To test	Name of Ratio	Formula	Parties interested	Industry norm
Liquidity and Solvency	i) Current Ratio	Current Assets / Current Liabilities	Short-term creditors, investors, money lenders & like parties	2:1
	ii) Liquid/Quick/ Acid Test Ratio	Current assets - Stock - Prepaid Expenses / Current Liabilities - Bank Overdraft - Prereceived Income	-do-	1:1
	iii) Absolute Liquid Ratio	Cash + Marketable securities / Quick Liabilities	-do-	1:1
	iv) Proprietary Ratio	Proprietor's Fund / Total Assets [Proprietor's funds = Equity Capital + Preference Capital + Reserves and Surplus + Accumulated funds - Debit balances of P & L A/c and Miscellaneous Expenses]	-do-	60% to 75%
Capitalisation	i) Debt Equity Ratio	Debt / Equity [Debt = Long/Short-term loans, debentures, bills, etc, Equity = Proprietor's funds]	-do-	2:1
	ii) Capital Gearing Ratio	Fixed cost funds / Funds not carrying fixed cost [Fixed cost funds = Preference share capital, Debentures, Loans from banks, financial institutions, other unsecured loans]. [Funds not carrying fixed cost = Equity share capital + undistributed profit - P & L A/c (Dr. Bal.) - Misc. expenses].	-do-	2:1
Profitability and management efficiency	i) Gross Profit Ratio	Gross Profit x 100 / Net sales	Shareholders, Long-term Creditors, Government	20% to 30%
	ii) Net Profit Ratio	Net Profit x 100 / Net sales [Net profit may be either Operating Net profit, Profit before tax or Profit after tax].	-do-	5% to 10%
	iii) Return on Capital Employed (ROCE)	Net profit x 100 / Capital employed [Capital employed = Fixed Assets + Current Assets - Current Liabilities].	-do-	—
	iv) Return on Proprietors	Profit after tax / Proprietor's funds	-do-	—

	fund			
	v) Return on Capital	<u>Profit after tax less pref. Dividend x 100</u> Equity Share Capital	-do-	—
	vi) Earnings per share [EPS]	<u>Profit after tax less pref. Dividend</u> Total No. of Equity Shares	-do-	—
	vii) Dividend per share [DPS]	<u>Total Dividend paid to ordinary shareholders</u> Number of ordinary shares	Shareholders, Investors	—
Management efficiency	i) Stock Turnover	<u>Cost of goods sold</u> Average Stock	Management	5 to 6 times
	ii) Debtors Turnover Ratio	<u>Debtors + Bills receivable x 365</u> Net Credit sales	Management	45 to 60 days
	iii) Debtor's Turnover Rate	<u>Credit sales</u> Avg. Debtors + Bills receivable	Management	60 to 90 days
	iv) Creditor's Turnover Ratio	<u>Creditors + Bills payable x 365</u> Credit purchases	-do-	
	v) Creditor's Turnover Rate	<u>Credit purchases</u> Average Creditors		
	vi) Operating Ratio	<u>Operating Costs x 100</u> Net sales [Operating Cost = Cost of goods sold + Operating expenses (viz. Administrative, selling & finance expenses)]		
Number of times preference dividends covered by net profit	Preference shareholders' coverage ratio	<u>Net profit (after Interest & Tax but before equity dividend)</u> Preference Dividend	Preference shareholders	
Number of times equity dividends covered by net profit	Equity shareholder's coverage ratio	<u>Net profit (after interest, tax & Pref. Dividend)</u> Equity Dividend	Equity shareholders	
Number of times fixed interest covered by net profit	Interest coverage ratio	<u>Net profit (before Interest & Tax) (PBIT)</u> Fixed interests & charges	Debentureholders, Loan creditors	
Relationship between net profit and total fixed charges	Total coverage ratio	<u>Net profit (before Interest & Tax) (PBIT)</u> Total fixed charges	Shareholders, investors, creditors, lenders	
The idle capacity in the Organisation	Fixed expenses to total cost ratio	<u>Fixed expenses</u> Total cost	Management shareholders	
Material consumption to	Material consumption to	<u>Material consumption</u> Sales	Management	

sales	sales ratio			
Wages to sales	Wages to sales ratio	$\frac{\text{Wages}}{\text{Sales}}$	Management	
The future market price of a share	Price earning ratio	$\frac{\text{Market price of a share (MPS)}}{\text{Earnings per share (EPS)}}$	Investors, speculators	