

Handout 3

Ratios for Comparisons *Within* Sectors

Ratio	Equation	Desired Relationship
Inventory Turnover	$\text{COGS}/\text{Average Inventory}^*$	H
# Days Inventory	$365/\text{Inventory Turnover}$	L
Receivables Turnover	$\text{Revenues}/\text{Average Receivables}^*$	H
# Days Receivable	$365/\text{Receivables Turnover}$	L
Payables Turnover	$\text{Revenues}/\text{Average Payables}^*$	H
# Days Payable	$365/\text{Payables Turnover}$	L
Total Assets Turnover	$\text{Revenues}/\text{Average Total Assets}$	H
Current Ratio	$\text{Current Assets}/\text{Current Liabilities}$	H
Debt to Fund Balance	$\text{Average Total Debt}/\text{Average Total Fund Balance}$	L
Times Interest Earned	$\text{Earnings before Interest Expense}/\text{Interest Expense}$	H

* "Average" – typically $(\text{beginning balance} + \text{ending balance})/2$ (If 2 years' data available; if not, use ending balance)

These ratios were adapted from White, G., A. Sondhi and D. Fried. 2002. The Analysis and Use of Financial Statements.

This table was adapted from Greenlee, J and H. Tuckman. 2007. Financial Health. In Financing Nonprofits. Ed., Dennis Young.