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How “Healthy” is your Pharmacy? – Check Your Financial Pulse

Financial measures are standard accounting ratios that are commonly used to evaluate your pharmacy’s financial health. You don’t need to be a certified public accountant to understand their business value. Become familiar with these financial ratios and learn how raising or lowering one variable affects the equation. Review the ratios with your bookkeeper, accountant or other appropriate financial advisor and discuss implications for your business. Review them at least quarterly and be prepared to make changes in operating procedures to maintain healthy margins.

- Current ratio = current assets/current liabilities
(Larger is better)
- Collection period = accounts receivable/sales
(Smaller is better)
- Accounts payable to sales = accounts payable/net sales
(Smaller is better)
- Quick ratio = (cash + accounts receivable)/current liabilities
(Larger is better)
- Current liabilities to net worth = current liabilities/net worth
(Smaller is better)
- Return on sales = net sales/inventory
(Larger is better)

- Working capital = current assets – current liabilities
(Larger is better)
- Quality of earnings = cash flow from operations/(net income + depreciation)
(Larger is better)
- Operating cash flow to sales = cash flow from operations/(revenue – adjustment to revenue)
(Larger is better)
- Inventory turns = cost of goods sold / inventory
(Larger is better)
- Inventory turn days = 360 / inventory turns
(Smaller is better)

The Pharmacy Financial Measures are provided is for discussion purposes only. Contact a qualified professional consultant to addresses your individual or business start up requirements.

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