Liquidity Ratios

Current Ratio	Current Assets:Current Liabilities	Company's ability to meet its short term obligations
Quick Ratio	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

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

Profit Margin	Profit / Turnover	Calculated at different levels. Non-trade income should not be included

Measures of Profitability (cont)

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

Asset Management / effectiveness

Inventory turnover	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)
Inventory turnover rate	Average inventory / COS x 365 (days)	Length of time that inventory is on average held before it is sold.
Days' sales in closing inventory	Closing Inventory / COS x 365 (days)	Days sales left from current closing inventory

Asset Management / effectiveness (cont)

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
Debtors Collection period	Average debtors / Credit sales x 365 (days)	Reciprocal relationship with debtors turnover
Days Sales in closing debtors	Closing debtors / Credit sales x 365 (days)	Sales represented by closing debtors
Creditors payment period	Average creditors / Credit purchases x 365 (days)	Use COS if credit purchases not available. Too short (not utilising free credit) & too long (Bad reputation)
Asset Turnover	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 sustai-nable 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)

Shareh-older return	(Share price(end) - Share price(beg) + Dividend) / Share price(beg)	Compare to ALSI return
Dividend Payout ratio	DPS / EPS	Use to calculate sustai-nable growth
Sustai-nable 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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