Business financial metrics

Business

A business metric is also known as a financial ratio or performance indicator. Financial ratios lift the veil on a firm's operating prowess, telling investors how the company navigates the doldrums of a bad company. There are four common types of performance indicators in modern-day financial analysis: Liquidity, Efficiency, Profitability, and Safety. Liquidity Ratios Working Capital Formula: Total Current Assets – Total Current Liabilities The working capital metric is a measure of both a company's efficiency and its short term financialhealth.

Positive working capital means that the company is able to pay off its short-term liabilities. Negative working capital means that a company currently is unable to meet its short-term liabilities with its current assets. Current Ratio Formula: Total Current Assets / Total Current Liabilities Generally this metric measures the overall liquidity position of a company. It is certainly not a perfect barometer, but good enough. Watch for big decreases in this number over time. Make sure the accounts listed in current assets are collectible. Quick Ratio

Formula: (Cash – Accounts Receivable) / Total Current Liabilities This is another good indicator of liquidity although by itself, it is not a perfect one. If there are receivable accounts included in the numerator, they should be collectible. Look at the length of time the company has to pay the amount listed in the denominator. Inventory Days Formula: (Inventory / COGS) * 365 Inventory days show how much inventory (in days) is on hand. It indicates how quick a company can respond to market and/or product changes. Not all companies have inventory for the metric.

Accounts Receivable Days Formula: (Account Receivable / Sales) * 365 Accounts Receivable shows how much inventory (in days) is on hand. It indicates how quick a company responds to market and/or product can change. Not all companies have inventory for the metric. Accounts Payable Days Formula: (Accounts Payable / COGS) * 365 Accounts Payable shows the average number of days that lapse between the purchase of material and labor, and payment of them. It is a rough measure of how timely a company is in meeting payment obligations. Profits and Profits Margins Gross Profit Margin

Formula: (Sale – COGS) / Sales The financial metric that uses a firm's financial health by revealing the proportion ofmoneyleft over from revenues after accounting for the cost of goods sold. Gross profit margin serves as the source for paying additional expenses and future savings. Net Profit Margin Formula: (Adjusted Net Profit before Taxes / Sales) Net profit is one of the more important barometers that we look at. It measures how many cents of profit the company is generating for every dollar is sells. Track it carefully against industry competitors.

This is a very important number in preparing forecasts. Advertising to Sales Formula: Advertising Expense / Sale Advertising to Sale shows advertising expense for the company as percentage of sales. Borrowing Ratios Interest Coverage Ratio EBITDA / Interest Expense This ratio measures a company's ability to service debt payments from operating cash flow (EBITDA). An increase ratio is a good indicator of improving credit quality. Debt-to-Equity Ratio Formula: Total Liabilities / Total Equity This balance sheet leverage ratio indicates the composition of a company's total capitalization.

The balance between money or assets owed versus the money or assets owned. Generally, creditors prefer a lower ratio to decrease financial risk while investors prefer a higher ratio to realize the return benefits of financial leverage. Debt Leverage Ratio Formula: Total Liabilities / EBITDA This ratio measures a company's ability to repay debt obligations from annualized operation cash flow (EBITDA). Assets Ratios Return on Equity Formula: Net Income / Total Equity This measure show how much profit is being returned on the shareholders equity each year.

It is a vital statistic from the perspective of equity holders in a company. Return on Assets Formula: Net Income / Total Assets This calculation measure the company's ability to use its assets to create profits. Return on assets indicates how many cents of profit each dollar of asset is producing per year. It is quite important since managers can only be evaluated by looking at how they use the assets available. Business owners and managers continually monitor the performance of their companies, always looking for opportunities to improve and challenges to overcome.

A number of important metrics of business performance management provide insight into how a company performs in a range of areas, including marketing effectiveness, financial management and operational efficiency. Keeping on top of these metrics can help your company to operate at its best. Reference Page http://www. mrdashboard. com/FinancialRatios. html http://www. solutionmatrix. com/financial-metrics. html www. ehow. com/info_7753305_business-metrics. html http://cfowise. com/solution/financial-ratios