Ratios Rule…

RATIOS RULE!!

Knowing the true health of your company starts with tracking these 3 simple calculations from your balance sheet:

Balance Sheet - Sample Corp. Fiscal Year (FY) 2011, 2012

	12/31/12	12/31/11		12/31/12	12/31/11
ASSETS			**LIABILITIES and OWNERS' EQUITY**		
Current Assets			*Current Liabilities*		
Cash	$45,000	$40,000	Long-Term Debt – 1 Yr.	$12,000	$11,000
Marketable Securities	$65,000	$60,000	Notes Payable	$15,000	$14,000
Accounts Receivable	$85,000	$70,000	Accounts Payable	$13,000	$12,000
Notes Receivable	$45,000	$40,000	Taxes Payable	$11,000	$10,000
Inventories	$85,000	$80,000	Accrued Expenses	$21,000	$20,000
Total Current Assets	$325,000	$290,000	Other Current Liabilities	$10,000	$9,000
			Total Current Liabilities	$82,000	$76,000
Long-Term Assets					
Land	$85,000	$80,000	*Long-Term Liabilities*		
Buildings	$100,000	$90,000	Notes Payable	$30,000	$27,000
Machinery	$30,000	$25,000	Bonds Payable	$60,000	$52,000
–Accumulated Depreciation	($4,000)	($3,500)	Total Long-Term Liabilities	$90,000	$79,000
Net Tangible Assets	$211,000	$191,500	*Other Liabilities*		
Intangible Assets			Pension Obligations	$90,000	$82,000
Goodwill	$15,000	$5,000	Deferred Taxes	$70,000	$62,000
Patents	$20,000	$19,000	Minority Interest	$15,000	$12,000
Trademarks	$15,500	$13,400	Total Other Liabilities	$175,000	$156,000
Copyrights	$24,000	$22,900	Total Liabilities	$347,000	$311,000
Total Intangibles	$74,500	$60,300	**OWNERS' EQUITY**		
Other Assets			Preferred Stock	$60,000	$50,000
Investments	$25,000	$23,000	*Common Equity*		
Deferred Charges	$50,000	$45,000	Common Stock	$97,500	$89,000
Total Other Assets	$75,000	$68,000	Capital Surplus	$111,000	$99,000
Total Long-Term Assets	$360,500	$319,800	Retained Earnings	$120,000	$105,800
			–Treasury Stock	($50,000)	($45,000)
			Total Common Equity	$278,500	$248,800
			Total Owners' Equity	$338,500	$298,800
Total Assets	$685,500	$609,800	**Total Liabilities and Owners' Equity**	$685,500	$609,800

1 CURRENT RATIO

Calculation =
Current Assets ÷ Current Liabilities

Measures Solvency:
The number of dollars in Current Assets for every dollar in Current Liabilities.
For example: a Current Ratio of 1.50 means that for every dollar of Current Liabilities, the company has $1.50 to pay the liability. The higher the ratio the better.

2 QUICK RATIO

Calculation =
Cash + Accounts Receivable ÷ Current Liabilities

Measures Liquidity:
The number of dollars in Cash and Accounts Receivables for each dollar in Current Liabilities.
For example: a Quick Ratio of 1.15 means the company has $1.15 to pay for every dollar in Liabilities.

3 DEBT-TO-EQUITY RATIO

Calculation =
Total Liabilities ÷ Total Equity

Measures Financial Risk:
The number of dollars of debt owed for every dollar in Equity.
For example: a Debt-to-Equity ratio of 1.15 means that for every dollar of Equity that the owners have invested, the company owes $1.15 of debt to its creditors.

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