**Financial Survey Definitions And Answers**

**Current Ratio**

This is the relationship of current assets to current liabilities. It is an indication of the ability of a company to meet its current obligations. A high ratio indicates high liquidity.

Current Ratio  \( \frac{\$12,000,000}{\$10,000,000} = 1.2 \)

Minimum Standard  1.125

**Working Capital**

Working capital measures how much in liquid assets a company has available to build its business or prepare for what's important now.

Working Capital  \( \$12,000,000 - \$10,000,000 = \$2,000,000 \)

**Working Capital to Total Sales**

To find the approximate amount of working capital a company should have, take a look at "working capital per dollar of sales." This is done by comparing the amount of working capital on the balance sheet to the total sales, which is found on the income statement, not the balance sheet.

Working Capital/ Total Sales  \( \frac{\$2,000,000}{\$25,000,000} = 8\% \)

Industry --Grain Only - minimum of 2.5%

**Shareholder Equity Ratio**

This ratio is typically used to measure how much shareholders would receive in a companywide liquidation. The higher the ratio the more shareholders would receive.

Shareholder Equity/ Total Assets  \( \frac{\$3,000,000}{\$13,500,000} = 22\% \)
**Long Term Debt to Equity**

This ratio is the relationship of total long term debt to equity. It indicates the degree of dependence on creditors, rather than owners, in providing funds for operating the business. A low ratio generally indicates greater long term financial security.

<table>
<thead>
<tr>
<th>Total Long Term Debt/ Owners Equity</th>
<th>$500,000/$3,000,000 = 16.67%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry Maximum</td>
<td>75%</td>
</tr>
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**Maximum Operating Line to Working Capital**

Large national lenders have a history of lending 7 times the working capital of a grain elevator as an operating line. This is purely a general term, the real number depends on the actual advance rates given to an elevator on their borrowing base.

<table>
<thead>
<tr>
<th>Operating Line/Working Capital</th>
<th>$9,000,000/$2,000,000 = 4.5</th>
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</table>

Typically I will look at the maximum line instead of the actual number

**Return on Equity**

A high percentage indicates a high return on the owner's investment.

<table>
<thead>
<tr>
<th>Net Income Before Taxes / Owner Equity</th>
<th>$1,200,000/$3,000,000 = 40%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry needs 10-20%</td>
<td></td>
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**Return on Assets**

The return on assets (ROA) percentage shows how profitable a company's assets are in generating revenue. This number tells you what the company can do with what it has, in other words how many dollars of earnings they derive from each dollar of assets they control.

<table>
<thead>
<tr>
<th>Net Income Before Taxes/Total Assets</th>
<th>$1,200,000/$13,500,000 = 8.89%</th>
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**Net Profit Margin Ratio**

This ratio is the percentage of sales dollars left after subtracting the Cost of Goods sold and all expenses except income taxes. It provides a good opportunity to compare your company's “return on Sales”.

<table>
<thead>
<tr>
<th>Net Profit Before Tax/ Gross Sales</th>
<th>$1,200,000/$25,000,000 = 4.8%</th>
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**Coverage Ratio** *(times interest earned) Net income Before Interest and Taxes/Interest Expense + Principle*

This ratio indicates the firm's ability to service debt. A high ratio indicates that a company has little trouble covering its interest obligations.

Net Income Before interest and Taxes/ Interest Expense +Current Portion of Long Term Debt

\[
\frac{1,200,000 + 300,000}{300,000 + 300,000} = 2.5
\]

Industry Over 2.0

**Sales to Total Assets**  
Sales / Total Assets

A low ratio indicates that the total assets of the business are not providing adequate revenue. This shows an elevator’s efficiency in managing its assets in relation to the revenue generated. The higher the ratio the smaller the investment required to generate sales revenue and therefore higher profitability of the firm.

Sales/ Total Assets  
\[
\frac{25,000,000}{13,500,000} = 1.85
\]

**Productivity of Labor**  
Total Salaries/ Gross Profit

This percentage represents the total gross profit dollars needed to cover salaries. Total gross profits equal to product sales, less related cost of goods sold, plus any service income.

Total Salaries/Gross Profit  
\[
\frac{690,000 + 50,000}{2,500,000 + 500,000} = 24.67\%
\]

**Increase in Retained Earnings**  
Retained Earnings= Beginning RE + Net Income- Dividends

The percentage of net earnings not paid out as dividends, but retained by the company to be reinvested in its core business or to pay debt. It is recorded under shareholders’ equity on the balance sheet. Also known as the "retention ratio" or "retained surplus".

**We would 2 year's information to calculate this ratio.**