long term. This is an input account that appears on the Funding Analysis Report.

(v3552.00) Target Preferred Capacity

Dollar amount of Preferred Stock that a company will have in its long-term capital structure. This input account, which appears on the Funding Analysis Report, is used to calculate Unused Preferred Capacity (v3554.00).

(v3560.00) Unused Debt Capacity (UDC)

(Increase in Unused Debt Capacity (v3570.00))

Additional debt a company can incur without exceeding the debt specified by the Target Debt Capacity (v3550). It is calculated as follows:

```
  (v3550.00)  Target Debt Capacity

- (v3510.00)  Total Debt and Preferred Stock



= (v3560.00)  Unused Debt Capacity
```

A positive amount in this account displayed on the Funding Analysis Report reflects excess debt capacity; a negative amount indicates that the company is exceeding its long-term debt target.

(v3562.00) Unused Preferred Capacity

Additional preferred stock a company can incur without exceeding the debt specified by the Target Preferred Capacity (v3552), calculated as follows:

```
  (v3552.00) Target Debt Capacity

  (v2820.00)  Preferred Stock



= (v3562.00) Unused Preferred Capacity
```

A positive amount in this account on the Funding Analysis Report reflects excess preferred capacity; a negative amount indicates that the company is exceeding its long-term preferred stock target.

(v3580.00) Unused Debt Capacity plus Marketable Securities

The sum of Unused Debt Capacity (v3560) and Marketable Securities (v2010), these are the additional resources available to the company that can be used without the company having to borrow funds in excess of its Target Debt Capacity (v3550).

(v3590.00) Total Cash Interest Expense

This nonoperating account appears on the Funding Analysis Report and represents the total cash interest expense paid in a period, including Other Interest Expense (v1360). The assumption made is that all short-term interest expense is cash. Specify long-term cash interest in Interest on L-T Debt: Scheduled (v2660.05) and Interest on L-T Debt: Excess (v2690.05). Enter the noncash portion of interest in Non-Cash Interest on L-T Debt: Scheduled (v2660.03).

4000.xx:xxx to 4999.xx:xxx Accounts

(v4000.00) Proceeds from Sale of Assets

The cash received or the gross proceeds before taxes are deducted from the sale or retirement of assets. This account is automatically calculated as follows:

```
  (v2170.03)  Gross Retirements

- (v2190.03)  Accumulated Depreciation on Retirements

  (v1170.00)  Gain on Sale of Assets +
```

```
= (v4000.00)  Proceeds from Sale of Assets
```

In forecast periods, you can enter total proceeds from the sale of fixed or depreciable assets sold in the Gain on Sale of Assets (v1170.00) account. If you dispose of working capital accounts, enter only the gain portion of the sale.

The respective working capital accounts should be reduced by the book value of the working capital disposals.

(v4050.00) Funds from Operations Before Tax

Before-tax cash flow generated by the company's basic operations, calculated as follows:

```
 (v1150.00)  Operating Profit

+   (v2190.01)  Depreciation Expense (Funds)

+   (v2410.03)  Amort. of Other Intangibles

+   (v2400.03)  Amortization of Goodwill

+    (v2760.01)  Increase in Other Deferrals



=   (v4050.00)  Funds from Operations Before Tax
```

(v4060.00) Funds from Operations After Taxes

Cash flow generated by the company's basic operations after deducting Total Taxes on Operations (v3280), calculated as follows:

```
 (v4050.00)  Funds from Operations Before Tax

- (v3280.00)  Total Taxes on Operations



= (v4060.00)  Funds from Operations After Taxes
```

(v4070.00) Incremental Working Capital Investment

The Incremental Working Capital Investment (v4070.00) required for operations is defined as the increase in Total Current Assets (v2100) (excluding Marketable Securities (v2017)) minus the Increase in Total Current Liabilities (v2600) (excluding the Current Portion of Long-Term Debt (v2510) and Notes Payable (v2520)).

Incremental Working Capital Investment (v4070.00) excludes the increases in Marketable Securities (v2017), Current Portion of Long-Term Debt (v2510) and Notes Payable (v2520) because those accounts are financing issues and are not part of the cash required for operations.

The Incremental Working Capital Investment (v4070.00) represents the actual investment in receivables, inventory, and so on that is necessary to support sales growth. Because this investment is part of the company's basic production and administrative function, it is included in the calculation of Cash Flow from Operations (v4100). Past year-to-year Balance Sheet data may not provide a good measure of the increase or decrease in funds required for the future. Past figures can be misleading for two reasons:

1. Year-end figures on the Balance Sheet may not reflect the average or usual needs of the business during that year.

2. Estimating the cost of increased inventory based on the difference between beginning and ending inventory balances may yield unreliable results.

(v4080.00) Cash Flow Adjustment: Source

If your Cash Flow from Operations (v4100) includes nonoperating or noncash accounts, you can use the adjustment account to exclude the effect of those accounts from the operating cash flows used for valuation.

An example of a noncash account is the portion of Fixed Capital Investment (v2170.01) that reflects a foreign-currency translation adjustment. A translation gain overstates Fixed Capital Investment (v2170.01) and therefore understates Cash Flow from Operations (v4100). Conversely, a translation loss understates Fixed Capital Investment (v2170.01) and overstates Cash Flow from Operations (v4100).

An example of a nonoperating account is the portion of Fixed Capital Investment (v2170.01) that represents the "Allowance for Funds Used During Construction" (AFUDC). This allowance is used by utility companies to reflect an imputed financing cost in their fixed assets. Including AFUDC overstates Fixed Capital Investment (v2170.01) and understates Cash Flow from Operations (v4100).

To correct an understatement of Cash Flow from Operations (v4100) (such as, from a translation gain or the effect of AFUDC), enter the amount of the noncash or nonoperating account as a positive number into Cash Flow Adjustment: Source (v4080).

To correct an overstatement of Cash Flow from Operations (v4100) (such as from a translation loss), enter the amount of the noncash account as a negative number into Cash Flow Adjustment: Source (v4080).

If the value entered in this account is a reclassification of accounts from operating to nonoperating or the converse, no further adjustment is required. If the value represents actual cash flow, enter it into Funds Flow Adj: Source (v3000) or Funds Flow Adj: uses (v3020) so that its impact is recognized in Retained Earnings (v2850).

(v4100.00) Cash Flow from Operations

Total cash generated by the company's basic ongoing activities in each period. These future cash flows, when discounted at today's currency amounts, become the Present Value of Cash Flow (v5010) and are added to the Present Value of Residual Value (v5220) to calculate Corporate Value (v5060).

Do not confuse Cash Flow from Operations (v4100.00) with total cash flow. Total cash flow also includes nonoperating accounts (those unrelated to basic business operations). Examples of nonoperating accounts that are included in total cash flow but excluded from Cash Flow from Operations (v4100.00):

1. Financing-related accounts (sale of stock or interest expense)

2. Investments in bonds and stock

3. Extraordinary accounts

Nonoperating cash flow accounts are excluded from Cash Flow from Operations (v4100.00)—and therefore from the calculation of Shareholder Value (v5070)—because it is inappropriate to use the same cost of capital for nonoperating and operating cash flows, which may have different risk characteristics. Nonoperating investments do have a value to the company, which is why Marketable Securities (v2010) and

Investments in Bonds and Stock (v5.00:560) are added to the Cum. PV of Cash Flows (v5020) and Residual Value (v5030) in calculating Corporate Value (v5060).

The rationale for distinguishing between operating and nonoperating cash flows for valuation purposes is based on a fundamental tenet of modern financial theory: The discount rate applied to a stream of cash flows should reflect the risk specific to those cash flows.

(v4110.00) Non-Operating Sources of Funds

Represents funds derived from sources other than operations, specifically:

```
    (v2525.01)  Increase in Accrued Interest

+   (v2595.01)  Incr. in Other Non-Operating Curr. Liab.

+   (v2790.01)  Increase in Other Liabilities

-   (v2420.03)  Earnings from Investments: Equity

+   (v2420.05)  Dividends from Subsidiaries

+   (v2780.01)  Increase in Minority Interest

+   (v2870.01)  Incr. in Currency Translation Adjustments

+   (v3000.00)  Funds Flow Adjustment: Sources

+   (v2880.01)  Increase in Other Equity



=   (v4110.00)  Non-Operating Sources of Funds
```

Because these funds-flow accounts are derived from sources other than the basic operations of the business, they are not included in the calculation of Cash Flow from Operations (v4100).

(v4150.00) Non-Operating Uses

Represents funds applied to Non-Operating activities:

```
    (v2095.01)  Incr. in Other Curr. Assets - Non-Operating

+   (v2420.01)  Increase in Investments: Equity Method

+   (v2430.01)  Increase in Investments: Cost Method

+   (v2440.01)  Increase in Other Assets

+   (v3020.00)  Funds Flow Adjustment: Uses



=   (v4150.00)  Non-Operating Uses
```

Because these funds flow accounts result from uses for funds other than the basic operations of the business, they are not included in the calculation of Cash Flow from Operations (v4100).

