



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			
<i>Current Assets</i>		<i>Current Liabilities</i>			
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
<i>Long-Term Assets</i>		<i>Total Current Liabilities</i>			
Land	\$85,000	\$80,000		\$82,000	\$76,000
Buildings	\$100,000	\$90,000	<i>Long-Term Liabilities</i>		
Machinery	\$30,000	\$25,000	Notes Payable	\$30,000	\$27,000
–Accumulated Depreciation	(\$4,000)	(\$3,500)	Bonds Payable	\$60,000	\$52,000
Net Tangible Assets	\$211,000	\$191,500	Total Long-Term Liabilities	\$90,000	\$79,000
<i>Intangible Assets</i>		<i>Other Liabilities</i>			
Goodwill	\$15,000	\$5,000	Pension Obligations	\$90,000	\$82,000
Patents	\$20,000	\$19,000	Deferred Taxes	\$70,000	\$62,000
Trademarks	\$15,500	\$13,400	Minority Interest	\$15,000	\$12,000
Copyrights	\$24,000	\$22,900	Total Other Liabilities	\$175,000	\$156,000
Total Intangibles	\$74,500	\$60,300	Total Liabilities	\$347,000	\$311,000
<i>Other Assets</i>		OWNERS' EQUITY			
Investments	\$25,000	\$23,000	Preferred Stock	\$60,000	\$50,000
Deferred Charges	\$50,000	\$45,000	<i>Common Equity</i>		
Total Other Assets	\$75,000	\$68,000	Common Stock	\$97,500	\$89,000
Total Long-Term Assets	\$360,500	\$319,800	Capital Surplus	\$111,000	\$99,000
Total Assets	\$685,500	\$609,800	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 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.