



FINANCIAL METRICS: FORMULAS, IMPORTANCE, BENCHMARKS, AND SOURCES

Metric	Formula	Why It's Critical	General Guidelines	Source
Revenue (Growth)	Total Sales	Critical as it's the foundation of business financial health.	Varies by industry	Industry reports, financial statements
Gross Profit	Revenue - Cost of Goods Sold	Helps in pricing decisions and evaluating production efficiency.	40-60%	Harvard Business Review, Industry benchmarks
Contribution Margin	Revenue - Variable Costs	Essential for understanding product contribution to covering fixed costs.	50% or higher	Corporate Finance Institute (CFI)
Net Profit	Revenue - Total Expenses	The bottom line for assessing overall business performance.	10-20%	SBA - Small Business Association
Gross Margin	$(\text{Revenue} - \text{Cost of Goods Sold}) / \text{Revenue} \times 100$	Measures the percentage of revenue that exceeds production costs.	40-60%	Deloitte insights, Investopedia
Profit Margin	$(\text{Net Profit} / \text{Revenue}) \times 100$	Key for comparing profitability across periods or competitors	10-15%	Investopedia, Industry standards
Cash Flow	Cash Inflows - Cash Outflows	Vital for day-to-day operations and long-term planning.	Positive and stable	Investopedia, QuickBooks guide
Accounts Receivable Turnover	Annual Credit Sales / Average Accounts Receivable	Indicates efficiency in collecting payments.	10x or higher	Deloitte insights
Accounts Payable Turnover	Total Supplier Purchases / Average Accounts Payable	Shows how quickly the business pays suppliers.	Varies, aim for 2-4x	Deloitte reports, Industry benchmarks
Inventory Turnover	Cost of Goods Sold / Average Inventory	Crucial for assessing inventory management efficiency.	5-10x	Corporate Finance Institute (CFI)



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Working Capital	Current Assets - Current Liabilities	Essential for understanding short-term financial health.	Positive	Investopedia, SBA guidelines
Debt-to-Equity Ratio	Total Liabilities / Shareholder Equity	Shows financial leverage and risk of the business.	Below 2.0	Industry standards, SBA reports
Return on Investment (ROI)	$(\text{Net Profit} / \text{Investment Cost}) \times 100$	Measures the profitability of investments.	15% or higher	Harvard Business Review, CFI
Current Ratio	Current Assets / Current Liabilities	Indicates liquidity and ability to cover short-term obligations.	2.0 or higher	Deloitte reports, Investopedia
Quick Ratio	$(\text{Current Assets} - \text{Inventory}) / \text{Current Liabilities}$	Measures short-term liquidity without relying on inventory.	1.0 or higher	Investopedia, Industry guidelines
Operating Profit Margin	Operating Income / Revenue	Shows the profitability from core operations.	15-20%	Corporate Finance Institute (CFI)
Debt Service Coverage Ratio	Operating Income / Debt Service	Indicates the ability to cover debt obligations.	1.5 or higher	Deloitte insights, Corporate Finance Institute (CFI)
Days Sales Outstanding	$(\text{Accounts Receivable} / \text{Total Credit Sales}) \times 365$	Shows the average collection period for receivables.	30-60 days	Industry benchmarks, QuickBooks
Days Payable Outstanding	$(\text{Accounts Payable} / \text{Cost of Goods Sold}) \times 365$	Measures how long it takes to pay suppliers.	45-60 days	Investopedia, Financial studies
Interest Coverage Ratio	EBIT / Interest Expenses	Indicates how easily a company can pay interest on its debts.	3.0 or higher	Harvard Business Review, CFI



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Return on Assets (ROA)	$(\text{Net Income} / \text{Total Assets}) \times 100$	Shows how efficiently the business is using its assets to generate profit.	5-10%	Corporate Finance Institute (CFI), Deloitte
Return on Equity (ROE)	$(\text{Net Income} / \text{Shareholder's Equity}) \times 100$	Measures how effectively equity is used to generate profit.	10-20%	Harvard Business Review, Investopedia
Earnings Before Interest and Taxes (EBIT)	Revenue - Operating Expenses	A measure of profitability before interest and taxes.	Varies by industry	SBA - Small Business Association
Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA)	EBIT + Depreciation + Amortization	Shows operating performance before non-operating expenses.	Varies by industry	Industry benchmarks, Harvard Business Review
Break-even Point	Fixed Costs / (Price - Variable Costs)	Indicates the sales level at which total revenue equals total costs.	Depends on pricing strategy and cost structure	SBA, Industry reports

▶ Please note that industry-specific information, if it is available, is a better guideline for your business

