Fixed asset turnover

This ratio indicates how well your business is using its fixed assets (i.e., plant and equipment) to generate sales. It is measured as follows.

\[
\text{Fixed asset turnover} = \frac{\text{Sales}}{\text{Net fixed assets}}
\]

The higher the resulting ratio, the better your business is utilizing its plant and equipment. A low turnover value will point to a company with a heavy investment in long-term capital assets, or a company that has too large an investment in non-productive assets.

Debt ratio

This ratio measures the percentage of your business assets that are financed with debt. It shows you how much of your business’ total assets are in effect ‘controlled’ by external parties.

\[
\text{Debt ratio} = \frac{\text{Total liabilities}}{\text{Total assets}}
\]

A higher ratio indicates that your business may be too highly geared, and it may indicate potential problems in meeting debt repayments. If this is the case, you may need to pay off some debt, or take steps to try and increase the value of your assets, i.e., could your stock or other assets be revalued at a higher value?

Equity ratio

Also known as proprietary ratio, measures the percentage of total assets provided by the owners of the business.

\[
\text{Equity ratio} = \frac{\text{Owner's equity}}{\text{Total assets}} \times 100
\]

The higher the percentage, the more stable and less risky your business is, as it is not subject to high interest payments or high debt repayments. A declining equity ratio may mean that further increases in debt should be restrained.
Small Business Management Toolbox

Manage finances

Financial stability ratios

Times interest earned ratio

This ratio measures how many times your interest expense is covered by operating profit (before tax). It looks at the ability of profits to service future interest and capital repayments. The times interest earned ratio is measured as follows.

\[
\text{Times interest earned ratio} = \frac{\text{Operating profit (before tax)}}{\text{Interest expense}}
\]

If this ratio is decreasing over time, you need to re-examine your financial risk and take corrective action if necessary.