Ratios that the CFA Institute feels may be valuable in performing Financial Statement Analysis

Our textbook breaks ratios down into three categories as shown on the item entitled "Some Useful Ratios described in our textbook that may be helpful in performing Financial Statement Analysis. There three categories are (1) liquidity ratios, (2) profitability ratios and (3) solvency ratios

The CFA Institute categorizes ratios into the following five categories: (1) Activity, (2) Liquidity, (3) Solvency, (4) Profitability and (5) Valuation.

Activity Ratios measures company efficiency in performing day-to –day tasks such as collection of receivables and management of inventory.

Liquidity Ratios measure a company's ability to meets its short term obligations.

Solvency Ratios measures a company's ability to meet long term obligations. Subsets of these ratios are also known as "leverage and long term debt" ratios.

Profitability Ratios measure the company's ability to generate profits from its resources (assets).

Valuation Ratios measures the quantity of an assets or flow (e.g., earning s) associated with ownership of a specified claim (e.g.., share or ownership the enterprise.

Ratios in included in CFA Material

Activity Ratios	Formula	Purpose or Use
1. Inventory Turnover	Cost of goods sold	Measures liquidity of inventory
	Average inventory	Measures short-term debt-paying
		ability
2. Days of inventory on hand	Number of Days in period	Number of days on average it takes to
(DOH)	Average Inventory	sell the inventory
3. Receivables turnover	Net credit sales	Measures liquidity of receivables
Si Necelvables tarrievel	Average net receivables	measures inquiency or receivables
	, 6. 486 6	
4. Days of Sales Outstanding	Number of Days in period	Number of days on average it takes to
(DSO)	Average Receivable	collect accounts receivable
5. Payables Turnover	<u>Purchases</u>	Measures how many times per year
	Average Trades Payable	the company pays off all its creditors
6, Number of Days of	Number of Days in period	The number of days the company
Payable	Payables Turnover	takes to pay its suppliers
7. Working Capital Turnover	<u>Revenue</u>	Measures how efficiently the company
	Average Working Capital	generates revenue with its working capital
8. Fixed Asset Turnover	<u>Revenue</u>	Measures how efficiently the company
	Average Net Fixed Assets	generates revenue from its investments in
		fixed assets

9. Total Asset Turnover	<u>Revenue</u> Average Total Assets	Measures the company's overall ability to generate revenue with a given level of assets
Liquidity Ratios		
10. Current Ratio	<u>Current assets</u> Current liabilities	Measures short-term debt-paying ability
11. Quick ratio (our book calls it "acid test" or "quick ratio"	Cash + Short term Marketbable Jnvestments + Receivables Current liabilities	Measures immediate short-term liquidity
12. Cash Ratio	<u>Cash + Short term Marketbable Jnvestments</u> Current liabilities	Represents a Reliable Measure of a Company's liquidity in a crisis situation
13. Defensive Interval Ratio	Cash + Short term Marketbable Jnvestmentss Daily Cash Expenditures	Measures how long the company can continue to pays its expenditures without receiving any additional cash inflow
Profitability Ratios (Return on Sales)		
14. Gross Profit Margin	<u>Gross Profit</u> Revenue	Measures percentage of every dollar of revenue which became gross profit
15. Net Profit margin	<u>Net Income</u> Revenue	Measures net income generated by each dollar of sales
16. Operating Profit Margin	Operating Income Revenue	Measures percentage of every dollar of revenue which became Operating Income
Profitability Ratios (Return on Investments)		
17. Operating ROA	Operating Income Average Total Assets	Measures percentage of operating income that can be generated on a given amount of average taxes
18. Return on Assets (ROA)	<u>Net income</u> Average total assets	Measures overall profitability of assets
19. Return on Total Capital	<u>EBIT</u> Short and Long-Term Debt and Equity	Measures the profit a company earns on all of the capital it employs (short term debt, long term debt and equity
20. Return on common equity (ROE)	Net income – Preferred stock dividends Average common stockholders' equity	Measure profitability of stockholders' investment
21. Dupont Formula for calculating Return on Equity	ROE= Net Profit Margin x Total Asset Turnover x Equity Multiplier= Formula 15 x Formula 9 x Formula 13= (Net income/Revenue) x (Revenue/Assets) x (Assets/Equity) = Net Income/Equity	
	A formula to calculate return on equity by breaking drivers of return on equity. Profit margin, asset tu	

Valuation Ratios		margin on any sale it increases your return on equity. If you increase your total sales per amount of assets it increases ROE. If you increase leverage it can increase ROE.		
EPS) Weighted Average Number of Ordinary Shares Outstanding Share of outstanding common stock Adjusted income available for ordinary shares, reflecting conversion of dilutive securities (EPS) Adjusted income available for ordinary shares outstanding common stock plus the number of share that could be converted into common stock application of share that could be converted into common stock application of the market price per share of stock Earnings per share of Stock Stock Earnings p	Valuation Ratios			
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liabilities to finance assets			liabilities to finance assets	

