

Financial Ratio Analysis Cheat Sheet

1. Liquidity Ratios

Current Ratio

Current Assets / Current Liabilities

Indicates a company's ability to pay short-term obligations.

Quick Ratio

(Current Assets - Inventory) / Current Liabilities

More stringent test of liquidity than the current ratio.

Cash Ratio

(Cash + Cash Equivalents) / Current Liabilities

Measures ability to cover short-term liabilities with cash/cash equivalents.

2. Profitability Ratios

Net Profit Margin

Net Income / Revenue

Indicates how much net income is generated as a percentage of revenue.

Return on Assets (ROA)

Net Income / Total Assets

Shows how efficiently assets are used to generate profit.

Return on Equity (ROE)

Net Income / Shareholders' Equity

Measures profitability relative to shareholders' equity.

3. Leverage Ratios

Debt to Equity Ratio

Total Debt / Shareholders' Equity

Shows the proportion of debt and equity used to finance assets.

Interest Coverage Ratio

EBIT / Interest Expense

Indicates how easily a company can pay interest on its debt.

4. Efficiency Ratios

Inventory Turnover

Cost of Goods Sold / Average Inventory

Shows how many times inventory is sold and replaced over a period.

Receivables Turnover

Net Credit Sales / Average Accounts Receivable

Measures efficiency in collecting receivables.

Asset Turnover

Net Sales / Average Total Assets

Indicates how efficiently assets generate sales.

5. Market Value Ratios

Earnings Per Share (EPS)

(Net Income - Dividends on Preferred Stock) / Average Outstanding Shares

Indicates the portion of a company's profit allocated to each share of stock.

Price to Earnings (P/E) Ratio

Market Price per Share / Earnings per Share

Compares a company's share price to its earnings per share.

Dividend Yield

Annual Dividends per Share / Market Price per Share

Measures the dividends received relative to the share price.

Important Notes

- Ratios are most meaningful when compared against industry benchmarks or historical performance.
- A single ratio alone rarely provides a complete picture; use a combination for thorough analysis.
- Financial statements used must be accurate and up-to-date.
- Be aware of any differences in accounting methods that may affect ratio comparability.
- Interpret ratios in context—consider economic, industry, and business conditions.