

KEY FINANCIAL RATIOS FOR THE CFA EXAM

LIQUIDITY RATIOS		PROFITABILITY RATIOS		VALUATION RATIOS						
Current ratio	$= \frac{\text{Current assets}}{\text{Current liabilities}}$	Return on Sales		Price/earnings	$= \frac{\text{Price/share}}{\text{EPS}}$					
Quick ratio	$= \frac{\$ + \text{mkt. secs.} + A/R}{\text{Current liabilities}}$	Gross (profit) margin	$= \frac{\text{Gross profit}}{\text{Net sales}}$	Price/cash flow	$= \frac{\text{Price/share}}{\text{CF/share}}$					
		Operating profit (EBIT) margin	$= \frac{\text{Oper. inc. (EBIT)}}{\text{Net sales}}$	Price/sales	$= \frac{\text{Price/share}}{\text{Sales/share}}$					
Cash ratio	$= \frac{\$ + \text{mkt. secs.}}{\text{Current liabilities}}$	Pretax (profit) margin	$= \frac{\text{Pretax inc. (EBT)}}{\text{Net sales}}$	Price/book value	$= \frac{\text{Price/share}}{\text{BV/share}}$					
Defensive interval	$= \frac{\$ + \text{mkt. secs.} + A/R}{\text{Daily } \$ \text{ expenditures}}$	Net profit margin	$= \frac{\text{Net income}}{\text{Net sales}}$	PER-SHARE QUANTITIES						
Operating cycle	$= \text{DOH} + \text{DSO}$	Return on Investment		Basic EPS	$= \frac{\text{NI} - \text{pfd. div.}}{\text{Wtd. ave. C/S O/S}}$					
		Operating return on assets	$= \frac{\text{EBIT}}{\text{Ave. TA}}$	Diluted EPS	$= \frac{\text{Diluted earnings}}{\text{Diluted C/S O/S}}$					
Cash conversion ratio or net	$= \frac{\text{DOH} + \text{DSO}}{- \# \text{ days A/P}}$	Return on assets (ROA)	$= \frac{\text{Net income}}{\text{Ave. TA}}$	Cash flow/share	$= \frac{\text{CFO}}{\text{Ave C/S O/S}}$					
ACTIVITY RATIOS		SOLVENCY RATIOS		EBITDA/share	$= \frac{\text{EBITDA}}{\text{Ave C/S O/S}}$					
Inventory turnover	$= \frac{\text{CGS}}{\text{Ave. inventory}}$	Return on total capital (ROC)	$= \frac{\text{EBIT}}{\text{Debt} + \text{S/E}}$	Dividends/share	$= \frac{\text{Com. div. declared}}{\text{Wtd. ave. C/S O/S}}$					
Days' inventory on hand (DOH)	$= \frac{\text{Days in period}}{\text{Inventory T/O}}$	Return on common equity (ROE)	$= \frac{\text{NI} - \text{pfd. div.}}{\text{Ave common eq.}}$	DIVIDEND-RELATED QUANTITIES						
Receivables turnover (A/R T/O)	$= \frac{\text{Credit sales}}{\text{Ave. A/R}}$	Debt Ratios (interest-bearing debt)		Dividend payout ratio	$= \frac{\text{Common dividends}}{\text{NI} - \text{pfd. div.}}$					
Days' sales outstanding (DSO)	$= \frac{\text{Days in period}}{\text{A/R T/O}}$	Debt-to-total assets ratio	$= \frac{\text{Debt}}{\text{TA}}$	Earnings retention ratio (ERR)	$= \frac{\text{NI} - \text{all dividends}}{\text{NI} - \text{pfd. div.}}$					
Payables turnover (A/P T/O)	$= \frac{\text{Purchases}}{\text{Ave. A/P}}$	Debt-to-total capital ratio	$= \frac{\text{Debt}}{\text{Debt} + \text{S/E}}$	Sustainable growth rate	$= \text{ERR} \times \text{ROE}$					
# days' payables	$= \frac{\text{Days in period}}{\text{A/P T/O}}$	Debt-to-equity ratio	$= \frac{\text{Debt}}{\text{S/E}}$	FREE CASH FLOW (FCF)						
Working capital T/O	$= \frac{\text{Net sales}}{\text{Ave. W/K}}$	Financial leverage ratio	$= \frac{\text{Ave. TA}}{\text{Ave S/E}}$	FCF to equity	FCF to the firm					
Fixed asset (FA) T/O	$= \frac{\text{Net sales}}{\text{Ave. fixed assets}}$	Coverage Ratios		CFO	CFO					
Total asset (TA) T/O	$= \frac{\text{Net sales}}{\text{Ave. TA}}$	Interest coverage ratios	$= \frac{\text{EBIT}}{\text{interest}}$	- Capital exp.	+ Int. x (1 - tax rate)					
		Fixed charge coverage	$= \frac{\text{EBIT} + \text{lease pmts.}}{\text{Int.} + \text{lease pmts.}}$	+ Δ debt	- Capital exp.					
				= FCFE	= FCFE					
DUPONT ANALYSIS										
TRADITIONAL DUPONT										
Profit margin	x	Asset T/O	x	Fin'l Leverage	= ROE					
EXTENDED DUPONT										
Tax burden	x	Interest burden	x	EBIT margin	x	Asset T/O	x	Fin'l leverage	=	ROE
NI	x	EBT	x	EBIT	x	Sales	x	Ave TA	=	ROE
EBT		EBIT		Sales		Ave TA		Ave S/E		
ROA	x	Fin'l leverage	=	ROE						
Net income	x	Ave TA	=	ROE						
Ave TA		Ave S/E								
Profit margin	x	Asset T/O	=	ROA						
Net income	x	Sales	x	ROA						
Sales		Ave TA								
Tax burden	x	Interest burden	x	EBT margin	=	Profit margin				
Net income	x	EBT	x	EBIT	=	Profit margin				
EBT		EBIT		Sales						