IMPORTANT RATIOS

Ratio	Formula	Purpose or Use
Current ratio	Current Assets / Current Liabilities	Measures short term debt paying ability
Quick or acid-test ratio	Cash, short-term investments, and net receivables / Current liabilities	Measures immediate short-term liquidity
Current cash debt coverage	Net cash provided by operating activities / Average current liabilities	Measures a company's ability to pay off its current liabilities in a given year from its operations
Accounts receivable turnover	Net sales / Average trade receivables(net)	Measures liquidity of receivables
Inventory turnover	Cost of goods sold / Average inventory	Measures liquidity of inventory
Asset turnover	Net sales / Average total assets	Measures how efficiently assets are used to generate sales
Profit margin on sales	Net income / Net sales	Measures net income generated by each dollar of sales
Return on assets	Net income / Average total assets	Measures overall profitability of assets
Return on common stock equity	Net income minus preferred dividends / Average common stockholders' equity	Measures profitability of owners' investment
Earnings per share	Net income minus preferred dividends / Weighted-average number of shares outstanding	Measures net income earned on each share of common stock
Price-earnings ratio	Market price of stock / Earnings per share	Measures the ratio of the market price per share to earnings per share
Payout ratio	Cash dividends / Net income	Measures percentage of earnings distributed in the form of cash dividends
Debt to assets	Total liabilities / Total assets	Measures the percentage of total assets provided by creditors
Times interest earned	Income before income taxes and interest expense / Interest expense	Measures ability to meet interest payments as they come due
Cash debt coverage	Net cash provided by operating activities / Average total liabilities	Measures a company's ability to repay its total liabilities in a given year from its operations
Book value per share	Common stockholders' equity / Outstanding shares	Measures the amount each share would receive if the company were liquidated at the amounts reported on the balance sheet

LIQUIDITY ANALYSIS

Liquidity ratios measure a company's ability to meet current obligations such as paying accounts payable or short-term debts. Liquidity ratios may be the most important ratios when evaluating the financial health of a corporation. This is so because they reveal a company's ability to pay short-term obligations as they become due. Below are some of the common liquidity ratios used by those interested in an organization.

Ratios	Current Year	Prior Year	2 Years Prior
Current ratio	________	________	________
Quick (acid-test) ratio	________	________	________
Current cash debt ratio	________	________	________

PROFITABILITY ANALYSIS

Profitability is arguably the most important concern for businesses. As a result, profitability ratios are extremely important to both owners and creditors. **Profitability ratios** measure how well management is using the resources of the company to earn a profit. This includes the ability of management to control expenses while increasing revenues. Below are some of the common profitability ratios used by those interested in an organization.

Ratios	**Current Year**	**Prior Year**	**2 Years Prior**
Profit margin on sales	________	________	________
Return on assets	________	________	________
Return on common equity	________	________	________
Earnings per share	________	________	________
Price-earnings ratio	________	________	________
Payout ratio	________	________	________

EFFICIENCY ANALYSIS

Efficiency ratios reveal how well management is using the resources of the company to earn a return. These ratios are generally used to compare the management of companies within the same industry. Below are some of the common efficiency ratios used by those interested in an organization.

Ratios	Current Year	Prior Year	2 Years Prior
Accounts receivable turnover	__________	__________	__________
Inventory turnover	__________	__________	__________
Asset turnover	__________	__________	__________

SOLVENCY ANALYSIS

Solvency ratios measure the degree of protection afforded to creditors who lend the company funds on a long-term basis. It also helps in determining the ability of the company to take on more debt. Below are some of the common solvency ratios used by those interested in an organization.

Ratios	**Current Year**	**Prior Year**	**2 Years Prior**
Debt to assets	________	________	________
Times interest earned	________	________	________
Cash debt coverage	________	________	________

COMPETITOR AND INDUSTRY COMPARISONS

To determine how well a company is performing, it is imperative to compare it to other companies in the same industry. It is best to compare it to its closest individual competitors, and to the overall industry within which it operates. Industry data are generally organized by Standard Industrial Classification (SIC) codes. Within the code it is organized by corporation size.

Ratios	**Company**	**Competitor**	**Market**
Liquidity ratios:			
Current ratio	________	________	________
Quick (acid-test) ratio	________	________	________
Current cash debt ratio	________	________	________
Profitability ratios:			
Profit margin on sales	________	________	________
Return on assets	________	________	________
Return on common equity	________	________	________
Earnings per share	________	________	________
Price-earnings ratio	________	________	________
Payout ratio	________	________	________
Efficiency ratios:			
Accounts receivable turnover	________	________	________
Inventory turnover	________	________	________
Asset turnover	________	________	________
Solvency ratios:			
Debt to assets	________	________	________
Times interest earned	________	________	________
Cash debt coverage	________	________	________