

# Financial Ratio Analysis Cheat Sheet

## 1. Liquidity Ratios

### Current Ratio

$\text{Current Assets} / \text{Current Liabilities}$

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

### Quick Ratio

$(\text{Current Assets} - \text{Inventory}) / \text{Current Liabilities}$

More stringent test of liquidity than the current ratio.

### Cash Ratio

$(\text{Cash} + \text{Cash Equivalents}) / \text{Current Liabilities}$

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

## 2. Profitability Ratios

### Net Profit Margin

$\text{Net Income} / \text{Revenue}$

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

### Return on Assets (ROA)

$\text{Net Income} / \text{Total Assets}$

Shows how efficiently assets are used to generate profit.

### Return on Equity (ROE)

$\text{Net Income} / \text{Shareholders' Equity}$

Measures profitability relative to shareholders' equity.

## 3. Leverage Ratios

### Debt to Equity Ratio

$\text{Total Debt} / \text{Shareholders' Equity}$

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

### Interest Coverage Ratio

$\text{EBIT} / \text{Interest Expense}$

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

## 4. Efficiency Ratios

### Inventory Turnover

$\text{Cost of Goods Sold} / \text{Average Inventory}$

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

### Receivables Turnover

$\text{Net Credit Sales} / \text{Average Accounts Receivable}$

Measures efficiency in collecting receivables.

### Asset Turnover

$\text{Net Sales} / \text{Average Total Assets}$

Indicates how efficiently assets generate sales.

## 5. Market Value Ratios

### Earnings Per Share (EPS)

$(\text{Net Income} - \text{Dividends on Preferred Stock}) / \text{Average Outstanding Shares}$

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

### Price to Earnings (P/E) Ratio

$\text{Market Price per Share} / \text{Earnings per Share}$

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.