Financial ratios at a glance

Eleven practical indicators for a small business: formulas, interpretation and pitfalls.

Indicator	Formula	What it tells you	Pitfall
Cash ratio	Cash ÷ current liabilities × 100	Short-term debts covered immediately.	A year-end snapshot does not replace a cash flow forecast.
Quick ratio	(Cash + short-term receivables) ÷ current liabilities × 100	Coverage without selling inventory.	Doubtful receivables and payment dates matter.
Current ratio	Current assets ÷ current liabilities × 100	Coverage by current assets.	Unsaleable inventory can inflate the result.
Equity ratio	Equity ÷ total assets × 100	Share of assets funded by owners.	Compare similar activities and accounting methods.
Gearing	(Financial debt - cash) ÷ equity × 100	Net financial debt relative to equity.	Zero or negative equity makes the result unsuitable or difficult to interpret.
Net profit margin	Net profit ÷ revenue × 100	Profit retained per CHF 100 of sales.	One-off income can flatter a year's result.
Return on equity (ROE)	Net profit ÷ average equity × 100	Accounting return on equity.	Borrowing can raise both the return and the risk.
DSO: collection period	Average trade receivables ÷ credit sales × 365	Average days before customers pay.	Use consistent VAT bases in both figures.
DIO: inventory days	Average inventory at cost ÷ cost of goods sold × 365	Days for which inventory ties up funds.	Use cost of goods sold, not revenue.
DPO: supplier period	Average trade payables ÷ corresponding credit purchases × 365	Average days before suppliers are paid.	Use matching purchases and consistent VAT bases.
Cash conversion cycle	DSO + DIO - DPO	Timing gap to finance between paying suppliers and collecting payment from customers.	Example: 45 + 61 - 30 = 76 days. Not cash runway.

Use consistently: compare periods, explain changes and consider the industry. Prefer monthly averages; otherwise use the opening/closing average. Adjust 365 to the period measured. No threshold is a universal standard.

Swiss legal checks: ratios do not replace assessment of liquidity, loss of capital and overindebtedness under CO Articles 725-725b. Read the worked examples on Entreprendre.ch.