

FINANCIAL KEY RATIOS

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Abstract: This article focuses on computing techniques starting from trial balance data regarding financial key ratios. There are presented activity, liquidity, solvency and profitability financial key ratios. It is presented a computing methodology in three steps based on a trial balance.

Keywords: current assets, fixed assets, current liabilities, inventory turnover, current ratio, quick ratio, ROA, ROE, days of sales outstanding (DSO), days payables outstanding (DPO), working capital turnover, fixed asset turnover.

JEL: G32 – Financing Policy; Financial Risk and Risk Management; Capital and Ownership Structure; H32 - Firm M41 – Accounting

I. Introduction Financial key ratios represent fundamental indicators in analyzing the evolution of small and medium size enterprise (SME). These indicators must be analyzed on multiple time periods (years, semesters, quarters) taking into account the characteristics of the industry to which SME belongs.

The computing methodology contains 3 steps:

1. The amounts of accounting accounts from trial balance are mapping/coded various abbreviations, such as: **Buildings** is mapping **FA** (Fixed assets), **Goods purchased for resale** is mapping **INV** (Inventory) or **Sale of goods purchased for resale** as **OR** (Operating Revenue) according to Table no. 1.
2. There are computed various items based on the mapping amounts from trial balance. This items are used for final computing of key ratios. Items: Shareholders' Equity, Gross profit, Trade receivables, other according to Table no. 2
3. Final calculation of key ratios based on items from step no. 2. The calculation and explanation is presented in Table no. 3.

In our specific case we used data from a three years trial balances of a SME which applying Romanian GAAP from OMFP 3055/2009 (the Accounting Regulations complying with the Fourth EEC Directive and the Seventh EEC Directive). The trial balances include accounts from the chart of accounts mentioned in OMFP 3055/2009.

II. Scientific contents

Step no. 1 Mapping the accounts from Trial balances

Amounts from Trial Balances are from three consecutive years which are note Year 1, Year 2 and Year 3 and are presented in RON currency.

- Table no. 1 -

Acc.	Description	Code Other	Code BS	Code PL	Amounts Year 1	Amounts Year 2	Amounts Year 3
1012	Subscribed capital paid		SE		(21,629,653)	(20,366,905)	(20,366,905)
1061	Legal reserve		SE		(358,533)	(729,336)	(631,329)
1068	Other reserves		SE		(41,813)	(39,372)	(39,372)
1171	Profit/loss carried forward		SE		(13,525,115)	(14,480,998)	(14,022,484)
121	Profit (loss) for the period		SE		(1,477,895)	(1,484,071)	(3,019,664)
129	Profit appropriation		SE		111,132	98,007	293,728
201	Set-up costs		FA		35,925	33,828	33,828
205	Concessions, patents, licences, trademarks and		FA		2,162,445	2,799,898	2,802,757
208	Other intangible assets		FA		0	517,935	517,935
212	Buildings		FA		76,016	71,578	71,578
2131	Plant and machinery		FA		137,025	558,628	558,633
2132	Measurement, control and adjustment		FA		1,067,604	1,411,741	1,411,741
2133	Motor vehicles		FA		6,828,338	4,397,770	6,429,697
214	Fixtures and fittings		FA		4,668,856	5,189,801	5,204,412
2678	Other long term receivables		FA		332,342	337,963	338,096
2801	Amortization of set-up costs		FA		(35,925)	(33,828)	(33,828)
2805	Amortization of concessions, patents, licences, trademarks and similar rights and assets		FA		(2,042,214)	(2,207,976)	(2,144,668)
2808	Amortization of other intangible assets		FA		0	(91,858)	(43,162)
2812	Depreciation of buildings		FA		(43,437)	(71,578)	(71,578)
2813	Depreciation of plant and machinery, motor vehicles, animals and plantations		FA		(7,768,851)	(5,776,796)	(7,636,526)
2814	Depreciation of other tangible assets		FA		(4,220,465)	(2,987,834)	(2,715,648)
3028	Other consumables	INV	CA		10,068,243	8,591,249	11,478,491
303	Materials in the form of small inventory	INV	CA		1,162,514	105,013	99,363
327	Goods purchased for resale in transit	INV	CA		97,580	0	279,677
371	Goods purchased for resale	INV	CA		39,349,891	21,514,656	31,285,911
3921	Write-down of consumables	INV	CA		0	(5,473,858)	0
397	Write-down of goods purchased for resale	INV	CA		(4,165,755)	(1,545,045)	(9,619,870)
401	Suppliers	TP	CL		(60,193,350)	(32,706,360)	(46,301,520)

