**Accounting Ratios  
for Financial Statement Analysis**

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|  |
| **Liquidity Analysis Ratios** |
|  |
| **Current Ratio** |

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| --- | --- | --- |
|  |  | Current Assets |
|  | Current Ratio = | ———————— |
|  |  | Current Liabilities |
|  |  |  |

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| --- |
| **Quick Ratio** |

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| --- | --- | --- |
|  |  | Quick Assets |
|  | Quick Ratio = | ———————- |
|  |  | Current Liabilities |
|  |  |  |

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| --- |
| Quick Assets = Current Assets – Inventories |
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| **Net Working Capital Ratio** |

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| --- | --- | --- |
|  |  | Net Working Capital |
|  | Net Working Capital Ratio = | ————————– |
|  |  | Total Assets |
|  |  |  |

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| --- |
| Net Working Capital = Current Assets – Current Liabilities |
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| --- |
| **Profitability Analysis Ratios** |
| **Return on Assets (ROA)** |

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| --- | --- | --- |
|  |  | Net Income |
|  | Return on Assets (ROA) = | ———————————- |
|  |  | Average Total Assets |
|  |  |  |

|  |
| --- |
| Average Total Assets = (Beginning Total Assets + Ending Total Assets) / 2 |
|  |

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| --- |
| **Return on Equity (ROE)** |

|  |  |  |
| --- | --- | --- |
|  |  | Net Income |
|  | Return on Equity (ROE) = | ——————————————– |
|  |  | Average Stockholders’ Equity |
|  |  |  |

|  |
| --- |
| Average Stockholders’ Equity  = (Beginning Stockholders’ Equity + Ending Stockholders’ Equity) / 2 |
|  |

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| --- |
| **Return on Common Equity (ROCE)** |

|  |  |  |
| --- | --- | --- |
|  |  | Net Income |
|  | Return on Common Equity (ROCE) = | ——————————————– |
|  |  | Average Common Stockholders’ Equity |
|  |  |  |

|  |
| --- |
| Average Common Stockholders’ Equity  = (Beginning Common Stockholders’ Equity + Ending Common Stockholders’ Equity) / 2 |
|  |

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| --- |
| **Profit Margin** |

|  |  |  |
| --- | --- | --- |
|  |  | Net Income |
|  | Profit Margin = | —————– |
|  |  | Sales |
|  |  |  |

|  |  |
| --- | --- |
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| --- |
| **Earnings Per Share (EPS)** |

|  |  |  |
| --- | --- | --- |
|  |  | Net Income |
|  | Earnings Per Share (EPS) = | ——————————————— |
|  |  | Number of Common Shares Outstanding |
|  |  |  |

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| **Activity Analysis Ratios** |
| **Assets Turnover Ratio** |

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| --- | --- | --- |
|  |  | Sales |
|  | Assets Turnover Ratio = | —————————- |
|  |  | Average Total Assets |
|  |  |  |

|  |
| --- |
| Average Total Assets = (Beginning Total Assets + Ending Total Assets) / 2 |
|  |

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| --- |
| **Accounts Receivable Turnover Ratio** |

|  |  |  |
| --- | --- | --- |
|  |  | Sales |
|  | Accounts Receivable Turnover Ratio = | ———————————– |
|  |  | Average Accounts Receivable |
|  |  |  |

|  |
| --- |
| Average Accounts Receivable  = (Beginning Accounts Receivable + Ending Accounts Receivable) / 2 |
|  |

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| --- |
| **Inventory Turnover Ratio** |

|  |  |  |
| --- | --- | --- |
|  |  | Cost of Goods Sold |
|  | Inventory Turnover Ratio = | ————————— |
|  |  | Average Inventories |
|  |  |  |

|  |
| --- |
| Average Inventories = (Beginning Inventories + Ending Inventories) / 2 |
|  |

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| --- |
| **Capital Structure Analysis Ratios** |
| **Debt to Equity Ratio** |

|  |  |  |
| --- | --- | --- |
|  |  | Total Liabilities |
|  | Debt to Equity Ratio = | ———————————- |
|  |  | Total Stockholders’ Equity |
|  |  |  |

|  |  |
| --- | --- |
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| --- |
| **Interest Coverage Ratio** |

|  |  |  |
| --- | --- | --- |
|  |  | Income Before Interest and Income Tax Expenses |
|  | Interest Coverage Ratio = | ——————————————————- |
|  |  | Interest Expense |
|  |  |  |

|  |
| --- |
| Income Before Interest and Income Tax Expenses  = Income Before Income Taxes + Interest Expense |
|  |

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| --- |
| **Capital Market Analysis Ratios** |
| **Price Earnings (PE) Ratio** |

|  |  |  |
| --- | --- | --- |
|  |  | Market Price of Common Stock Per Share |
|  | Price Earnings (PE) Ratio = | —————————————————— |
|  |  | Earnings Per Share |
|  |  |  |

|  |  |
| --- | --- |
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| --- |
| **Market to Book Ratio** |

|  |  |  |
| --- | --- | --- |
|  |  | Market Price of Common Stock Per Share |
|  | Market to Book Ratio = | ——————————————————- |
|  |  | Book Value of Equity Per Common Share |
|  |  |  |

|  |
| --- |
| Book Value of Equity Per Common Share  = Book Value of Equity for Common Stock / Number of Common Shares |
|  |

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| --- |
| **Dividend Yield** |

|  |  |  |
| --- | --- | --- |
|  |  | Annual Dividends Per Common Share |
|  | Dividend Yield = | ———————————————— |
|  |  | Market Price of Common Stock Per Share |
|  |  |  |

|  |
| --- |
| Book Value of Equity Per Common Share  = Book Value of Equity for Common Stock / Number of Common Shares |
|  |

|  |
| --- |
| **Dividend Payout Ratio** |

|  |  |  |
| --- | --- | --- |
|  |  | Cash Dividends |
|  | Dividend Payout Ratio = | ——————– |
|  |  | Net Income |
|  |  |  |

|  |  |
| --- | --- |
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| --- |
| **ROA = Profit Margin X Assets Turnover Ratio** |
| **ROA = Profit Margin X Assets Turnover Ratio** |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | Net Income | Net Income | Sales |
|  | ROA = | ————————  = | ————–  X | ———————— |
|  |  | Average Total Assets | Sales | Average Total Assets |
|  |  |  |  |  |

|  |
| --- |
| Profit Margin = Net Income / Sales  Assets Turnover Ratio = Sales / Averages Total Assets |

Financial statement analysis includes financial ratios. Here are three financial ratios that are based solely on current asset and current liability amounts appearing on a company’s balance sheet: