



## Appendix six – Financial indicators

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Indicator	Formula	Description
Liquidity	Current assets / adjusted current liabilities	<p>This measures the ability to pay existing liabilities in the next 12 months. A ratio above one means there is more cash and current assets than short-term liabilities.</p> <p>Current liabilities exclude current annual leave and long service leave liabilities expected to be settled after 12 months.</p>
Gearing (%)	Debt / (Debt + Equity)	<p>This is a longer-term measure that compares all current and non-current interest-bearing borrowings to equity. It complements the current ratio which is a short-term measure.</p> <p>A low percentage indicates less reliance on debt to finance the capital structure of an organisation.</p>
Capital replacement (ratio)	Cash outflows for property, plant and equipment and intangibles / depreciation and amortisation	<p>Comparison of the rate of spending on infrastructure, property, plant and equipment and intangibles with their depreciation and amortisation. Ratios greater than one indicate that spending is greater than the rate of depreciation. This is a long-term indicator, as capital expenditure can be deferred in the short-term if there are insufficient funds available from operations, and borrowing is not an option. Cash outflows for infrastructure, property, plant and equipment and intangibles are taken from the cash flow statement. Depreciation and amortisation is taken from the comprehensive operating statement.</p>

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