404	Suppliers of non-current assets	TP	CL		0	(26,186)	(58,901)
408	Suppliers - invoices to be received	TP	CL		(300,025)	(285,868)	(1,357,787)
4092	Advance payments to suppliers for the purchase of services	TR	CA		0	3,462	0
4111	Customers	TR	CA		73,309,408	62,822,017	64,845,159
4118	Doubtful customers or customers involved in litigation	TR	CA		5,288,615	5,692,689	5,640,619
418	Customers - invoices to be issued	TR	CA		0	0	(75,540)
419	Advance payments from customers		CL		0	(5,847)	(5,847)
421	Employees - salaries payable		CL		(909,619)	(890,336)	(1,029,727)
423	Other social benefits granted to employees		CL		(24,680)	(59,868)	(18,069)
427	Retentions from salaries payable to third parties		CL		0	(7,034)	(5,060)
4281	Other employee-related debts		CL		(505,255)	(249,156)	(322,525)
4311	Company's contribution to social security		CA		422,252	870,687	495,395
4312	Employees' contribution to pension fund		CL		(180,057)	(140,312)	(173,616)
4313	Company's contribution to health insurance		CL		(90,441)	(76,535)	(86,378)
4314	Employees' contribution to health insurance		CL		(95,536)	(80,922)	(91,057)
4371	Company's contribution to unemployment fund		CL		(8,657)	(7,192)	(8,305)
4372	Employees' contribution to unemployment fund		CL		(8,673)	(7,182)	(8,300)
4411	Current income tax		CL		(799,507)	(135,638)	(1,335,706)
4423	VAT payable		CL		(2,964,567)	(4,048,797)	(2,219,650)
4428	VAT under settlement		CA		56,076	100,648	266,009
444	Tax on salaries		CL		(239,169)	(203,363)	(206,648)
446	Other taxes and similar liabilities		CL		(2,422)	0	0
447	Special funds - taxes and similar liabilities		CL		(181,649)	(130,356)	(200,569)
4481	Other debts payable to the Treasury		CL		(751)	19,395	19,395
461	Sundry debtors		CA		291,578	269,609	269,609
462	Sundry creditors		CL		(3,036)	0	(1,227)
471	Deferred expenses		PPM		952,842	877,459	926,259
472	Deferred income		DFR		(4,092,008)	(331,231)	0
473	Suspense account		CA		0	49,562	71,074

