# Quick Trial Balance Pro - Generating Ratios

## Ratios Overview

Quick Trial Balance Pro can now generate up to 28 different ratios that can be used to evaluate the financial stability and performance of a company. There are four different classes of ratios.

1. Activity Analysis Ratios - In business, the managerial goal is to operate as efficiently as possible. This would result in maximizing sales and minimizing costs and expenses. These ratios will evaluate how well these goals are being managed.

2. Debt & Capital Structure Ratios - Every business needs money to operate. Some firms obtain this money entirely from equity investors, or from profits resulting from business transactions. Money obtained in this way does not have to be repaid and there is no interest cost. However, money obtained by borrowing from banks or issuing debt obligations due need to be repaid and carry an interest factor. The company's ability to meet it's debt obligations may determine its very survival. These ratios will help determine how well the company is doing in this regard.

3. Liquidity Ratios - These ratios measure the company's ability to pay debt obligations and meet current operating needs. Bankruptcy and lending institutions use liquidity ratios to evaluate going concern issues and cash flow position.

4. Profitability Ratios - These ratios are useful tools for measuring the adequacy of profits on an overall basis. Unless the company has unlimited resources, operating unprofitably over a period of time inevitably depletes capital until nothing is left to pay wages or buy raw materials.

You can generate just the ratios that are pertinent for your analysis and you can calculate ratios for the current as well as the previous nine comparison years.

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A new report, Ratios Analysis Report, is included in the Analysis Reports section of the Reports screen.  The information included on the report is the:

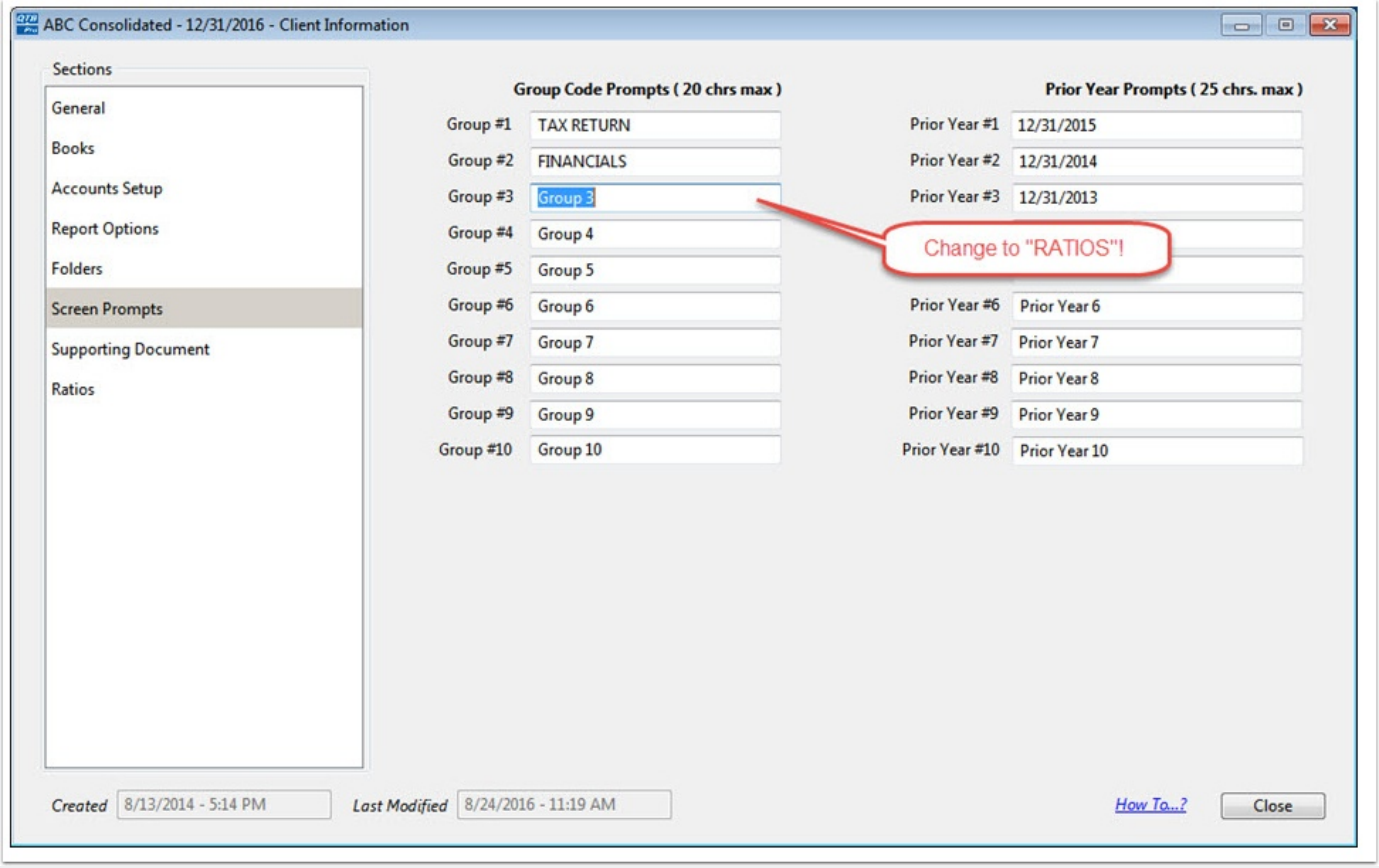
Ratio Type (Activity, Debt & Capital Structure, Liquidity, or Profitability)
Ratio Name
Ratio Formula (textual description of formula)
Ratio Description (meaning of the ratio)

For each year that the ratio is calculated, the following will also be included on the report:

Ratio Formula (in dollar amounts)
Ratio Calculation
Error Status (reason the ratio could not be calculated)

