

RATIO ANALYSIS

[A] Profitability Ratios

(i) Profitability Ratios based on Sales

1	Gross Profit Ratio	$\frac{\text{Gross Profit}}{\text{Net Sales}} \times 100$ <p>Where, Gross Profit = Sales – COGS</p>
2	Operating Ratio	$\frac{\text{Cost of Goods Sold} + \text{Operating Expenses}}{\text{Net Sales}} \times 100$ <p>Where, COGS = Opening Stock + Purchase + Purchase expenses – Closing Stock OR COGS = Net Sales – Gross Profit Operating Expenses = Administrative Exp. + Sales Exp. + Employee benefit Exp. + Depreciation on Assets</p>
3	Expense Ratio	$\frac{\text{Expense}}{\text{Net Sales}} \times 100$
4	Net Profit Ratio	$\frac{\text{PAT}}{\text{Net Sales}} \times 100$ <p>Where, PAT = Profit After Tax</p>

(ii) Profitability Ratios based on Investment

5	Return on Capital Employed	$\frac{\text{EBIT}}{\text{Capital Employed}} \times 100$ <p>Where, EBIT = Earnings Before Interest and Tax Capital Employed = Share capital + Reserves & Surplus + Non-current liabilities – Fictitious Assets</p>
6	Return on Shareholders' Funds	$\frac{\text{PAT}}{\text{Shareholders' Funds}} \times 100$ <p>Where, Shareholders' Funds = Share capital + Reserves</p>
7	Return on Equity Share Capital	$\frac{\text{PAT} - \text{Preference Dividend}}{\text{Equity share capital}} \times 100$
8	Earnings Per Share (EPS)	$\frac{\text{PAT} - \text{Preference Dividend}}{\text{No. of equity shares}} \times 100$

[B] Liquidity Ratios

9	Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$ <p>Where, Current Assets = Cash and Bank balance + Stock + Debtors + B/R + Prepaid expenses + Investment convertible into cash + Loans and advances Current Liabilities = Creditors + B/P + Bank O/D + Unclaimed dividend + Provision for Taxation + Proposed dividend</p>
10	Liquid Ratio	$\frac{\text{Liquid Assets}}{\text{Current Liabilities}}$ <p>Where, Liquid Assets = Current Assets – Stock</p>
11	Acid-Test Ratio or Quick Ratio or Absolute Liquidity Ratio	$\frac{\text{Quick Assets}}{\text{Current Liabilities}}$ <p>Where, Quick Assets = Current Assets – Stock – Debtors</p>

[C] Capital Gearing Ratios OR Leverage Ratios

12	Proprietary Ratio	$\frac{\text{Proprietor's Funds}}{\text{Total Funds}} \times 100$ <p>Where, Proprietor's Funds = Shareholders' Funds</p>
13	Debt – Equity Ratio	$\frac{\text{Long Term Liabilities}}{\text{Shareholder's Funds}}$
14	Capital Gearing Ratio	$\frac{\text{Fixed Interest and Dividend bearing capital}}{\text{Ordinary Capital}}$ <p>Where, Fixed Int. and Div. Capital = Preference Capital + Debentures Ordinary Capital = Equity Capital</p>
15	Long Term Funds to Fixed Assets Ratio	$\frac{\text{Long Term Funds}}{\text{Fixed Assets}}$ <p>Where, Long Term Funds = Share capital + Reserves + Long term Liabilities</p>

16	Interest Coverage Ratio	$\frac{EBIT}{Interest\ Payable\ on\ Long - term\ Liabilities}$
[D] Turnover Ratios OR Activity Ratios		
17	Stock Turnover Ratio	$\frac{Cost\ of\ Goods\ Sold}{Average\ Stock}$
18	Debtors' Ratio	$\frac{Debtors + Bills\ Receivable}{Credit\ Sales} \times Days\ of\ the\ year$
19	Creditors' Ratio	$\frac{Creditors + Bills\ Payable}{Credit\ Purchase} \times Days\ of\ the\ year$
20	Total Assets Turnover Ratio	$\frac{Sales}{Total\ Assets}$