Activity ratios	Ratio calculation
Inventory turnover	Cost of goods sold Average inventory
Days of inventory on hands (DOH)	Number of days in the period Inventory turnover
Receivables turnover	Revenue or Revenue from credit sales Average receivables
Days of sales outstanding (DSO)	Number of days Receivable turnover
Payable Turnover	Purchases Average payables
Number of days of payables	Number of days in a period Payable turnover
Working capital turnover	Revenue Average working capital
Fixed assets turnover	Revenue Average fixed assets
Total assets turnover	Revenue Average total assets

Liquidity ratios	Ratio calculation
Current	Current assets Current liabilities
Quick	Cash + Short term marketable securities + Receivables Current liabilities
Cash	Cash + Short term marketable securities Current liabilities
Defensive interval	Cash + Short term marketable securities + Receivables Daily expenditures
Cash conversion cycle	DOH + DSO - Number of days of payables

Coverage ratios	Ratio calculation
Interest coverage	EBIT Interest payments
Fixed charge coverage	EBIT + Lease payments Interest payments + Lease payments

Solvency ratios	Ratio calculation
Debt-to-assets	Total debt Total assets
Debt-to-capital	Total debt Total debt + Total shareholders' equity
Debt-to-equity	Total debt Total shareholders' equity
Financial leverage	Average total assets Total shareholders' equity

Return on sales ratios	Ratio calculation
Gross profit margin	Gross profit Revenue
Operating margin	Operating profit Revenue
Pretax margin	EBT (Earnings Before Taxes) Revenue
Net profit margin	Net income Revenue

Return on investment ratios	Ratio calculation
Operating ROA	Operating income Average total assets
ROA	Net income Average total assets
Return on total capital	EBIT Debt + Equity
ROE	Net income Average total equity
Return on common equity	Net income — Preferred dividends Average common equity

Valuation ratios	Ratio calculation
P/E	Price per share Earnings per share
P/CF	Price per share Cash flow per share
P/S	Price per share Sales per share
P/BV	Price per share Book value per share

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Per share ratios	Ratio calculation
Basic EPS	Net income — Preferred dividends Weighted average number of ordinary shares oustanding
Diluted EPS	Price per share Cash flow per share
Cash flow per share	Price per share Sales per share
EBITDA per share	Price per share Book value per share
Dividends per share	Dividend paid Number of shares outstanding

Dividend-related ratios	Ratio calculation
Dividend payout ratio	Common share dividends Net income attributable to common shares
Retention rate (b)	Net income attributable to common <u>shares — Common share dividends</u> Net income attributable to common shares
Sustainable growth rate	b × ROE

Credit ratios	Ratio calculation	
EBIT interest coverage	EBIT	
	Gross interest (prior to deductions for capitalized	
	interest or interest income)	
EBITDA interest coverage	EBITDA	
	Gross interest (prior to deductions for capitalized	
	interest or interest income)	
FFO (funds from operations)	FFO + Interest paid — Operatinf lease adjustments	
interest coverage	Gross interest (prior to deductions for capitalized	
	interest or interest income)	
Return on capital	EBIT	
	Average capital	
	where Capital = Equity + Non-current deferred taxes + Debt	
FFO (funds from operations)	FFO	
to debt	Total debt	
Free operating cash flow-to-	CFO (adjusted) — Capital expenditures	
debt	Total debt	
Discretionary cash flow-to-	CFO — Capital expenditures — Dividend paid	
debt	Total debt	
Net cash flow-to-capital	FFO — Dividends	
expenditures	Capital expenditures	

Leverage ratios			
Debt-to-assets ratio	Total debt ^A Total assets		
Debt-to-capital ratio	Total debt ^A Total debt + Total equity		
Debt-to-equity ratio	Total debt ^A Total equity		
Financial leverage ratio	Average total assets Average equity		

Segment ratio	Numerator	Denominator	Indication
Segment margin	Segment profit (loss)	Segment revenue	Measures a segment's profitability relative to its revenues
Segment turnover	Segment revenue	Segment assets	Measures a segment's ability to generate revenue using assets
Segment ROA	Segment profit (loss)	Segment assets	Measures a segment's operating profitability relative its assets
Segment debt ratio	Segment liabilities	Segment assets	Measures segment solvency

Performance Ratio	Calculation	Indication
Cash flow to revenue	CFO Net revenue	Operating cash generated per dollar of revenue
Cash return on assets	CFO Average total assets	Operating cash generated per dollar of asset investment
Cash return on equity	CFO Average shareholders equity	Operating cash generated per dollar of owner investment
Cash to income	CFO Operating income	Cash generated from operations
Cash flow per share	CFO — Pref. dividends Number of common shares oustanding	Operating cash flow on a per- share basis
Debt payment	CFO Cash paid for long term debt repayment	Ability to pay debts with operating cash flows
Dividend payment	CFO Dividends paid	Ability to pay dividends with operating cash flows
Investing and Financing	CFO Cash outflows for investing and financing activities	Ability to acquire assets, pay debts, and make distributions to owners
Debt Coverage	CFO Total debt	Financial risk and financial leverage
Interest Coverage	CFO + Interest paid + Taxes paid Interest paid	Ability to meet interest obligations
Reinvestment	CFO Cash paid for long term assets	Ability to acquire assets with operating cash flows