

RATIOS

You'll absolutely need to know the names of the ratios, because only their formulas are provided on the test. This sheet shows the order they are provided in, and will help you memorize them by grouping.

3 TO LEARN

Learn these first three without any tricks.

CA/CL	Current Ratio
(CA - Inv)/CL	Quick Ratio
AR/Daily Credit Sales.....	Average Collection Period

Think "TURM 4233"

4 TURNOVERS

The denominator tells you what the ratio is called.

Sales/AR.....	AR Turnover
COG/Inv	Inventory Turnover
Sales/Total Assets	Total Asset Turnover
Sales/Fixed Assets	Fixed Asset Turnover

2 UNIQUE GIVEAWAYS

Debt Ratio is the only one that has "debt" in the formula. Times Interest Earned is the only one that has "interest" in it.

Total Debt/Total Assets.....	Debt Ratio
EBIT/Interest Expense.....	Times Interest Earned

3 RETURNS

The denominator tells you what the ratio is called.

NI/Total Assets	Return on Assets (ROA)
NI/Equity	Return on Equity (ROE)
NI/S x S/A x A/E	DuPont version of ROE

3 MARGINS

The numerator tells you what the ratio is called. (As long as you remember that EBIT is also called Operating Income and Operating Profit.)

Gross Profit/Sales	Gross Margin
EBIT/Sales	Operating Margin
NI/Sales	Net Margin

TWO MORE NOT ON THE LIST

Two more need-to-knows:

The third section of DuPont is called the Leverage Multiplier

The "b" in the Sustainable Growth Rate formula is Dividends over Net Income

$$\frac{\text{Net Income}}{\text{Sales}} \times \frac{\text{Sales}}{\text{Assets}} \times \frac{\text{Assets}}{\text{Equity}} \times \left(1 - \frac{\text{Dividends}}{\text{Net Income}}\right)$$

DuPont Equation (ROE)

SGR (Sustainable Growth Rate) $SGR = ROE (1 - b)$