

final examination cheatsheet

- HKUST ACCT 2010

content

Total assets and current assets include contra-assets.

Profitability Ratios

1. Return on equity ratio (ROE): $\frac{\text{net income}}{\text{average total stockholders' equity}}$
2. Return on assets ratio (ROA): $\frac{\text{net income}}{\text{average total assets}}$
3. Gross profit margin ratio: $\frac{\text{gross profit}}{\text{net sales revenue}}$
4. Net profit margin ratio: $\frac{\text{net income}}{\text{net sales revenue}}$
5. Earnings per share ratio (EPS): $\frac{\text{net income} - \text{preferred dividends}}{\text{time-weighted number of common shares outstanding}}$
6. Quality of income ratio: $\frac{\text{cash flows from operating activities}}{\text{net income}}$

Asset Turnover Ratios

7. Total asset turnover ratio: $\frac{\text{net sales revenue}}{\text{average total assets}}$
8. Fixed asset turnover ratio: $\frac{\text{net sales revenue}}{\text{average net fixed assets}}$
9. Receivables turnover ratio: $\frac{\text{net (credit) sales}}{\text{average net (trade) receivables}}$
10. Inventory turnover ratio: $\frac{\text{cost of goods sold}}{\text{average inventory at cost}}$

Liquidity Ratios

11. Current ratio: $\frac{\text{current assets}}{\text{current liabilities}}$
12. Quick ratio: $\frac{\text{cash \& cash equivalents} + \text{net accounts receivable} + \text{marketable securities}}{\text{current liabilities}}$
13. Cash ratio: $\frac{\text{cash \& cash equivalents}}{\text{current liabilities}}$

Solvency Ratios

14. Times interest earned ratio: $\frac{\text{net income} + \text{interest expense} + \text{income tax expense}}{\text{interest expense}}$
15. Cash coverage ratio: $\frac{\text{cash flows from operating activities}}{\text{interest paid}}$
16. Debt-to-equity ratio: $\frac{\text{total liabilities}}{\text{total stockholders' equity}}$

Market Ratios

17. Price/Earnings (P/E) ratio: $\frac{\text{market price per share}}{\text{earnings per share}}$
18. Dividend yield ratio: $\frac{\text{dividends per common share}}{\text{market price per share}}$

Others

- average collection period: $\frac{365}{\text{receivables turnover}}$
- average days to pay payables: $\frac{365}{\text{accounts payable turnover}}$
- average days to sell inventory: $\frac{365}{\text{inventory turnover}}$
- capital acquisitions ratio: $\frac{\text{cash flows from operating activities}}{\text{cash paid for PPE}}$
- free cash flow: cash flows from operating activities – dividends – capital expenditures
- net sales: gross sales – (customer discounts, returns, allowances)
- accounts payable turnover: $\frac{\text{total supplier purchases}}{\text{average accounts payable}}$
- working capital: current assets – current liabilities

