

Balance Sheet Ratios

Ratio	How to Calculate	What it Means in Dollars and Cents
Current	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	Measures solvency: The number of dollars in Current Assets for every \$1 in Current Liabilities. For example: a Current Ratio of 1.76 means that for every \$1 of Current Liabilities, the company has \$1.76 in Current Assets with which to pay them.
Quick	$\frac{\text{Cash} + \text{Accounts Receivable}}{\text{Current Liabilities}}$	Measures liquidity: The number of dollars in Cash and Accounts Receivable for each \$1 in Current Liabilities. For example: a Quick Ratio of 1.14 means that for every \$1 of Current Liabilities, the company has \$1.14 in Cash and Accounts Receivable with which to pay them.
Debt-to-Worth	$\frac{\text{Total Liabilities}}{\text{Net Worth}}$	Measures financial risk: The number of dollars of Debt owed for every \$1 in Net Worth. For example: a Debt-to-Worth ratio of 1.05 means that for every \$1 of Net Worth that the owners have invested, the company owes \$1.05 of Debt to its creditors.

Income Statement Ratios

Gross Margin	$\frac{\text{Gross Profit}}{\text{Sales}}$	Measures profitability at the Gross Profit level: The number of dollars of Gross Margin produced for every \$1 of Sales. For example: a Gross Margin Ratio of 34.4% means that for every \$1 of Sales, the company produces 34.4 cents of Gross Profit.
Net Margin	$\frac{\text{Net Profit Before Tax}}{\text{Sales}}$	Measures profitability at the Net Profit level: The number of dollars of Net Profit produced for every \$1 of Sales. For example: a Net Margin Ratio of 2.9% means that for every \$1 of Sales, the company produces 2.9 cents of Net Profit.

Overall Efficiency Ratios

Sales-To-Assets	$\frac{\text{Sales}}{\text{Total Assets}}$	Measures the efficiency of Total Assets in generating sales: The number of dollars in Sales produced for every \$1 invested in Total Assets. For example: a Sales-To-Asset Ratio of 2.35 means that for every \$1 invested in Total Assets, the company generates \$2.35 in Sales.
Return On Assets	$\frac{\text{Net Profit Before Tax}}{\text{Total Assets}}$	Measures the efficiency of Total Assets in generating Net Profit: The number of dollars in Net Profit produced for every \$1 invested in Total Assets. For example: a Return on Assets Ratio of 7.1% means that for every \$1 invested in Assets, the company is generating 7.1 cents in Net Profit Before Tax.

Return On Investment

$$\frac{\text{Net Profit Before Tax}}{\text{Net Worth}}$$

Measures the efficiency of Net Worth in generating Net Profit: The number of dollars in Net Profit produced for every \$1 invested in Net Worth.

For example: a Return on Investment Ratio of 16.1% means that for every \$1 invested in Net Worth, the company is generating 16.1 cents in Net Profit Before Tax.

Specific Efficiency Ratios

Inventory Turnover

$$\frac{\text{Cost of Goods Sold}}{\text{Inventory}}$$

Measures the rate at which Inventory is being used on an annual basis.

For example: an Inventory Turnover Ratio of 9.81 means that the average dollar volume of Inventory is used up almost ten times during the fiscal year.

Inventory Turn-Days

$$\frac{360}{\text{Inventory Turnover}}$$

Converts the Inventory Turnover ratio into an average "days inventory on hand" figure.

For example: a Inventory Turn-Days Ratio of 37 means that the company keeps an average of thirty-seven days of Inventory on hand throughout the year.

Accounts Receivable Turnover

$$\frac{\text{Sales}}{\text{Accounts Receivable}}$$

Measures the rate at which Accounts Receivable are being collected on an annual basis.

For example: an Accounts Receivable Turnover Ratio of 8.00 means that the average dollar volume of Accounts Receivable are collected eight times during the year.

Average Collection Period

$$\frac{360}{\text{A/R Turnover}}$$

Converts the Accounts Receivable Turnover ratio into the average number of days the company must wait for its Accounts Receivable to be paid.

For example: an Accounts Receivable Turnover ratio of 45 means that it takes the company 45 days on average to collect its receivables.

Accounts Payable Turnover

$$\frac{\text{Cost of Goods Sold}}{\text{Accounts Payable}}$$

Measures the rate at which Accounts Payable are being paid on an annual basis.

For example: an Accounts Payable Turnover ratio of 12.04 means that the average dollar volume of Accounts Payable are paid about twelve times during the year.

Average Payment Period

$$\frac{360}{\text{Accounts Payable Turnover}}$$

Converts the Accounts Payable Turnover ratio into the average number of days that a company takes to pay its Accounts Payable.

For example: an Accounts Payable Turnover ratio of 30 means that it takes the company 30 days on average to pay its bills.