FINANCIAL RATIO LIST

Candidates should be aware that certain ratios may be defined differently. Such differences are part of the nature of practical financial analysis. For examination purposes, when alternative ratio definitions exist and no specific definition is given in the question, candidates should use the definition provided in this list of ratios.

1 Current ratio = Current assets ÷ Current liabilities

2 Quick ratio = (Cash + Short-term marketable investments + Receivables) ÷ Current liabilities

3 Cash ratio = (Cash + Short-term marketable investments) ÷ Current liabilities

4 Defensive interval ratio = (Cash + Short-term marketable investments + Receivables) ÷ Daily cash expenditures

5 Receivables turnover ratio = Total revenue ÷ Average receivables

6 Days of sales outstanding (DSO) = Number of days in period ÷ Receivables turnover ratio

7 Inventory turnover ratio = Cost of goods sold ÷ Average inventory

8 Days of inventory on hand (DOH) = Number of days in period ÷ Inventory turnover ratio

9 Payables turnover ratio = Purchases ÷ Average trade payables

10 Number of days of payables = Number of days in period ÷ Payables turnover ratio

11 Cash conversion cycle (net operating cycle) = DOH + DSO – Number of days of payables

12 Working capital turnover ratio = Total revenue ÷ Average working capital

13 Fixed asset turnover ratio = Total revenue ÷ Average net fixed assets

14 Total asset turnover ratio = Total revenue ÷ Average total assets

15 Gross profit margin = Gross profit ÷ Total revenue

16 Operating profit margin = Operating profit ÷ Total revenue

17 Pretax margin = Earnings before tax but after interest ÷ Total revenue

18 Net profit margin = Net income ÷ Total revenue

19 Operating return on assets = Operating income ÷ Average total assets

20 Return on assets = Net income ÷ Average total assets

21 Return on equity = Net income ÷ Average shareholders' equity

22 Return on invested capital (pre-tax) = Earnings before interest and taxes ÷ (Average Interest-bearing debt + Average Shareholders' equity)

23 Return on invested capital = [(Earnings before interest and taxes) x (1- Effective Tax Rate)] ÷ (Average Interest-bearing debt + Average Shareholders' equity)

24 Return on common equity = (Net income – Preferred dividends) ÷ Average common shareholders' equity

25 Tax burden = Net income ÷ Earnings before taxes

26 Interest burden = Earnings before taxes ÷ Earnings before interest and taxes

27 EBIT margin = Earnings before interest and taxes ÷ Total revenue

28 Financial leverage ratio (equity multiplier) = Average total assets ÷ Average shareholders' equity

29 Total debt = The total of interest-bearing short-term and long-term debt, excluding liabilities such as accrued expenses and accounts payable

30 Debt-to-assets ratio = Total debt ÷ Total assets

31 Debt-to-equity ratio = Total debt ÷ Total shareholders' equity

32 Debt-to-capital ratio = Total debt ÷ (Total debt + Total shareholders' equity)

33 Interest coverage ratio = Earnings before interest and taxes ÷ Interest payments

34 Fixed charge coverage ratio = (Earnings before interest and taxes + Lease payments) ÷ (Interest payments + Lease payments)

35 Dividend payout ratio = Common share dividends ÷ Net income attributable to common shares

36 Retention rate = (Net income attributable to common shares – Common share dividends) ÷ Net income attributable to common shares = 1 – Payout ratio

37 Sustainable growth rate = Retention rate × Return on equity

38 Earnings per share = (Net income – Preferred dividends) ÷ Weighted average number of ordinary shares outstanding

39 Book value per share = Common stockholders' equity ÷ Total number of common shares outstanding

40 Free cash flow to equity (FCFE) = Cash flow from operating activities – Investment in fixed capital + Net borrowing

41 Free cash flow to the firm (FCFF) = Cash flow from operating activities + Interest expense × (1 – Tax rate) – Investment in fixed capital *(Interest expense should be added back only if it was subtracted in determining cash flow from operating activities. This may not be the case for companies electing an alternative treatment under IFRS.)*