vha accounting
SOLUTIONS

DISCOVER YOUR FULL FINANCIAL POTENTIAL

01.

CURRENT RATIO – "CAN YOU PAY YOUR BILLS?"

WHAT IT MEANS:
This ratio checks if a company can pay its short-term bills with its short-term assets. Think of it as your wallet vs. your monthly expenses.

FORMULA:
Current Assets ÷ Current Liabilities

WHERE TO LOOK:
Balance Sheet
Include: Cash, inventory, accounts receivable (Current Assets)
Exclude: Long-term stuff like property or bonds

CONCLUSION:
Good: > 1 (you've got more cash than bills)
Bad: < 1 (uh-oh, might struggle to pay up)
Norm: 1.2 – 2 is comfortable

02.

QUICK RATIO – "CAN YOU PAY YOUR BILLS *RIGHT NOW*?"

WHAT IT MEANS:
This one's stricter – ignores inventory and checks only the *really liquid* stuff.

FORMULA:
(Current Assets – Inventory) ÷ Current Liabilities

WHERE TO LOOK:
Balance Sheet
Include: Cash, receivables
Exclude: Inventory, prepaid expenses

CONCLUSION:
Good: > 1
Bad: < 1
Norm: Around 1 is OK, but higher is safer

03.

DEBT-TO-EQUITY RATIO – "HOW MUCH IS BORROWED VS. OWNED?"

WHAT IT MEANS:
Are you running your business with your own money or mostly borrowed money?

FORMULA:
Total Liabilities ÷ Shareholders' Equity

WHERE TO LOOK:
Balance Sheet
Include: All liabilities (short + long-term)
Include: Total equity (not just retained earnings)

CONCLUSION:
Good: < 1
Bad: > 2
Norm: 0.5 – 1.5 depending on industry

04.

GROSS PROFIT MARGIN – "HOW MUCH OF YOUR SALES ARE YOU RETAINING?"

WHAT IT MEANS:
How much profit is left after covering the cost of making the product?

FORMULA:
(Revenue – Cost of Goods Sold) ÷ Revenue

WHERE TO LOOK:
Income Statement
Include: Revenue and Cost of Goods Sold (COGS)

CONCLUSION:
Higher = Better
Low margin: Either prices are too low or costs are too high
Norm: Varies by industry

05.

NET PROFIT MARGIN – "HOW MUCH DO YOU ACTUALLY KEEP?"

WHAT IT MEANS:
This tells you what percentage of revenue becomes actual net profit — after everything is paid.

FORMULA:
Net Profit ÷ Revenue

WHERE TO LOOK:
Income Statement
Include: Bottom line (Net Profit) and top line (Revenue)

CONCLUSION:
Higher = More efficient
Bad: Slim or negative margins
Norm: 5–20%

06.

RETURN ON EQUITY (ROE) – "HOW HARD IS YOUR MONEY WORKING?"

WHAT IT MEANS:
Shows how much profit a company makes with shareholders' money.

FORMULA:
Net Income ÷ Shareholders' Equity

WHERE TO LOOK:
Income Statement + Balance Sheet
Net Income: Income Statement
Equity: Balance Sheet (average equity if over a year)

CONCLUSION:
Good: > 15%
Bad: < 10%
Norm: 10–20%

07.

INVENTORY TURNOVER – "HOW OFTEN DO YOU SELL YOUR STUFF?"

WHAT IT MEANS:
Measures how many times a company sold and replaced inventory.

FORMULA:
COGS ÷ Average Inventory

WHERE TO LOOK:
Income Statement (COGS) + Balance Sheet (Inventory)
Use: Beginning and ending inventory to get an average

CONCLUSION:
High turnover = Efficient
Low turnover = Overstock or slow sales
Norm: 4–6 depending on business

08.

RETURN ON ASSETS (ROA) – "HOW GOOD ARE YOU AT USING WHAT YOU HAVE?"

WHAT IT MEANS:
Shows how much profit is made for every rand of assets.

FORMULA:
Net Income ÷ Total Assets

WHERE TO LOOK:
Income Statement (Net Income) + Balance Sheet (Total Assets)

CONCLUSION:
Good: > 5%
Bad: < 3%
Norm: 5–10%

09.

EARNINGS PER SHARE (EPS) – "WHAT'S IN IT FOR SHAREHOLDERS?"

WHAT IT MEANS:
How much profit is earned per share owned.

FORMULA:
Net Income – Dividends on Preferred Stock ÷ Average Outstanding Shares

WHERE TO LOOK:
Income Statement + Notes to Financials
Use: Weighted average shares if possible

CONCLUSION:
Higher EPS = Better value for investors
Watch for: Consistent growth over time

10.

INTEREST COVERAGE RATIO – "CAN YOU HANDLE YOUR DEBT PAYMENTS?"

WHAT IT MEANS:
How many times a company can pay its interest with its operating profit.

FORMULA:
EBIT ÷ Interest Expense

WHERE TO LOOK:
Income Statement
EBIT = Earnings Before Interest and Tax

CONCLUSION:
Good: > 3
Worrying: < 1.5
Norm: 3 – 6 is safe

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