(v4180.00) Deferred Tax Reconciliation

Measures the difference between the deferred taxes as reflected on the Income Statement and those reflected on the balance sheet, calculated as follows:

```
    (v1660.00) Deferred Provision for Income Taxes

-   (v2580.01) Increase in Current Deferred Tax Liabilities

-   (v2780.01) Increase in Deferred Income Taxes

+(v2080.01) Increase in Current Deferred Tax Asset

+(v2380.01) Increase in Deferred Tax Asset


=(v4180.00) Deferred Tax Reconciliation
```

(v4200.00) Non-Operating Income (after tax)

Calculated as:

```
    (v3225.00)  Non-Operating Profit

-   (v1720.00)  Minority Interest

+   (v1730.00)  Extraordinary Items

+   (v2420.03)  Earnings from Investments: Equity


=   (v4200.00)  Non-Operating Income (after tax)
```

Derived from sources other than the basic operations of the business so they are not included in the calculation of Cash Flow from Operations (v4100).

(v4250.00) Net Cash Provided

This account on the Cash Flow Statement captures the Cash Surplus or Cash Deficit that is generated or required by operations in a given period. Depending on which Funding Options are selected, a Cash Surplus is used to pay dividends, repay debt, and/or invest in marketable securities.

Cash Deficits are funded by reducing marketable securities, issuing additional debt or relying on "negative dividends" (funding from a parent company).

Net Cash Provided is determined as follows:

```
    (v4100.00)  Cash Flow from Operations

+   (v4200.00)  Non-Operating Income

-   (v1170.00)  Gain on Sales of Assets

+   (v4110.00)  Non-Operating Sources

-   (v4150.00)  Non-Operating Uses

-   (v4080.00)  Cash Flow Adjustment: Source

-   (v1400.00)  Total Interest Expense
```

```
-   (v3290.00)  Current Non-Operating Taxes

-   (v1800.00)  Preferred Dividends

+   (v2830.01)  Proceeds from Sale of Common Stock


=   (v4250.00)  Net Cash Provided
```

(v4260.00) Funding Surplus/(Deficit)

This account can help answer these questions:

1. Will the company generate sufficient funds from its operations to pay its dividends without borrowing?

2. Is the strategy financially feasible, or would it require unacceptable amounts of additional debt?

3. Is the strategy a cash generator or a cash drain in each period?

Funding Surplus/(Deficit) (v4260.00) is calculated as follows:

```
  (v4250.00)  Net Cash Provided

- (v1900.00)  Common Dividends


= (v4260.00)  Funding Surplus/(Deficit)
```

Depending on Funding Options selected, a Cash Surplus is used to repay debt and invest in marketable securities; Cash Deficits are funded by reducing marketable securities and/or issuing additional debt.

(v4320.00) Cash from Operating Cycle

Enables you to identify whether the operations of the business are generating sufficient cash to cover required investments. If this account is not greater than the investments, the resulting cash flow from operations is negative, which may adversely affect value creation for that period.

If Cash from Operating Cycle (v4320.00) cannot pay for the investments, it could indicate that, for a year:

1. The business is investing in that period, using funds from other sources such as debt or equity; or

2. The business is not generating much operating profit, causing the Cash from Operating Cycle (v4320.00) to be less than the amount desired.

Cash from Operating Cycle (v4320.00) is calculated as follows:

```
  (v4060.00)  Funds from Operations After Tax

- (v4070.00)  Incr. Working Capital Investment


= (v4320.00)  Cash from Operating Cycle
```

Change in Cash, Excess Mkt. Sec., and Mkt. Sec (v4490.00)

Appears on the Indirect Cash Flow Statement and is calculated as follows:

```
  (v2000.01)  Incr. in Cash

+ (v2017.01)  Incr. in Total Mkt. Securities



= (v4490.00)  Change in Cash, Excess Mkt. Sec., and Mkt. Sec.
```

(v4420.00) Other Non-Cash Accounts

Combines various noncash accounts that must be removed from Net Income (v1750) to determine Funds Available from Operations (v4430).

```
    (v2760.01)  Increase in Other Deferrals

+   (v2780.01)  Incr. in Minority Interest

+   (v2420.05)  Dividends from Subsidiaries

-   (v2420.03)  Earnings from Invest.: Equity



    (v4420.00)  Other Non-Cash Items
```

(v4430.00) Cash bef. Fin. Cost & Ext. Fin.

On the Indirect Cash Flow Statement, the cash flow generated by the company's basic operations.

Cash bef. Fin. Cost & Ext. Fin. (v4430.00) is calculated as follows:

```
  (v4100.00)  Cash Flow from Operations

- (v4150.00)  Non-Operating Uses

- (v3290.00)  Current Non-Operating Taxes

- (v4080.00)  Cash Flow Adjustment: Source

+ (v4110.00)  Nonoperating Sources

+ (v4200.00)  Nonoperating Income

- (v4570.00)  Acquired Assets

- (v4571.00)  Acquired Cash

- (v4572.00)  Assets created by Transaction

+ (v4575.00)  Acquired Liabilities

- (v4577.00)  Liabilities/Equity created by Transaction



= (v4430.00)  Cash bef. Fin. Cost & Ext. Fin.
```

(v4440.00) Cash bef. External Financing

On the Indirect Cash Flow Statement, this account is calculated as follows:

```
  (v4430.00)  Cash bef. Fin. Cost & Ext. Fin.

- (v1400.00)  Interest Expense

- (v1800.00)  Preferred Dividends

- (v1900.00)  Total Common Dividends

+ (v1902.00)  Payout to Shareholders



= (v4440.00)  Cash bef. External Financing
```

(v4450.00) Other Operating Uses

This account, which appears on the Indirect Cash Flow Statement, is calculated as follows:

```
    (v2440.01)  Incr. in Other Assets

+   (v3020.00)  Funds Flow Adj: Uses

-   (v2790.01)  Incr. in Other Liabilities

-   (v3000.00)  Funds Flow Adj: Sources



=(v4450.00)  Other Operating Uses
```

(v4460.00) Cash Available for Dividends

This account, on the Indirect Cash Flow Statement is calculated as follows:

```
  (v4440.00)  Cash bef. External Financing

- (v2170.01)  Fixed Capital Investment

- (v2390.01)  Additions to Land

- (v4450.00)  Other Operating Uses

+ (v1410.00)  Interest Capitalized



= (v4460.00)  Cash Available for Dividends
```

(v4470.00) Cash Available for Investments

On the Indirect Cash Flow Statement, this account is calculated as follows:

```
  (v4460.00)  Cash Avail. for Dividends

- (v1800.00)  Preferred Dividends

- (v1900.00)  Common Dividends



= (v4470.00)  Cash Available for Investments
```

(v4520.00) Non-Operating Sources (FAS 95)

Represents funds derived from sources usually considered nonoperating. FAS 95 requires that these accounts be considered operating. For valuation purposes these accounts should not be included in Cash Flow from Operations (v4100).

```
    (v2595.01)  Incr. in Other Non-Oper Curr. Liab.

+   (v2785.01)  Incr. in Non-Current Operating Liability

+   (v2790.01)  Incr. in Other Liabilities

+   (v2420.05)  Dividends from Subs.

+   (v3000.00)  Funds Flow Adj: Sources

-   (v4180.00)  Deferred Tax Reconciliation


=   (v4520.00)  Non-Oper. Sources (FAS 95)
```

(v4540.00) Non-Operating Uses (FAS 95)

Account appears on the FAS 95 Cash Flow Statement and is for funds applied to uses normally considered nonoperating. Although FAS 95 considers these funds part of cash flow from operations, it is inappropriate to use this account in deriving cash flows for valuation purposes.

```
    (v2095.01)  Incr. in Other Current Assets - Non-Operating

+   (v2470.01)  Incr. in Non-Current Operating Asset

+   (v2440.01)  Incr. in Other Assets

+   (v3020.00)  Funds Flow Adj: Uses


=   (v4540.00)  Non-Oper. Uses (FAS 95)
```

(v4560.00) Net Cash from Operations

Appears on the FAS 95 Cash Flow Statement. Net Cash from Operations (v4560.00) is defined by FAS 95 as representing the cash flow from the basic operations of the company. From a valuation perspective, it incorrectly commingles Nonoperating expenses, including interest, with the basic operating cash flows of the company. It is inappropriate to use this cash flow in calculating a company's Corporate Value (v5060) or Shareholder Value (v5070).

(v4580.00) Net Cash Used in Investing

This appears on the FAS 95 Cash Flow Statement. It represents those accounts which, in compliance with FAS 95, must be considered investments. Net Cash Used in Investing (v4580.00) is calculated as follows:

```
    (v2170.01)  Fixed Capital Investment

+   (v2390.01)  Additions to Land

+   (v2050.01)  Incr. in Notes Receivable
```

```
+    (v2420.01)  Incr. in Invests: Equity Method

+    (v2430.01)  Incr. in Invests: Cost Method

+    (v2400.01)  Additions to Goodwill

+    (v2410.01)  Additions to Other Intangibles

-    (v4000.00)  Proceeds from Sale of Assets


=    (v4580.00)  Net Cash Used in Investing
```

(v4600.00) Net Cash Provided by Financing

Sum of the financing activity of a company as defined by FAS 95. Because FAS 95 categorizes interest as an operating activity, this account does not include all financing costs.

```
     (v2510.01)  Incr. in Curr Port. L-T Debt

+    (v2520.01)  Incr. in Notes Payable

+    (v2660.01)  Increase in L-T Debt: Scheduled

+    (v2690.01)  Increase in L-T Debt: Excess

-    (v2460.01)  Incr. In L-T Funding Asset

+    (v2780.01)  Increase in Minority Interest

+    (v2820.01)  Proceeds from Sales of Preferred Stock

+    (v2840.01)  Chg. in Common Stock (Net of Treasury)

+    (v2870.01)  Increase in Currency Translation Adjustments

+    (v2880.01)  Increase in Other Equity

-    (v1800.00)  Preferred Dividends

-    (v1900.00)  Common Dividends


=    (v4600.00)  Net Cash Provided by Financing
```

(v4610.00) Incr. in Cash & Cash Equiv.

