**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!

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

**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%