

Key Financial Analysis Ratios

AKA - "the Best Cheat Sheet Ever!" (Michael Hsieh, Spring 2008)

Liquidity Ratios*Measure the firm's ability to meet its short-term cash obligations*

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$\text{Acid Test} = \frac{\text{Quick Assets}}{\text{Current Liabilities}}$$

(also: Quick Ratio)
(Quick assets do not include inventory)

Profitability Ratios*Measure operating effectiveness by comparing income to sales, assets and equity.*

$$\text{Gross Profit Margin} = \frac{\text{Gross Profit}}{\text{Sales}}$$

$$\text{Operating Profit Margin} = \frac{\text{Operating Profit (EBIT)}}{\text{Sales Revenue}}$$

$$\text{** Return on Sales} = \frac{\text{Net Income}}{\text{Sales Revenue}}$$

$$\text{** Return on Total Assets} = \frac{\text{Net Income}}{\text{Average Total Assets}}$$

$$\text{Return on Capital Employed} = \frac{\text{Operating Profit (EBIT)}}{\text{Average Owner's Equity} + \text{Average Long Term Debt}}$$

$$\text{Return on Equity} = \frac{\text{Net Income after Preferred Dividends}}{\text{Average Owners' Equity}}$$

Market-value & Investment Ratios*Attempt to assess how investors and stock markets react to company performance.*

$$\text{Earnings per Share} = \frac{\text{Income to Common Shareholders}}{\text{Number of Common Shares Outstanding}}$$

$$\text{Price/Earnings Ratio} = \frac{\text{Price Per Common Share}}{\text{Earnings Per Share}}$$

$$\text{Dividend Payout Ratio} = \frac{\text{Dividends to Common Shareholders}}{\text{Net Income Available to Common Shareholders}}$$

$$\text{Dividend Yield} = \frac{\text{Dividends / Share}}{\text{Market Value / Share}}$$

Efficiency (Asset-management) Ratios*Evaluate how efficiently managers utilize assets of a business.*

$$\text{Average Collection Period} = \frac{\text{Average Accounts Receivable}}{\text{Average Daily Credit Sales}} \quad (\text{Days})$$

$$\text{Average Payment Period for Payables} = \frac{\text{Average Accounts Payable}}{\text{Average Daily Credit Purchases}} \quad (\text{Days})$$

$$\text{Average Inventory Turnover Period} = \frac{\text{Average Inventory}}{\text{Average Daily Cost of Sales}} \quad (\text{Days})$$

$$\text{Sales Revenue to Capital Employed (Capital Asset Turnover)} = \frac{\text{Sales Revenue}}{\text{Average Total Assets} - \text{Average Current Liabilities}} \quad (\text{Times})$$

$$\text{Sales Revenue per Employee} = \frac{\text{Sales Revenue}}{\text{Number of Employees}} \quad (\$)$$

$$\text{** Inventory Turnover} = \frac{\text{Cost of Sales}}{\text{Average Inventory}} \quad (\text{Times})$$

$$\text{** Total Assets Turnover} = \frac{\text{Sales Revenue}}{\text{Average Total Assets}} \quad (\text{Times})$$

Financial Leverage (Debt Coverage) Ratios*Evaluate the capital structure, financing mix, and ability to service debt.*

$$\text{Leverage Ratio} = \frac{\text{Long Term Debt}}{\text{Shareholders' Equity} + \text{LTD (Total Capital)}} \quad (\%)$$

$$\text{** Debt:Total Assets} = \frac{\text{Total Debt (Long and Short Term)}}{\text{Total Assets}} \quad (\%)$$

$$\text{** Debt to Equity Ratio} = \frac{\text{Total Debt}}{\text{Total SH Equity}} \quad (\text{Times})$$

$$\text{Times Interest Earned} = \frac{\text{Income Before Tax} + \text{Interest Charges (EBIT)}}{\text{Interest Charges}} \quad (\text{Times})$$

$$\text{Fixed Charges Coverage} = \frac{\text{EBIT} + \text{Lease Charges}}{\text{Interest Charges} + \text{Lease Charges}} \quad (\text{Times})$$

**** These are not in the text but you are expected to know them.**