

## I. THE $\frac{\text{NET INCOME}}{\text{TOTAL ASSETS}}$ RATIO

In an earlier bulletin<sup>1</sup> consideration was given to those ratios which measure the capacity of a company to produce Gross Revenue, that is, the ratio of Gross Revenue to Total Assets and the ratio of Gross Revenue to Net Worth. The first of these two ratios is particularly important because it indicates the period necessary for capital turnover. In the present bulletin, attention is directed to those ratios which measure the ability of a company to produce Net Income (or Net Revenue). These are the ratios of Net Income to Total Assets and the ratio of Net Income to Net Worth.<sup>2</sup>

In general the procedure will be to analyze the two principal ratios separately, supporting the analyses by suitable tables in an appendix and by bar-charts accompanying the text. The tables are constructed to show "frequency distributions," in other words, to picture the way the hundreds of ratios calculated from the financial statements of many companies have been grouped into class intervals according to the size of the ratios. One vertical bar in the charts might, for example, represent the ratios whose values range from, say, .02 to .029. In order to make all of the charts more comparable, however, they are put on a relative basis by making the length of the bars express the *percentage of the total cases* which fall in the respective ratio-groups rather than the number of cases.

### The Net Earning Power of Property Investment

In preparing the ratios here studied the balance sheets of some two hundred public utility companies were examined for the period 1915-1924. These financial statements yielded 1603 cases for study. For 87 of these, no statement of net income was obtainable. In addition there were eight cases between .11 and .16 in which the ratio of Net Income to Total Assets was unusually high, and two cases in which the ratio of Net Income<sup>3</sup> to Total Assets was unusually low,—.11 or less. These 97

<sup>1</sup>University of Illinois, Bureau of Business Research Bulletin No. 10—*The Financial Productivity Ratios of Public Utility Companies.*

<sup>2</sup>Data for the ratio of Net *Earnings* to Total Assets and the ratio of Net *Earnings* to Gross Revenue are presented in additional tables in the Appendix, although these ratios are not discussed in detail in the text.

<sup>3</sup>Net Income, as used herein, is the amount of revenue remaining after operating expenses and fixed charges have been covered. Net Loss would be the amount by which the revenue was insufficient to cover both classes of costs, and is represented by a negative ratio of Net Income to Total Assets.