

### Liquidity Ratios

<b>Current Ratio</b>	Current Assets:Current Liabilities	Company's ability to meet its short term obligations
<b>Quick Ratio</b>	Liquid Assets:Current Liabilities	Liquid assets not only excludes inventory

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

<b>Debt ratio</b>	Total Debt / Total Assets	Indicates extent to which company uses external financing to finance assets
<b>Interest Cover or Times interest earned</b>	EBIT / Interest	Ability to meet interest obligation. EBITDA also used.
<b>Debt/Equity ratio</b>	Total Debt/Total Equity	Gearing ratio of the company

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

<b>Profit Margin</b>	Profit / Turnover	Calculated at different levels. Non-trade income should not be included
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### Measures of Profitability (cont)

<b>Organisational profitability / Return on total assets</b>	EBIT / Total Assets	Return on enterprise as a whole
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<b>Return on Equity</b>	Equity Earnings / Total Equity	Difference between ROA and ROE is financial leverage
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**Financial leverage** ROA vs ROE

### Asset Management / effectiveness

<b>Inventory turnover</b>	Cost of sales / Average inventory (times)	Effectively manage and control inventory. Poor turnover may indicate obsolete stock. (if you don't have COS use SALES)
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<b>Inventory turnover rate</b>	Average inventory / COS x 365 (days)	Length of time that inventory is on average held before it is sold.
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<b>Days' sales in closing inventory</b>	Closing Inventory / COS x 365 (days)	Days sales left from current closing inventory
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### Asset Management / effectiveness (cont)

<b>Debtor's turnover</b>	Credit Sales / Average Debtor (times)	Evaluate application of Co's credit policy. Too short (sales will be lost) & too long (bad debts) & opp cost
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<b>Debtors Collection period</b>	Average debtors / Credit sales x 365 (days)	Reciprocal relationship with debtors turnover
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<b>Days Sales in closing debtors</b>	Closing debtors / Credit sales x 365 (days)	Sales represented by closing debtors
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<b>Creditors payment period</b>	Average creditors / Credit purchases x 365 (days)	Use COS if credit purchases not available. Too short (not utilising free credit) & too long (Bad reputation)
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<b>Asset Turnover</b>	Net Sales / Assets	Management ability to utilise assets effectively to generate sales. Can use different categories of assets
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### 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 charges      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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