This account is calculated as follows:

```
     (v4560.00)  Net Cash Provided by Financing

-    (v4580.00)  Net Cash Used in Investing

+    (v4600.00)  Net Cash from Operations


=    (v4610.00)  Incr. in Cash & Cash Equiv.
```

(v4620.00) Cash & Cash Equivalents (beginning)

This calculated account, which appears on the FAS 95 Cash Flow Statement, is calculated as follows:

```
  (v2000.00)  Cash (prior period)

+ (v2010.00)  Marketable Securities (prior period)

+ (v2015.00)  Excess Marketable Securities (prior period)



= (v4620.00)  Cash & Cash Equivalents (Balance Sheet)
```

(v4630.00) Cash & Cash Equivalents (ending)

This account, on the FAS 95 Cash Flow Statement, is calculated as follows:

```
  (v2000)  Cash

+ (V2005)  Cash Used in Transaction

+ (v2010)  Marketable Securities

+ (v2015)  Excess Marketable Securities



= (v4630)  Cash & Cash Equivalents (ending)
```

(v4640.00) Change in Cash & Cash Equivalents

This calculated account appears on the FAS 95 Cash Flow statement and is calculated as follows:

```
 (v2000.01)  Incr. in Cash

+(v2005.01)  Increase in Cash Used in Transaction

+(v2017.01)  Change in Total Marketable Securities



=   (v4640.00)  Change in Cash & Cash Equivalents
```

(v4650.00) Operating Profit (After Interest)

Appears on the FAS 95 Cash Flow Statement and is a nonoperating account representing income generated by ongoing production and administrative functions of the business less Total Interest Expense (v1420). For valuation purposes, it incorrectly combines operating cash flows with financing cash flows; this treatment is required by FAS 95 requirements. It is calculated as follows:

```
 (v1150.00)  Operating Profit

-(v1420.00)  Total Interest Expense



=(v4650.00)  Operating Profit (After Interest)
```

(v4660.00) Taxable Operating Profit (After Interest)

Nonoperating account that appears on the FAS 95 Cash Flow Statement and is used to compute the income tax attributable to company operations. It differs from Taxable Operating Profit (v3210) because it is shown on an after-net interest basis.

```
 (v4650.00)  Operating Profit (After Interest)

+ (v2400.03)  Amortization of Goodwill


= (v4660.00)  Taxable Operating Profit (After Interest)
```

(v4670.00) Operating Costs

Calculated as follows:

```
 (v1030.00)  Sales (Net)

-(v3210.00)  Taxable Operating Profit


=(v4670.00)  Operating Costs
```

5000.xx:xxx to 5999.xx:xxx Accounts

(v5000.01) Discount Factor (Kw)

Measures risk and the time value of money. For a given year, it is expressed as the present value (in today's dollars) of $1 acquired at the end of that year.

(v5000.02) Future Value Factor (Kw)

Not used in Strategic Modeling in formulas but calculated and available for use in Freeform formulas. The Future Value Factor (Kw) can determine the future value of a stream of cash flows, based upon the weighted average cost of capital and the number of years into the future you want to value these cash flows.

(v5000.03) Accumulation Factor (Kw)

Used when calculating discount factors in nonaggregate periods such as months and quarters.

(v5000.05) Mid-Period Discount Factor (Kw)

Used instead of the Discount Factor (Kw) (v5000.01) when Mid-Period discounting is selected.

(v5000.06) Mid-Period Future Value Factor (Kw)

Used instead of the Future Value Factor (Kw) (v5000.02) when Mid-Period discounting is selected.

(v5005.00) Long-Term Cost of Capital (%)

The Cost of Capital (v5000), or discount rate, is the weighted average of the costs of debt and equity.

The Long-Term Cost of Capital (v5005.00) is used in the residual value period. Using a cost of capital to calculate residual value allows you to assign different required rates of return to the post-planning horizon period and forecast period, increasing your flexibility in modeling the forecast period and residual value of the company.

Forecasting different costs of capital rates for different periods is not recommended, unless you expect the company to 1.) operate in businesses with substantially different risk in the future, or 2.) go through a period when its capital structure is suboptimal.

Enter this input item as a percentage.

(v5005.03) Accumulation Factor (LT Kw)

Used when calculating discount factors in nonaggregate periods such as months and quarters.

(v5008.00) Cash Flow from Operations (SVA)

This account receives the operating cash flows as defined in Cash Flow from Operations (v4100).

(v5030.00) Cumulative Present Value of Cash Flows and Residual Value

This valuation item represents that portion of total Corporate Value (v5060) attributable to company operations and is the sum of these two accounts:

```
  v5020.00  Cumulative Present Value of Cash Flows

+ v5220.00  Present Value of Residual Value



= v5030.00  Present Value of Cash Flows and Residual Value
```

(v5010.00) Present Value of Cash Flow

Represents the value of each future period's cash flow expressed in today's dollars. It is calculated by multiplying the Discount Factor (Kw) (v5000.01) by Cash Flow from Operations (SVA) (v5008). If Mid-Period discounting is elected, the Mid-Period Discount Factor (Kw) (v5000.05) is used instead of the Discount Factor (Kw) (v5000.01).

(v5060.00) Corporate Value

Total economic value of the company, comprises four components:

1. Present value of forecasted Cash Flow from Operations (v4100) during the forecast period;

2. PV of Residual Value (v5220)—the value of the company's operations beyond the forecast period; and

3. Investments, comprising Total Marketable Securities (v2017), Long-Term Funding Asset (v2460) and Investments in Bonds and Stocks (v5.00:560).

4. Valuation adjustments for investments accounted for using the Cost or Equity Method of consolidation.

Corporate Value (v5060.00) is calculated as:

```
  (v5030.00)   Cumulative PV of CF and Residual Value

+ (v2017.00)   Total Marketable Securities (Last Historical Pd.)

+ (v2460.00)   Long-Term Funding Asset (Last Historical Pd.)

+ (v5.00:560)  Investments in Stocks and Bonds

+ (v5.00:900)  Valuation Adj. for Cost and Equity Methods
```

```
= (v5060.00)   Corporate Value
```

(v5070.00) Shareholder Value (PV)

In simplest terms, the value of a company or business unit equals the combined values of debt plus equity. The total value of the company is called Corporate Value (v5060), and the value of the equity portion is Shareholder Value. Shareholder Value (v5070.00) is expressed in present value terms. In general:

```
Corporate Value = Debt (v5060.00) + Shareholder Value (v5070.00)
```

The debt portion of Corporate Value (v5060) refers to the current value of all the firm's future obligations. These obligations are Market Value of Debt (v5.00:500), Underfunded Pension Liabilities (v5.00:520), and Market Value of Other Obligations (v5.00:540).

Additionally, an adjustment must be made for the minority interest value of a company or business unit that is consolidated into the total Corporate Value using the Minority Interest Method.

Shareholder Value (v5070.00) is calculated as:

```
  (v5060.00)   Corporate Value

- (v5.00:500)  Market Value of Debt

- (v5.00:520)  Underfunded Pension Liability

- (v5.00:540)  Market Value of Other Obligations

- (v5.00:920)  Valuation Adj. for Min. Interest: SVA


= (v5070.00)   Shareholder Value
```

(v5080.00) Shareholder Value per Share (PV)

A critical measure of the financial and operational health of a company that reflects the economic value of shareholder investment in expected future operations.

Calculated as:

```
Shareholder Value (v5070.00)

Number of Shares Outstanding: Year End (v3400.00)
```

(v5090.00) Premium/Discount Over/Under Market Price

When Shareholder Value per Share (v5080) differs from the Current Stock Price (v5.00:200), it implies that, according to your expectations for future performance, the market seems to be overvaluing or undervaluing the stock.

The Premium/Discount Over/Under Market Price (%) (v5090.00) of the stock offers you a comparison of the economic value of the stock (Shareholder Value per Share (v5080)) to the Current Stock Price (v5.00:200).

Premium/Discount Over/Under Market Price (%) (v5090.00) is calculated as:

(SV per Share (v5080.00) - (Curr. Stock Price (v5.00:200) * 100))

Current Stock Price (v5.00:200)

(v5100.00) Perpetuity Operating Profit (after tax)

Calculated as:

```
((v1150.00) + (v5140.00)) * (1 - (v4.00:560))
```

where:

- (v1150.00) Operating Profit

- (v5140.00) Normalized Earnings Adjustment

- (v4.00:560) Residual Value Income Tax Rate

(v5110.00) Normalized Operating Profit Adjustment

Use this item to change, or "normalize," for valuation purposes, the period-by-period values for Taxable Operating Profit (v3210) that you consider abnormally high or low because of prevailing industry or economic conditions that are not expected to continue. Under most methods of calculating residual value, taxable operating profit forms the basis for calculating residual value in each period. An unusually high or low value for Taxable Operating Profit (v3210) correspondingly overstates or understates Residual Value (v5030) for that period.

This item is useful when valuing companies in industries having cyclical sales and profits or that are particularly affected by the general economy.

