

Common Financial Ratios

| Liquidity | |
|--------------------------------------|---|
| Current Ratio | $\frac{\text{Current Assets}}{\text{Current Liabilities}}$ |
| Acid-Test Ratio | $\frac{\text{Cash} + \text{Short-term investments} + \text{Net current receivables}}{\text{Current liabilities}}$ |
| Turnover | |
| Inventory Turnover | $\frac{\text{Cost of goods sold}}{\text{Average inventory}}$ |
| Days' sales in inventory | $\frac{365 \text{ days}}{\text{Inventory turnover}}$ |
| Accounts receivable turnover | $\frac{\text{Net credit sales}}{\text{Average net accounts receivable}}$ |
| Collection period | $\frac{365 \text{ days}}{\text{Accounts receivable turnover}}$ |
| Long-Term Debt Paying Ability | |
| Debt ratio | $\frac{\text{Total liabilities}}{\text{Total assets}}$ |
| Times-interest-earned | $\frac{\text{Income from operations}}{\text{Interest expense}}$ |
| Profitability | |
| Gross profit percentage | $\frac{\text{Gross profit}}{\text{Net sales}}$ |
| Return on sales | $\frac{\text{Net income}}{\text{Net sales}}$ |
| Return on assets | $\frac{\text{Net income} + \text{Interest expense}}{\text{Average total assets}}$ |
| Return on equity | $\frac{\text{Net income} - \text{Preferred dividends}}{\text{Average common shareholders' equity}}$ |
| Earnings per share | $\frac{\text{Net income} - \text{Preferred dividends}}{\text{Average number of common shares outstanding}}$ |
| Stock Market Performance | |
| Price/earnings ratio | $\frac{\text{Market price per common share}}{\text{Earnings per share}}$ |
| Dividend yield | $\frac{\text{Dividends per share}}{\text{Market price per share}}$ |