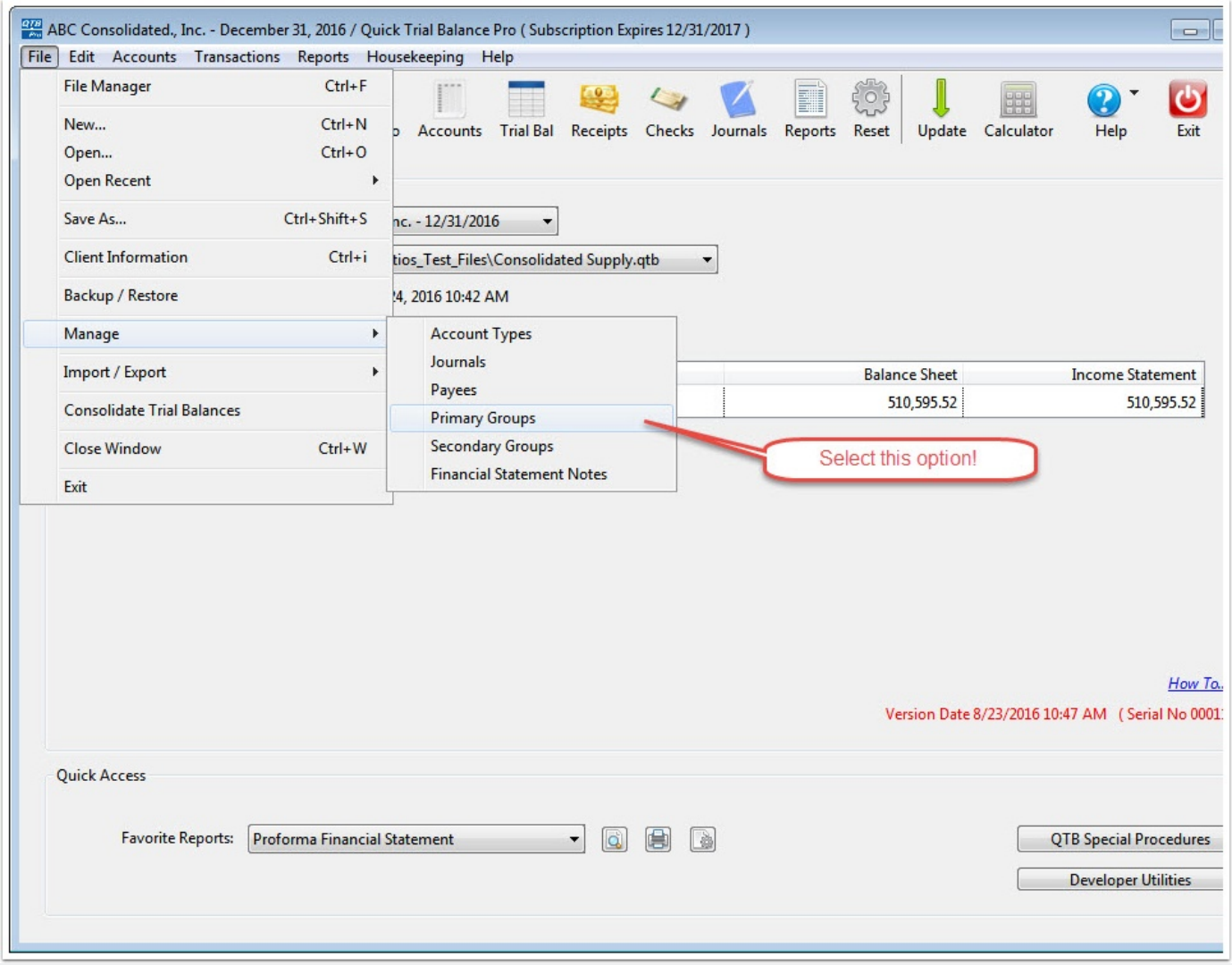
## Create a Primary Group for ratios

Go to the Client Info and select the Screen Prompts page. Select an unused Group Code field and change the screen prompt to "RATIOS".



