WHAT THE RATIOS MEAN

Using Ratio Data To Measure Your Own Company

Ratio Name	How to Calculate	What it Means In Dollars and Cents

BALANCE SHEET RATIOS

CURRENT	Current Assets / Current Liabilities	Measures solvency: The number of dollars in Current Assets for every $1 in Current Liabilities. • For example: a Current Ratio of 1.76 means that for every $1 of Current Liabilities, the company has $1.76 in Current Assets with which to pay them.
QUICK	Cash + Accounts Receivable / Current Liabilities	Measures liquidity: The number of dollars in Cash and Accounts Receivable for each $1 in Current Liabilities. • For example: a Quick Ratio of 1.14 means that for every $1 of Current Liabilities, the company has $1.14 in Cash and Accounts Receivable with which to pay them.
CASH	Cash / Current Liabilities	Measures liquidity more strictly: The number of dollars in Cash for every $1 in Current Liabilities. • For example: a Cash Ratio of 0.17 means that for every $1 of Current Liabilities, the company has $0.17 in Cash with which to pay them.
DEBT-TO-WORTH	Total Liabilities / Net Worth	Measures financial risk: The number of dollars of Debt owed for every $1 in Net Worth. • For example: a Debt-to-Worth Ratio of 1.05 means that for every $1 of Net Worth that the owners have invested, the company owes $1.05 of Debt to its creditors.

INCOME STATEMENT RATIOS

GROSS MARGIN	Gross Margin / Sales	Measures profitability at the Gross Profit level: The number of dollars of Gross Margin produced for every $1 of Sales. • For example: a Gross Margin Ratio of 34.4% means that for every $1 of Sales, the company produces 34.4 cents of Gross Margin.
NET MARGIN	Net Profit Before Tax / Sales	Measures profitability at the Net Profit level: The number of dollars of Net Profit produced for every $1 of Sales. • For example: a Net Margin Ratio of 2.9% means that for every $1 of Sales, the company produces 2.9 cents of Net Margin.
OWNERS' "DISCRE-TIONARY" PROFIT	Net Profit Before Tax + Total Owners' Salary / Sales	Measures profitability in terms of the total amount available for the owners to use "at their discretion": The number of these dollars produced for every $1 of Sales. • For example: an Owners' Discretionary Profit Ratio of 10.0% means that for every $1 of Sales, the company produces 10 cents for the owners' to use as they see fit.

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OVERALL EFFICIENCY RATIOS

SALES-TO-ASSETS	Sales / Total Assets	Measures the efficiency of Total Assets in generating sales: The number of dollars in Sales produced for every $1 invested in Total Assets. • For example: a Sales-to-Assets ratio of 2.35 means that for every $1 dollar invested in Total Assets, the company generates $2.35 in Sales.
RETURN ON ASSETS	Net Profit Before Tax / Total Assets	Measures the efficiency of Total Assets in generating Net Profit: The number of dollars in Net Profit produced for every $1 invested in Total Assets. • For example: a Return on Assets ratio of 7.1% means that for every $1 invested in Assets, the company is generating 7.1 cents in Net Profit Before Tax.
RETURN ON INVESTMENT	Net Profit Before Tax / Net Worth	Measures the efficiency of Net Worth in generating Net Profit: The number of dollars in Net Profit produced for every $1 invested in Net Worth. • For example: a Return on Investment ratio of 16.1% means that for every $1 invested in Net Worth, the company is generating 16.1 cents in Net Profit Before Tax.

SPECIFIC EFFICIENCY RATIOS

INVENTORY TURNOVER	Cost of Goods Sold / Inventory	Measures the rate at which Inventory is being used on an annual basis. • For example: an Inventory Turnover ratio of 9.81 means that the average dollar volume of Inventory is used up almost ten times during the fiscal year.
INVENTORY TURN-DAYS	360 / Inventory Turnover	Converts the Inventory Turnover ratio into an average "days inventory on hand" figure. • For example: a Inventory Turn-Days ratio of 37 means that the company keeps an average of thirty-seven days of Inventory on hand throughout the year.
ACCOUNTS RECEIVABLE TURNOVER	Sales / Accounts Receivable	Measures the rate at which Accounts Receivable are being collected on an annual basis. • For example: an Accounts Receivable Turnover ratio of 8.00 means that the average dollar volume of Accts Receivable are collected eight times during the year.
AVERAGE COLLECTION PERIOD	360 / A/R Turnover	Converts the Accounts Receivable Turnover ratio into the average number of days the company must wait for its Accounts Receivable to be paid. • For example: an Accounts Receivable Turnover ratio of 45 means that it takes the company 45 days on average to collect its receivables.
ACCOUNTS PAYABLE TURNOVER	Cost of Goods Sold / Accounts Payable	Measures the rate at which Accounts Payable are being paid on an annual basis. • For example: an Accounts Payable Turnover ratio of 12.04 means that the average dollar volume of Accounts Payable are paid about twelve times during the year.
AVERAGE PAYMENT PERIOD	360 / A/P Turnover	Converts the Accounts Payable Turnover ratio into the average number of days a company takes to pay its Accounts Payable. • For example: an Accounts Payable Turnover ratio of 30 means that it takes the company 30 days on average to pay its bills.
SALES PER EMPLOYEE	Total Sales / Total Employees	Measures the efficient use of employees in relation to generating Sales: the dollar volume of sales generated for each person employed. • For example: a Sales Per Employee ratio of $68,432 means that the company is generating that amount of sales for each person employed