EZPOHUB FINANCE

Finance Ratio Quick Notes

Practical revision notes for finance and accounting students.

Ratio	Formula	Purpose
Current Ratio	Current Assets ÷ Current Liabilities	Short-term liquidity.
Quick Ratio	(Current Assets – Inventory) ÷ Current Liabilities	Liquidity excluding inventory.
Cash Ratio	(Cash + Cash Equivalents) ÷ Current Liabilities	Immediate liquidity.
Gross Profit Margin	Gross Profit ÷ Revenue × 100	Profit after cost of sales.
Operating Profit Margin	Operating Profit ÷ Revenue × 100	Operating profitability.
Net Profit Margin	Net Profit ÷ Revenue × 100	Profit remaining after expenses.
Return on Assets	Net Profit ÷ Average Total Assets × 100	Asset profitability.
Return on Equity	Net Profit ÷ Average Equity × 100	Return to shareholders.
Debt-to-Equity	Total Debt ÷ Total Equity	Debt relative to equity.
Debt Ratio	Total Debt ÷ Total Assets	Assets financed by debt.
Asset Turnover	Revenue ÷ Average Total Assets	Asset efficiency.
Inventory Turnover	Cost of Sales ÷ Average Inventory	Inventory efficiency.
Receivables Turnover	Credit Sales ÷ Average Trade Receivables	Collection efficiency.

How to interpret ratios

Calculate the ratio, compare it with previous periods and appropriate benchmarks, identify the reason for movement, and explain the financial implication. Never interpret a ratio in isolation.

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