

CPA Key Ratios



Liquidity Ratios

- Measures our ability to pay down our debts
- "Current" = over the next year
- **Currents Assets:**
 - Cash and Cash Equivalents
 - Marketable Securities
 - Accounts Receivable
 - Prepaid Expenses
 - Inventory
- **Working Capital** = Current Assets - Current Liabilities
- Working Capital asks, "How much in current assets will you have left after you pay off your current liabilities?"
- **Current Ratio** = Current Assets / Current Liabilities
- **Quick Ratio** = Quick Assets (Cash+AR+Marketable Securities) / Current Liabilities
- **Operating Cash Flow Ratio** = Cash Flow from Operations / Current Liabilities

Turnover Ratios

- Measures how many times our assets are used then replaced in a year
- **Working Capital Turnover Ratio** = Net Sales / Working Capital
- **Asset Turnover Ratio** = Net Sales / Total Assets
- **Receivables Turnover** = Net Credit Sales / AR Balance
 - **Days in Receivables** = 365 / Receivables Turnover
- **Inventory Turnover** = Cost of Goods Sold / Inventory Balance
 - **Days in Inventory** = 365 / Inventory Turnover
- **Accounts Payable Turnover** = Cost of Goods Sold / Accounts Payable
 - **Days in Payables** = 365 / Accounts Payable Turnover

Cash Conversion Cycle

- "How many days does it take to buy your inventory, manufacture it/sell it to customers, and collect the AR?"
- **Formula:** Days in Inventory + Days in AR - Days in AP

Profitability Ratios

- These ask, "How profitable are we?"
- **Profit Margin** = Net Income / Net Sales
 - "For every \$1 of net sales, how much do we keep as Net Income?"
- **Gross Profit Margin** = Gross Profit / Net Sales

Debt Ratios

- Measures the amount of debt that we have
- **Total Debt Ratio** = Total Liabilities / Total Assets
 - "For every \$1 of assets, how much do we have in liabilities?"
- **Debt-to-Equity Ratio** = Total Debt/Total Equity
- **Times Interest Earned Ratio** = Earnings Before Interest and Taxes / Interest Expense

Company Investment Ratios

- **Return on Assets** = Net Income / Assets
 - "For every \$1 of assets, how much in Net Income are we generating?"
- **Return on Equity** = Net Income / Equity
- **Equity Multiplier** = Total Assets / Total Equity
 - "For every \$1 of equity, how much have we been able to multiply that into assets?"

Individual Investment Ratios

- **Dividend Payout** = Dividends Paid / Net Income
 - "Out of the company's total net income, how much are they distributing to stockholders?"
- **Earnings Per Share** = Net Income - Preferred Dividends / Number of Common Shares Outstanding
- **Price-to-Earnings** = Price Per Share / Earnings Per Share

Tips for Ratios

- "For every \$1 of the denominator, how many dollars of the numerator do we have?"
- When you read a ratio like "Debt-to-Equity" the second term is in the denominator. The same for "**Debt-to-Total Assets**," "**Return on Assets**," "**Return on Equity**."
- Tip for the turnover ratios: The **name** of the ratio shows what you put in the **denominator**. For example, with the inventory turnover ratio, you put the inventory in the denominator.