

## CONCEPT: RATIOS – CASH RETURN ON ASSETS

- The **Cash Return on Assets** measures the operating cash a company earns based on the amount of assets it maintains
  - It is better to earn the same amount of money using less assets than more assets!

$$\text{Cash Return on Assets} = \frac{\text{Operating Cash Flows}}{\text{Average Total Assets}} = \frac{\text{Operating Cash Flows}}{(\text{BB Total Assets} + \text{EB Total Assets}) \div 2}$$

**Note:** An average balance is used in many ratios. It is always calculated as \_\_\_\_\_.  
If you are only given one balance (i.e. ending balance), just use that number (no average!)

**Note (2):** This ratio is generally shown as a \_\_\_\_\_, make sure to multiply by 100!

**Analysis:** The Cash Return on Assets tells how much operating cash flows the company earns for each dollar of assets.

**Red Flag:** A negative Cash Return on Assets occurs if the company had a net \_\_\_\_\_ from operating activities.

**PRACTICE:** XYZ Company had net sales during the period of \$380,000 and operating cash flows of \$60,000. If total assets were \$480,000 at the beginning of the period and \$720,000 at the end of the period, what is the company's cash return on assets?

- a) 8%
- b) 10%
- c) 13%
- d) 63%

**PRACTICE:** A company has income before taxes of \$120,000. Net sales are \$400,000 and gross profit is \$300,000. Operating cash inflows totaled \$360,000 and operating cash outflows totaled \$300,000. What is the cash return on assets, assuming the company has a 40% tax rate, and average total assets were \$900,000?

- a) 6.7%
- b) 11.1%
- c) 33.3%
- d) 44.4%