Financial ratios are an essential source of information for analyzing company financial data. By comparing the ratios to previous years and to other businesses in the same industry, it is possible to make judgments about a firm’s basic financial health and to determine operating trends. The following are some of the ratios commonly used in analysis.

<table>
<thead>
<tr>
<th>RATIO</th>
<th>DEFINITION</th>
<th>SOURCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Current Ratio</td>
<td>Total current assets divided by total current liabilities.</td>
<td>Balance Sheet</td>
</tr>
<tr>
<td>2. Quick Ratio (Acid-Test Ratio)</td>
<td>The sum of cash and accounts receivable divided by total current liabilities.</td>
<td>Balance Sheet</td>
</tr>
<tr>
<td>3. (Average) Collection Period</td>
<td>Accounts receivable divided by sales, multiplied by 365.</td>
<td>Statement of Consolidated Earnings</td>
</tr>
<tr>
<td>4. Sales to Inventory (Inventory Turnover)</td>
<td>Annual net sales divided by inventory.</td>
<td>Statement of Consolidated Earnings</td>
</tr>
<tr>
<td>5. Total Liabilities to Net Worth (Debt-to-Equity Ratio)</td>
<td>Total liabilities divided by net worth.</td>
<td>Balance Sheet &amp; Statement of Consolidated Earnings</td>
</tr>
<tr>
<td>6. Return on Sales (Operating Profit Margin)</td>
<td>Net profit after taxes divided by annual net sales.</td>
<td>Statement of Consolidated Earnings</td>
</tr>
<tr>
<td>7. Return on Net Worth (Return on Equity)</td>
<td>Net profit after taxes divided by net worth.</td>
<td>Balance Sheet &amp; Statement of Consolidated Earnings</td>
</tr>
</tbody>
</table>

**INDUSTRY CLASSIFICATION CODES**


To locate financial ratios in the publications listed below, one must know either the Standard Industrial Classification Code (SIC) number or the NAICS code number of a specific business activity, depending on the resource you are using. The federal government has assigned a code number to classify business establishments according to their primary activity to facilitate the collection and analysis of data. Use a standard business directory or company database, such as MergentOnline, to determine the major SIC or NAICS number for a specific company. If more than one code number is assigned to the company, consult the manuals listed above for the exact meaning if you are not sure which number to use for your study. Not all codes are listed in the financial ratios publications.
Both systems are arranged hierarchically, with shorter numbers denoting broader industries. For example:

The nine broad SIC categories are:

- 00-09 Agriculture, forestry, and fishing
- 10-19 Mining and construction
- 20-39 Manufacturing
- 30-39 Transportation
- 40-49 Wholesale and retail trade
- 50-59 Finance, insurance, and real estate
- 60-69 Services (hotels, auto repair, legal services, etc.)
- 70-89 Public administration
- 90-97 Nonclassifiable establishments

SIC Hierarchical structure example:

- 37 Transportation equipment
- 371 Motor vehicles and motor vehicle equipment
- 3714 Motor vehicle parts and accessories

FINANCIAL RATIOS REFERENCE BOOKS

**Almanac of Business and Financial Ratios.** (ML REF HF5681 .R25T68 2014)

This publication, also known as Troy, provides operating and financial ratios for approximately 160 industries, including banks and financial enterprises. Because the statistics are based on published IRS figures, they are about 3 years old. Ratios are arranged by size of assets.

**Annual Statement Studies.** (ML REF HF5681 .B2R6 2012-2013)

Robert Morris Associates (RMA) provide composite balance sheets and income statements for more than 360 industries. Data is voluntarily submitted by RMA member banks. Ratios are arranged by assets and by sales. The fiscal year for the latest issue ends in March of that year. Companies with less than $100 million in assets are included, as well as detailed balance sheet information for each industry and an explanation of various ratios at the beginning of the book.

**Industry Norms and Key Business Ratios.** (ML REF HF5681 .R25I53 2013)

The five books that comprise this annual publication by Dun & Bradstreet (D & B) cover over 800 lines of business based on more than one million companies. Calculations are performed on each business in a sample. Individual results are sequenced from best to worst to find the figure that falls in the middle to identify the median for that ratio in that line of business. The fiscal year is from July 1 to June 30. D & B is not as detailed as RMA, but it covers more industries.

ONLINE DATABASE FOR INDUSTRY RATIOS

To access HPU databases, go through the Libraries’ tab in Pipeline; click on the “Databases” link, then either scroll down the alphabetized page to get to the databases listed below, or click on the first letter of the
database’s name on the A to Z menu bar along the top and it will jump down the page to the section with that database. You may also use the “All Subjects” drop down menu to select Business to see all databases related to business. The following database provides financial data:

**Mergent Online**
This database provides a great deal of company financial information, including current and past annual reports. Some company ratios are readily available; just click through the tabs within a company record to access different kinds of information.

**SOURCES OF COMPANY INFORMATION**

**Annual Reports**

Annual reports are marketing tools that investors can use to decide to keep, buy, or sell stocks. Annual reports are mailed annually to each stockholder. They include financial statements and commentary on the financial standing of the company. The annual report has background and historical information about the company. It also discusses major issues concerning a company, such as changes in top management; acquisitions and mergers; strategies in operations, manufacturing, marketing, sales, products, etc.; priorities, goals, and performance; competitors; products; marketing strategies; and lawsuits. Often, annual reports can be found on corporate websites under an “Investors” section.

A public company is one that sells stocks or shares (parts of itself) to the public, who then become part owners. Owners of stock are called shareholders or stockholders. Public companies are required by law to make all financial data available to the public by submitting the information to the Securities and Exchange Commission (SEC). SEC requirements ensure that information found in annual reports is consistent. The SEC also makes all regulatory documents filed by public companies available on its database, EDGAR: https://www.sec.gov/edgar/searchedgar/companysearch.html

Private companies are not required to file with the SEC and may not issue annual reports. It is important to know whether the company for which you are seeking information is public or private, because this determines how much financial information is available about the company.

Please refer to library guide “LIBRARY HANDOUT: BUSINESS CORORATE ANNUAL REPORTS” for information about how to find annual reports, or go to http://hpu.libguides.com/subject-business.