4758	Other amounts received in the form of investment subsidies		DFR		(98,126)	(8,211)	(50,294)
491	Allowances for doubtful customers	TR	CA		(5,535,806)	(5,692,689)	(5,640,614)
5121	Cash at bank in lei		CA		550,015	339,872	624,701
5124	Cash at bank in foreign currencies		CA		106,899	63,026	74,887
5191	Short term bank loans	LB	CL		(15,619,769)	(16,437,048)	(14,611,957)
5311	Petty cash in lei		CA		69,692	49,869	77,855
5314	Petty cash in foreign currencies		CA		17,471	33,224	37,518
6022	Fuel	OE			900,937	516,921	916,807
6024	Spare parts	OE			314,933	232,136	358,970
6028	Other consumables	OE			650,553	512,400	244,917
603	Materials in the form of small inventory	OE			32,752	97,744	355,364
604	Materials not stored	OE			260,223	349,295	365,014
605	Electricity, heating and water	OE			242,788	288,900	214,270
607	Goods for resale	OE		COS	209,656,764	120,761,059	189,076,185
609	Trade discounts received	OE		COS	(8,929,601)	(894,192)	(4,105,546)
611	Maintenance and repair expenses	OE			3,178	22,006	55,849
612	Royalties and rental expenses	OE			2,145,604	1,955,575	2,468,010
613	Insurance premiums	OE			710,122	390,884	665,969
623	Entertaining, promotion and advertising	OE			47,569,477	35,140,077	39,412,824
624	Transport of goods and personnel	OE			2,045,865	1,722,489	1,740,024
625	Travel	OE			500,206	257,288	743,928
626	Postage and telecommunications	OE			323,028	330,617	358,975
627	Bank commissions and similar charges	OE			609,290	347,643	474,002
628	Other third party services	OE			1,966,560	2,775,508	4,570,070
635	Other taxes, duties and similar expenses	OE			760,282	408,349	684,918
641	Salaries	OE			17,588,042	15,908,438	16,307,909
642	Employee luncheon vouchers	OE			868,058	664,559	789,063
6451	Company's contribution to social security	OE			3,865,084	3,556,083	3,588,655
6452	Company's contribution to unemployment fund	OE			86,921	79,750	81,718
6453	Company's contribution to health insurance	OE			904,441	831,141	849,799
6458	Other social security and welfare contributions	OE			82,976	28,817	31,256
6581	Compensations, fines and penalties	OE			9,209	26,324	42,756
6583	Net value of assets disposed of and other capital transactions	OE			46,699	97,413	0
6588	Other operating expenses	OE			219,796	4,360,247	2,383,057

665	Foreign exchange losses				5,351,798	893,312	3,591,553
666	Interest expense				1,427,203	777,914	1,110,940
667	Discounts granted				2,909,343	208,814	976,187
668	Other financial expenses				0	5	0
6811	Depreciation of non current assets	OE			1,362,481	592,718	1,541,429
6814	Impairment of current assets	OE			3,881,725	59,984	8,844,929
691	Income tax				1,344,153	477,316	2,854,842
704	Services rendered	OR		RVN	(16,825)	(8,824)	0
707	Sale of goods purchased for resale	OR		RVN	(335,463,125)	(173,328,117)	(313,960,399)
708	Revenues from sundry activities	OR		RVN	(10,365,361)	(16,572,681)	(13,130,655)
709	Trade discounts offered	OR		RVN	63,131,899	7,614,738	69,814,655
7411	Subsidies related to the turnover	OR		RVN	(12,633,869)	0	0
7581	Compensations, fines and penalties	OR			(156,124)	0	0
7583	Proceeds from disposal of assets and other capital transactions	OR			(51,978)	(391,146)	0
7584	Amortisation of investment subsidies	OR			(44,698)	(42,083)	(42,103)
7588	Other operating revenues	OR			(107,429)	(9,008,890)	(22,449,907)
765	Foreign exchange gains				(4,874,978)	(819,300)	(1,501,458)
766	Interest income				(3,793)	(1,088)	(1,291)
767	Discounts received				(3,115)	(75,694)	(425,330)
768	Other financial revenues				0	(5)	0
7812	Write back of provisions	OR			0	0	(198,194)
7814	Reversal of write-down of current assets	OR			(599,388)	(2,628,518)	(2,719,625)

Notice: Assets and expenses are presented as positive amounts. Liabilities and revenue are presented as negative amounts.

