

RATIO	FORMULA	UNIT	COMMENT
<p>Return on Capital Employed (Profitability)</p>	$\frac{\text{Net Profit (Before Interest)} \times 100}{\text{Capital Employed}}$	<p>Percentage (%)</p>	<ol style="list-style-type: none"> Should be compare to risk free investments, debentures and preference shares A company is profitable if their ROCE is higher than the return from risk free investments
<p>Return on Shareholders' Equity (Profitability)</p>	$\frac{\text{Net Profit (After Pref Dividend)} \times 100}{\text{Ordinary Share Capital} + \text{Reserves}}$	<p>Percentage (%)</p>	<ol style="list-style-type: none"> This shows the return to stakeholder after the following have been paid <ol style="list-style-type: none"> Interest Taxes and Preference Dividends
<p>Current Ratio (Liquidity)</p>	<p>Current Assets : Current Liabilities</p> <p>OR</p> $\frac{\text{Current Assets}}{\text{Current Liabilities}}$	<p>Ratio 2:1</p>	<ol style="list-style-type: none"> This shows if the working capital (CA - CL) is enough to meet the day-to-day cost of the business Recommended ratio is 2:1 This means that for every €1 owed by the business in the short term the business has €2 to pay
<p>Acid Test (Liquidity)</p>	<p>Current Assets - Closing stock : Current Liabilities</p> <p>OR</p> $\frac{\text{Current Assets} - \text{Closing stock}}{\text{Current Liabilities}}$	<p>Ratio 1:1</p>	<ol style="list-style-type: none"> The acid test ratio doesn't use closing stock as it is hard to convert it to cash quickly A recommended ration is 1:1 Any it is a good indicator how liquid a company is

<p style="text-align: center;">Stock Turnover</p> <p style="text-align: center;">(Usually asked in Part A (i))</p>	$\frac{\text{Cost of Sales}}{\text{Average Stock}}$	<p style="text-align: center;">Times</p>	<ol style="list-style-type: none"> 1. This shows the number of times in a year that average stock is sold 2. If this figure is lower, it could be an indicator that the business is slowing down 3. If this figure is high the business could run the risk of running out of stock due to a tight policy
<p style="text-align: center;">Average Stock</p> <p style="text-align: center;">(Usually asked in Part A (i))</p>	$\frac{\text{Opening} + \text{Closing Stock}}{2}$	<p style="text-align: center;">Euro</p>	
<p style="text-align: center;">Debtors Collection Period</p> <p style="text-align: center;">(Usually asked in Part A (i))</p>	$\frac{\text{Debtors} \times 12/52/365}{\text{Credit Sales}}$	<p style="text-align: center;">Months/ Weeks/Days</p>	<ol style="list-style-type: none"> 1. This shows that amount of time it takes the business to collect from their debtors 2. The business should collect debt quickly this can be done by given a discount to invoice are paid before the due date
<p style="text-align: center;">Creditors Collection Period</p> <p style="text-align: center;">(Usually asked in Part A (i))</p>	$\frac{\text{Creditors} \times 12/52/365}{\text{Credit Purchases}}$	<p style="text-align: center;">Months/ Weeks/Days</p>	<ol style="list-style-type: none"> 1. This shows that amount of time it takes the business to pay their creditors (Debts) 2. Having a long credit period can help the business but they will lose out on discount

<p>Gearing Ratio (Total Capital) (Gearing)</p>	$\frac{\text{Loan + debenture + Preference Shares} \times 100}{\text{Capital Employed}}$	<p>Percentage (%)</p>	<ol style="list-style-type: none"> 1. Lowly geared company = fixed interest is less than 50% 2. Highly geared company = fixed interest if higher than 50% 3. It's important that is business is not too dependent on outside finance (Borrowings) 4. As interest and dividend (Pref) must be paid even if a profit is not made
<p>Gearing Ratio (Equity Capital) (Gearing)</p>	$\frac{\text{Loan + debenture + Preference Shares} \times 100}{\text{Ordinary Shares issued + Reserves}}$	<p>Percentage (%)</p>	<ol style="list-style-type: none"> 1. Lowly geared company = fixed interest is less than 50% 2. Highly geared company = fixed interest if higher than 50% 3. It's important that is business is not too dependent on outside finance (Borrowings) 4. As interest and dividend (Pref) must be paid even if a profit is not made
<p>Interest Cover (Gearing)</p>	$\frac{\text{Net Profit Before Interest and Tax}}{\text{Interest for the year}}$	<p>Times</p>	<ol style="list-style-type: none"> 1. This means the firms has money available for expansion, paying dividends and paying interest/loans
<p>Dividend Cover (Dividend Policy)</p>	$\frac{\text{Net Profit (After Tax \& Preference Dividend)}}{\text{Ordinary Dividends}}$	<p>Times</p>	<ol style="list-style-type: none"> 1. This indicates the amount of earning/profit are being retained by the business 2. Retained earnings help to increase share value - shareholder like to see a high dividend cover because of this. It show the risk to dividend if profits decrease

<p>Dividend Yield (Dividend Policy)</p>	$\frac{\text{DPS} \times 100}{\text{Market Value per Share}}$	<p>Percentage (%)</p>	<ol style="list-style-type: none"> 1. This shows the return to shareholders form their investment 2. It should be compared to risk free investments, debentures, and preference share
<p>Dividend Per Share (DPS) (Dividend Policy)</p>	$\frac{\text{Ordinary Dividends}}{\text{Ordinary Shares issued}}$	<p>Cent</p>	<ol style="list-style-type: none"> 1. This is the amount of dividend ordinary shareholders will receive per share owned
<p>Dividend Pay-out (Dividend Policy)</p>	$\frac{\text{DPS} \times 100}{\text{EPS}}$	<p>Percentage (%)</p>	<ol style="list-style-type: none"> 1. The is the percentage of profit that is paid out to shareholders 2. Is should be as close to 50% as possible
<p>Earnings Per Share (EPS) (Share performance)</p>	$\frac{\text{Net Profit (After Preference Dividend Paid)}}{\text{Number of Ordinary Shares}}$	<p>Cent</p>	<ol style="list-style-type: none"> 1. This shows the profit coming from each ordinary share 2. It is expressed as a percentage 3. It shows investors how well their investment is being used

<p style="text-align: center;">P/E Ratio</p> <p style="text-align: center;">(Share Performance)</p>	<p style="text-align: center;"><u>Market Price Per Share</u> Earnings Per Share</p>	<p style="text-align: center;">Years</p>	<ol style="list-style-type: none"> 1. This shows how long it will take a shareholder to get their investment back 2. It is expressed in years
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