

Ratio Formula Cheat Sheet

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Prerequisite Formulas	Used in the various ratio formulas below
Gross Profit = Net Sales – Cost of Goods Sold	Measures the dollar amount of profit remaining after cost of goods sold and is used as the denominator in the Gross Margin calculation
Average Total Assets = $\frac{\text{Beginning Assets} + \text{Ending Assets}}{2}$	Used as the denominator in the Return on Assets calculation
Average Equity = $\frac{\text{Beginning Equity} + \text{Ending Equity}}{2}$	Used as the denominator in the Return on Equity calculation
Average Receivables = $\frac{\text{Beginning A/R} + \text{Ending A/R}}{2}$	Used as the denominator in the Receivables Turnover calculation
Average Inventory = $\frac{\text{Beginning Inventory} + \text{Ending Inventory}}{2}$	Used as the denominator in the Inventory Turnover calculation
Profitability Ratio Formulas	Used to measure how effective an organization is at generating profits
Gross Margin = $\frac{\text{Gross Profit}}{\text{Net Sales}}$	Measures the percentage of each sales dollar remaining after cost of sales that contributes to funding the organization's SG&A and other costs
Operating Profit Margin = $\frac{\text{Income From Operations}}{\text{Net Sales}}$	Measures the percentage of each sales dollar that remains after cost of goods sold and SG&A expenses
Profit Margin = $\frac{\text{Net Income}}{\text{Net Sales}}$	Measures the percentage of each sales dollar that remains after all expenses
Return on Assets = $\frac{\text{Net Income}}{\text{Average Total Assets}}$	Measures how effectively an organization uses its assets to generate profits
Return on Equity = $\frac{\text{Net Income}}{\text{Average Common Stockholder Equity}}$	Measures how effectively an organization uses the capital contributed by equity investors (excludes preferred stock)
Dividend Payout Ratio = $\frac{\text{Cash Dividend Per Common Share}}{\text{Earnings Per Common Share}}$	Measures the percentage of net income paid out as dividends
Asset Utilization Ratio Formulas	Used to measure the amount of time it takes or how efficiently assets are turned into cash
Receivables Turnover = $\frac{\text{Net Credit Sales}}{\text{Average Accounts Receivable}}$	Measures the number of times per year the balance of receivables is collected and shows how efficient an organization is in collections
Days Sales Outstanding = $\frac{\text{Average Accounts Receivable}}{\text{Net Sales} / 365}$	Measures the average number of days it takes from the time a sale is made until cash is collected
Inventory Turnover = $\frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}$	Measures the number of times per year the balance of inventory is output as cost of sales and shows how efficient an organization is in managing its inventory

Inventory Days = $\frac{\text{Average Inventory}}{\text{Cost of Goods Sold} / 365}$	Measures the average number of days it takes from the time raw material is received until a finished good is output
Fixed Asset Turnover = $\frac{\text{Net Sales}}{\text{Average Net Fixed Assets}}$	Measures how effective an organization is at using its fixed assets to generate sales (note that this formula uses net fixed assets, not gross)
Asset Turnover = $\frac{\text{Net Sales}}{\text{Average Total Assets}}$	Measures how effective an organization is at using all of its assets to generate sales
Liquidity Ratio Formulas	Used to measure an organization's ability to pay off its obligations due within 1 year
Current Ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$	Measures how total current assets compares to total current liabilities – it is the most common measure of short-term liquidity
Quick Ratio = $\frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$	Measures how liquid current assets (i.e. excluding inventory) compare to total current liabilities – it is more conservative than the current ratio
Debt Utilization Ratio Formulas	Used to measure whether an organization carries an appropriate amount of debt
Debt to Total Assets = $\frac{\text{Total Liabilities}}{\text{Total Assets}}$	Measures how much of an organization's assets are financed through debt – a ratio over 1 means 100% or more are financed with debt
Debt to Equity Ratio = $\frac{\text{Total Liabilities}}{\text{Total Equity}}$	Measures whether an organization uses more debt or more equity to finance operations – a ratio of over 1 means debt is used more
Times Interest Earned = $\frac{\text{Earnings Before Interest and Taxes}}{\text{Interest Expense}}$	Measures an organization's ability to make its interest payments by showing how much EBIT exceeds or falls short of interest expense (over 100% means EBIT exceeds interest expense)
Market Ratio Formulas	Used by investors to evaluate how cheap or expensive a stock is
Earnings per Share = $\frac{\text{Net Income}}{\text{Number of Shares Outstanding}}$	Measures the net income per share of common stock
Price to Earnings (PE) Ratio = $\frac{\text{Stock Price per Share}}{\text{Earnings per Share}}$	Measures the number of years of profits implicit in the share price (most commonly used market ratio)
Book Value per Share = $\frac{\text{Common Stock Equity}}{\text{Number of Shares Outstanding}}$	Measures the accounting book value per share of common stock
Market to Book Ratio = $\frac{\text{Market Value per Share}}{\text{Book Value per Share}}$	Measures how the market price of the stock compares with the common shareholder equity (a value over 1 indicates the market price exceeds the accounting book value)

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