If you enter adjustments for periods, the amount is added to Taxable Operating Profit (v3210) for each period entered and is used in calculating Residual Value (v5030). While it affects the valuation, it will not change Operating Profit (v1150) as it appears on the Income Statement in Strategic Modeling.

For example, if you believed that the third-period Taxable Operating Profit (v3210) figure of $1,000 was abnormally high and should be normalized to $700, you would enter an adjustment of -300 in the third period.

Note: This adjustment is appropriate only if you are using a residual value method that uses a perpetuity cash flow in its calculation: Perpetuity Method, Growth in Perpetuity, and Value Growth Duration.

(v5120.00) Market-to-Book Ratio

Your estimate of the market-to-book ratio prevalent for this business in each forecast period.

Market-to-Book Ratio (v5120.00) is determined as follows:

```
Estimated Market Value of Business / Common Equity  (v2890.00)
```

```
Common Equity  (v2890.00)
```

The Residual Value (v5030) is calculated by multiplying the Estimated Market Value of Business by Common Equity (v2890), (which represents the book value of the company's equity), adding the book value of debt in the last period.

Adding debt to the estimated market value of the equity to arrive at the total value of the company is recommended, because the value is being discounted by the cost of capital (costs of debt and equity) rather than solely the cost of equity.

This total must be discounted by the Discount Factor (v5000.01) to express it in present value terms. It is used in the Market-to-Book Ratio Residual Value (v5190).

(v5130.00) Price/Earnings Ratio

This item represents your estimate of the Price/Earnings Ratio prevalent for this business in each forecast period. A Price/Earnings Ratio is calculated as follows:

```
Estimated Stock Price
```

```
Earnings Per Share (v6125.00)
```

where Earnings Per Share (v6125) is calculated as:

```
Income Available for Common Shareholders (v1850.00)
```

```
No. of Common Shares: Wtd. Avg. (v3410.00)
```

The Residual Value is calculated by multiplying this number by adjusted Income Available for Common Shareholders (v1850). It is used in the Price/Earnings Residual Value method (v5200).

Adding debt to the estimated market value of the equity to arrive at the total value of the company is recommended, because the value is being discounted by the cost of capital (cost of debt and equity).

(v5140.00) Normalized Earnings Adjustment

Use this item to change, or "normalize," for valuation purposes, period-by-period values for Income Available for Common Shareholders (v1850) that are considered abnormally high or low because of prevailing industry or economic conditions in that year that are not expected to continue. Under the Price/Earnings Residual Value (v5200) method of calculating residual value, Income Available for Common Shareholders (v1850) forms the basis for calculating residual value in each period. Unusually high or low values for Income Available for Common Shareholders (v1850) correspondingly overstate or understate residual value.

If you enter adjustments, the amount is added to Income Available for Common Shareholders (v1850) and is used in calculating the Price/Earnings Residual Value (v5200) for valuation. Because it appears on the Income Statement, it will not change Income Available for Common Shareholders (v1850).

For example, if you believed that a final-period amount for Income Available for Common Shareholders (v1850) of $2,000 was abnormally high and should be normalized to $1,200, you would enter an adjustment of -$800 in the final period. It is used in the Price/Earnings Residual Value (v5200) calculation.

(v5150.00) Debt Discount/(Premium)

Used in the calculation of the Market-To-Book Residual Value to adjust the book value of Debt and/or Preferred Stock to market values.

(v5160.00) Perpetuity Residual Value

Taxable Operating Profit in the last forecast period less taxes (NOPAT), divided by the Long-Term Cost of Capital. The Perpetuity Residual Value method assumes no additional growth from investments, thus discounts a steady stream of cash flows infinitely. If you think that your business will grow beyond the forecast period, we recommend that you use another perpetuity method to calculate the residual value.

(5170.00) Growing Perpetuity Residual Value

Similar to the Perpetuity Residual Value, except that you can forecast growth in the cash flows (profits) for all years beyond the forecast period. You may select this method from the Shareholder Value Model Options dialog and input your assumption for growth in profits throughout the perpetuity.

(v5175.00) Value Growth Duration Perpetuity Value

Similar to the Perpetuity Residual Value, except that you can forecast growth in the cash flows (profits) for years beyond the original forecast period. You may select this method from Shareholder Value Model Options and input assumptions for years of growth and percentage of growth in profits throughout that period. Use this method to forecast for several years although you believe that your opportunity to earn beyond your cost of capital (the value growth duration) is greater than the selected time frame. Thus, you may forecast growth in the Taxable Operating Profit beyond your forecast period, making up the rest of your assumed value growth duration.

(v5180.00) Liquidation Residual Value

Your estimate, in future value currency, of the "price tag" of the business in each year of the forecast period, based on your expectations of prevailing conditions in that period. You must incorporate the costs of liquidation, including such items as transaction costs and recapture tax, in this value.

(v5190.00) Market-to-Book Residual Value

Calculated as:

```
((v2890.00) * (v5120.00)) + (v3510.00) - (v5150.00) = (v5190.00)
```

where:

- (v2890.00) Common Equity

- (v5120.00) Market to Book Ratio

- (v3510.00) Total Debt and Preferred Stock

- (v5150.00) Debt Discount/(Premium)

- (v5190.00) Market to Book Residual Value

(v5200.00) Price/Earnings Residual Value

Calculated as:

```
(((v1850.00) + (v5140.00))*(v5130.00)) + (v3510.00) - (v5150.00)
```

where:

- (v1850.00) Income Available for Common Shareholders

- (v5140.00) Normalized Earnings Adjustment

- (v5130.00) Price/Earnings Ratio

- (v3510.00) Total Debt and Preferred Stock

- (v5150.00) Debt Discount/(Premium)

This variable is a future value discounted back to present value terms using the Discount Factor (v5000.01) to calculate Present Value of Residual Value (v5220).

(v5210.00) Future Value of Residual Value

Individual residual value figures for each period in the forecast. These values represent the residual value of the company at the end of each period, based on the method you use to calculate residual value.

(v5220.00) Present Value of Residual Value

Portion of total corporate value attributable to operations beyond the final year of the forecast period, expressed in today's currency. It is calculated by discounting the Future Value of Residual Value (v5210) by the Discount Factor (v5000.01).

The value of a company is determined by expectations of what will happen during and after the forecast period. The portion of Corporate Value (v5060) contributed by expectations about the post-forecast period is called the residual value, and, in present value terms, the Present Value of Residual Value (v5220.00).

(v5300.00) Cost of Equity (Ke)

Rate of return demanded by equity investors. The Cost of Equity, using the Capital Asset Pricing Model Approach equals:

```
Cost of Equity (Ke) = Risk Free Rate (Rf) + (Beta * Market Risk Premium)
```

```
Cumulative Present Value of Cash Flows (v5020.00)
```

The Cumulative Present Value of Cash Flows (v5020.00) represents that portion of total Corporate Value (v5060) attributable to cash flows generated during the forecast period. It is the sum of the present value of the individual forecasted cash flows.

Present Value of Cash Flow (v5010.00) Cumulative PV of Cash Flows (v5020.00)

Year 1 $10 $10

Year 2 $15 $25

Year 3 $25 $50

(v5300.01) Discount Factor (Ke)

Used to calculate the Present Value of Equity Residual Value (v5520).

(v5300.02) Future Value Factor (Ke)

Not used in Strategic Modeling in formulas but calculated and available to use in Freeform formulas. The Future Value Factor (Ke) can determine the future value of a stream of dividends, based upon the cost of equity and the number of years into the future you want to value them.

(v5300.03) Accumulation Factor (Ke)

Used when calculating discount factors in nonaggregate periods such as months and quarters.

(v5300.05) Mid-Period Discount Factor (Ke)

Used instead of the Discount Factor (Ke) (v5300.01) when Mid-Period discounting is selected.

(v5300.06) Mid-Period Future Value Factor (Ke)

Used instead of the Future Value Factor (Ke) (v5300.02) when Mid-Period discounting is selected.

(v5305.00) Long-Term Cost of Equity (%)

Used to calculate the Residual Values for the Dividend Discounting Valuation Method in Strategic Modeling. Using cost of equity to calculate residual value for the Dividend Discount Approach allows you to assign different required rates of return to the post-

planning horizon period and forecast period. This feature increases your flexibility in modeling the forecast period and residual value of the company.

Forecasting different costs of equity for different periods is not recommended unless you expect the company to 1.) operate in businesses with substantially different risk in the future, or 2.) go through a period when its capital structure is suboptimal.

Enter the input as a percentage.

(v5305.03) Accumulation Factor (LT Ke)

Used when calculating discount factors in nonaggregate periods such as months and quarters.

(v5308.00) Common Dividends DDM

Receives common dividends as defined by Common Dividends (v1900).

(v5310.00) Present Value of Dividend

Calculated by multiplying Common Dividends (v1900) by the Discount Factor (Ke) (v5300.01) or the Mid-Period Discount Factor (Ke) (v5300.05), if Mid-Period discounting is selected.

