Profitability Ratios: Measures the income or operating success of a company for a given period of time *Investors & Creditors Look at this ratio*			
Ratio	Formula	Explanation	Interpretation
Return on Equity	$\frac{Net\ Earnings}{Average\ Shareholders'\ Equity}$	Measures how much income was earned for every dollar invested by the owners.	The higher the ratio percentage, the more efficient management is in utilizing its equity base and the better return is to investors.
Return on Assets	$\frac{Profit + Interest\ Expense\ (net\ of\ tax)}{Average\ Total\ Assets}$	Measures a firm's success in using assets to generate earnings, independent of the financing of those assets.	The higher the Return on Assets, the better, because the company is earning more money on less investment.
Earnings Per Share (EPS)	$\frac{Net\ Earnings\ (-preferred\ dividends)}{Average\ Number\ of\ Common\ Shares\ Outstanding}$	Measures the return on investment the company is making per share.	A higher EPS is the sign of higher earnings, strong financial position and, therefore, a reliable company to invest money.
Quality of Earnings	$\frac{Cash\ Flow\ from\ Operating\ Activities}{Net\ Earnings}$	Measures the earnings generated per dollar in operating activities.	Ratio higher than 1 usually indicates high quality earnings, while the ratio lower than 1 is considered to indicate low quality earnings.
Profit Margin	$\frac{Net\ Earnings}{Net\ Sales\ Revenue}$	Measures the percentage of each dollar of sales that results in net income.	A high net profit margin ratio demonstrates how effective your business is at converting sales into profit.
Fixed Asset Turnover	$\frac{Net\ Sales\ Revenue}{Average\ Net\ Fixed\ Assets}$	Measures a company's ability to generate net sales from fixed-asset investments	A higher ratio shows that the company has been more effective in using the investment in fixed assets to generate revenues.

Liquidity Ratios:

Measures short-term ability of the company to pay its maturing obligations and to meet unexpected needs for cash.

**Short-term creditors such as bankers and suppliers are particularly interested in assessing firm's liquidity*

Ratio	Formula	Explanation	Interpretation
Current Ratio (Working Capital)	$\frac{Current\ Assets}{Current\ Liabilities}$	Measures the ability to pay back its short-term liabilities with its short-term assets.	The higher the current ratio, the more capable the company is of paying its obligations.
Quick Ratio (Acid Test)	$\frac{Current\ Assets\ -\ Inventories\ -\ Prepaid\ Expenses}{Current\ Liabilities}$	Measures whether a firm has enough short-term assets to cover its immediate liabilities without selling inventory.	Ratio less than 1 means they cannot pay their current liabilities and should be looked at with extreme caution.
Cash Ratio	$\frac{Cash\ +\ Cash\ Equivalents}{Current\ Liabilities}$	How quickly, the company can repay its short-term debt.	A cash ratio of 1.00 and above means that the business will be able to pay all its current liabilities in immediate short term.
Receivables Turnover	$\frac{Net\ Credit\ Sales}{Average\ Net\ Trade\ Receivables}$ Average Collection Period: $\frac{365}{Receivable\ Turnover\ Ratio}$	Measures how many times a business can turn its accounts receivable into cash during a period	Higher ratios mean that companies are collecting their receivables more frequently throughout the year. (Determined by Credit Terms)
Inventory Turnover	$\frac{Cost\ Of\ Sales\ (COGS)}{Average\ Inventory}$ Average days in Inventory: $\frac{365}{Inventory\ Turnover\ Ratio}$	Measures how many times a company's inventory is sold and replaced over a period.	A low turnover implies poor sales and, therefore, excess inventory. A high ratio implies either strong sales or ineffective buying.
Payables Turnover	$\frac{Purchases}{Average\ Net\ Trade\ Payables}$ Average days Payable Outstanding: $\frac{365}{Payables\ Turnover\ Ratio}$	Measures how quickly the firm is paying its suppliers	A higher ratio shows suppliers and creditors that the company pays its bills frequently and regularly.

Solvency Ratios: Measures the ability of the company to survive over a long period of time. Ability to meet interest and principal payments on long-term debt when they are due. **Creditors like Banks are interested in this ratio (Loan Approvals)*			
Ratio	Formula	Explanation	Interpretation
Times Interest Earned	$\frac{Net\ Earnings + Interest\ Expense + Income\ Tax\ Expense}{Interest\ Expense}$	Indicates how many times a company could pay the interest with it's before tax income.	The larger ratios are considered more favorable than smaller ratios
Cash Coverage	$\frac{Cash\ Flows\ From\ Operating\ Activities\ (Before\ Interest\ \&\ Taxes)}{Interest\ Paid}$	Measures how easily a firm can pay interests on outstanding debt	A high ratio indicates that the company generates more cash than its interest paid.
Debt-to-Equity	$\frac{Total\ Liabilities}{Total\ Shareholders'\ Equity}$	Indicates the percentage of company financing that comes from creditors and investors.	A higher debt to equity ratio indicates that more creditor financing (bank loans) is used than investor financing (shareholders).
Market Test Ratios: Measures the current market price per share to the return that accrues to Investors. **Investors and Shareholders are interested in this Information*			
Price/Earnings (P/E)	$\frac{Current\ Market\ Price\ Per\ Share}{Earnings\ Per\ Share\ (EPS)}$	Measures the relationship between the current market price per share and its earnings per share.	High P/E suggests that investors are expecting higher earnings growth in the future compared to companies with a lower P/E.
Dividend Yield	$\frac{Dividend\ Per\ Share}{Market\ Price\ Per\ Share}$	Measure how much a company pays out in dividends each year relative to its share price.	How much cash flow you are getting for each dollar invested.

Other Ratios			
Total Asset Turnover	$\frac{\text{Sales Revenue}}{\text{Average Total Assets}}$	Indicator of the efficiency with which a company is deploying its assets.	The amount of sales or revenues generated per dollar of assets.
Gross Profit Percentage	$\frac{\text{Gross Profit}}{\text{Net Sales Revenue}}$	Measures how much gross profit is generated from every sales dollar.	Indicates how effective management is at selling an item for more than the cost to purchase or produce it.
Capital Expenditures	$\frac{\text{Cash Flows From Operating Activities}}{\text{Cash Paid For Capital Expenditures}}$	Measures the ability to finance purchases of property, plant and equipment, intangibles and other businesses from operations.	The higher the ratio, the less of a need the company relies on outside funding in order to acquire future assets.
Financial Leverage Percentage	$\text{Return on Equity Ratio} - \text{Return on Assets Ratio}$	Describes the relationship between the Return on Equity and Return on Assets.	Positive when the rate of return on assets exceeds the average after tax interest on borrowed funds.
Free Cash Flow	$\text{Cash Flow From Operating Activities} - \text{Dividends} - \text{Capital Expenditures}$	Measures a firm's ability to pursue long-term investment opportunities without the need for external financing.	Positive free cash flow, indicates strong financial flexibility.
Working Capital	$\text{Current Assets} - \text{Current Liabilities}$	Indicates whether a company has enough short term assets to cover its short term debt.	Positive working capital indicates that a company is able to pay off its short-term liabilities almost immediately. Negative working capital indicates a company is unable to do so.