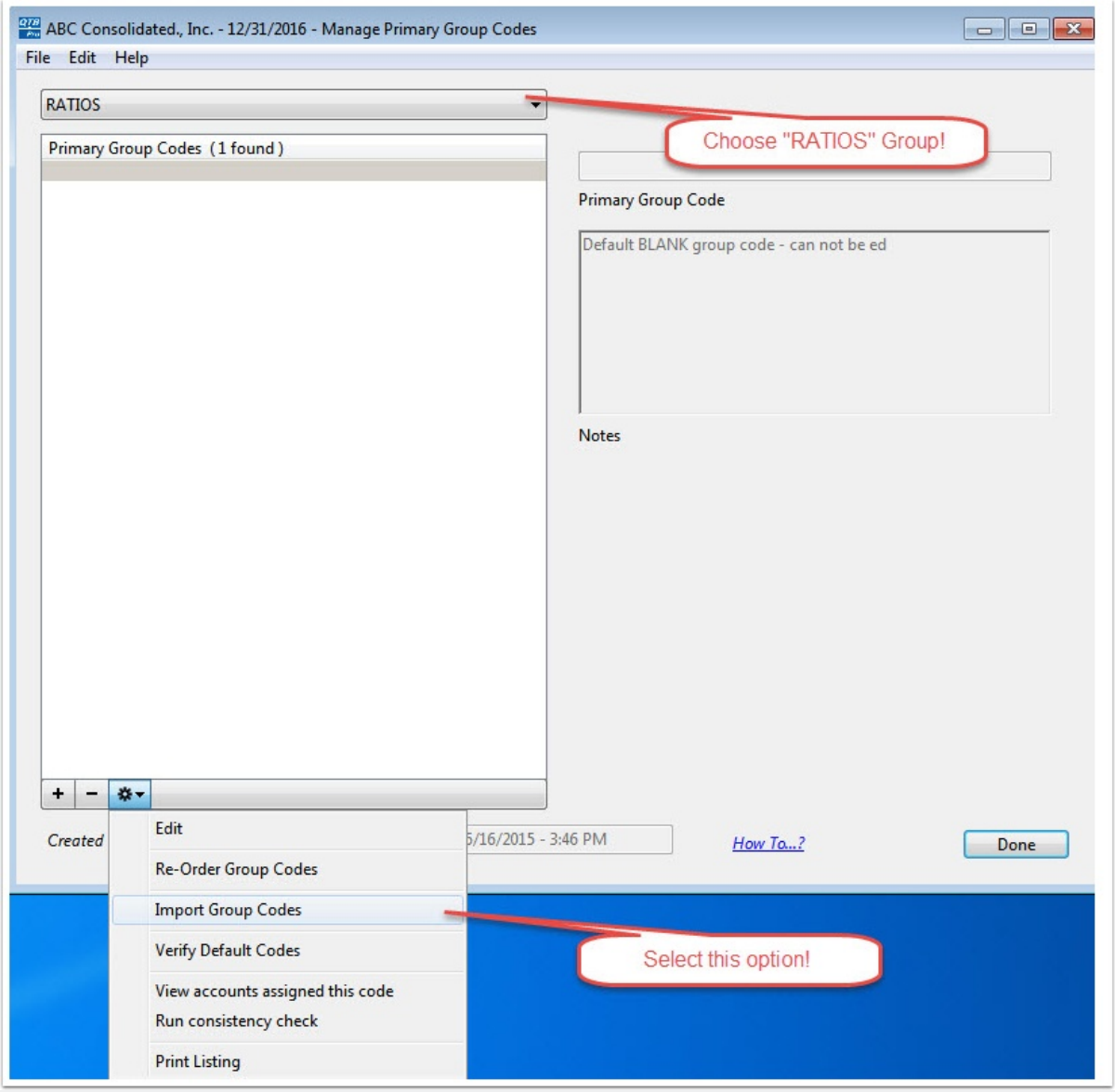
## Manage - Primary Groups

From the File menu, select Manage, then select Primary Groups.



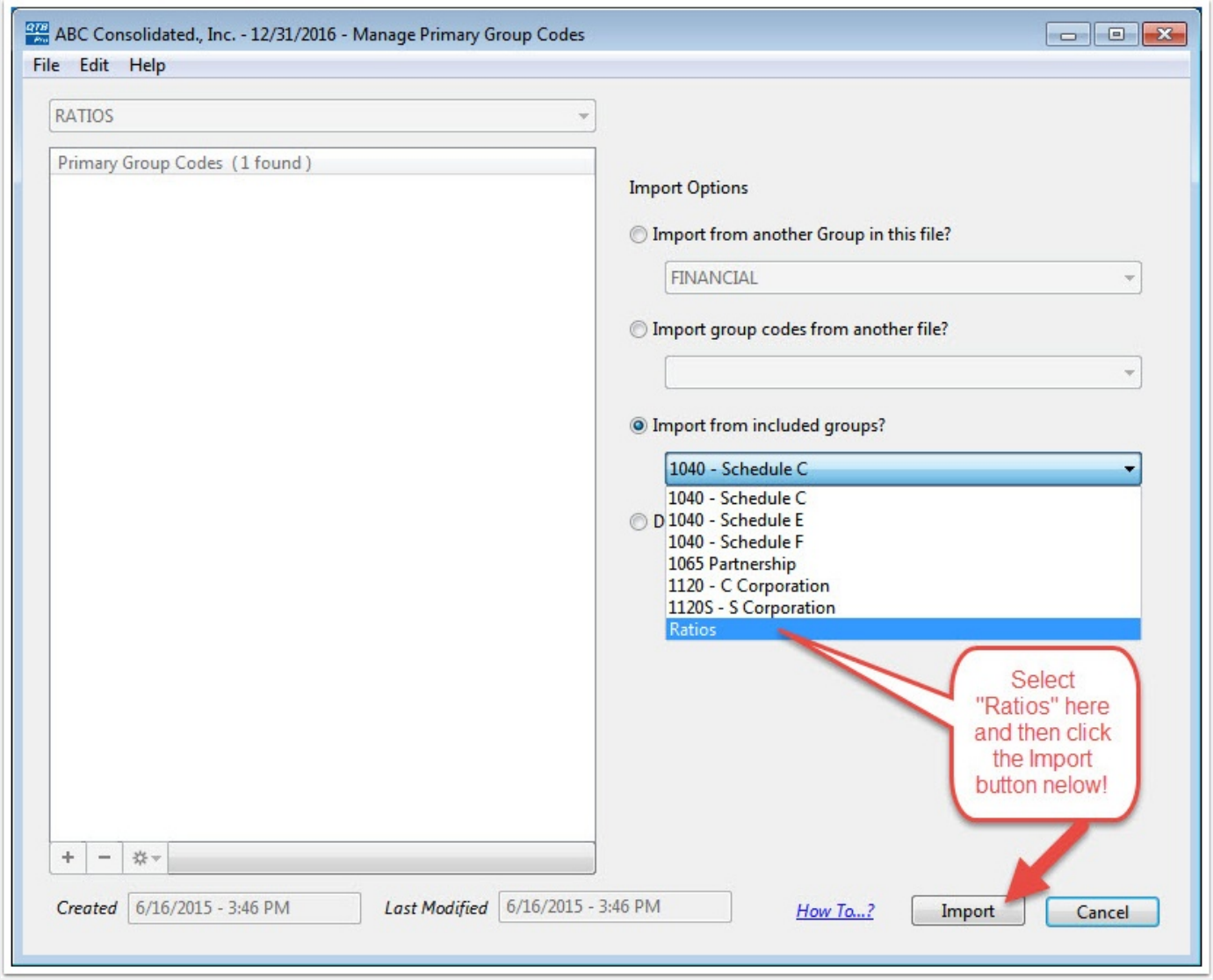
## Import Group Codes

From the drop down at the top of the screen, choose the RATIOS Group. Then, from the Action menu, select Import Group Codes.



## Import from included "Ratios" Group

Select the option “Import from included groups?” and then use the drop down to select “Ratios”.  Then click Import.



## Ratios Group Codes

You should now have a set of primary group codes that you will assign to your accounts so that Quick Trial Balance Pro can group accounts properly to generate the ratios.

In some cases, the amounts required for the numerator or denominator of the ratio is calculated rather than accumulated using a group code. For example, there is no group code for Working Capital; however, this value is required to calculate the Net Working Capital Ratio which is one of the Debt & Capital Structure Ratios. That ratio requires you to divide the working capital by the total assets.

Working capital will be calculated by first calculating current assets and then calculating current liabilities based on the group codes you have assigned to your accounts. Then current liabilities will be subtracted from current assets to calculate the working capital.

