



EXHIBIT 16-6
Summary of Ratios

Ratio	Formula	Significance
Gross margin percentage	Gross margin \div Sales	A broad measure of profitability
Earnings per share (of common stock)	(Net income – Preferred dividends) \div Average number of common shares outstanding	Affects the market price per share, as reflected in the price-earnings ratio
Price-earnings ratio	Market price per share \div Earnings per share	An index of whether a stock is relatively cheap or relatively expensive in relation to current earnings
Dividend payout ratio	Dividends per share \div Earnings per share	An index showing whether a company pays out most of its earnings in dividends or reinvests the earnings internally
Dividend yield ratio	Dividends per share \div Market price per share	Shows the return in terms of cash dividends being provided by a stock
Return on total assets	{Net income + [Interest expense \times (1 – Tax rate)]} \div Average total assets	Measures how well assets have been employed by management
Return on common stockholders' equity	(Net income – Preferred dividends) \div (Average total stockholders' equity – Average preferred stock)	When compared to the return on total assets, measures the extent to which financial leverage is working for or against common stockholders
Book value per share	(Total stockholders' equity – Preferred stock) \div Number of common shares outstanding	Measures the amount that would be distributed to common stockholders if all assets were sold at their balance sheet carrying amounts and if all creditors were paid off
Working capital	Current assets – Current liabilities	Measures the company's ability to repay current liabilities using only current assets
Current ratio	Current assets \div Current liabilities	Test of short-term debt-paying ability
Acid-test ratio	(Cash + Marketable securities + Accounts receivable + Short-term notes receivable) \div Current liabilities	Test of short-term debt-paying ability without having to rely on inventory
Accounts receivable turnover	Sales on account \div Average accounts receivable balance	Measures how many times a company's accounts receivable have been turned into cash during the year
Average collection period	365 days \div Accounts receivable turnover	Measures the average number of days taken to collect an account receivable
Inventory turnover	Cost of goods sold \div Average inventory balance	Measures how many times a company's inventory has been sold during the year
Average sale period	365 days \div Inventory turnover	Measures the average number of days taken to sell the inventory one time
Times interest earned	Earnings before interest expense and income taxes \div Interest expense	Measures the company's ability to make interest payments
Debt-to-equity ratio	Total liabilities \div Stockholders' equity	Measures the amount of assets being provided by creditors for each dollar of assets being provided by the stockholders