

### 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

