

9.4: Return on Assets

Learning Objectives

- Calculate a return on assets (ROA) for a sample retailer

One way a firm can reflect its efficiency is return on assets (ROA). ROA refers to how much income is produced by its use of assets. Again, for a retail business, assets are inventory available for sale and the dollars generated by sales. Generally, return on assets is calculated as $ROA = \text{net profit} / \text{total assets}$. But, it can also be calculated by multiplying the operating profit margin \times asset turnover.

Of course, it's important to understand that retailers manage their operations to meet their own financial goals. Thus, factors that influence operating profit margin and asset turnover may vary between retailers. For example, consider Daisy Donuts and Jasmine Jewelers, which are neighbors in the same strip mall, but have much different financial goals. As such, they have much different operating profit margin and asset turnover, despite ROAs of 15%.

- Daisy Donuts
 - Asset turnover: 5.0, given donuts are perishable and are priced to sell quickly to avoid spoilage
 - Operating profit margin: 3%.
- Jasmine Jewelers
 - Asset turnover: 1.0, given jewelry is expensive and a considered purchase
 - Operating profit margin: 15%.

As you can see, both outlets have the same ROA, but the components that make up that ROA are vastly different, reflective of each's retailer's financial objectives.

Learn More



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You can [view the transcript for "Financial Analysis: Return on Assets Example" here \(opens in new window\)](#).

Practice Questions

<https://assessments.lumenlearning.co...essments/9240>

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