

| Liquidity Ratios | | | Measures of Profitability (cont) | | | Asset Management / effectiveness (cont) | | |
|--|------------------------------------|---|---|---|--|---|---|--|
| Current Ratio | Current Assets:Current Liabilities | Company's ability to meet its short term obligations | Organisational profitability / | EBIAT / Total Assets | Return on enterprise as a whole | Debtor's turnover | Credit Sales / Average Debtor (times) | Evaluate application of Co's credit policy. Too short (sales will be lost) & too long (bad debts) & opp cost |
| Quick Ratio | Liquid Assets:Current Liabilities | Liquid assets not only excludes inventory | Return on total assets | Equity Earnings / Total Equity | Difference between ROA and ROE is financial leverage | Debtors Collection period | Average debtors / Credit sales x 365 (days) | Reciprocal relationship with debtors turnover |
| Is the level of operating capital management to aggressive? Could lead to a loss in business. Also take into account level of operating risk and costs associated with short-term finance. | | | | | | | | |
| Debt Management Ratios | | | Asset Management / effectiveness | | | Asset Management / effectiveness | | |
| Debt ratio | Total Debt / Total Assets | Indicates extent to which company uses external financing to finance assets | Inventory turnover | Cost of sales / Average inventory (times) | Effectively manage and control inventory. Poor inventory turnover may indicate obsolete stock. (if you don't have COS use SALES) | Days in closing debtors | Closing debtors / Credit sales x 365 (days) | Sales represented by closing debtors |
| Interest Cover or Times interest earned | EBIT / Interest | Ability to meet interest obligation. EBITDA also used. | Inventory turnover rate | Average inventory / COS x 365 | Length of time that inventory is on average held before it is sold. (days) | Creditors payment period | Average creditors / purchases x 365 (days) | Use COS if credit purchases not available. Too short (not utilising free credit) & too long (Bad reputation) |
| Debt/Equity ratio | Total Debt/Total Equity | Gearing ratio of the company | Days' sales in closing inventory | Closing Inventory / COS x 365 (days) | Days sales left from current closing inventory | Asset Turnover | Net Sales / Assets | Management ability to utilise assets effectively to generate sales. Can use different categories of assets |
| May need to restate balance sheet interest earning debt - Preference shares (redeemable=debt), deferred tax (do you have obligation to pay?), minority interest (equity), non-interest bearing debt (treat as debt or deduct) | | | | | | | | |
| Measures of Profitability | | | | | | | | |
| Profit Margin | Profit / Turnover | Calculated at different levels. Non-trade income should not be included | Published 5th May, 2017. Last updated 5th May, 2017. Page 1 of 2. | | | | | |



| Investor's ratios / Market value ratios | | |
|---|----------------------------------|--|
| Earnings per share | Earnings / WANOS | |
| Dividend per share | Dividend / No of shares in issue | |
| Earnings Yield | EPS / Share price | |
| Dividend Yield | DPS / Share Price | |
| Dividend cover | EPS / DPS | |
| Price - Earnings Ratio | Share Price / EPS | High PE ratio can indicate investor's confidence and growth prospects. Repayment period in years of share investment. How much investors will pay per R1 of co's earnings. |
| PEG | PE / Expected sustainable growth | 2 companies taht are in different growth stages (eliminating growth impact) |
| Nest Asset Value per Share | NAV / WANOS | Compare share price to NAV ps = trading at a discount? |

| Investor's ratios / Market value ratios (cont) | | |
|--|---|-------------------------------------|
| Shareholder return | (Share price(end) - Share price(beg) + Dividend) / Share price(beg) | Compare to ALSI return |
| Dividend Payout ratio | DPS / EPS | Use to calculate sustainable growth |
| Sustainable growth | 1 - Dividend Payout Ratio | |

| Cash Flow Statement | | |
|---|------------------------------------|---|
| Cash flow to total debt | CF from Operations / Total Debt | Indicator of financial distress |
| Cash ability to cover finance | CF from Operations / Interest Paid | Ability to pay interest from cash available |
| Cash generating ability of co | CF from Operations / Turnover | |
| Remember CASH IS KING! so any Cash Flow Ratio will be more reliable as to the true performance and going concern ability of the company | | |



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