

Financial Statement Analysis

Simple Ratios to Better Understand Your Business

Liquidity Ratios: Financial Ratios measuring a company's ability to repay short-term and long-term expenses and debt.

Current Ratio: Ability to pay off short-term liabilities with current assets.

Formula: $\text{current assets} / \text{current liabilities}$

Acid-Test Ratio: Company's ability to pay off short-term liabilities with quick assets.

Formula: $\text{current assets} - \text{inventories} / \text{current liabilities}$

Cash Ratio: Company's ability to pay off short-term liabilities with cash and cash equivalents.

Formula: $\text{cash} + \text{cash equivalents} / \text{current liabilities}$

Operating Cash Flow Ratio: number of times a company can pay off current liabilities with the cash generated over a given period.

Formula: $\text{operating cash flow} / \text{current liabilities}$

Leverage Financial Ratios: Financial ratios evaluating a company's debt levels.

Debt Ratio: amount of assets provided from debt

Formula: $\text{total liabilities} / \text{total assets}$

Debt-to-Equity Ratio: total debt and financial liabilities to shareholder equity

Formula: $\text{total liabilities} / \text{shareholder equity}$

Debt Service Coverage Ratio: company's ability to pay its debt obligations

Formula: $\text{operating income} / \text{total debt service}$

Efficiency Ratios: measures the financial return on a company's assets and resources

Asset Turnover Ratio: ability to generate sales from assets

Formula: $\text{net sales} / \text{average total assets}$

Inventory Turnover Ratio: how many times inventory is sold and replaced over a specific span of time

Formula: $\text{cost of goods sold} / \text{average inventory}$

Accounts Receivable Turnover Ratio: how many times a company can turn receivables into cash over a specific span of time

Formula: $\text{net credit sales} / \text{average accounts receivable}$

Days Sales in Inventory Ratio: average number of days between receipt of inventory items and sale of same inventory items.

Formula: $365 \text{ days} / \text{inventory turnover ratio}$

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Profitability Ratios: measures company's ability to generate income relative to revenue, assets, operating costs and equity

Gross Margin Ratio: amount of profit made after cost of goods sold

Formula: $\text{gross margin ratio} = \text{gross profit} / \text{net sales}$

Operating Margin Ratio: measures operating efficiency

Formula: $\text{operating income} / \text{net sales}$

Return On Assets: measures how well assets are generating profit

Formula: $\text{net income} / \text{total assets}$

Return On Equity Ratio: measures how well equity is generating profit

Formula: $\text{net income} / \text{shareholder's equity}$

To learn more about using financial statements to analyze a company's value and performance, go to <https://corporatefinanceinstitute.com/resources/knowledge/finance/analysis-of-financial-statements>