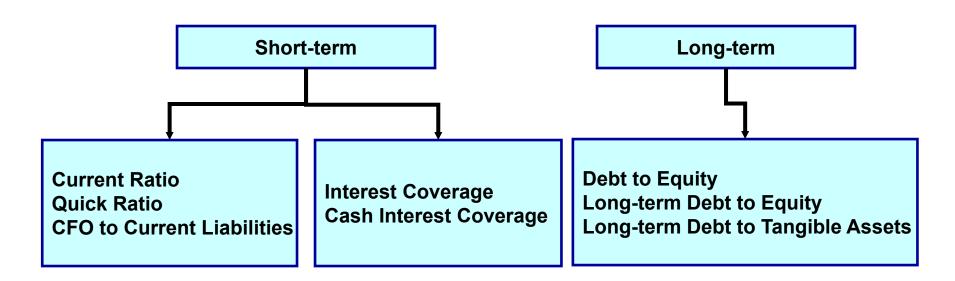
# RATIO ANALYSIS: LIQUIDITY RATIOS

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# **Common Liquidity Ratios**



## **Short-Term Liquidity Ratios**

- Does the company have enough cash coming in to cover obligations to pay out cash?
  - Ideally, ratios would be over 1
- Current Ratio = Current Assets / Current Liabilities
- Quick Ratio = (Cash + Receivables) / Current Liabilities
- CFO to Current Liabilities = Cash from Operations / Avg. Current Liabilities

### **Interest Coverage Ratios**

- Does the company have enough cash coming in from operations to cover interest obligations?
  - Ideally, ratios would be over 1
- Interest Coverage = (Operating Income before Depreciation) / Interest Expense
- Cash Interest Coverage = (Cash from Operations + Cash Interest Paid + Cash Taxes) / Cash Interest Paid

#### **Long Term Debt Ratios**

- How does the company finance its growth?
  - Also provide measure of bankruptcy risk and borrowing capacity
- Debt to Equity = Total Liabilities / Total Stockholders' Equity
  - Total Assets is sometimes used in the denominator.
- Long-Term-Debt to Equity = Total Long-Term Debt / Total Stockholders'
  Equity
- Long-Term Debt to Tangible Assets = Total Long-Term Debt / (Total Assets -Intangible Assets)

