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*We help leaders lead, sellers sell,  
and businesses flourish.*

# Interplay - Financial formulas cheat sheet

## Key financial ratios

### Profitability Ratios

*A company's ability to generate net income on a consistent basis*

**Gross profit margin** - Remains from sales after a company pays out the cost of delivery (or cost of goods sold).

- $\text{Revenue} - \text{Cost of delivery} / \text{Revenue}$

**Contribution margin** - Allows a company to determine the profitability of individual products and services.

- $\text{Operating profit} / \text{Product revenue}$

**Net profit margin** - Measures how much, out of every dollar of sales, a company actually keeps after deducting the cost of goods sold, expenses and taxes.

- $\text{Net income} / \text{Revenue}$

### Ratios Related to Returns

*A yield generated by an investment, expressed as a percentage of the amount invested*

**ROI (Return on investment)** - Evaluates the efficiency of an investment or to compare the efficiency of a number of different investments.

- $\text{Benefits of investment} / \text{Cost of investment}$

**ROE (Return on equity)** - Measures how efficiently a company used reinvested earnings to generate additional earnings.

- $\text{Income} / \text{Book value of Equity}$

**EPS (Earnings per share)** - Allocates a portion of a public company's profit to each outstanding share of common stock.

- $\text{Total revenue} - \text{Total expenses} / \# \text{ of outstanding shares}$

### Liquidity Ratios

*Ratios that measure the company's ability to meet its short term obligations*

**Quick ratio** - Measures a company's ability to meet its short-term obligations with its most liquid assets.

- $\text{Current inventories} / \text{Current liabilities}$

**Current ratio** - Measures a company's ability to pay short-term obligations.

- $\text{Current assets} / \text{Current liabilities}$

**Debt ratio** - Indicates the proportion of debt a company has relative to its assets.

- $\text{Total debt} / \text{Total assets}$

### Turnover Ratios

*The number of times an asset, such as cash, inventory or raw materials is replaced or revolves during an accounting period*

**DSO (Days sales outstanding)** - Measures the average number of days that a company takes to collect payment after a sale has been made.

- $\text{Accounts receivable} / \text{Total credits sales} \times \text{Days in a period}$

**Days to sell inventory ratio** - Shows how efficiently purchases and sales are matched; low inventory days indicates that the demand for the product was accurately forecasted.

- $\text{Average inventory} / \text{Cost of goods sold} \times 365$

**Days purchases in accounts payable ratio** - Measures how quickly suppliers are paid for inventory purchases.

- $\text{Average accounts payable} / (\text{Cost of goods sold} + \text{Change of inventory}) \times 365$