

Definition of Financial Ratios

Ratio	Calculation	Description
Liquidity:		
Current	$\frac{\text{Total Current Assets}}{\text{Total Current Liabilities}}$	A ratio roughly indicating a business's ability to meet its current obligations. A high ratio may indicate either a strong liquid position or underutilized assets.
Quick	$\frac{\text{Cash + Receivables}}{\text{Total Current Liabilities}}$	A more conservative metric of liquidity describing how well a business's most liquid assets can meet its obligations. A value of less than one indicates a dependency on less liquid assets to relieve short-term debt.
Asset Management:		
Accounts Receivable Turnover	$\frac{\text{Net Revenue}}{\text{Trades Receivables}}$	A ratio that describes the efficiency of a business's collection process. A low ratio may indicate uncollectable receivables or abnormally high credit sales.
Accounts Payable Turnover	$\frac{\text{Cost of Revenue}}{\text{Trade Payables}}$	A ratio measuring the time between purchase and payments. A low ratio might indicate cash shortages or favorable credit terms.
Inventory Turnover	$\frac{\text{Cost of Revenue}}{\text{Inventory}}$	A ratio that indicates the efficient of inventory management. Its interpretation is highly subjective to industry standards, as abnormally high or low levels may illustrate inefficiencies in inventory management.
Working Capital Turnover	$\frac{\text{Net Revenue}}{\text{Net Working Capital}}$	A ratio that measures the efficient employment of working capital. Low levels may indicate inefficiencies while high levels might indicate overtrading.
Fixed Assets Turnover	$\frac{\text{Net Revenue}}{\text{Net Fixed Assets}}$	A metric of a business's use of fixed assets to generate revenue. High values of this ratio are indicative of the efficient employment of a business's assets.
Total Assets Turnover	$\frac{\text{Net Revenue}}{\text{Total Assets}}$	A metric of a business's ability to use its assets to generate revenue. High value of this ratio is indicative of the efficient employment of a business's assets.

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Coverage:		
Interest Coverage	$\frac{\text{EBIT}}{\text{Interest Expense}}$	A ratio that describes a business's ability to meet its interest payments. A high ratio indicates a business's capacity to take on additional debt.
Leverage:		
Fixed to Equity	$\frac{\text{Net Fixed Assets}}{\text{Owners' Equity}}$	A ratio that describe the investment in a business's fixed assets. Low values indicate an equity cushion that is attractive to creditors in case of liquidation.
Debt to Equity	$\frac{\text{Total Liabilities}}{\text{Owners' Equity}}$	A ratio that measures the degree of protection for creditors. A low ratio is indicative of financial stability and greater flexibility to borrow in the future.
Profitability:		
Return on Equity	$\frac{\text{EBT}}{\text{Owners' Equity}}$	A ratio that measures the return to the owners of a business. A high level can indicate a well-managed business or un undercapitalized business.
Return on Assets	$\frac{\text{EBT}}{\text{Total Assets}}$	A ratio that measures the return on total assets. A high value reflects effective and efficient management of a business's resources.
Return on Revenue	$\frac{\text{EBT}}{\text{Net Revenue}}$	A ratio that measures the return on revenue. This ratio is primarily an indicator of how well a business operation is being managed.