

Financial Ratios Cheat sheet

The most common ratios fall into **five categories**: Liquidity, Profitability, Efficiency, Leverage, and Market.

1. Liquidity Ratios

Measure the ability to meet short-term obligations.

- **Current Ratio**

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Healthy benchmark: > 1.0

- **Quick Ratio (Acid-Test)**

$$\text{Quick Ratio} = \frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$$

2. Profitability Ratios

Assess the ability to generate profit.

- **Gross Margin**

$$\text{Gross Margin} = \frac{\text{Gross Profit}}{\text{Revenue}}$$

- **Operating Margin**

$$\text{Operating Margin} = \frac{\text{Operating Income}}{\text{Revenue}}$$

- **Net Margin**

$$\text{Net Margin} = \frac{\text{Net Income}}{\text{Revenue}}$$

- **Return on Assets (ROA)**

$$\text{ROA} = \frac{\text{Net Income}}{\text{Total Assets}}$$

- **Return on Equity (ROE)**

$$\text{ROE} = \frac{\text{Net Income}}{\text{Shareholder Equity}}$$

3. Efficiency Ratios

Show how well assets are used.

- **Inventory Turnover**

$$\text{Inventory Turnover} = \frac{\text{COGS}}{\text{Average Inventory}}$$

- **Receivables Turnover**

$$\text{Receivables Turnover} = \frac{\text{Net Credit Sales}}{\text{Average Accounts Receivable}}$$

- **Asset Turnover**

$$\text{Asset Turnover} = \frac{\text{Revenue}}{\text{Total Assets}}$$

4. Leverage Ratios

Measure financial risk and capital structure.

- **Debt-to-Equity**

$$\text{Debt-to-Equity} = \frac{\text{Total Liabilities}}{\text{Shareholder Equity}}$$

- **Debt Ratio**

$$\text{Debt Ratio} = \frac{\text{Total Liabilities}}{\text{Total Assets}}$$

- **Interest Coverage**

$$\text{Interest Coverage} = \frac{\text{EBIT}}{\text{Interest Expense}}$$

5. Market Ratios

Used for valuation.

- **Earnings Per Share (EPS)**

$$\text{EPS} = \frac{\text{Net Income} - \text{Preferred Dividends}}{\text{Average Shares Outstanding}}$$

- **Price-to-Earnings (P/E)**

$$\text{P/E Ratio} = \frac{\text{Market Price per Share}}{\text{EPS}}$$

Quick Tips

- Compare ratios to **industry benchmarks** for context.
- Use **trend analysis** (multiple periods) for better insights.
- Ratios are most powerful when combined with qualitative analysis.