After all the necessary accounts from trial balances are coded, we can start to compute the values for the items (presented in Table no. 2) that are representing the **Numerator** and **Denominator** for financial ratios. In fact, this operation represent Step no. 2

Step no. 2 *Items computed from trial balances' amounts*

- Table no. 2 -

No.	Item name	Code	Value Y1	Value Y2	Value Y3	Financial statement component
1	Current assets	CA	121,088,673	87,793,992	100,210,244	Balance sheet
2	Fixed assets	FA	1,197,658	4,149,271	4,723,268	Balance sheet
3	Prepayments	PPM	952,842	877,459	926,259	Balance sheet
4	Deferred revenue	DFR	4,190,134	339,442	50,294	Balance sheet
5	Inventory	INV	46,512,473	23,192,015	33,523,573	Balance sheet

6	Loans & Borrowings	LB	15,619,769	16,437,048	14,611,957	Balance sheet
7	Trade receivables	TR	73,062,217	62,825,479	64,769,624	Balance sheet
8	Working capital	WC	35,724,219	32,853,405	33,062,758	Balance sheet
9	Current liabilities	CL	82,127,162	55,478,605	68,023,451	Balance sheet
10	Trade payables	TP	60,493,375	33,018,414	47,718,207	Balance sheet
11	Shareholders' Equity	SE	36,921,877	37,002,676	37,786,026	Balance sheet
12	Total capital	TC	36,921,877	37,002,676	37,786,026	Balance sheet
13	Net assets	NA	36,921,877	37,002,676	37,786,026	Balance sheet
14	Revenue	RVN	295,347,283	182,294,884	257,276,399	Income statement
15	Cost of sales	COS	200,727,163	119,866,867	184,970,639	Income statement
16	Operating income (OR - OE)	OE	7,628,506	2,945,345	9,625,109	Income statement
17	Gross profit	GP	94,620,120	62,428,017	72,305,759	Income statement
18	Net Profit	NP	1,477,895	1,484,071	3,019,664	Income statement

- Amounts are in RON -

Step no. 3 Computing of the financial key ratios

In this paper we focus on 23 key ratios split in 4 categories, as follow:

- a) Activity,
- b) Liquidity,
- c) Solvency, and
- d) Profitability.

The value of these financial key ratios is presented bellow in Table no. 3 together with general explanation. Also in this table is presented the analysis for our particular case based on the trial balances 'amounts and previous items.

No.	Category	Description			
1	Activity	The activity ratios reflect the ability of SME to perform the daily tasks			
		<u>Numerator</u>	<u>Denominator</u>	Year 2	Year 3
1.1.a	Inventory turnover	Cost of sales	Average inventory	3.44	6.52
1.1.b	Days of inventory on hand (DOH)	Number of days in period	Inventory turnover	107	56

	<p><i>Inventory turnover offers information regarding the speed at which SME's inventories are sold to customers. Also this key ratio indicates the money's value included in the inventories. This key ratio can be used to assess the management's performance. If the inventory turnover ratio is higher (commensurately low DOH) then inventories are hold for a short period of time till they are sold to customers. If the inventory turnover ratio is lower (commensurately high DOH) this can be a sign that the SME held inadequate inventory.</i></p> <p><i>Anyway, this key ratio must be analyzed based on the information regarding the industry in which the SME operates.</i></p> <p><i>In our particular case can be notice that SME has a better situation in Year 3. DOH decreases from 107 days to 56 days. It is a very good evolution.</i></p>				
1.2.a	Receivables turnover	Revenue	Average trade receivables	2.68	4.03
1.2.b	Days of sales outstanding (DSO)	Number of days in period	Receivables turnover	136	91
	<p><i>Receivables turnover indicates the factor by which the SME's sales exceed the average trade receivables. The number of DSO shows the period of time between the moment when the goods are sold and the moment when the cash are collected. In other words, DSO reflects how fast SME collects cash from customers it offers credit.</i></p> <p><i>A lower receivables turnover (commensurately high DOH) indicates that the SME may have problems if a customer becomes unable to make payments. A relatively high receivables turnover ratio (commensurately low DSO) indicates an efficient credit and collection.</i></p> <p><i>In our particular case can be notice that SME has a better situation in Year 3. DSO decreases from 136 days to 91 days. It is a very good evolution.</i></p>				
1.3.a	Payables turnover	Purchases	Average trade payables	1.76	4.58
1.3.b	Days payables outstanding (DPO)	Number of days in period	Payables turnover	207	80
	<p><i>Payables turnover indicates the payment policy of SME. In other words, payables turnover ratio measures how many times per year a SME pays off all its creditors. DPO presents the average number of days the company takes to pay its suppliers. Cost of sales is usually used as an approximation of purchase. This is also our particular case. A payables turnover ratio that is high (commensurately DPO is low) indicates that SME does not use the maxim facilities offered by the suppliers or this key ratio indicates that the SME pays in advance in order to obtain financial discounts for earlier payments.</i></p> <p><i>Based on the information from Trial balance our SME obtained in Year 3 financial discounts of 425,330 lei (in year 2: 75,694 lei. This can be reason of evolution of this key ratio. Anyway DPO for Year 3 (80 days) is lower than DSO (91 days) for the same period.</i></p>				
1.4	Working capital turnover	Revenue	Average working capital	5.32	7.81