NOTE - You should never add any additional group codes to this primary group. When printing the Ratio Analysis Report, if any additional group codes are found that are not required for grouping your accounts for calculating the ratios, you will need to remove them before the report can be printed.

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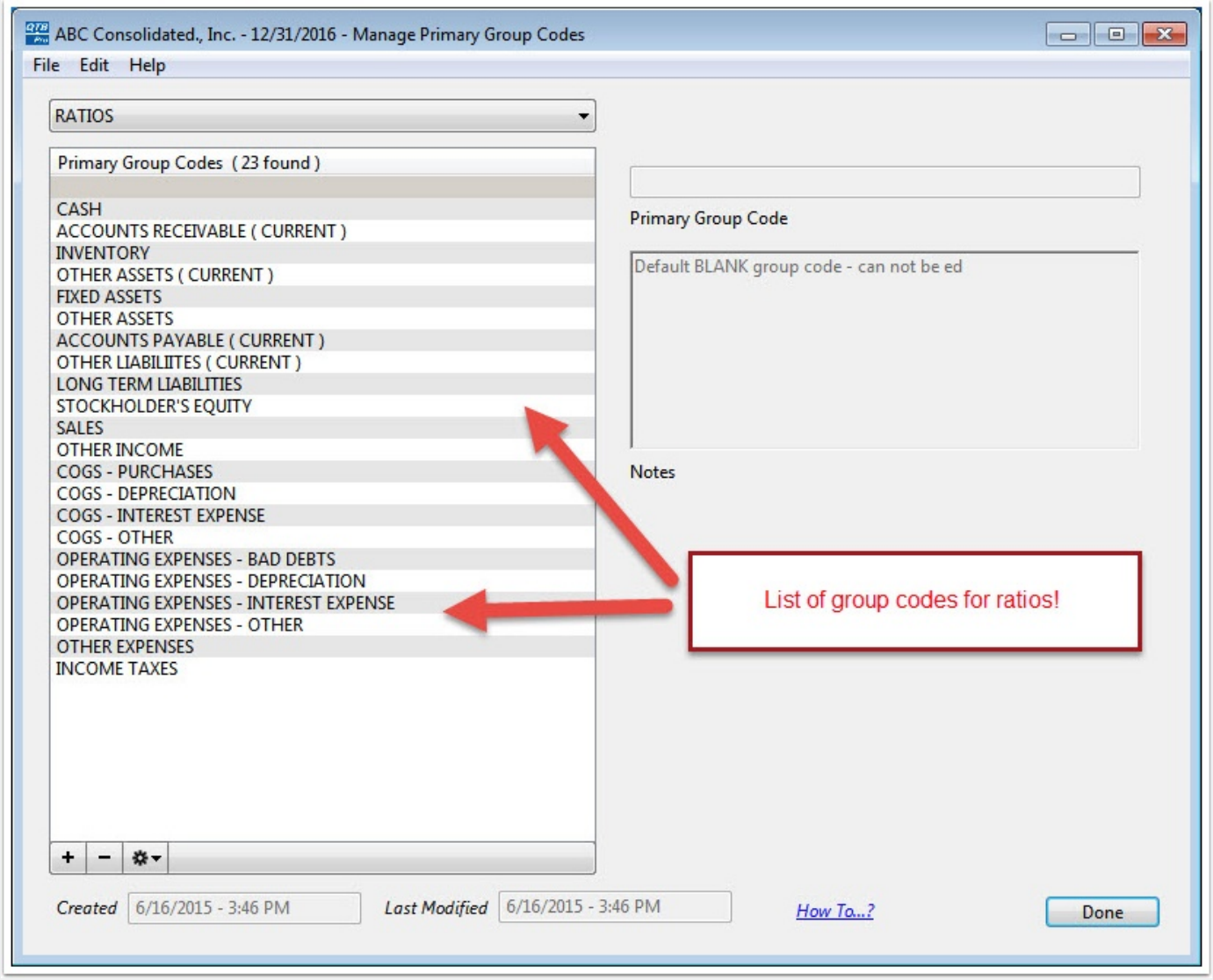
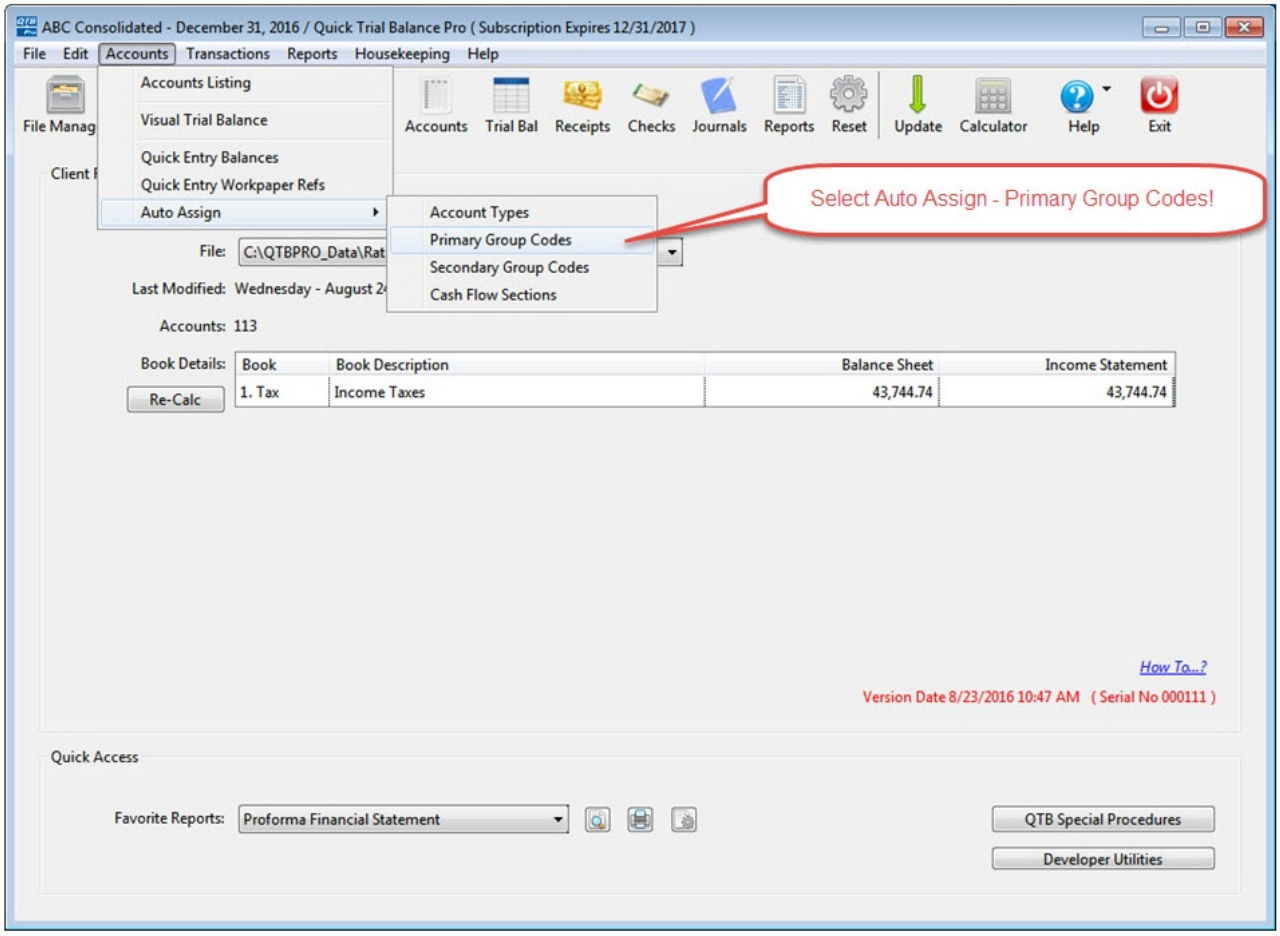


