

Ratio	Calculation	Meaning
<b>Liquidity Ratios:</b>		
Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	The extent to which a firm can meet its short-term obligations.
Quick ratio	$\frac{\text{Current assets} - \text{Inventory}}{\text{Current liabilities}}$	The extent to which a firm can meet its short-term obligations without relying on the sale of inventories.
<b>Leverage Ratios:</b>		
Debt-to-total-assets ratio	$\frac{\text{Total debt}}{\text{Total assets}}$	The percentage of total funds that are provided by creditors.
Debt-to-equity ratio	$\frac{\text{Total debt}}{\text{Total stockholders' equity}}$	The percentage of total funds provided by creditors versus the percentage provided by owners.
Long-term-debt-to-equity ratio	$\frac{\text{Long-term debt}}{\text{Total stockholders' equity}}$	The balance between debt and equity in a firm's long-term capital structure.
Times-interest-earned ratio	$\frac{\text{Profits before interest and taxes}}{\text{Total interest charges}}$	The extent to which earnings can decline without the firm becoming unable to meet its annual interest costs.
<b>Activity Ratios:</b>		
Inventory turnover	$\frac{\text{Sales}}{\text{Inventory of finished goods}}$	Whether a firm holds excessive stocks of inventories and whether a firm is selling its inventories slowly compared to the industry average.
Fixed assets turnover	$\frac{\text{Sales}}{\text{Fixed assets}}$	Sales productivity and plant equipment utilization.
Total assets turnover	$\frac{\text{Sales}}{\text{Total assets}}$	Whether a firm is generating a sufficient volume of business for the size of its assets investment.
Accounts receivable turnover	$\frac{\text{Annual credit sales}}{\text{Accounts receivable}}$	In percentage terms, the average length of time it takes a firm to collect on credit sales.
Average collection period	$\frac{\text{Accounts receivable}}{\text{Total sales}/365 \text{ days}}$	In days, the average length of time it takes a firm to collect on credit sales.
<b>Profitability Ratios:</b>		
Gross profit margin	$\frac{\text{Sales} - \text{Cost of goods sold}}{\text{Sales}}$	The total margin available to cover operating expenses and yield a profit.
Operating profit margin	$\frac{\text{Earnings before interest and taxes (EBIT)}}{\text{Sales}}$	Profitability without concern for taxes and interest.
Net profit margin	$\frac{\text{Net income}}{\text{Sales}}$	After-tax profits per dollar of sales.
Return on total assets (ROA)	$\frac{\text{Net income}}{\text{Total assets}}$	After-tax profits per dollar of assets; this ratio is also called <i>return on investment</i> (ROI).
Return on stockholders' equity (ROE)	$\frac{\text{Net income}}{\text{Total stockholders' equity}}$	After-tax profits per dollar of stockholders' investment in the firm.
Earnings per share (EPS)	$\frac{\text{Net income}}{\text{Number of shares of common stock outstanding}}$	Earnings available to the owners of common stock.
<b>Growth Ratio:</b>		
Sales	Annual percentage growth in total sales	Firm's growth rate in sales.
Income	Annual percentage growth in profits	Firm's growth rate in profits.
Earnings per share	Annual percentage growth in EPS	Firm's growth rate in EPS.
Dividends per share	Annual percentage growth in dividends per share	Firm's growth rate in dividends per share.
Price-earnings ratio	$\frac{\text{Market price per share}}{\text{Earnings per share}}$	Faster-growing and less risky firms tend to have higher price-earnings ratios.