	<p><i>This key ratio shows the capability of SME to generate revenue with its available working capital. If the value of this key ratio is high, this fact may indicate that SME is very effective. However, this ratio is strongly industry dependent. There are some industries, such as retailers, which have significant revenue ratios but which - in the same time- do not need a higher working capital turnover because they are working with the suppliers' inventories. In opposition to these industries, there are other industries, such as machinery construction or building construction industries, which need a very significant working capital for generating its revenue.</i></p> <p><i>In our particular case, in the first period, SME generates 5,32 Ron revenue for 1 Ron of working capital. In the next period the value of key ratio is higher which indicates a better evolution (SME generates 7.81 Ron revenue for 1 Ron of working capital)</i></p>				
1.5	Fixed asset turnover	Revenue	Average net fixed assets	68.2	58
	<p><i>This key ratio shows the capability of SME to generate revenue based on its investments in fixed assets. A higher value of this key ratio might indicate that the SME use its fixed assets in a very efficient manner. A lower one might indicate inadequate use of fixed assets. However, this ratio is strongly industry dependent. Year - to - year evolution must be analyzed, but not always, the significant changes from one year to the next could represent also an important changing in the efficiency of SME. The changing may be caused by acquisitions of new fixed assets. Also, when different enterprises are analyzed it must be taking into consideration the method of amortization and amortization periods used.</i></p> <p><i>In our particular case, the changing is generated by the acquisitions of new fixed assets. It can be notice, based on Trial balance data, that the value of fixed assets is significantly increase from one year to the next (specially from Year 1 to Year 2).</i></p>				
1.6	Total asset turnover	Revenue	Average total assets	1.7	2.6
	<p><i>This key ratio shows the capability of SME to generate revenue with a given level of assets. It also indicates how often all assets were turned over the period (e.g. 365 days). If the value of this key ratio is high, this fact may indicate that SME is very effective. A low asset turnover ratio may suggest inefficiency.</i></p> <p><i>In our particular case, in the first period, SME generates 1.7 Ron revenue for 1 Ron of all assets. In the next period the value of key ratio is higher which indicates a better evolution (SME generates 2.6 Ron revenue for 1 Ron of all assets)</i></p>				

Table no. 3

No.	Category	Description			
2	Liquidity	The liquidity ratios reflect the ability of SME to perform the short term (less than 1 year) obligations			
		Numerator	Denominator	Year 2	Year 3

