**Most Commonly Used Ratios:**

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| **Name** | **Meaning** | **Formula** | **Interpretation** |
| **Debt Ratio** | To measure leverage (the degree to which the company has borrowed money to accumulate assets) | Total Liabilities / Total Assets | Average Debt Ratio for large companies = 50%-60% |
| **Current Ratio** | A measure of liquidity (the ability of a company to pay its obligations in a short term) | Current Assets\* / Current Liabilities\*\*  \* Assets to be used within the current year, such as cash or close to becoming cash assets (e.g. A/R, inventory, etc.)  \*\* Obligations to pay within the current year (e.g. A/P, wages payable, etc.) | Banks prefer companies with current ratios of 2:1 or higher |
| **Return on Sales** | A measure of the amount of profit earned per dollar of investment | Net Income / Sales | The average return on sales for tech companies is over 20%, whereas resale companies generally have a very thin margin (3.4% - Walmart) |
| **Asset Turnover** | A measure of company efficiency (how much a company makes in sales for every dollar of its assets) | Sales / Total Assets | The higher the ratio, the more efficiently a company is using its resources. Ex. 2.33% means that for every $100 in assets the company generates $233 in sales |
| **Return on Equity** | A measure of the amount of profit earned per dollar of investment | Net Income / Stockholders’ Equity\*  \* the amount invested into a company by its shareholders | Most companies have a return on equity between 10-20%. Thus,  <10% is no good; >20% is awesome 😊 |
| **Price Earnings Ratio** | A measure of growth potential, earnings stability, and management capabilities | Market value of shares\* / Net Income  \* aka Market Capitalization – how much it would cost to purchase all shares of a company | A higher price-earning ratio means a higher expectation of earnings growth. Most companies have a price-earnings ratio between 10-30  <10 means the market expects the company to grow slower in the future  >30 means the market expects the company to grow rapidly |