Cheatography

Introduction

Accounting ratios are widely used tools of financial analysis. If properly analyzed, they help identify areas on the financial statement needing further analysis.

A ratio is a mathematical relation between two quantities expressed as a percentage, a rate or proportion.

Short Term Solvency or Liquidity Ratios

Current Ratio = Current Assets / Current Liabilities Quick Ratio = (Current Assets – Inventory) / Current Liabilities Cash Ratio = Cash / Current Liabilities Net Working Capital = Net Working Capital / Total Assets Internal Measure = Current Assets / Average Daily Operating Costs Percentage of Debt to Asset Formula = Long Term Liabilities / Total Assets x 100% Debt to Equity Ratio Formula = Total Liabilities / Total Equity

Long Term Solvency or Financial Leverage Ratios

Total Debt Ratio = (Total Assets – Total Equity) / Total Assets Debt to Equity Ratio = Total Debt / Total Equity Equity Multiplier = Total Assets / Total Equity Long Term Debt Ratio = Long Term Debt / (Long Term Debt + Total Equity) Times Interest Earned = Earnings before Interest & Taxes / Interest Cash Coverage Ratio = (Earnings before Interest & Taxes + Depreciation) / Interest

Asset Use or Turnover Ratios

Inventory Turnover = Cost of Goods Sold / Inventory Days' Sales in Inventory = 365 days / Inventory Turnover Receivables Turnover = Sales / Accounts Receivable Days' Sales in Receivables = 365 days / Receivables Turnover Net Working Capital (NWC) Turnover = Sales / Net Working Capital Fixed Asset Turnover = Sales / Net Fixed Assets Total Asset Turnover = Sales / Total Assets

Profitability Ratios

Profit Margin = Net Income / Sales Return on Assets (ROA) = Net Income / Total Assets Return on Equity (ROE) = Net Income / Total Equity ROE = (Net Income / Sales) x (Sales / Assets) x (Assets / Equity)

Market Value Ratios

Price to Earnings Ratio = Price per Share / Earnings per Share Market-to-Book Ratio = Market Value per Share / Book Value per Share

Cash Flow Ratios

Cash Flow Solvency Ratio Formula = Actual Cash Flow from Operations/Total Liabilities Cash Flow Margin Ratio Formula = Actual Cash Flow from Operations/Revenues from Sales Cash flow ROA Ratio Formula = Actual Cash Flow from Operations/Average Total Assets



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