Financial-Accounting-Ratios Formulas:

This is a collection of financial ratio formulas which can help you calculate financial ratios in a given problem.

1. Analysis of Profitability:

a. General profitability:

- Gross profit ratio = (Gross profit / Net sales) × 100
- Operating ratio = (Operating cost / Net sales) × 100
- Expense ratio = (Particular expense / Net sales) × 100
- Operating profit ratio = (Operating profit / Net sales) × 100

b. Overall profitability:

- Return on shareholders' investment or net worth = Net profit after interest and tax / Shareholders' funds
- Return on equity capital = (Net profit after tax – Preference dividend) / Paid up equity capital
- Earnings per share (EPS) ratio = (Net profit after tax – Preference dividend) / Number of equity shares
- Return on gross capital employed = (Adjusted net profit / Gross capital employed) × 100
- Return on net capital employed = (Adjusted net profit / Net capital employed) × 100
- Dividend yield ratio = Dividend per share / Market value per share
- Dividend payout ratio or pay-out ratio = Dividend per equity share / Earnings per share

2. Short Term Financial Position or Test of Solvency:

- Current ratio = Current assets / Current liabilities
- Quick or acid test of liquid ratio (for immediate solvency) = Liquid assets / Current liabilities
- Absolute liquid ratio = Absolute liquid assets / Current liabilities

3. Current Assets Movement, Efficiency or Activity Ratios:

- Inventory / Stock turnover ratio = Cost of goods sold / Average inventory at cost
- Debtors of receivables turnover ratios = Net credit sales / Average trade debtors
- Average collection period = (Trade debtors No. of working days) / Net credit sales
- Creditors or payables turnover ratio = Net credit purchase / Average trade creditors
- Average payment period = (Trade creditors No. of working days) / Net credit purchase
- Working capital turnover ratio = Cost of sales / Net working capital

4. Analysis of Long Term Solvency:

- Debt to equity ratio = Outsiders funds / Shareholders funds or External funds / Internal funds
- Ratio of long term debt to shareholders funds (Debt equity) = Long term debt / Shareholders funds
- Proprietary of equity ratio = Shareholders funds / Total assets
- Fixed assets to net worth = Fixed assets after depreciation / Shareholders' funds
- Fixed assets ratio or fixed assets to long term funds = Fixed assets after depreciation / Total long term funds
- Ratio of current assets proprietors' funds = Current assets / Shareholders' funds
- Debt service or interest coverage ratio = Net profit before interest and tax / Fixed interest charges
- Capital gearing ratio = Equity share capital / Fixed interest bearing funds

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