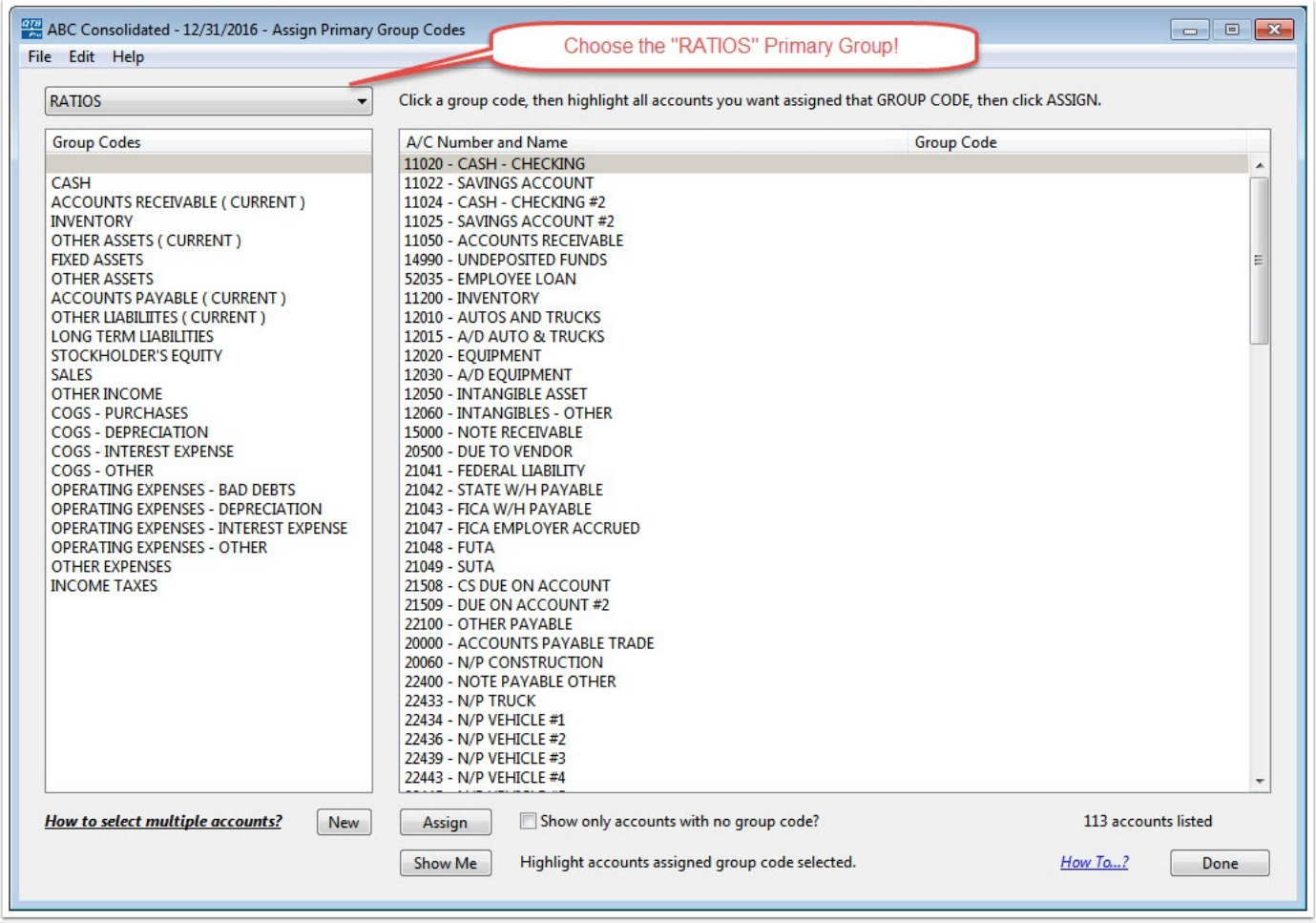
## Assigning Primary Groups (for ratios) to your accounts

Next, you will need to assign the ratio group codes to your accounts. In the Accounts menu, select Auto Assign and then select Primary Group Codes.