(v5320.00) Cum. PV of Dividends

Incorporates the value of the Cum. PV of Dividends (v5320) and the Present Value of Equity Residual Value (v5520). Cum. PV of Dividends (v5320.00) is calculated as:

```
  (v5320.00)  Cum. PV of Dividends (prior period)

+ (v5310.00)  Present Value of Dividend



= (v5320.00)  Cum. PV of Dividends
```

(v5330.00) Cum. PV of Dividends and Equity Residual Value

```
  (v5320.00)  Cum. PV of Dividends

+ (v5520.00)  Present Value of Equity Residual Value



= (v5330.00)  Cum. PV of Divid. and Equity Residual Value
```

(v5370.00) Estimated Equity Value

Estimated Equity Residual Value (v5370.00) is calculated as follows:

```
    (v5330.00)   Cum. PV of Dividends and Equity Res. Value

+   (v5.00:720)  Market Value of Other Assets

-    (v5.00:700)  Market Value of Other Liabilities

+   (v2015.00)   Excess Marketable Securities



=   (v5370.00)   Estimated Equity Value
```

(v5380.00) Equity Value Per Share

Estimated Equity Value (v5370) divided by the Number of Common Share: Year End (v3400.00).

(v5390.00) Premium/Discount Over/Under Market

When the Equity Value Per Share (v5380), or "Share Value," differs from the Current Stock Price (v5.00:200), it implies that, according to your expectations of the future performance of the company, the market seems to be overvaluing or undervaluing the stock.

The premium or discount of the stock offers you a comparison of the economic value of the stock (Shareholder Value per Share) to the Current Stock Price.

Premium/Discount Over/Under Market Price (%) is calculated as follows:

```
((v5080.00) - (v5.00:200)) * 100)
```


```
(v5.00:200)
```

where:

- (v5080.00) Equity Value Per Share

- (v5.00:200) Current Stock Price

(v5400.00) Affordable Dividend

Affordable Dividend (v5400.00) is used with the Perpetuity Affordable Dividend (v5410) in the calculation of the Perpetuity Dividend Residual Value (v5460) and is calculated as:

```
(v2015.00) + ((v4.00:760) * ((v2490.00) - (v2015.00) - (v3510.00)))
```

where:

(v2015.00) Excess Marketable Securities

(v4.00:760) Residual Value Target Leverage Ratio (%)

(v2490.00) Total Assets

(v3510.00) Total Debt and Preferred Stock

(5410.00) Perpetuity Affordable Dividend

Used with the Affordable Dividend (v5400.00) in calculating the Perpetuity Dividend Residual Value (v5460) using this formula:

```
(v4.00:780) * ((v2490.00) - (v2015.00)) * (1 - (v4.00:760))
```

where:

- (v4.00:780) Long-Term Return on Book Equity

- (v2490.00) Total Assets

- (v2015.00) Excess Marketable Securities

- (v4.00:760) Residual Value Target Leverage Ratio (%)

(v5420.00) Market-to-Book Equity Ratio

Used in the calculation of Market-to-Book Equity Residual Value (v5490).

(v5430.00) Price/Earnings Equity Ratio

Used in the calculation of Price/Earnings Equity Residual Value (v5500).

(v5440.00) Normalized Earnings Adjustment

Use this item to change, or "normalize," for valuation purposes, period-by-period values for Income Available for Common Shareholders (v1850) that you consider abnormally high or low because of prevailing industry or economic conditions in that year that are not expected to continue. Under the Price/Earnings Equity Residual Value (v5500) method of calculating residual value, Income Available for Common Shareholders (v1850) forms the basis for calculating residual value in each period. Unusually high or low values for Income Available for Common Shareholders (v1850) correspondingly overstate or understate residual value.

If you enter adjustment for periods, the amount is added to Income Available for Common Shareholders (v1850) in calculating Price/Earnings Equity Residual Value (v5500) for valuation. It will not change Income Available for Common Shareholders (v1850) as it appears on the Income Statement.

For example, if you believed that a final-period amount for Income Available for Common Shareholders (v1850) of $2,000 was abnormally high and should be normalized to $1,200, you would enter an adjustment of -$800 in the final period. It is used in the Price/Earnings Equity Residual Value (v5500) calculation.

(v5460.00) Perpetuity Dividend Residual Value

Calculated as:

```
Afford. Dividend (v5400.00) + Perp. Afford. Dividend (v5410.00)



Long-Term Cost of Equity (v5305.00)



Present Value of Equity Residual Value (v5520.00)
```

The Present Value of Equity Residual Value (v5520.00) is calculated by discounting the Future Value of Equity Residual Value (v5510) by the Discount Factor (Ke) (v5300.01).

(v5470.00) Growing Dividend in Perpetuity Value

Similar to the Perpetuity Dividend Residual Value, except that you can forecast growth in the dividends for all years beyond the forecast period. You may select this method from the Dividend Discount Model Options dialog and input your assumption for growth in dividends throughout the perpetuity.

(v5475.00) Value Growth Duration Perpetuity Value

Similar to the Perpetuity Dividend Residual Value, except that you can forecast growth in the dividend for years beyond the original forecast period. You may select this method from Dividend Discount Model Options and input your assumptions for how many years of growth and percentage of growth in dividends throughout that period. This method is commonly used to forecast for several years when dividends continue to grow beyond the selected time frame. Thus, you may forecast growth in the dividend beyond your forecast period, making up the rest of your assumed dividend discount value growth duration.

(v5480.00) Equity Liquidation Value

Your estimate, in future value currency, of the "price tag" of the business in each year of the forecast period, based on your expectations of prevailing conditions in that period. Incorporate the costs of liquidation, including transaction costs and recapture tax, in this value.

(v5490.00) Market-to-Book Equity Residual Value

Calculated by multiplying Common Equity (v2890) by the Market-to-Book Equity Ratio (v5420).

(v5500.00) Price/Earnings Equity Residual Value

Price/Earnings Equity Residual Value (v5500.00) is calculated as: ((v1850.00) + (v5440.00)) * (v5430.00)

where:

- (v1850.00) Income Available for Common Shareholders

- (v5440.00) Normalized Earnings Adjustment

- (v5430.00) Price/Earnings Equity Ratio

(v5510.00) Future Value of Equity Residual Value

The value of the residual in the nth period , (at the end of the forecast period). This value is discounted back to the beginning of the forecast (today) to determine the Net Present Value of all future dividend streams.

(v5700.00) Economic Profit Required Return on Capital (RROC)

Discount rate used to determine the discount factor used to calculate the present value of economic profit. Enter the rate as a percentage.

(v5700.01) Discount Factor (Economic Profit RROC)

Used to present value Economic Profit (v5753) and the Residual Perpetuity (v5765).

(v5700.02) Future Value Factor (Economic Profit RROC)

Used to determine the value that Economic Profit (v5700) grows to over some length of time at some given interest rate. It is the value, in the future, of economic profit that exists today.

(v5700.03) Accumulation Factor (Economic Profit RROC)

Used when calculating discount factors in nonaggregate periods such as months and quarters.

(v5700.05) Midperiod Discount Factor (Economic Profit RROC)

While the Discount Factor (v5700.01) assumes that the Economic Profit (v5700) of a firm is received at period end, the Mid-Period Discount Factor (v5700.05) assumes that this profit (on average) occurs midpoint in the period, a more realistic assumption, because transactions that create profits occur throughout a given period.

(v5700.06) Mid-Period Future Value Factor (Economic Profit RROC)

Used to determine the value that Economic Profit (v5700) grows to over some length of time at some given interest rate. It is the value in the future, of economic profit, that exists today. This value differs from Future Value Factor (Economic Profit RROC) because it uses mid-period discounting rather than end-of-period discounting.

(v5702.00) Economic Profit RROC %

By default, this calculated account appears on the standard ratios page. It backs into the input for Economic Profit (v5700), determined by the difference between the firm's rate of return and its cost of capital. Enter the number as you would other percentages ("10" for 10%).

(v5705.00) Long-Term Required Return (%)

The rate, similar to the long-term cost of capital in the Shareholder Value model, used to discount the residual value of the economic profit.

(v5710.00) Book Value (Before Adjustments)

The value in this account, calculated by subtracting total operating liabilities from total operating assets, represents the net operating assets of the firm.

(v5715.00) Economic Profit Adjustment to Assets

Adjusts Book Value (v5710).

(v5720.00) Economic Profit Adjustment to Liabilities

Adjusts Book Value (v5710).

(v5725.00) Adjusted Book Value

This account is calculated by adding the net effect of Economic Profit Adjustment to Assets (v5715) and Economic Profit Adjustment to Liabilities (v5720) to Book Value (v5710).

It is calculated as:

```
  (v5710.0)  Book Value (Before Adjustments)

+ (v5715.0)  Economic Profit Adjustment to Assets

- (v5720.0)  Economic Profit Adjustment to Liabilities


= (v5725.0)  Adjusted Book Value
```

(v5735.00) Net Operating Profit After Tax (NOPAT)

Represents the after-tax operating profit of a firm. Used to determine the economic profit of the firm and calculated by subtracting Total Taxes on Operations (v3280) from Operating Profit (v1150).

```
    (v1150.00)  Operating Profit

-   (v3280.00)  Total Taxes on Operations


=   (v5735.00)  NOPAT
```

(v5740.00) Economic Profit Adjustment to NOPAT

Used to make necessary adjustments to NOPAT (v5735).

