

# FINANCIAL RATIOS CHEAT SHEET

## 4 RATIOS USES

- Identify financial strengths and weaknesses
- Inter-company comparison
- Helps planning and forecasting
- Supports investment decisions

### ① PERFORMANCE & PROFITABILITY

#### RETURN ON INVESTMENT

Profits generated are assessed against the capital invested

#### **FORMULA**

ROI = Profit after Tax / Tangible Net Worth x 100

#### RETURN ON NET ASSETS

Profits generated by the assets of the business

#### **FORMULA**

RONA = Operating Profit / Net assets x 100

#### OPERATING MARGIN

Revenue left after paying production costs.

#### **FORMULA**

Operating Margin = Operating Profit / Sales x 100

#### GROSS MARGIN

Percentage by which profits exceed production costs

Aiming for as high as possible

#### **FORMULA**

Gross Margin = Gross Profit / Sales x 100

#### OPERATING COST RATIO

Operation efficiency of the business  
Should be as low as possible

#### **FORMULA**

Operating Costs = Operating Costs / Sales x 100

#### SALES GROWTH RATIO

Growth achievement

#### **FORMULA**

Sales Growth = Current Sales - previous year sales / sales

## DEFINITION

Indication of the relationship between company's current assets and its current liabilities, or between its debtors and its turnover

### ② LIQUIDITY

The ability of a company to meet its short-term financial obligations.

#### CURRENT RATIO

Measure a company's short-term financial strength

Aiming for the highest number

#### **FORMULA**

Current Ratio = Total Current Assets / Total Current Liabilities

#### ACID TEST RATIO

Liquidity measured without the stock

#### **FORMULA**

Acid Test = (Total Current Assets - Stock) / Total Current Liabilities

#### BREAKEVEN

REVENUE = COST OF MAKING (SELLING)

### ③ WORKING CAPITAL EFFICIENCY

#### WORKING CAPITAL

The net cash flow generated during the cash flow cycle. Result should be a positive number

#### **FORMULA**

Working Capital = Current Assets - Current Liabilities

#### STOCK DAYS

Number of days goods are in stock

#### **FORMULA**

Stock Days = Stock / Cost of Sales x 365

Aiming for a low number of days

#### DEBTOR DAYS

The amount of time it takes to collect the debts

#### **FORMULA**

Debtors Days = Trade Debtors / Sales x 365

## 5 TYPES OF RATIOS

- ① Performance & Profitability
- ② Liquidity
- ③ Working Capital efficiency
- ④ Leverage / Gearing
- ⑤ Debt Serviceability

#### CREDITOR DAYS

The length of time it takes to pay the creditors

#### **FORMULA**

Creditor Days = Trade creditors / Cost of Sales x 365

### ④ LEVERAGE / GEARING

#### DEBT TO EQUITY

The reliance on debt servicing (creditor money vs owner's equity)

#### **FORMULA**

Debt to Equity = Total Liabilities / Shareholder's Equity

#### GEARING RATIO

Comparison between the borrowing a company has to its shareholders funds (net worth)

#### **FORMULA**

Gearing = Total Debt / Tangible net worth  
Excl Directors Loans  
Aiming for lower figures

### ⑤ DEBT SERVICEABILITY

#### INTEREST COVER RATIO

The profit a company makes before paying the interest on borrowings

Aiming for a high figure

#### **FORMULA**

Interest Cover = Operating Profit (EBIT) / Total Interest

#### DEBTS SERVICEABILITY

The ability of a company to pay interest and the principal amounts of the long-term borrowings

#### **FORMULA**

EBITDA - (Drawings / Dividends / Directors Loan / Interest & Capital Repayment x 100

or

CFADS / Interest & Capital Repayment x 100