Financial Analysis Ratios

Ability to Pay Current Liabilities: Four ratios

Working Capital	= Total Current Assets – Total Current Liabilities
Cash Ratio	= (Cash + cash equivalents) ÷ Total Current Liabilities
Acid Test Ratio	= (Cash + cash equivalents + short-term investments + Net current receivables) ÷ Total Current Liabilities
Current Ratio	= Total Current Assets ÷ Total Current Liabilities

Ability to Sell Merchandise Inventory and Collect Receivables: Seven Ratios

Average Merchandise Inventory	= (Beginning Inventory + Ending Inventory) ÷ 2
Inventory Turnover	= Cost of Goods sold ÷ Average Merchandise Inventory
Days' Sales in Inventory	= 365 days ÷ Inventory Turnover
Gross Profit Percentage	= (Gross Profit ÷ Net Sales Revenue) * 100
Average Net Accounts Receivable	= (Beginning Accounts Receivable + Ending Accounts Receivable) ÷ 2
Accounts Receivable Turnover Ratio	= Net Credit Sales ÷ Average Net Accounts Receivable
Days' Sales in Receivables	= 365 days ÷ Accounts Receivable Turnover Ratio

Ability to Pay Long-term Debt: Three Ratios

Debt Ratio	= Total liabilities ÷ Total Assets
Debt to Equity Ratio	= Total liabilities ÷ Total Equity
Times-interest-earned Ratio	= (Net Income + Income Tax Expense + Interest Expense) ÷ Interest Expense

Evaluating Profitability: Seven Ratios

Profit Margin Ratio	= Net Income ÷ Net Sales Revenue
Average Total Assets	= (Beginning Total Assets + Ending Total Assets) ÷ 2
Rate of Return on Total Assets	= (Net Income + Interest Expense) ÷ Average Total Assets
Asset Turnover Ratio	= Net Sales Revenue ÷ Average Total Assets
Average Common Stockholder's Equity	= (Beginning Common Stockholder's Equity + Ending Common Stockholder's Equity) ÷ 2
Rate of Return on Common Stockholders' Equity	= (Net Income – Preferred Dividends) ÷ Average Common Stockholders' Equity
Earnings per Share	= (Net Income – Preferred Dividends) ÷ Weighted Average number of Common Shares Outstanding

Evaluating Stock as an Investment: Three Ratios

Price Earnings Ratio	= Market Price per Share of Common Stock ÷ Earnings per Share
Dividend Yield	= Annual Dividend per Share ÷ Market Price per Share
Dividend Payout	= Annual Dividend per Share ÷ Earnings per Share