

EXHIBIT 15-6
Summary of Ratios

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