

### Profitability Ratios

Return on Assets (ROA) =  $\frac{\text{Net Income}}{\text{Total Assets}}$   
how efficient a company's management is in generating profit from their total assets on their balance sheet

Return on Equity (ROE) =  $\frac{\text{Net Income}}{\text{Shareholders' Equity}}$   
measures the net profits generated by a company based on each dollar of equity investment contributed by shareholders'

Return on Invested Capital (ROIC) =  $\frac{\text{NOPAT}}{\text{BV of debt} + \text{BV of equity} - \text{cash}}$   
a calculation used to determine how well a company allocates its capital to profitable projects or investments, (BV of debt + BV of equity - cash) is the same as **total invested capital**, also NOPAT is the same as **operating income \* (1-tax rate)**

Return on Capital Employed (ROCE) =  $\frac{\text{EBIT}}{\text{Capital Employed}}$   
a ratio that provides insights into a company's efficiency in generating returns from its capital investments. It takes into account both the operating profitability and the capital structure of a company. **Capital Employed = Total Assets - Current Liabilities**

### Profitability Ratios (cont)

Return on Investment (ROI) =  $\frac{\text{Net Profit}}{\text{Investment Cost}} * 100$   
a financial ratio that measures the return or profitability of an investment relative to its cost. It evaluates the efficiency and effectiveness of an investment by comparing the net gain or benefit from the investment to the initial cost.

Gross Margin Ratio =  $\frac{\text{Total Revenue} - \text{COGS}}{\text{Total Revenue}}$   
it shows how much profit a company makes after paying off its cost of goods sold (COGS). The ratio indicates the percentage of each dollar of revenue that the company retains as gross profit, so naturally a high gross margin ratio is desired

Operating Profit Margin =  $\frac{\text{Operating Profit}}{\text{Revenue}}$   
also known as **Return on Sales (ROS)**. a ratio that measures the company's ability to generate profits from its sales revenue. It indicates the percentage of each dollar of sales that translates into operating profit. Here's the formula for Return on Sales

### Profitability Ratios (cont)

Net Profit Margin =  $\frac{\text{Net Income}}{\text{Total Revenue}}$   
it is used to calculate the percentage of profit a company produces from its total revenue. It measures the amount of net profit a company obtains per dollar of revenue gained.

### Liquidity Ratios

Current Ratio

Quick Ratio

Cash Ratio

Operating Cash Flow Ratio

Defensive Interval Ratio

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