

## FINANCIAL RATIOS

Common name	Financial ratio definition	Comments
<b>LIQUIDITY OR SHORT TERM SOLVENCY:</b>		
Current	Current assets / current liabilities	The liquidity ratios are used to analyze the firms capacity to comply with its short term obligations
Acid or Quick	(Current assets - inventory) / current liabilities  or  (Cash & cash equivalents + accounts receivables) / current liabilities	
Cash	Cash & cash equivalents / current liabilities	
Receivables vs payables	Accounts receivables / accounts payable	
<b>LEVERAGE OR SOLVENCY:</b>		
Leverage	Total liabilities / shareholders equity	The leverage or solvency ratios are used to analyze the financial structure of a firm and its capacity to comply with its long term obligations
Debt	Total liabilities / total assets	
Coverage	Operational income / interest expenses	
Short term debt	Short term liabilities / total liabilities	
Capitalization	Long term debt / shareholders equity	
Risk in foreign currency	Liabilities in foreign currency / total liabilities	

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<b>ACTIVITY:</b>		
Receivables turnover	Annual sales / average receivables	The activity ratios are used to analyze how effectively the firm's assets are being managed
Days receivables	$(\text{Average receivables} * 360) / \text{annual sales} = 360 / \text{receivables turnover}$	
Inventory turnover	Annual cost / average inventory	
Days inventory	$(\text{Average inventory} * 360) / \text{annual cost} = 360 / \text{inventory turnover}$	
Payables turnover	Annual purchases / average payables	
Days payables	$(\text{Average payables} * 360) / \text{annual purchases} = 360 / \text{payables turnover}$	
Total assets turnover	Annual sales / average total assets	
Fixed assets turnover	Annual sales / average fixed assets	
<b>PROFIT MARGINS:</b>		
Gross margin	Gross profit / sales	The profit margin ratios are used to measure the generation of profit within the firm
Operational margin	Operational income / sales	
Net margin	Net income / sales	
<b>PROFITABILITY:</b>		
Return on investment	Operational income / total assets	The profitability ratios are used to measure the capacity of the firm to generate income compared with the size of the investment required
Return on equity	Net profit / shareholder's equity	

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<b>CASH FLOW:</b>	<p>Cash flow from net income / sales</p> <p>Cash flow from changes in working capital / sales</p> <p>Cash flow from operating activities / sales</p> <p>Free cash flow / sales</p> <p>Cash flow from operating activities / paid interests</p> <p>Finance from debt / cash flow from financing activities</p> <p>Acquisition of fixed assets / cash flow from investing activities</p>	Cash flow ratios are used to measure the firm's cash flow generation
<p><b>MARKET VALUE:</b></p> <p><u>Definitions:</u></p> <p>Earnings per share (EPS)</p> <p>Book value (BV)</p> <p>Price or market value (P or MV)</p> <p><u>Ratios:</u></p> <p>Price to earnings (P/E) ratio</p> <p>Market to book (M/B) ratio</p>	<p>Net income / number of shares</p> <p>Shareholders' equity / number of shares</p> <p>Price determined in the market because of supply and demand law</p> <p>Price or market value per share / earnings per share (EPS)</p> <p>Price or market value per share / book value per share (BV)</p>	The market value ratios are used to analyze the over or under valuation of the price of a share in a firm