## Choose "RATIOS" Primary Group to Assign

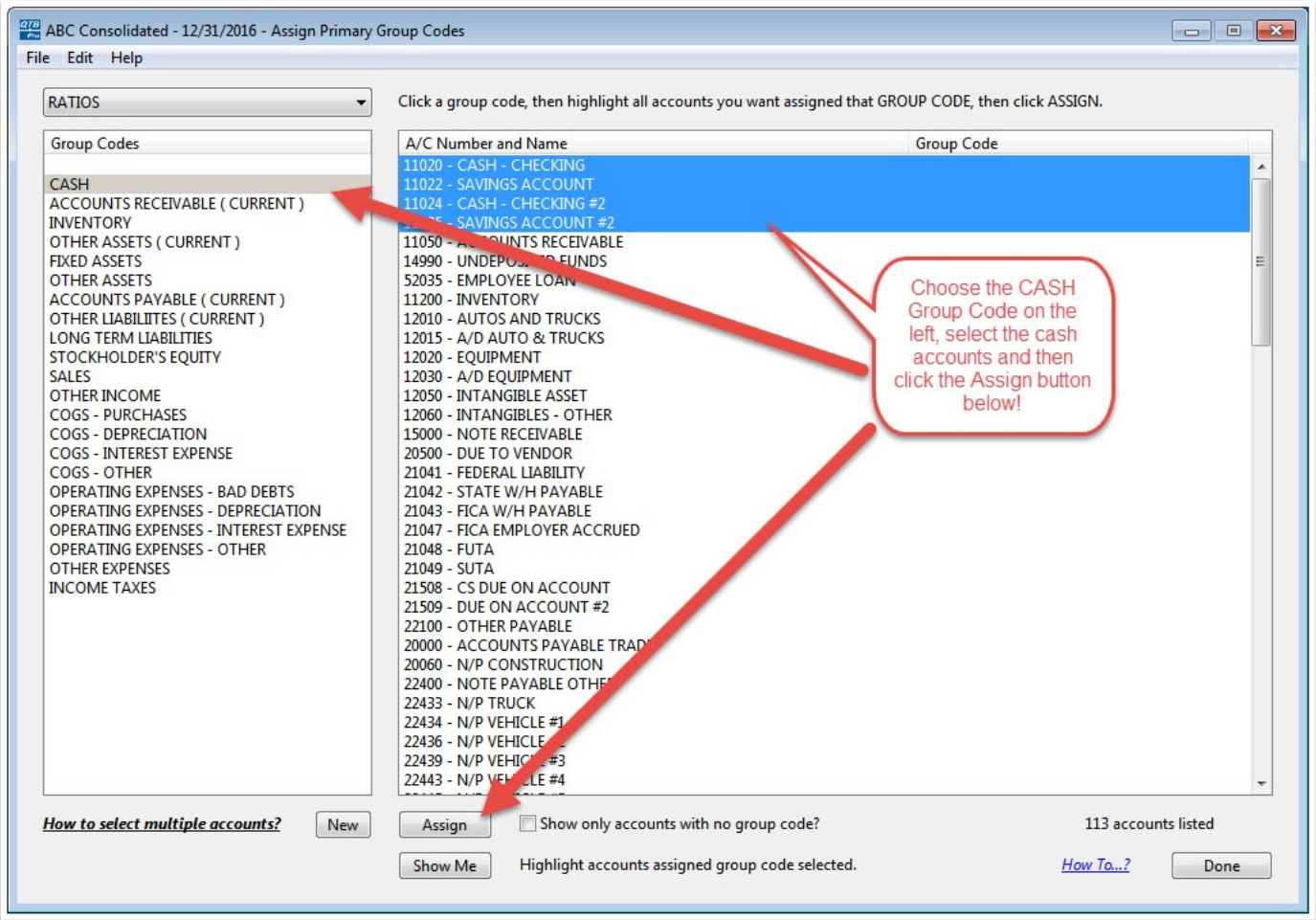
Change the drop down at the top of the screen to Ratios, then assign the ratios group codes to your accounts based on the group code description.



## Assign Accounts to Applicable Ratio Groups

For example, you would assign the Cash group code to all your cash accounts, and the Accounts Receivable ( Current ) to all your trade receivable accounts.

First, select the CASH Group Code. Then, select the accounts to be included in the CASH group and click the "Assign" button once complete. Continue assigning the various RATIO Group Codes to your accounts inthe same manner.



## Additional Coding Information

The accuracy of the ratios calculated depend heavily on the proper assignment of the ratios group codes, so consider this very carefully before proceeding. The following explanations will help you determine what accounts should be assigned to the following group codes.

Accounts Receivable (Current) - These are trade receivables that are created in the normal course of generating sales. Any other receivables should be assigned to “Other Assets (Current)”.

Fixed Assets - this includes both the cost and accumulated depreciation for all land, property, and equipment.

Other Assets - This includes all non-current assets that are not included in any other grouping.

Accounts Payable (Current) - These are trade payables that are created in the normal course of business. Any other current liabilities should be assigned to “Other Liabilities (Current)”.

Stockholder’s Equity - These includes all accounts that are not assets or liabilities.

Sales - This includes any revenue generated through normal business transactions. Any other revenues, such as from the sale of equipment, interest income, etc. should be assigned “Other Income”.

Other Expenses - Any expenses that are not normal operating or cost of goods sold should be assigned this group code, such as, loss on the sale of equipment, etc.

