

Key Business Ratios

The 14 most widely used financial ratios.

Every Dun's Financial Profile Report, PRO Report, Model Statement and Industry Norm Report delivers the advantage of D&B Norms and Key Business Ratios. These specific measures of business performance provide significant insights into a company's financial condition, based on its performance compared to others in its industry.

The Key Business Ratios used in Customized Information Systems & Services include more than 800 lines of business segmented by up to 15 asset ranges and four geographic areas. Enables you to simplify your evaluation of a company's financial condition with objective, quantitative measures of performance.

Here's what each of the 14 Key Business Ratios used by Customized Information Systems and Services means:

SOLVENCY RATIOS

Quick Ratio = $\frac{\text{Cash} + \text{Accounts Receivable}}{\text{Total Current Liabilities}}$

Shows the dollars of liquid assets available to cover each dollar of current assets.

Current Ratio = $\frac{\text{Total Current Assets}}{\text{Total Current Liabilities}}$

Measures the margin of safety present to cover any possible reduction of current assets.

Current Liabilities To Net Worth = $\frac{\text{Total Current Liabilities}}{\text{Net Worth}}$

Contrasts the amounts due creditors within a year with funds permanently invested by the owners. The smaller the net worth and the larger the liabilities, the greater the risk.

Current Liabilities To Inventory = $\frac{\text{Total Current Liabilities}}{\text{Inventory}}$

Tells how much a firm relies on funds from disposal of unsold inventories to meet debt.

Total Liabilities To Net Worth = $\frac{\text{Total Liabilities}}{\text{Net Worth}}$

Compares the company's indebtedness to the venture capital invested by the owner.

Fixed Assets To Net Worth = $\frac{\text{Fixed Assets}}{\text{Net Worth}}$

Reflects the portion of net worth that consists of fixed assets. Generally a smaller ratio is desired.

Inventory Turnover = $\frac{\text{Sales}}{\text{Inventory}}$

Determines the rate at which merchandise is being moved and the effect on the flow of funds into a business.

Assets to Sales = $\frac{\text{Total Assets}}{\text{Sales}}$

This rate ties in sales and the total investment in assets that is used to generate these sales.

Sales to Net Working Capital = $\frac{\text{Sales}}{\text{Net Working Capital}}$

(Net Working Capital = Current Assets - Current Liabilities)

Measures the efficiency of management to use its short-term assets and liabilities to generate profit.

Accounts Payable To Sales = $\frac{\text{Accounts Payable}}{\text{Sales}}$

Measures the extent to which the supplier's money is being used to generate sales. When this ratio is multiplied by 365 days, it reflects the average number of days it takes to pay its suppliers.

PROFITABILITY RATIOS

Return on Sales (Profit Margin) = $\frac{\text{Net Profit After Taxes}}{\text{Sales}}$

Reveals profit earned per dollar of sales and measures efficiency of the operation.

Return on Assets = $\frac{\text{Net Profit After Taxes}}{\text{Total Assets}}$

This is the key indicator of profitability for a firm. It matches operating profits with the assets available to earn a return.

Return on Net Worth (Return on Equity) = $\frac{\text{Net Profit After Taxes}}{\text{Net Worth}}$

Analyzes the ability of the firm's management to realize an adequate return on the capital invested by the owners of the firm.

EFFICIENCY RATIOS

Collection Period = $\frac{\text{Accounts Receivable} \times 365}{\text{Sales}}$ days

Reflects the average number of days it takes to collect receivables. Quality of receivables can be determined when compared with selling terms.