(v5745.00) Economic Profit NOPAT

Adjusted NOPAT, calculated by adding Economic Profit Adj. to NOPAT (v5740) to NOPAT (v5735).

```
    (v5735.00)  NOPAT

+   (v5740.00)  Economic Profit Adj to NOPAT


=   (v5745.00)  Economic Profit NOPAT
```

(v5750.00) Economic Profit

After-tax operating profit less the charge on invested capital, is calculated:

```
    (v5745.00)  Economic Profit NOPAT

-   (v5730.00)  Capital Charge


=   (v5750.00)  Economic Profit
```

(v5753.00) Economic Profit NOPAT (EP)

Used when calculating the Present Value of Economic Profit (v5755). Economic Profit NOPAT (EP) (v5753.00) differs from (v5750) in that it occurs only in forecast periods.

(v5755.00) Present Value of Economic Profit

Value of each future period's economic profit in today's dollars, calculated by multiplying the Discount Factor (v5700.01) by the dollar value of the future economic profit.

(v5760.00) Cumulative Present Value of Economic Profit

Represents that portion of total Economic Profit Corporate Value (v5785) attributable to economic profit generated during the forecast period. It is the sum of the present value of the individual forecasted cash flows.

PV of Economic Profit (v5755.00) Cumulative PV of EP

Year 1 $10 $10

Year 2 $15 $25

Year 3 $20 $45

(v5765.00) Residual Perpetuity

Valuation item represents the portion of total Economic Profit Corporate Value (v5785) attributable to the residual value of economic profit. This is the period that generates economic profit beyond the forecast horizon. It is calculated as follows:

```
((v5810.00) - ((v5705.00) * (v5725.00)))


(v5705.00)
```

where:

- (v5810.00) Residual NOPAT for Perpetuity

- (v5705.00) Long-Term Required Return (%)

- (v5725.00) Adjusted Book Value

(v5770.00) Present Value of Residual Perpetuity

Residual value expressed in today's dollars, calculated by multiplying the Residual Perpetuity (v5765) by the Discount Factor (Economic Profit RROC) (v5700.01).

(v5775.00) Total Present Value of Economic Profit

Portion of Total Economic Profit Corporate Value (v5785) attributable to the value of the company's operation in the forecast horizon and the residual period, calculated as the sum of these two accounts:

```
  (v5760.00)  Cumulative PV of Economic Profit

+ (v5770.00)  Present Value of Residual Perpetuity



= (v5775.00)  Total PV of Economic Profit
```

(v5780.00) Beginning Book Value

This account represents the Adjusted Book Value (v5725) in the last historical period. If mid-period discounting is elected, Adjusted Book Value (v5725) is adjusted accordingly.

(v5785.00) Economic Profit Corporate Value

Total economic value of the firm, comprises:

- Present value of Economic Profits (v5760) generated during the forecast horizon

- Present value of Residual Perpetuity (v5770)

- Beginning Book Value (v5780)

- Investments, such as Total Marketable Securities (v2017), Long-Term Funding Asset (v2460), Investments in Stocks and Bonds (v5.00:560), and Investments consolidated using the Cost or Equity Method

Economic Profit Corporate Value (v5785.00) is calculated:

```
    (v5775.00)   Total PV of Economic Profit

+   (v5780.00)   Beginning Book Value

+   (v2017.00)   Total Marketable Securities(Last Hist. Pd)

+   (v2460.00)   Long-TermFunding Asset (Last Historical Pd)

+   (v5.00:560)  Investments in Stocks and Bonds

+   V5.00:910    Valuation Adj. for Cost and Equity Method:EP



=   (v5785.00)   Economic Profit Corporate Value
```

(v5790.00) Economic Profit Shareholder Value

Value of the equity of a company. The value that belongs to its shareholders, calculated as follows:

```
    (v5785.00)   Economic Profit Corporate Value

-   (v5.00:500)  Market Value of Debt

-   (v5.00:520)  Underfunded Pension Liabilities

-   (v5.00:540)  Market Value of Other Obligations

-   (v5.00:930)  Valuation Adj. for Minority Interest: EP

=   (v5790.00)   Economic Profit Shareholder Value
```

(v5795.00) Economic Profit Shareholder Value per Share

Shareholder value is a critical measure of the financial and operational health of a company and reflects the economic value of the shareholders' investment in expected future operations, calculated as follows:

```
Economic Profit Shareholder Value (v5790.00)
```

```
Number of Common Shares: Year End (v3400.00
```

(v5799.00) Premium/Discount Over/Under Current Stock Price

When Economic Profit Shareholder Value per Share (v5795) differs from the current stock price (v5.00:200), it implies that, according to your expectations of the future performance of the company, the market seems to be overvaluing or undervaluing the stock. The premium or discount of the stock offers you a comparison of the economic value of the stock to the current stock price:

```
((v5799.00) - (v5.00:200))
```

```
(v5.00:200)
```

where:

- (v5799.00) Economic Profit Shareholder Value per Share

- (v5.00:200) Current Stock Price

(v5810.00) Residual NOPAT for Perpetuity

Residual value of NOPAT (v5735), used in determining the Residual Perpetuity (v5765) of Economic Profit and calculated as follows:

```
((v3210) * (1 - (v5.00:800))) + (v5.00:820)
```

where:

- (v3210.00) Taxable Operating Profit

- (v5.00:800) Economic Profit Residual Value Tax Rate

- (v5.00:820) Residual NOPAT Adjustment

6000.xx:xxx to 6999.xx:xxx Accounts

(v6000.00) Gross Profit Margin

The profitability ratio tells you what proportion of Sales (Net) (v1030) is included in Gross Profit (v1070). The ratio is calculated as follows:

```
Gross Profit (v1070.00)



Sales (Net) (v1030.00)
```

Changes in the Gross Profit Margin can result from an increase or decrease in one or both of these factors:

- Sales (Net) (v1030.00)

- Cost of Goods Sold (v1040.00)

In evaluating which factors affect the Gross Profit Margin (v6000.00), determine which factors affect the future margin. For example, if the Gross Profit Margin (v6000.00) recently improved because of a Cost of Goods Sold (v1040) reduction, try to determine whether that margin can be sustained at even greater sales volumes. The drop in Cost of Goods Sold (v1040) may be due to a onetime change in depreciation policy or a switch from FIFO to LIFO.

(v6005.00) Return on Sales

Return on Sales (v6005.00) or Net Profit Margin is a profitability ratio that tells you what proportion of Sales (Net) (v1030) finds its way into Net Income (v1750).

```
Net Income (v1750.00) /

Sales (Net) (v1030.00)
```

Accrual-based measures such as Net Income (v1750) and ROS (v6005.00) have limitations: they do not incorporate risk, the time value of money, or investment requirements, and they can be greatly affected by alternative accounting conventions.

(v6010.00) Return on Equity

Profitability ratio that calculates the accounting rate of return on stockholders' investment (based on year-end equity). The ratio is calculated as follows:

```
Net Income (v1750.00)



Common Equity (v2890.00
```

Accrual-based measures such as Net Income (v1750) and ROE (v6010.00) have limitations: they do not incorporate risk, the time value of money, or investment requirements, and they can be greatly affected by alternative accounting conventions.

A high return on equity does not necessarily imply positive cash flow. Unless cash flow is positive, the company may have difficulty sustaining its Common Dividends (v1900) despite a high ROE (v6100.00).

(v6015.00) Return on Assets/Inventory (ROA/ROI)

Profitability ratio, which measures the accounting rate of return on Total Assets (v2490), is calculated as: ((v1700.00) + (v1420.00)) - ((v3220.00) + (v1410.00))

(v2490.00)

where:

- (v1700.00) Income After Taxes

- (v1420.00) Total Interest Expense

- (v3220.00) Interest Tax Shield

- (v1410.00) Interest Capitalized

- (v2490.00) Total Assets

These ratios have limitations: they are based on historical costs, do not incorporate risk or the time value of money, and can be greatly affected by alternative accounting conventions.

(v6020.00) Return on Net Assets

Profitability ratio that calculates the accounting rate of return on net assets, calculated as follows:

```
((v1700.00) + (v1420.00)) - ((v3220.00) + (v1410.00))
```

```
(v2490.00 - v2600.00)
```

where:

- (v1700.00) Income After Taxes

- (v1420.00) Total Interest Expense

- (v3220.00) Interest Tax Shield

- (v1410.00) Interest Capitalized

- (v2490.00) Total Assets

- (v2660.00) Total Current Liabilities

The exclusion of Total Current Liabilities (v2600) means that RONA (v6020.00) represents the accounting return on longer-term investments.

This ratio has limitations: it is based on historical cost, does not incorporate risk or the time value of money, and can be greatly affected by alternative accounting conventions.

(v6025.00) Change in Net Income

Period-by-period percentage change in Net Income (v1750).

(v6040.00) Debt/Equity Ratio

Leverage ratio measures the capital structure of the company, calculated as follows:

```
Total Debt and Preferred Stock (v3510.00)
```

```
Common Equity (v2890.00)
```

(v6045.00) Debt/Total Capital Ratio

Leverage ratio measures the capital structure of the company, calculated as follows:

```
Total Debt and Preferred Stock (v3510.00)
```

```
Total Capital (v3520.00)
```

(v6050.00) Equity Ratio

A leverage measure that calculates what proportion of Total Assets (v2490) is financed by Common Equity (v2890). The ratio is calculated as follows:

```
Common Equity (v2890.00)
```

```
Total Assets (v2490.00)
```

(v6055.00) Times Interest Earned

Leverage ratio that indicates the extent to which interest is covered by accounting earnings before interest and tax. It is calculated as follows:

```
Earnings Before Taxes (v1600.00) + Total Interest Expense (v1420.00)
```

```
Total Interest Expense (v1420.00)
```

(v6065.00) Days in Receivables (avg.)

