



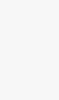
vha accounting SOLUTIONS

DISCOVER YOUR FULL FINANCIAL POTENTIAL

Financial RATIOS

01.

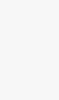
CURRENT RATIO – “CAN YOU PAY YOUR BILLS?”

**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:**

$\text{Current Assets} \div \text{Current Liabilities}$

**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:**

$(\text{Current Assets} - \text{Inventory}) \div \text{Current Liabilities}$

**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:**

$\text{Total Liabilities} \div \text{Shareholders' Equity}$

**WHERE TO LOOK:**

Balance Sheet

Include: All liabilities (short + long-term)

Exclude: Total equity (not just retained earnings)

**CONCLUSION:**

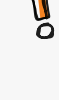
Good: < 1

Bad: > 2

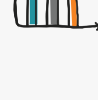
Norm: 0.5 – 1.5 depending on industry

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?

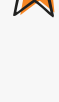
**FORMULA:**

$(\text{Revenue} - \text{Cost of Goods Sold}) \div \text{Revenue}$

**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:**

$\text{Net Profit} \div \text{Revenue}$

**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:**

$\text{Net Income} \div \text{Shareholders' Equity}$

**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.

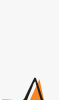
**FORMULA:**

$\text{COGS} \div \text{Average Inventory}$

**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:**

$\text{Net Income} \div \text{Total Assets}$

**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:**

$\text{Net Income} - \text{Dividends on Preferred Stock} \div \text{Average Outstanding Shares}$

**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.

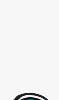
INTEREST COVERAGE RATIO – “CAN YOU HANDLE YOUR DEBT PAYMENTS?”

**WHAT IT MEANS:**

How many times a company can pay its interest with its operating profit.

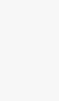
**FORMULA:**

$\text{EBIT} \div \text{Interest Expense}$

**WHERE TO LOOK:**

Income Statement

EBIT = Earnings Before Interest and Tax

**CONCLUSION:**

Good: > 3

Worrying: < 1.5

Norm: 3 – 6 is safe

Discover your full
FINANCIAL POTENTIAL

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