2.1	Current ratio	Current assets	Current liabilities	1.6	1.5
	<p><i>This key ratio shows the relationship between liquid assets to payments commitments. A higher value of this ratio shows a higher level of liquidity. A lower ratio indicates less liquidity. Generally a current ratio less than 1 indicates that SME can have significant difficulties regarding the payments for current liabilities. Anyway, it is import to remember that, sometimes, it is difficult to sell the inventory for an amount equal to its carrying value. In our particular case, in both periods, current liabilities are covered at least 150 % by current assets.</i></p>				
2.2	Quick ratio	Cash + short-term marketable investments + Trade receivables	Current liabilities	1.16	0.98
	<p><i>This key ratio is used for evaluating the creditworthiness of SME. This ratio is more drastically than the current ratio because it does not include inventories. In fact it includes only the more liquid current assets in relation to current liabilities. Inventories are excluded because these might not be easily and quickly converted into cash. A higher value of this ratio shows a higher level of liquidity. A lower ratio indicates less liquidity. Generally a current ratio less than 1 indicates that SME can have significant difficulties regarding the payments for current liabilities. In our particular case current liabilities are covered 110 % by current assets in the first period but. Value of quick ratio of next period is less than 100%. This fact indicates a SME is not able to cover current liabilities by using its quick assets.</i></p>				
2.3	Trade receivables to current liabilities	Trade receivables	Current liabilities	1.13	0.95
	<p><i>This key ratio indicates the value of extent short term trade payables are covered by trade receivables. A higher value of this ratio shows a higher level of liquidity. A lower ratio indicates less liquidity. Generally a current ratio less than 1 indicates that it is possible to appear liquidity problems. In our particular case current liabilities are covered 110 % by receivables in the first period but. Next period value of quick ratio is less than 100%. This fact indicates a SME is not able to cover current liabilities by using its receivables.</i></p>				
2.4	Net operating cycle (cash conversion cycle)	DOH + DSO-DPO (in days)		36	67
	<p><i>This key is presented as a financial metric form and not in ratio form. It measures the length of time required for SME to go: from money to money invested in its operations <=> collected from customers as a result of its operation. A shorter cash conversion cycle indicates greater liquidity. A longer period of operating cycle indicates lower liquidity. In our particular case the evolution of this indicator shows that SME must finance its inventory and accounts receivable for a longer period of time.</i></p>				

- Table no. 3 -

No.	Category	Description			
3	Solvency	The liquidity ratios reflect the ability of SME to perform the long term (more than 1 year) obligations			
		<u>Numerator</u>	<u>Denominator</u>	Year 2	Year 3
3.1	Debt-to-assets ratio	Loans & Borrowings	Total assets	18%	14%
<p><i>This key ratio measures the percentage of total assets financed with interest-bearing short-term and long-term loans & borrowings. As a general appreciation, a higher value means higher financial risk and thus weaker solvency.</i></p> <p><i>In our particular case SME presents a better evolution. The percentage for the Year 3 is less than percentage from the previous year. This decrease in debt as part of the capital structure indicates that solvency of SME has improved.</i></p>					
3.2	Debt-to-capital ratio	Loans & Borrowings	Loans & Borrowings + Shareholders Equity	31%	28%
<p><i>This ratio measures the percentage of a SME's capital (loans /borrowings plus equity) represented by loans/borrowings. As a general appreciation, a higher value means higher financial risk and thus weaker solvency.</i></p> <p><i>In our particular case SME presents a better evolution. The percentage for the Year 3 is less than percentage from the previous year. This decrease in debt as part of the capital structure indicates that solvency of SME has improved.</i></p>					
3.3	Debt-to-equity ratio	Loans & Borrowings	Shareholders' Equity	44%	39%
<p><i>This key ratio measures the amount of debt capital (short and long term loans and borrowings) relative to equity capital. As a general appreciation, a higher value means higher financial risk and thus weaker solvency.</i></p> <p><i>In our particular case SME presents a better evolution. The percentage for the Year 3 is less than percentage from the previous year. This decrease in debt as part of the capital structure indicates that solvency of SME has improved.</i></p>					
3.4	Financial leverage ratio	Average total assets	Average total equity	2.92	2.66
<p><i>This key ratio measures the value of total assets supported for each one currency unit of equity. This ratio is also named "Leverage ratio". If the value of this ratio is higher it means that SME uses debt and other liabilities to finance the assets.</i></p> <p><i>In our particular case there is no significant changing from one year to next.</i></p>					

