Ratio Analysis Type

Category	Type	Formula	Reading Sample
Liquidity Ratio	Current Ratio (Work Capital Ratio)	<u>Current Asset</u> Current Liabilties	0.25 : 1
	Quick Ratio (Acid Test Ratio)	<u>Current Asset - Inventory - Prepaid Expenses</u> Current Liabilties	1.07 : 1
Tunover Ratio (Efficiency Ratio)	Receivables Turnover Ratio	<u>Net Credit Sales (minus off all discount & return)</u> (Opening Receivables + Closing Receivables) / 2	9 times
	Receivable Turnover Ratio (in days)	<u>365</u> Receivables Turnover Ratio	41 days 41
	Payables Turnover Ratio	<u>Net Credit Purchase (minus off all discount & return)</u> (Opening Payables + Closing Payables) / 2 (Note: some cases numerator will used COGS)	1.97 times
	Payables Turnover Ratio (in days)	<u>365</u> Payables Turnover Ratio	185 days
	Inventory Turnover Ratio	<u>Cost of Goods Sold</u> (Opening Stock + Closing Stock) / 2	0.29 times
	Inventory Turnover Ratio (in days)	<u>365</u> Inventory Turnover Ratio	1259 days 3.4 yrs
Profitability Ratio	Gross Profit Margin	<u>(Sales - Cost of Goold Sold) x 100%</u> Net Sales	40%
	Net Profit Margin	<u>Net Profit x 100%</u> Net Sales	5%

Ratio Analysis Type

Category	Type	Interpretation
Liquidity Ratio	Current Ratio (Work Capital Ratio)	- help to understand the liquidity of a company and how easily that company will be able to pay off its current liabilities - indicate the company only have 25% of assets to pay off its liabilities - Bank would prefer 1:1 or 2:1
	Quick Ratio (Acid Test Ratio)	- how well a company can quickly convert its assets into cash in order to pay off its current liabilities. - indicate the company having fast cash to payoff its liabilities -Higher quick ratios are more favorable for companies because it shows there are more quick assets than current liabilities
Tunover Ratio (Efficiency Ratio)	Receivables Turnover Ratio	- to measure how many times company can collect its outdtanding sales in a year - indicate the company collected its debts 9 times in a year - Higher ratios mean that companies are collecting their receivables more frequently throughout the year
	Receivable Turnover Ratio (in days)	- to measure numbers of day to collect back outstanding sales - the company takes 41 days to collect back its credit sales - the lower the turnover ratio the better as company collect cash in shorter time
	Payables Turnover Ratio	- how quickly a company pays off its vendors, it is used by supplies to help decide whether or not to grant credit to a business - pays his vendors back on average once every six months of twice a year - A high turnover ratio can be used to negotiate favorable credit terms in the future
	Payables Turnover Ratio (in days)	- to measure numbers of day to pay back outstanding purchase - the company takes 185 days to pays its supplier - the lower turnover days can be used to negotiate more credit term
	Inventory Turnover Ratio	- it measures how many times a company sold its total average inventory dollar amount during the year - it is important to have a high turnover ratio as it shows the company does not overspend by buying too much inventory and waste resources by storing non-salable inventory. It also shows that the company can effectively sell the inventory it buys. - indicate the company only sold 30% of it purchased stock - the highest the better
	Inventory Turnover Ratio (in days)	- to measure numbers of day to sold out stock purchase - 1,259 days to sell its goods, indicate a very inefficient selling activities cash flow may tie up with stock - the lower the better
Profitability Ratio	Gross Profit Margin	- to measures how efficiently a company uses its materials and labor to produce and sell products profitably. - Cost of Goods Sold typical included all direct cost related to the generating of core revenue
	Net Profit Margin	- represents the amount of revenue left over after all expenses have been paid for the period