A mini “MBA-in-a-Day”
Interplay - Financial formulas cheat sheet

Key financial ratios

**Profitability Ratios**
A company’s ability to generate net income on a consistent basis

- **Gross profit margin** - Remains from sales after a company pays out the cost of delivery (or cost of goods sold).
  - Revenue - Cost of delivery/Revenue

- **Contribution margin** - Allows a company to determine the profitability of individual products and services.
  - Operating profit/Product revenue

- **Net profit margin** - Measures how much, out of every dollar of sales, a company actually keeps after deducting the cost of goods sold, expenses and taxes.
  - Net income/Revenue

**Ratios Related to Returns**
A yield generated by an investment, expressed as a percentage of the amount invested

- **ROI (Return on investment)** - Evaluates the efficiency of an investment or to compare the efficiency of a number of different investments.
  - Benefits of Investment/Cost of investment

- **ROE (Return on equity)** - Measures how efficiently a company used reinvested earnings to generate additional earnings.
  - Income/Book value of Equity

- **EPS (Earnings per share)** - Allocates a portion of a public company’s profit to each outstanding share of common stock.
  - Total revenue - Total expenses/# of outstanding shares

**Liquidity Ratios**
Ratios that measure the company’s ability to meet its short term obligations

- **Quick ratio** - Measures a company’s ability to meet its short-term obligations with its most liquid assets.
  - Current inventories/Current liabilities

- **Current ratio** - Measures a company’s ability to pay short-term obligations.
  - Current assets/Current liabilities

- **Debt ratio** - Indicates the proportion of debt a company has relative to its assets.
  - Total debt/Total assets

**Turnover Ratios**
The number of times an asset, such as cash, inventory or raw materials is replaced or revolves during an accounting period

- **DSO (Days sales outstanding)** - Measures the average number of days that a company takes to collect payment after a sale has been made.
  - Accounts receivable/Total credits sales x Days in a period

- **Days to sell inventory ratio** - Shows how efficiently purchases and sales are matched; low inventory days indicates that the demand for the product was accurately forecasted.
  - Average inventory/Cost of goods sold x 365

- **Days purchases in accounts payable ratio** - Measures how quickly suppliers are paid for inventory purchases.
  - Average accounts payable/(Cost of goods sold + Change of inventory) x 365

Interplay™ is from **10,000 Feet**, an Advantage thought leader partner. Content ©2017 by 10,000 Feet, all rights reserved.