Activity ratio measures the average time the company takes to collect cash for credit sales. The average ratio is calculated as follows:

```
((Beg. Accts Rec + End. Accts Rec) / 2) * No. Days in Period
```

```
Sales (Net) (v1030.00)
```

where Accounts Receivable is (v2020).

A low Days in Receivables (v6065.00) ratio does not reliably indicate an efficient collections department; a restrictive credit policy also would decrease this ratio. The longer the collection period, the greater the company's working capital investment.

(v6070.00) Days in Payables (avg.)

Estimates how long, on average, the company takes to pay its trade creditors. The average ratio is calculated as follows:

```
((Beg. Accts Pay + End. Accts Pay) / 2) * No. of Days in Period
```

```
COGS (v1040.00)
```

where Accounts Payable is (v2500).

A high ratio does not indicate effective working capital management. High levels also could reflect inadequate cash flow to cover the company's obligations on a timely basis, which potentially could threaten continued purchase of supplies for operations.

(v6075.00) Inventory Turnover (avg.)

Activity ratio measures the average rate at which Inventory (v2040) moves through and out of the enterprise. The average ratio is calculated as follows:

```
Cost of Goods Sold (v1040.00)((Beg. Inventory + End. Inventory) / 2)
```

where Inventory is (v2040).

A high Inventory Turnover (v6075.00) ratio does not indicate efficient control over inventories; a company that is living from "hand to mouth" would have a high ratio. The Inventory Turnover (v6075.00) ratio is not strongly affected by the choice of LIFO versus FIFO inventory accounting methods because the impact of the method influences the numerator and denominator.

(v6080.00) Fixed Asset Turnover

An activity ratio that shows how intensively the company's assets are being used. The ratio is calculated as follows:

```
Sales (Net) (v1030.00)
```

```
Net Fixed Assets (v2200.00)
```

The Fixed Asset Turnover (v6080.00) is dependent on the fixed capital intensity of your industry. Net Fixed Assets (v2200) is based on historical costs and depreciation policy.

A high Fixed Asset Turnover (v6080.00) ratio does not mean you could buy replacement assets today and achieve the same efficiency. A better measure of fixed capital intensity is the Incremental Fixed Capital Investment (F) ratio (v6185), which measures the investment in fixed capital required to support a $1 increase in sales.

(v6090.00) Days in Receivables

Activity ratio that measures the average time the company takes to collect cash for credit sales. The ratio for Days in Receivables (v6090.00) is calculated as follows:

```
Accounts Receivable (v2020.00)* Number of Days in Period
```

```
Sales (Net) (v1030.00)
```

A low Days in Receivables (v6090.00) ratio does not reliably indicate an efficient collections department; a restrictive credit policy also would decrease this ratio. The longer the collection period, the greater the company's working capital investment.

(v6095.00) Days in Payables

Estimates how long, on average, the company takes to pay trade creditors. The ratio for Days in Payables (v6095.00) is calculated as follows:

```
  Accounts Payable (v2500.00) * Number of Days in Period
```

```
/ Cost of Goods Sold (v1040.00)
```

A high ratio does not indicate effective working capital management. High levels also could reflect inadequate cash flow to cover company obligations on a timely basis, which potentially could threaten continued purchase of supplies for operations.

(v6100.00) Inventory Turnover

Activity ratio measures the average rate at which inventories move through and out of the enterprise.

The ratio for Inventory Turnover (v6100.00) is calculated as follows:

```
Cost of Goods Sold (v1040.00)



Inventory (v2040.00)
```

A high Inventory Turnover (v6100.00) ratio does not indicate efficient control over inventories; a company that is living from "hand to mouth" would have a high ratio. The Inventory Turnover (v6100.00) ratio is not strongly affected by the choice of LIFO versus FIFO inventory accounting methods because the impact of the method influences the numerator and denominator.

(v6115.00) Current Ratio

Liquidity ratio measures the company's ability to cover short-term obligations with short-term assets. The ratio is calculated as follows:

```
Total Current Assets (v2100.00) / Total Current Liabilities (v2600.00)
```

A low Current Ratio (v6115.00) does not necessarily indicate that a company is in difficulty; this ratio ignores the company's reserve borrowing power.

(v6110.00) Quick Ratio

The Quick (or Acid) Ratio (v6110.00) is a liquidity ratio that measures the ability of the company to pay off short-term obligations from its most liquid assets. Calculated as follows:

```
(v2000.00) +  (v2017.00) + (v2035.00)



(v2600.00)
```

where:

- (v2000.00) Cash

- (v2017.00) Total Marketable Securities

- (v2035.00) Net Account Receivables

- (v2600.00) Total Current Liabilities

A low Quick Ratio (v6110.00) does not necessarily indicate that a company is in difficulty. First, this ratio ignores the company's reserve borrowing power (such as lines of credit) that are not recorded but can be used to meet short-term obligations.

Second, rapid sales growth usually increases the required working capital investment and can distort the Quick Ratio (v6110.00). For example, a rapid increase in Inventory (v2040) (not included in the numerator) funded by Accounts Payable (v2520), which is included in the denominator, causes a sudden Quick Ratio (v6110.00) decline.

(v6120.00) Working Capital

Net amount of a company's liquid resources, it is the amount available to service the financial demands of the operating cycle, calculated as follows:

```
  (v2100.00)  Total Current Assets



- (v2600.00)  Total Current Liabilities

  (v6120.00)  Working Capital

+ (v2520.00)  Notes Payable

+ (v2595.00)  Other Current Liabilities - Non-Operating

  (v6122.00)  Operating Working Capital
```

(v6122.00) Operating Working Capital

The portion of Working Capital (v6120) attributable to the day-to-day operations of the company. The investing, financing, and other nonoperating portions are subtracted from Working Capital (v6120), leaving only the operating portion:

```
    (v2100.00)  Total Current Assets

-   (v2017.00)  Total Marketable Securities

-   (v2095.00)  Other Current Assets - Non-Operating

-   (v2600.00)  Total Current Liabilities

+   (v2510.00)  Current Portion of Long-Term Debt
```

(v6125.00) Earnings Per Share

Traditional accounting measure of corporate performance for companies with a simple capital structure that reflects the net income available for each common share. The ratio is calculated as follows:

```
Income Available for Common Shareholders (v1850.00)



No. of Common Shares: Wtd. Average (v3410.00)
```

EPS growth does not necessarily lead to shareholder returns, even over longer periods of time. EPS growth can be achieved not only when management is investing at or above the market discount rate (cost of capital), but also when it is investing below the discount rate and thereby decreasing the value of the stock. A high EPS (v6125.00) ratio does not necessarily imply that the company has a positive cash flow and an ability to pay a high proportion of these earnings in dividends.

The accounting dividend payout ratio, or proportion of earnings that are distributed, can be calculated by dividing Dividends per Share (v6140) by Earnings Per Share (v6125.00). EPS (v6125.00) also is used to calculate the Price/Earnings (v5130) ratio, by dividing the Stock Price (v5.00:200) by EPS (v6125.00). A high Price/Earnings ratio may indicate these investor beliefs:

1. They expect high dividend growth

2. They view the stock as low risk and therefore are satisfied with low returns

3. They expect average company growth but a high payout ratio

(v6135.00) Fully Diluted EPS

Traditional accounting measure of corporate performance for companies with a complex capital structure that reflects the amount of net income available for common shares plus all potentially dilutive securities.

The ratio is calculated as follows:

```
((v1850.00) + (v3450.00))
```

```
((v3410.00) + (v3430.00))
```

where:

• (v1850.00) Income Available for Common Shareholders

• (v3450.00) Fully Diluted EPS Adjustment to Net Income

• (v3410.00) Number of Common Shares: Wtd. Average

• (v3430.00) Potentially Dilutive Securities

(v6140.00) Dividends per Share

Measures the cash return to shareholders on their investment. The ratio is calculated as:

```
Common Dividends (v1900.00)
```

```
No. of Common Shares: Wtd. Average (v3410.00)
```

(v6145.00) Cash Flow per Share

Cash Flow per Share (v6145.00), when used over an extended period of time with Marketable Securities (v2017) and Unused Debt Capacity (v3560), can measure a company's ability to pay dividends. Cash Flow from Operations (v4100), on which Cash Flow per Share (v6145.00) is based, is a principal component of Shareholder Value (v5070). Cash Flow per Share (v6145.00) is defined as follows:

```
Cash Flow from Operations (v4100.00)
```

```
No. of Common Shares: Wtd. Average (v3410.00)
```

> **Note:**
>
> This definition differs from another common formula used by security analysts, where depreciation expense and amortization of intangibles are added to net income to arrive at an estimation for cash flow used in their cash flow per share calculations.

Cash Flow from Operations (v4100) (combined with the changes in Debt Capacity) must be sufficient to cover investment requirements and interest payments on debt. Unless it is, the company's solvency is deteriorating, and remedial steps must be taken before the company's financial position is jeopardized.

(v6150.00) Book Value per Share

Traditional accounting measure of the value of a company.

(v6155.00) Change in Earnings Per Share (%)

Period-by-period percentage change in Earnings Per Share (v6125).

