

Learning Module 3: Analyzing Balance Sheets

FINANCIAL STATEMENT ANALYSIS

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Balance Sheet Ratios

Balance sheet ratios include

- Liquidity ratios: measuring the company's ability to meet its short-term obligations.
- Solvency ratios: measuring the company's ability to meet long-term and other obligations.

Liquidity Ratio: Current

$$\text{Current} = \text{Current assets} \div \text{Current liabilities}$$

- Indicates ability to meet current liabilities

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### Liquidity Ratio: Current

$$
\text{Current} = \text{Current assets} \div \text{Current liabilities}
$$

- Indicates ability to meet current liabilities
```

Liquidity Ratio: Quick (acid test)

$$\text{Quick (acid test)} = \frac{\text{Cash} + \text{Marketable securities} + \text{Receivables}}{\text{Current liabilities}}$$

- Indicates ability to meet current liabilities

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```
### Liquidity Ratio: Quick (acid test)

$$
\text{Quick (acid test)} = \frac{\text{Cash} + \text{Marketable securities} + \text{Receivables}}{\text{Current liabilities}}
$$

- Indicates ability to meet current liabilities
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Liquidity Ratio: Cash

$$\text{Cash} = \frac{\text{Cash} + \text{Marketable securities}}{\text{Current liabilities}}$$

- Indicates ability to meet current liabilities

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### Liquidity Ratio: Cash

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\text{Cash} = \frac{\text{Cash} + \text{Marketable securities}}{\text{Current liabilities}}
$$

- Indicates ability to meet current liabilities
```

Solvency Ratio: Long-term debt-to-equity

$$\text{Long-term debt-to-equity} = \frac{\text{Total long-term debt}}{\text{Total equity}}$$

- Indicates financial risk and financial leverage

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### Solvency Ratio: Long-term debt-to-equity

$$
\text{Long-term debt-to-equity} = \frac{\text{Total long-term debt}}{\text{Total equity}}
$$

- Indicates financial risk and financial leverage
```

Solvency Ratio: Debt-to-equity

$$\text{Debt-to-equity} = \frac{\text{Total debt}}{\text{Total equity}}$$

- Indicates financial risk and financial leverage

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### Solvency Ratio: Debt-to-equity

$$
\text{Debt-to-equity} = \frac{\text{Total debt}}{\text{Total equity}}
$$

- Indicates financial risk and financial leverage
```

Solvency Ratio: Total debt

$$\text{Total debt} = \frac{\text{Total debt}}{\text{Total assets}}$$

- Indicates financial risk and financial leverage

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### Solvency Ratio: Total debt

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\text{Total debt} = \frac{\text{Total debt}}{\text{Total assets}}
$$

- Indicates financial risk and financial leverage
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Solvency Ratio: Financial leverage

$$\text{Financial leverage} = \frac{\text{Total assets}}{\text{Total equity}}$$

- Indicates financial risk and financial leverage

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### Solvency Ratio: Financial leverage

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\text{Financial leverage} = \frac{\text{Total assets}}{\text{Total equity}}
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