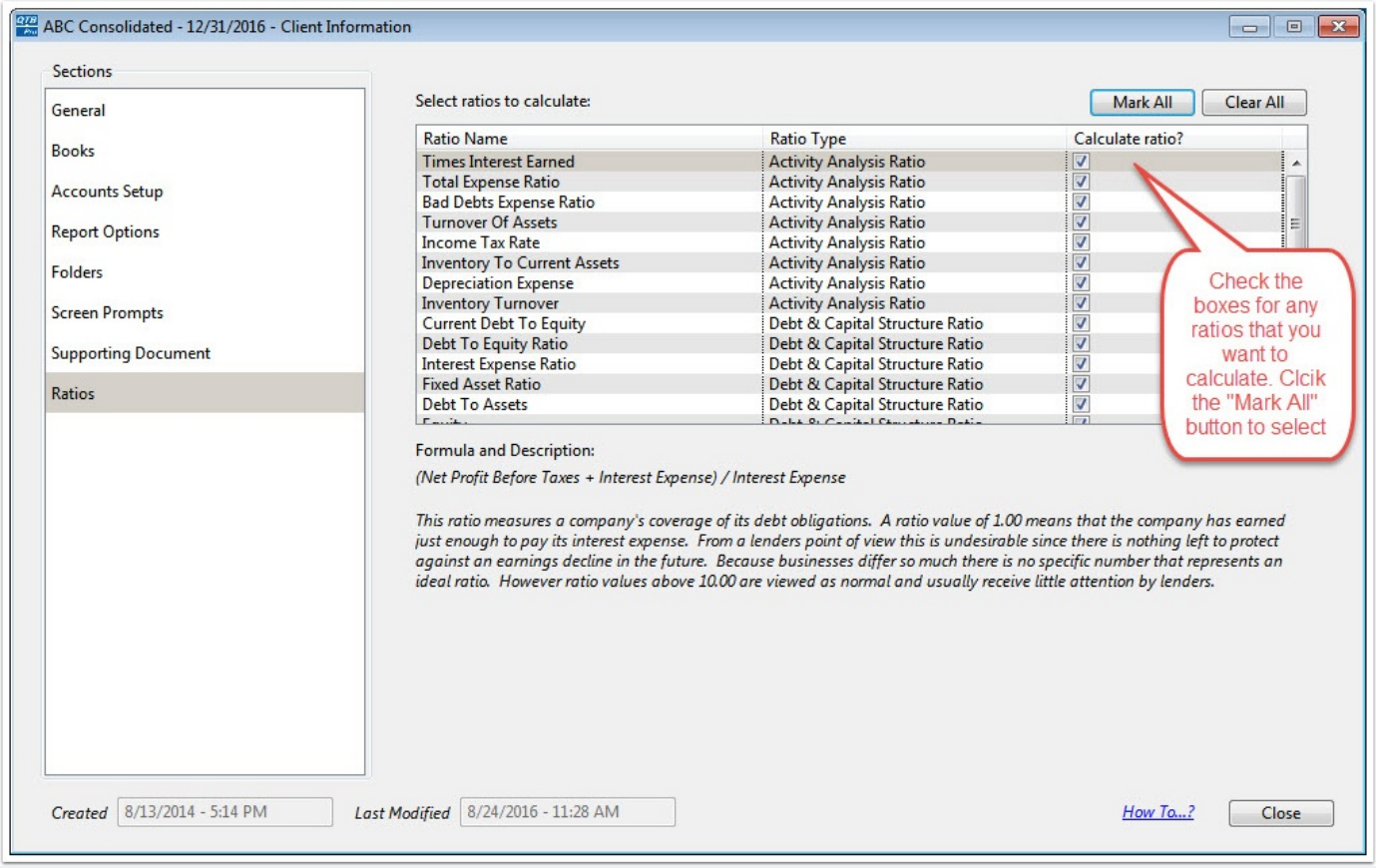
Income Taxes - This includes all state and Federal income taxes.

## Selecting Ratios to Calculate

The final step is to select the ratios that you want to calculate. This is done in the Client Information screen on the Ratios tab. The formula for each ratio and the description of each ratio is displayed when you click on a ratio in the listing provided. Mark the check box for each ratio that you want to calculate.

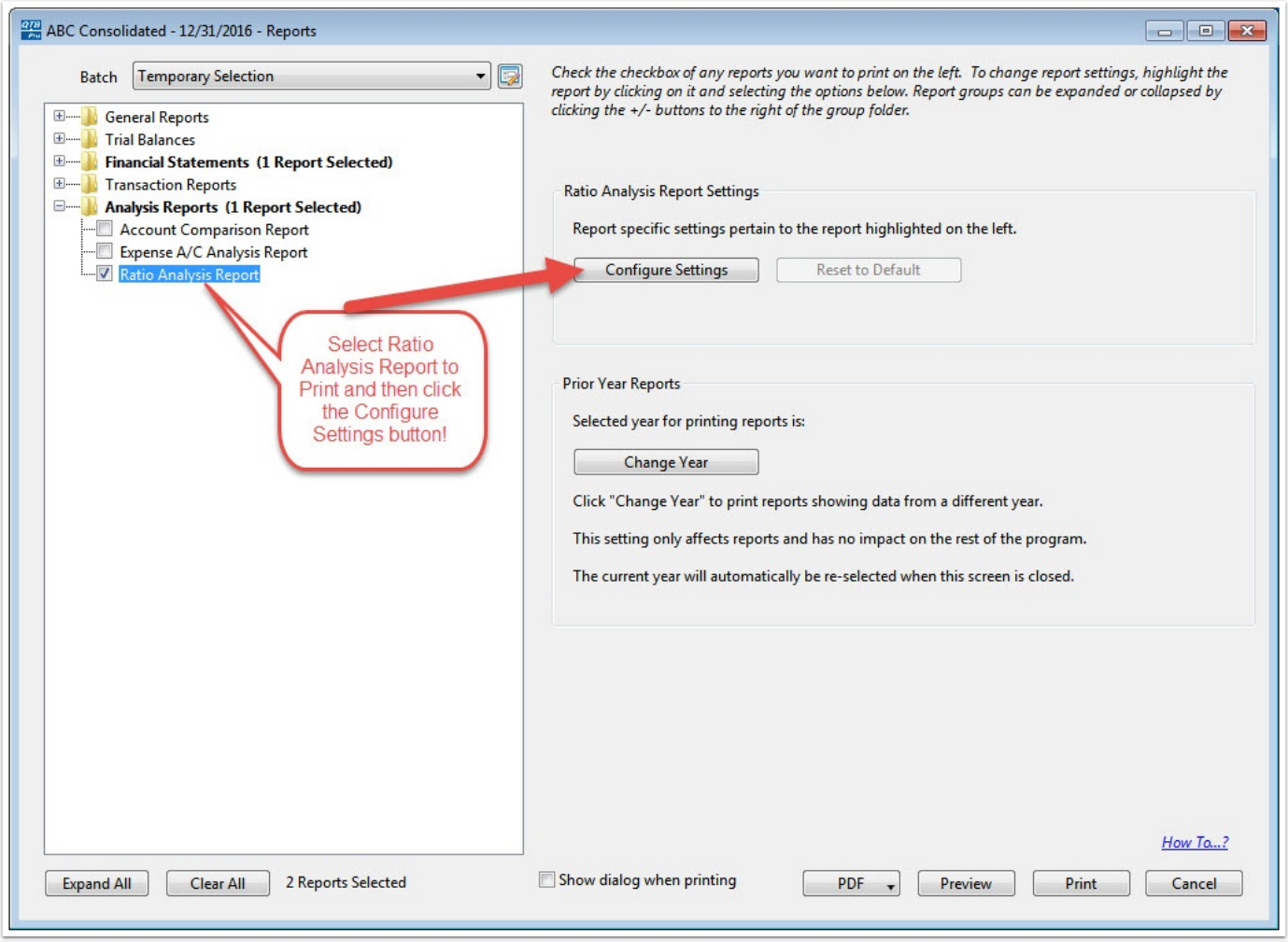
After these three steps have been completed, you are then ready to print the Ratio Analysis report.

