SUMMARY OF KEY RATIOS

1. Accounts receivable turnover: $\dfrac{\text{Net sales revenue}}{\text{Accounts receivable}}$

2. Asset turnover: $\dfrac{\text{Sales revenue}}{\text{Total assets}}$

3. Average cost of inventory: $\dfrac{\text{Cost of inventory held and sold}}{\text{Number of units available}}$

4. Cash flow per share: $\dfrac{\text{Cash provided by operations} - \text{preferred dividends}}{\text{Number of common shares outstanding}}$

5. Cash flow to current debt maturities: $\dfrac{\text{Cash provided by operations}}{\text{Current portion of long-term debt}}$

6. Cash flow to total assets: $\dfrac{\text{Cash provided by operations}}{\text{Total assets}}$

7. Current ratio: $\dfrac{\text{Current assets}}{\text{Current liabilities}}$

8. Days sales in receivables: $\dfrac{\text{Accounts receivable}}{\text{Credit sales/365 days}}$

9. Days sales in inventory: $\dfrac{\text{Inventory}}{\text{Cost of goods sold/365 days}}$

10. Debt-to-assets ratio: $\dfrac{\text{Total debt}}{\text{Total assets}}$

11. Debt-to-equity ratio: $\dfrac{\text{Long-term debt}}{\text{Stockholders' equity}}$

12. Diluted earnings per share:

$$\frac{\text{Net income} - \text{preferred dividends} + (-)\text{ adjustment for conversion of securities}}{\text{Common shares outstanding} + \text{additional shares from potential conversion}}$$

13. Dividend payout ratio: $\dfrac{\text{Dividends paid}}{\text{Net income}}$

14. Dividend yield: $\dfrac{\text{Cash dividend per share}}{\text{Market price per share}}$

15. Dividends to operating cash flow: $\dfrac{\text{Dividends paid}}{\text{Cash provided by operations}}$

16. Earnings per share: $\dfrac{\text{Net income} - \text{preferred dividends}}{\text{Common shares outstanding}}$

17. Fixed asset turnover: $\dfrac{\text{Operating revenues}}{\text{Fixed assets}}$

18. Gross margin (profit) ratio: $\dfrac{\text{Net sales} - \text{cost of goods sold}}{\text{Net sales}}$

19. Inventory turnover ratio: $\dfrac{\text{Cost of goods sold}}{\text{Inventory balance}}$

20. Leverage ratio: $\dfrac{\text{Total debt}}{\text{Stockholders' equity}}$

21. Margin on sales: $\dfrac{\text{Net income}}{\text{Net sales revenue}}$

22. Number of times interest is earned: $\dfrac{\text{Operating income}}{\text{Interest on long-term debt}}$

23. Operating cycle: $\dfrac{\text{Accounts receivable}}{\text{Credit sales/365 days}} + \dfrac{\text{Inventory}}{\text{Cost of goods sold/365 days}}$

24. Price-earnings ratio: $\dfrac{\text{Market price per share}}{\text{Earnings per share}}$

25. Quick ratio: $\dfrac{\text{Quick assets*}}{\text{Current liabilities}}$

*Normally consists of cash, short-term marketable securities, and accounts receivable

26. Return on assets: $\dfrac{\text{Net income}}{\text{Total assets}}$

27. Return on common equity: $\dfrac{\text{Net income} - \text{preferred dividends}}{\text{Stockholders' equity} - \text{claim of preferred stockholders}}$

28. Return on investment: $\dfrac{\text{Income earned on investment}}{\text{Amount invested}}$

29. Return on net assets: $\dfrac{\text{Net income}}{\text{Assets} - \text{liabilities}}$

30. Return on owner's equity: $\dfrac{\text{Net income}}{\text{Stockholders' equity}}$

31. Times preferred dividends earned: $\dfrac{\text{Net income}}{\text{Preferred dividends}}$

Source: Thomas E. King, Valdean C. Lembke, and John H. Smith, Financial Accounting: A Decision-Making Approach (New York: John Wiley & Sons, Inc., 1997)

Some sources for industry ratios and expense percentages:

Dunn and Bradstreet Information Services

Robert Morris Associates, Annual Statement Studies [Oviatt Library, Reference Room, HF5681.B2 R6]

Leo Troy, Manual of performance ratios for business analysis and profit evaluation [Oviatt Library, No Circulation, HF5681.R25 17]