

## Commonly Used Financial Ratios

	Ratio Name	How to Calculate	Interpretation
LIQUIDITY	Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	States how many dollars of current assets are there for every dollar of debt. To cover liabilities, the ratio should be at least 1.0
	Quick ratio	$\frac{\text{Current assets} - \text{Inventory}}{\text{Current liabilities}}$	A more stringent look at the current ratio. States how many dollars of current assets (minus inventory) for every dollar of debt. Should be at least 1.0
	Working capital	Current assets - current liabilities	
	Days accounts receivable	$\frac{\text{Gross accounts receivable} \times \# \text{ of days in period}}{\text{Current liabilities}}$	Average number of days to collect accounts receivable
	Days inventory	$\frac{\text{Inventory} \times \# \text{ of days in period}}{\text{Cost of goods sold}}$	Average number of days inventory stays on hand before being sold
	Days account payable	$\frac{\text{Accounts payable} \times \# \text{ of days in period}}{\text{Cost of goods sold}}$	Average number of days it takes to pay creditors
	Operating cycle	Days accounts payable + Days inventory - Days accounts payable	Time it takes for a business to purchase or produce inventory, sell it and collect cash
PROFITABILITY	Return on sales (ROS)	$\frac{\text{Net profit before tax}}{\text{sales}}$	Measures the amount of each sales dollar is left over after expenses are paid. Indicates overall operating efficiency
	Return on assets (ROA) or Return on Investment	$\frac{\text{Net profit before tax}}{\text{Total assets}}$	Measures the returns on a company's assets. Indicates how efficiently a company uses its assets
	Return on Equity (ROE)	$\frac{\text{Net profit before tax}}{\text{Net worth}}$	Measures the efficiency in which a company uses its owners equity
COVERAGE RATIOS	Debt Service Coverage Ratio (DSCR)	$\frac{\text{Net profit after taxes} + \text{Dpreciation} + \text{Other noncash charges} - \text{Dividends}}{\text{Current maturities of long term debt}}$	Measures a company's ability to pay its current principal obligations from operating income
	Times interest earned	$\frac{\text{Net profit before tax}}{\text{Interest expense}}$	Measures a company's ability to meet current interest payments
PROFIT MARGINS	Gross Margin	$\frac{\text{Gross profit}}{\text{Net sales}}$	Measures a company's sales and the cost of producing those sales. Expressed as a percentage. A higher number indicates a greater degree of efficiency
	Operating Margin	$\frac{\text{Operating profit}}{\text{Net sales}}$	Measures how well a company controls costs and expenses not directly related to production and sales of a product.
	Net Margin	$\frac{\text{Net profit}}{\text{Net sales}}$	Measures a company's overall effectiveness at realizing net profits from sales.