



Midterm Ratios

Financial Accounting (Concordia University)



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Chapter	Ratio	Formula	Explanation
2	Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	indicator of the company's ability to pay back its short-term liabilities with its short-term assets
3	Total Asset Turnover	$\frac{\text{Sales Revenue}}{\text{Average Total Assets}}$	measures the sales generated per dollar of assets
	Return on Assets Ratio (ROA)	$\frac{\text{Net Earnings} + \text{Interest Expense (net of tax)}}{\text{Average Total Assets}}$	measures how much the firm earned for each dollar of investment measures how well has management used the total invested capital provided by debtholders and shareholders during the period
4	Earnings per share	$\frac{\text{Net Earnings}}{\text{Average number of Common Shares Outstanding during the period}}$	evaluates the operating performance and profitability of a company per share
	Net Profit Margin	$\frac{\text{Net Earnings}}{\text{Net Sales Revenue}}$	measures how effective management is at generating earnings on every dollar of sales
	Return on Equity (ROE)	$\frac{\text{Net Earnings}}{\text{Average Shareholders' Equity}}$	measures how much the firm earned for each dollar of shareholders' investment

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6	Gross Profit Percentage	$\frac{\text{Gross Profit}}{\text{Net Sales Revenue}}$	measures how much gross profit is generated from every sales dollar
	Receivables Turnover	$\frac{\text{Net Credit Sales}}{\text{Average Net Accounts Receivable}} \quad (\text{times})$	measures how many times average receivables are recorded and collected for the year
	Average Collection Period	$\frac{365}{\text{Receivables Turnover}} \quad (\text{days})$	indicates the average time, in days, it takes a customer to pay his/her accounts
7	Inventory Turnover	$\frac{\text{Cost of Sales}}{\text{Average Inventory}} \quad (\text{times})$	measures how many times the average inventory was produced and sold during the period
	Average Days to Sell Inventory	$\frac{365}{\text{Inventory Turnover}} \quad (\text{days})$	indicates the average time, in days, it takes a company to produce and deliver inventory to its customers