Table no. 3 –

No.	Category	Description			
4	Profitability	The profitability ratios reflect the ability of SME to generate profitable sales of goods/services based on its own resources.			
		<u>Numerator</u>	<u>Denominator</u>	Year 2	Year 3
4.1	Gross profit margin	Gross profit	Revenue	34%	28%
<p><i>This ratio indicates the percentage of sales that SME has available as gross profit. In other words it indicates the percentage of revenue available in order to cover the operating expenditure. Higher values of this key ratio might indicate that SME sells products with higher prices, or sells products with low production costs/purchase cost or a combination of these two kind of products.</i></p> <p><i>In our case the evolution of this key ratio is not a favorable one because the value of year 3 is lower than the value from previous year despite the fact that the revenue significantly increase. This decrease can be caused by a reduction of the selling price or by an increase of production/purchase costs or a combination of these two causes. Based on the data from Trial balance it can be notice a significant increase of discounts granted to customers.</i></p>					
4.2	Operating profit margin	Operating income	Revenue	1.62%	3.74%
<p><i>This key ratio measures the amount of net income earned with each currency unit of sales of goods/services generated by comparing the operating income and net sales.</i></p> <p><i>In our case the value of key ratio increases. It is a good sign but the increase is, in fact, insignificant compared to the revenue increase.</i></p>					
4.3	Net profit margin	Net income	Revenue	0.81%	1.17%
<p><i>This key ratio measures the amount of net income earned with each currency unit of sales of goods/services generated by comparing the net income and net sales. In other words, the profit margin ratio shows what percentage of sales are left over after all expenses are paid by SME. This key ratio indicates how effectively a company can convert sales into net income.</i></p> <p><i>In our case the value of key ratio increases. It is a good sign but the increase is, in fact, insignificant compared to the revenue increase.</i></p>					
4.4	Operating ROA	Operating income	Average total assets	2.73%	9.69%
<p><i>This key ratio compares operating income to average total assets. In this ratio the interest and tax expenses are not included and - because of this fact - the comparability between SMEs from different industries is easier. It is a important indicator over time for evaluating the performance of SME in a medium and long term.</i></p> <p><i>In our case the value of key ratio increases. It is a good sign for evolution of SME.</i></p>					
4.5	ROA	Net income	Average total assets	1.37%	3.04%

	<i>This key ratio compares net income to average total assets. In this ratio the interest and tax expenses are included and - because of this fact - the comparability between SMEs is more difficult. This is a important indicator over time for evaluating the performance of SME in a medium and long term. The higher the ratio, the more income is generated by a given level of assets.ROA measures how efficiently a SME can manage its assets to produce profits during a period.</i>				
4.6	ROE	Net income	Average total equity	4.02%	8.08%
	<i>Return on equity measures profitability of a SME by revealing how much profit a SME generates with the money shareholders have invested. In other words ROE is a measure of profitability of shareholders' investments. The higher the ratio, the more income is generated by shareholders' investments.</i>				
	<i>In our case the value of key ratio increases. It is a good sign for evolution of SME.</i>				

III. Conclusions

Key ratios are important in the overall analysis of the evolution of SME. Anyway, each individual key ratio has its own advantages and disadvantages (e.g. Inventory turnover has advantages: assessment of the entity's sales process, a tool for analyzing the operating activities / Inventory turnover has disadvantages such as that it is highly industry – dependent). As a general conclusion, when analyzing the SME's financial ratios it must be taken into consideration its evolution over a number of years (at least 2, 3 years) and – in the same time - the specific and characteristics of the industry in which SME operates.

Acknowledgement: This paper has been financially supported within the project entitled “**Horizon 2020 - Doctoral and Postdoctoral Studies: Promoting the National Interest through Excellence, Competitiveness and Responsibility in the Field of Romanian Fundamental and Applied Scientific Research**”, contract number POSDRU/159/1.5/S/140106. This project is co-financed by European Social Fund through Sectoral Operational Programme for Human Resources Development 2007-2013. **Investing in people!**

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