(v6175.00) Sales Growth Rate (G)

A key Strategic Modeling account used in determining Shareholder Value (v5070). By estimating the rate of anticipated sales growth, you evaluate shareholder value created from the projected cash flow, given your assumptions about other key accounts:

*   Operating Profit Margin (P) (v6180)

*   Incremental Working Capital Investment (W) (v6190)

*   Incremental Fixed Capital Investment (F) (v6185)

*   Residual Value Income Tax Rate (v4.00:560)

*   Cash Income Tax Rate (Tc) (v6195)

*   Cost of Capital (K) (v5000)

If you compare the sales growth of a company to the growth of the overall market, you can determine whether the company is gaining or losing market share. High sales growth may not indicate good economic performance. If a company is growing rapidly, there may be lower margins (due to lower prices or greater promotion expenses) and greater investments required in working and fixed capital. If those factors strain the financial resources of the company, its financial position and solvency may be jeopardized.

(v6180.00) Operating Profit Margin (P)

The Operating Profit Margin (P) (v6180.00) is a pretax, pre-interest measure:

```
Taxable Operating Profit (v3210.00)
```

```
Sales (Net) (v1030.00)
```

The Operating Profit Margin (P) (v6180.00) is one of the key Strategic Modeling accounts affecting Shareholder Value (v5070).

(v6185.00) Incremental Fixed Capital Investment (F)

The portion of total expenditures Fixed Capital Investment (v2170.01), for the capacity expansion necessary to support incremental (increased) sales. It is defined as capital expenditures in excess of depreciation expense and net capitalized interest. Depreciation expense is assumed to approximate the cost of replacing equipment to maintain the plant without adding capacity. As part of the financing decision, not the investment decision, Interest Capitalized (v1410) is excluded from Incremental Fixed Capital Investment (F) (v6185.00).

When expressed as a percentage of incremental Sales (v1030), it is known as "F," a key Strategic Modeling account affecting Shareholder Value (v5070):

```
Fixed Capital Inv. (v2170.01) - Depr. Exp (Funds) (v2190.01)
```

```
Sales (Net) (v1030.00) - Sales (Net) (v1030.00) (prior period)
```

Depreciation Expense (Funds) (v2190.01), based on historical costs, may understate the cost of replacing equipment when that cost has increased because of inflation and regulatory forces (such as environmental controls). The "F" (v6185.00) ratio does account for greater replacement costs, because they are captured in your estimate of total capital expenditures, Fixed Capital Investment (v2170.01). The numerator, therefore, impounds the cost of expansion and the cost of replacing equipment.

Whether the historical value of this account is a reasonable estimate for the next few years is dependent upon factors such as these:

- Your assessment of the speed and extent to which increased fixed capital costs can be passed on to customers through the selling price

- Whether assets can be used more effectively

- Whether the number of plants can be reduced

(v6190) Incremental Working Capital Investment (W)

The Incremental Working Capital Investment (v4070) required for operations is the increase in Total Current Assets (v2100) (excluding Marketable Securities (v2017)) minus the Increase in Total Current Liabilities (v2600) (excluding the Current Portion of Long-Term Debt (v2510) and Notes Payable (v2520)).

When this investment is expressed as a percentage of incremental or increased Sales (v1030), it is known as "W" (v6190.00), a key Strategic Modeling account affecting Shareholder Value (v5070):

```
Incremental Working Capital Investment (v4070.00)
```

```
Sales (Net) (v1030.00) - Sales (Net) (v1030.00) (prior period)
```

Incremental Working Capital Investment (W) (v6190.00) excludes the increases in Marketable Securities (v2017), Current Portion of Long-Term Debt (v2510), and Notes Payable (v2520) because those accounts are financing issues and are not part of the cash required for operations.

Incremental Working Capital Investment (v4070) represents the actual investment in receivables, inventory, and so on necessary to support sales growth. Because this investment is part of the company's basic production and administrative function, it is included in the calculation of Cash Flow from Operations (v4100).

Past year-to-year balance sheet data may not provide a good measure of the increase or decrease in funds required for the future. Past figures can be misleading for two reasons:

1. Year-end figures on the balance sheet may not reflect the average or usual needs of the business during that year.

2. Estimating the cost of increased inventories based on the difference between the beginning and ending inventories balances may yield unreliable results.

(v6195.00) Cash Income Tax Rate (Tc)

Income Taxes on Operations (v3240) represents the portion of total income taxes that is applicable to operating profit only (Taxable Operating Profit (v3210)). Income Taxes on Operations (v3240) is the total taxes on Taxable Operating Profit (v3210) for a fiscal year that paid by installments or are payable within 12 months. (The latter are shown as a liability in Income Taxes Payable (v2530) at year end.)

The Cash Income Tax Rate (v6195) is calculated as follows:

```
Total Taxes on Operations (v3280.00)
```

```
Taxable Oper. Profit (v3210.00) + Gain on Sale of Assets (v1170.00)
```

(v6200.00) Cost of Capital (K)

This account appears on the Financial Ratios Report and displays the Cost of Capital (v5000) amount.

Cost of Capital (Kw) (v5000.00)

Cost of Capital (v5000.00) is the weighted average costs of debt and equity.

Enter the rate as a percentage. Using one rate for all periods is recommended.

Cost of Capital (Kw) forms the basis of the Discount Factor (Kw) (v5000.01) that is multiplied by future cash flows to calculate their present value.

Strategic Modeling distinguishes between the Cost of Capital (v5000) during the forecast period and in the residual period, Long-Term Cost of Capital (%) (v5005). It is generally recommended that Cost of Capital (Kw) (v5000.00) and Long-Term Cost of Capital (%) (v5005) share input.

(v6260.00) Operating Profit Cash Interest Coverage

Tells you the extent to which the operating earnings of a company are sufficient to cover the cash interest expense which the company is incurring in the current period. This account appears in the Interest Expense section of the Funding Analysis Report. It is calculated as follows:

```
Operating Profit (v1150.00)
```

```
Int. Exp. (v1400.00) - Non-Cash Int. on L-T Debt: Sch. (v2660.03)
```

(v6265.00) Operating Cash Flow Cash Interest Coverage

The cash flow before discretionary investments (such as fixed capital expenditures), which is available to meet current cash interest obligations. This account appears in the Interest Expense section of the Funding Analysis Report. It is calculated as follows:

```
Cash from Operating Cycle (v4320.00)
```

```
Total Cash Interest Expense (v3590.00)
```

(v6300.00) Increase in Shareholder Value

(Increase in Shareholder Value (%) (6305.00))

Appears on the Financial Ratios Report and displays the period-to-period currency and percentage changes in Shareholder Value (v5070), calculated using the Cum. PV of Cash Flows and Residual Value (v5030).

(v6310.00) Increase in DDM Value

(Increase in DDM Value (v6315.00))

Appears on the Financial Ratios Report and displays the period-to-period currency and percentage changes in the Cum. PV of Dividend and Equity Residual Value (v5330).

(v6320.00) Return on Invested Capital (%)

Calculated as:

```
Economic Profit NOPAT (v5745.00)

Adjusted Book Value (v5725.00) (prior period)

Residual Value Income Tax Rate (v4.00:560)
```

Residual Value Income Tax Rate (v4.00:560) is the tax rate applied to Taxable Operating Profit (v3210) during the years following the forecast period.

(v6325.00) E.P. Spread (ROIC-RROC)

Economic Profit Spread (ROIC - RROC) (%) (v6325.00) is calculated as follows:

```
    (v6320.00)  Return on Invested Capital (%)

-   (v5702.00)  Economic Profit RROC %



=   (v6325.00)  E.P. Spread (ROIC - RROC) (%
```

(v6330.00) Economic Profit

Calculated as : E.P. Spread (ROIC -RROC) (%) * Adjusted Book Value

where:

- (v6325.00) E.P. Spread (ROIC -RROC) (%)

- (v5725.00) Adjusted Book Value (prior period)

(v6500.00 - v6520.00) Debt Covenants #1 - #10

Five accounts can be used to enter debt covenant requirements and test your ability to meet them. Each account can have up to 999 subaccounts to accommodate covenants in your analysis. To accommodate required inputs and outputs for covenant tests, the Debt Covenant (v6500.00-v6520.00) accounts in Strategic Modeling have three related accounts, meaning that they automatically have additional associated accounts:

(v65xx.00) Covenant Test Parameter

Input account is accessible from the Financial Accounts view or the Account Input dialog. Enter a test parameter amount for each period in the file (such as Working Capital of $200MM in 1995, $250MM in 1996). You can enter a different test parameter from period to period. In the User Defined Account dialog, you can select the output type and units.

(v65xx.01) Actual Performance Equation

Accessible from the User Defined Account dialog. Enter a formula that measures the actual performance of the model in the analysis such as Working Capital = Total Current Assets - Total Current Liabilities, using the formula v2100 - v2600). Also, select the output type and units.

(v65xx.02) Covenant Result

Accessible from the User Defined Account dialog, it calculates the difference between the test parameter and actual performance results. It measures the result of the model performance relative to the covenant test it is measured against. The default formula entered for this account is: v65xx.01 - v65xx.00

Actual Test

where a typical usage example might be for a Minimum Working Capital covenant. The result is a negative number if the covenant is not met (actual is less than the test parameter).

You can change the default formula to reflect the *Test-Actual* (v65xx.00 - v65xx.01), where a typical usage example might be for a Maximum Debt to Equity covenant. The result is a negative number if the covenant is not met (test parameter is less than the actual amount).

These accounts are found in the Model Options dialog.