NOTE - If you attempt to print the Ratio Analysis Report and no ratios have been selected to print, the report will not print.



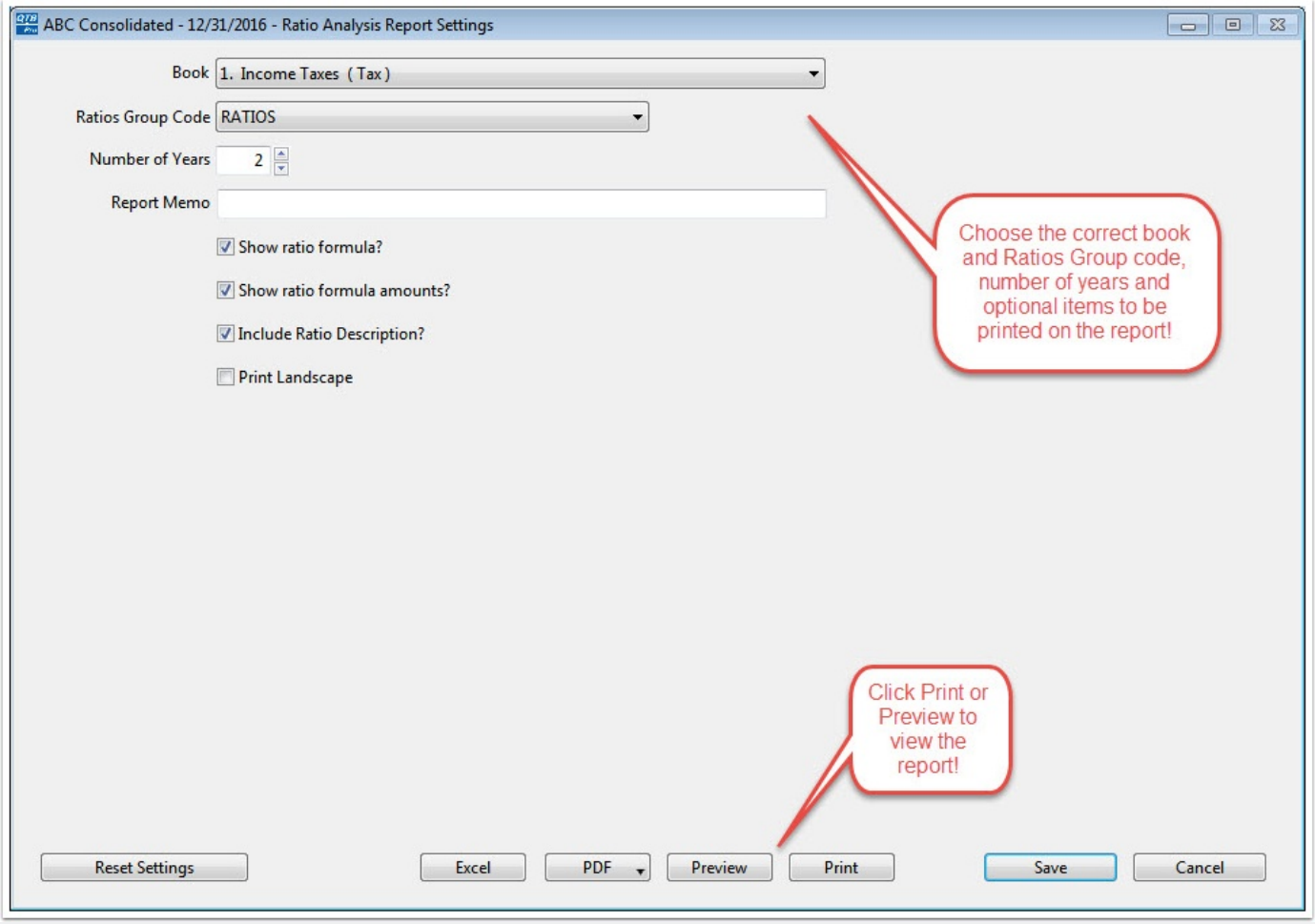
## Printing the Ratio Analysis Report

Click the "Reports" icon and then select the Ratio Analys Report to print located under the Analysis Reports. Click the "Configure Settings" button to configure the report.



## Configuring the Ratio Analysis Report

Select the Book, Ratio Group Code and the number of years to print on the report. Optionally, the ratio formulas, formula amounts, and ratio descriptions can be selected to print on the report.



## Additional Notes About Ratios

Ratios that can not be calculated - Ratios are calculated by accumulating account totals based on the group codes assigned to the accounts. A numerator total and denominator total are then used to calculate the ratio. If the numerator or denominator is less than or equal to zero, then the ratio can not be calculated.

As mentioned previously, some amounts for the numerator or denominator are calculated amounts, that is, they may accumulate the totals from accounts that are assigned more than one group code. For example, there is no group code for Current Assets; however, the amount for this “calculated” value is determined by adding together the accounts assigned to the following group codes:

Cash
Accounts Receivable (Current)
Inventory
Other Assets (Current)