

SUMMARY OF FINANCIAL RATIOS

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Alan S. Gutterman and Robert L. Brown, editors

Liquidity Ratios		
Current Ratio	Current Assets divided by Current Liabilities	Measures the ability to pay bills as they become due.
Quick (Acid Test) Ratio	[Current Assets minus Inventory] divided by Current Liabilities	A more rigorous measure of bill paying ability. Removes inventory, usually the least liquid current asset.
Cash Ratio	[Cash plus Marketable Securities] divided by Current Liabilities	The most conservative measure of short-term liquidity.
Cash Flow Ratio	Cash Flow from Operations divided by Current Liabilities	A measure of the sufficiency of operating cash flows to support bill paying ability.
Working Capital	Current Assets minus Current Liabilities	Not a ratio but an absolute amount. Closely related to the Current Ratio. Another measure of bill paying ability.

Cycle Ratios		
Accounts Receivable Turnover	Net Sales divided by Average Accounts Receivable	How many times, on average, that accounts receivable is collected during the year. It also measures the amount of sales generated by each dollar of accounts receivable.
# of Days in Accounts Receivable	A/R Turnover divided by 365	The number of days, on average, it takes to collect accounts receivable.
Inventory Turnover	Cost of Goods Sold divided by Average Inventory	How many times, on average, the entire inventory value is sold during the year. It also measures the amount of cost of goods sold (sales) generated by each dollar of inventory.
# of Days in Inventory	Inventory Turnover divided by 365	The number of days, on average, it takes to sell the inventory value.
Accounts Payable Turnover	Purchases divided by Average Accounts Payable	How many times, on average, that accounts payable is paid during the year. It also measures the amount of purchases created by each dollar of accounts payable.
# of Days in Accounts Payable	A/P Turnover divided by 365	The number of days, on average, it takes to pay the accounts payable.

Fixed Asset Turnover	Net Sales divided by Net Property, Plant, and Equipment	The amount of sales generated by each dollar of fixed assets. It is a measure of the efficient use of fixed assets.
Total Asset Turnover	Net Sales divided by Total Assets	The amount of sales generated by each dollar of total assets. It is a measure of the efficient use of total assets.

Solvency Ratios		
Debt to Assets Ratio	Total Liabilities divided by Total Assets	Measures the proportion of total assets that are financed by debt.
Debt to Equity Ratio	Total Liabilities divided by Stockholders' Equity	Measures the proportion of total debt to total equity.
Times Interest Earned Ratio	Operating Profit divided by Interest Expense	Measures how many times interest expense on debt is covered by operating earnings.
Fixed Charge Coverage Ratio	[Operating Profit plus Lease Payments] divided by [Interest Expense plus Lease Payments]	A broader measure than Times Interest Earned. Treats lease payments as part of the debt coverage from operating earnings.
Cash Flow Adequacy Ratio	Cash Flow from Operating Activities divided by Average Annual Long-Term Debt Maturities	Measures how many times annual long-term debt maturities are covered by operating cash flows.
Financial Leverage Ratio	Total Assets divided by Stockholders' Equity	The amount of financial leverage (increase in returns to stockholders) provided by the use of debt in the firm's capital structure.

Profitability Ratios		
Gross Profit Margin	Gross Profit divided by Net Sales	Measures profitability after deducting cost of goods sold from sales.
Operating Profit Margin	Operating Profit divided by Net Sales	Measures profitability after deducting all operating expenses.
Return on Sales (Net Profit Margin)	Net Income divided by Net Sales	Measures profitability after deducting all other revenues and expenses.
Cash Flow Margin	Cash Flow from Operating Activities divided by Net Sales	Measures the ability to generate cash flows from sales.
Return on Assets	Net Income divided by Total Assets	Measures the efficiency of generating profits using all available assets.
Return on Investment	Net Income divided by [Long-Term Debt plus Stockholders' Equity]	Measures the efficiency of generating profits using all long-term sources of capital.
Return on Equity	Net Income divided by Stockholders' Equity	Measures the efficiency of generating profits using equity.

Cash Return on Assets	Cash Flow from Operating Activities divided by Total Assets	Measures the efficiency of generating cash flows from using all available assets.
Cash Return on Equity	Cash Flow from Operating Activities divided by Stockholders' Equity	Measures the efficiency of generating cash flows from using equity.

Equity Ratios		
Earnings per Share	Net Income divided by Number of Shares Outstanding	Measures return to common stockholders for each share owned.
Price to Earnings (P/E) Ratio	Market Price per Share divided by Earnings per Share	Measures the stock market value of the firm as a multiple of earnings.
Dividend Payout Ratio	Dividends per Share divided by Earnings per Share	Measures the percentage of earnings paid out to stockholders as dividends.
Dividend Yield Ratio	Dividends per Share divided by Market Price per Share	Measures the return to stockholders from dividends.
Retained Earnings Ratio	[Net Income less Dividends] divided by Net Income	Measures internal growth potential as the percentage of earnings not paid in dividends.
Retained Cash Ratio	[Cash Flow from Operating Activities less Dividends] divided by Cash Flow from Operating Activities	Measures internal growth potential as the percentage of operating cash flows not paid in dividends.
Book Value per Share	Total Assets divided by Number of Shares Outstanding	The accounting (historical cost based) value of each share of common stock.