***The Income Statement for Just Jeans Group***

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| Just Jeans Group |
| Income Statement for |
| period ending 26 July 2008 |
| Net sales | 822 |
| COGS | 717 |
| Depreciation | 24 |
| EBIT | 81 |
| Interest expense | 11 |
| Taxable income | 70 |
| Taxes | 21 |
| Net income | 49 |
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Note: all figures are given in millions of dollars ($m).

***The Income Statement as an Equation***

$$NI=\left(Rev-COGS-FC-Depr-IntExp\right).\left(1-t\_{c}\right)$$

Where: $NI= $Net Income, $Rev= $Revenue,

$COGS= $Cost of Goods Sold, $FC= $Fixed Costs per yr

$Depr= $Depreciation expense $IntExp= $Interest expense

$t\_{c}= $Corporate tax rate

Let's check that it works for Just Group. Assume a corporate tax rate of 30%.

$$NI=\left(Rev-COGS-FC-Depr-IntExp\right).\left(1-t\_{c}\right)$$

$$ =\left(822 - 717 - 0 - 24 - 11 \right).\left(1-0.3\right)$$

$ =49$ , which is the same as the income statement.

***Firm Free Cash Flow (FFCF)***

$$FFCF=NI+Depr-CapEx - ΔNOWC+IntExp$$

$$NI=\left(Rev-COGS-FC-Depr-IntExp\right).\left(1-t\_{c}\right)$$

Firm free cash flow (FFCF), also called 'cash flow from assets' (CFFA), is the cash flow generated by the assets V (= D + E).

The main differences between FFCF and NI are that FFCF:

* Takes timing differences into account. For example, it adds back accruals such as depreciation ($Depr$) which were subtracted from NI, but subtracts the actual cash flows on buildings and other assets.
* Subtracts opportunity costs ($ΔNOWC$ **and CapEx**).
* Ignores financing expenses (such as coupons & dividends).