**Calculating Ratio Analyses**

* + 1. Profitability Ratios
       1. Profit Margin = Net Income/Revenue (How much of each dollar in revenue received get turned into net income)
       2. Return on Assests (ROA) = Net Income/Total Assets (How much the value of assets increases--should be at least as high as the inflation rate)
       3. Return on Equity (ROE) = Net Income/Total Equity [Fund Balance] (useful for investors; not used much for nonprofits)
    2. Liquidity Ratios (ability to convert noncash assets into cash)
       1. Current Ratio = Current Assets/Current Liabilities (varies, but should be at least 2.0)
       2. Quick Ratio = (Cash + Marketable Securities + Net Accounts Receivable) / Current Liabilities (eliminates inventory, prepaid expenses and other items not readily converted into cash; answers the question of whether you could pay all debts if called in today; sometimes called the “acid test.”)
       3. Average Days Receivable = Net Accounts Receivable / (Revenue/365) (average number of days needed to collect an account receivable)
       4. Average Days Inventory = Inventory / (Cost of Goods Sold/365) (average number of days that inventory remains on hand before being sold; if no inventory is held, use supply income—total expenses less salaries & depreciation)
    3. Asset Management Ratios
       1. Asset Turnover = Revenue / Total Assets (how much revenue is earned for each dollar invested in assets)
       2. Fixed-Asset Turnover = Revenue / Total Fixed Assets (used for capital-intensive organizations, assesses relative productivity of plant & equipment)
    4. Long-Term Solvency Ratios
       1. Debt-Equity Ratio = Total Liabilities / Equity [Fund Balance] (measures use of external funds to supplemental internal funds
       2. Leverage = Total Assets / Equity [Fund Balance] (variation on debt/equity ratio)
       3. Long-Term Debt-Equity = Noncurrent Liabilities / Equity [Fund Balance] (over time, will reveal reliance on long-term debt to finance asset acquisition)
       4. Debt Service Coverage = (Net Income + Depreciation + Interest Payments) / (Principal Payments + Interest Payments) (measures ability to meet debt service obligation)