

List Important Ratios and its Formulas

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Name of the Ratio	Formula for computation	Objective is to assess
A: Profitability Ratios		
1. Gross profit ratio	$\frac{\text{Gross profit}}{\text{Net sales}} * 100$	General profitability of the firm
2. Net profit ratio	$\frac{\text{Net profit}}{\text{Net sales}} * 100$	Overall profitability of the firm
3. Operating profit ratio	$\frac{\text{Operating profit}}{\text{Net sales}} * 100$	Operating profitability
4. Operating ratio	$\frac{\text{Cost of goods sold} + \text{operating expenses}}{\text{Net sales}} * 100$	Portion of cost on sales
5. Expenses ratio	$\frac{\text{Individual expenses}}{\text{Net sales}} * 100$	Portion of individual expenses on sales
6. Return on Investment	$\frac{\text{Operating profit}}{\text{Capital employed}} * 100$	Return on capital employed
7. Return on shareholder's fund	$\frac{\text{Net profit after interest and tax}}{\text{Share holder's fund}} * 100$	Return on shareholder's fund
8. Return on equity	$\frac{\text{Net profit after interest, tax and pref: dividend}}{\text{Equity shareholder's fund}} * 100$	Return on equity share capital
9. Return on total assets	$\frac{\text{Net profit after tax and interest}}{\text{Total assets} - \text{fictitious assets}} * 100$	Return on assets
10. Earnings per share	$\frac{\text{Net profit after tax and preference dividend}}{\text{Number of equity shares}}$	Earnings per share
11. Price earnings ratio	$\frac{\text{Market price per equity share}}{\text{Earnings per equity share}}$	No. of times market price is covered by earnings

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12. Payout ratio	$\frac{\text{Dividend per equity share}}{\text{Earnings per equity share}}$	Proportion of profit paid as dividend
13. Retained earnings ratio	$\frac{\text{Retained earnings}}{\text{Net profit after tax and preference dividend}} * 100$	Proportion of earnings retained
14. Dividend yield ratio	$\frac{\text{Dividend per equity share}}{\text{Market price per share}} * 100$	Dividend yield on market price
15. Cover for equity dividend	$\frac{\text{Net profit after tax and pref. dividend}}{\text{Equity dividend}} * 100$	No. of times equity dividend is covered by profit
B: Activity ratios		
16. Capital Turnover ratio	$\frac{\text{Cost of goods sold or sales}}{\text{Capital employed}}$	No. of times capital turned over into sales
17. Fixed assets turnover ratio	$\frac{\text{Cost of goods sold or sales}}{\text{Net fixed assets}}$	No. of times Investment in fixed asset turned over in an year
18. Working capital turnover ratio	$\frac{\text{Cost of goods sold or sales}}{\text{Net working capital}}$	No. of times working capital is turned over in an year
19. Stock turnover ratio	$\frac{\text{Cost of goods sold}}{\text{Average stock}}$	No. of times investments in inventory is turned over in an year
20. Stock turnover period	$\frac{\text{Days or months in an year}}{\text{stock turnover ratio}}$	Average period of inventory holding
21. Debtors turnover ratio	$\frac{\text{Net credit sales}}{\text{Average accounts recievables}}$	No. of times debtors turned over into cash in an year
22. Average collection period	$\frac{\text{Days or months in an year}}{\text{Debtors turnover ratio}}$	Average time required to collect the debt

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23. Creditors turnover ratio	$\frac{\text{Net credit purchases}}{\text{Average accounts payable}}$	No. of times creditors are paid out in an year
24. Average payment period	$\frac{\text{Months or days in an year}}{\text{Creditors turnover ratio}}$	Average lag in payment of creditors
C: Liquidity ratios		
25. Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	General liquidity of the firm
26. Liquid ratio	$\frac{\text{Liquid assets}}{\text{Current liabilities}}$	Immediate liquidity of the firm
27. Absolute liquidity ratio	$\frac{\text{Cash in hand and at bank} + \text{marketable securities}}{\text{Current liabilities}}$	Cash liquidity of the firm
28. Ratio of inventory to working capital	$\frac{\text{stock}}{\text{Working capital}}$	Proportion of working capital invested in inventory
D: Solvency ratios		
29. Debt-equity ratio	$\frac{\text{Outsider's fund}}{\text{Shareholder's fund}}$	Proportion of debt to equity
30. Fixed charges cover	$\frac{\text{Net profit before interest and tax}}{\text{Interest on long term loans or debentures}}$	Portion of fixed interests covered by profit
31. Fixed dividend coverage ratio	$\frac{\text{Net profit after interest and tax but before dividend}}{\text{preference dividend}}$	Portion of preference dividend covered by profit
32. Fixed assets ratio	$\frac{\text{Net fixed assets}}{\text{Long term fund}}$	Portion of fixed assets financed by long term fund
33. Proprietary ratio	$\frac{\text{Shareholder's fund}}{\text{Total tangible assets}}$	Portion of assets financed by shareholder's fund
34. Ratio of fixed assets to	$\frac{\text{Net fixed assets}}{\text{Shareholders' fund}}$	Portion of fixed assets financed by

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proprietors' fund		shareholders' fund
35. Ratio of current assets to proprietors' fund	$\frac{\textit{Current assets}}{\textit{Shareholders' fund}}$	Portion of current assets financed by shareholders' fund
36. Ratio of fixed assets to current assets	$\frac{\textit{Fixed assets}}{\textit{Current assets}}$	Proportion of fixed assets to current assets
37. Reserves to capital ratio	$\frac{\textit{Reserves}}{\textit{Equity share capital}} * 100$	Reserves as a percentage of equity capital
38. Capital gearing ratio	$\frac{\textit{Fixed interest bearing securities}}{\textit{Equity shareholders' fund}}$	Ratio of fixed charges fund to equity capital

Important:

It is prepared to use as a quick guide to ratio analysis during the class room learning. Misuse of this list during examination is strongly condemned by the author.