

3.1 BALANCE SHEET RATIOS

BALANCE SHEET

ITEM		AMOUNT			
I.	SOURCES OF FUNDS				
1.	Equity Share Capital	EC			
2.	Reserves & Surplus	RS			
3.	Equity Shareholders' Funds (1 + 2)		EF		
4.	Preference Share Capital		PC		
5.	Proprietors' Funds (3 + 4)			PF	
6.	Borrowed Funds			BF	
7.	Capital Employed (6 + 7)				CE
II.	USE OF FUNDS				
1.	Fixed Assets			FA	
2.	Debtors	DR			
3.	Bills Receivable	BR			
4.	Other Quick Assets	OQA			
5.	Total Quick Assets (2 + 3 + 4)	QA			
6.	Closing Stock	CST			
7.	Pre-payments	PP			
8.	Current Assets (5 + 6 + 7)		CA		
9.	Creditors	CD			
10.	Bills Payable	BP			
11.	Other Quick Liabilities	OQL			
12.	Total Quick Liabilities (9 + 10 + 11)	QL			
13.	Bank Overdraft	OD			
14.	Current Liabilities (12 + 13)		CL		
15.	Working Capital (8 - 14)			WC	
16.	Capital Employed (1 + 15)				CE

Balance Sheet Ratio

1. Current Ratio

Equation / Formula

$$CR = \frac{CA}{CL}$$

2. Quick / Liquid Ratio

$$QR = \frac{QA}{QL}$$

3. Stock Working Capital

$$SWC = \frac{CST}{WC} \times 100$$

4. Proprietors' Ratio

$$PR = \frac{PF}{TA} \times 100$$

[TA = Total Assets = FA + CA = CE + CL
= Total of Horizontal B/S - Fictitious Assets]

5. Debt-Equity Ratio

$$DER = \frac{BF}{PF}$$

6. Capital Gearing Ratio

$$CGR = \frac{PC + BF}{EF}$$

3.2 PROFIT & LOSS ACCOUNT RATIOS

INCOME STATEMENT

ITEM	AMOUNT
1. Credit Sales	CRS
2. Cash Sales	<u>CAS</u>
3. Total Sales (1 + 2)	S
4. Opening Stock	OST
5. Credit Purchases	CRP
6. Cash Purchases	<u>CAP</u>
7. Total Purchases (5 + 6)	P
8. Direct Expenses	DE
9. Less : Closing Stock	<u>(CST)</u>
10. Cost of Goods Sold (4 + 7 + 8 - 9)	<u>COGS</u>
11. Gross Profit (3 - 10)	GP
12. Administration Expenses	AE
13. Selling Expenses	SE
14. Finance Expenses (Excl. Interest)	<u>FE</u>
15. Operating Expenses (12 + 13 + 14)	<u>OE</u>
16. Operating Profit (11 - 15)	OP
17. Net Non-Operating Income / Expenses	<u>NO</u>
18. Profit Before Interest & Tax (16 ± 17)	PBIT
19. Interest on Loans	<u>INT</u>
20. Net Profit Before Tax (18 - 19)	NPBT
21. Income Tax	<u>IT</u>
22. Net Profit After Tax (20 - 21)	NPAT
23. Preference Dividends Paid	<u>PD</u>
24. Profit Available For Equity Shareholders (22 - 23)	PAES
25. Equity Dividends Paid	<u>ED</u>
26. Retained Earnings (24 - 25)	<u>RET</u>

P & L Ratio

1. Gross Profit Ratio

Equation / Formula

$$GPR = \frac{GP}{S} \times 100$$

2. Operating Ratio

$$OR = \frac{COGS + OE}{S} \times 100$$

3. Expense Ratio

$$ER = \frac{AE \text{ or } SE \text{ or } FE}{S} \times 100$$

4. Operating Profit Ratio

$$OPR = \frac{OP}{S} \times 100$$

5. Net Profit Ratio

$$NPR = \frac{NPBT}{S} \times 100$$

6. Stock Turnover Ratio

$$STR = \frac{COGS}{\frac{OST + CST}{2}}$$

3.3 COMPOSITE RATIOS

Composite Ratios

1. Return on Investment / Capital Employed

Formula / Equation

$$ROI = \frac{PBIT}{CE} \times 100$$

2. Return on Proprietors' Fund

$$RPF = \frac{NPAT}{PF} \times 100$$

3. Return on Equity Capital

$$ROE = \frac{PAES}{EF} \times 100$$

4. Dividend Pay Out

$$DP = \frac{ED}{PAES} \times 100$$

5. Debt Service Ratio

$$DSR = \frac{PBIT}{INT}$$

6. Debt Service Coverage Ratio

$$DSCR = \frac{\text{Cash Profits}}{\text{Interest} + \text{Instalments}}$$

7. Debtors Turnover Ratio

$$DTR = \frac{CRS}{DR + BR}$$

8. Creditors Turnover Ratio

$$CTR = \frac{CRP}{CD + BP}$$

Additional Ratios

9. Earning Per share

Earnings Per Share Formula

$$EPS = \frac{\text{Net Income of the Company}}{\text{Average Outstanding Shares of the Company}}$$

$$EPS = \frac{\text{Net Income of the Company} - \text{Dividend to Preferred Shareholders}}{\text{Average Outstanding Shares of the Company}}$$

10. Price Earning ratio (PE ratio)

$$\frac{P}{E} = \frac{\text{Share Price}}{EPS}$$

where:

$$\frac{P}{E} = \text{Price-to-earnings ratio}$$

Share Price = Market value per share

EPS = Earnings per share