SUMMARY OF RATIO/ANALYSIS

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why fear when i am here........

OVERALL PROFITABILITY RATIOS

These Ratios are Benefecial for Stakeholders

1.Earning per share
2.Dividend per share
3.Dividend payout Ratio
4.PE Ratio (Price Earning Ratio)
5.Dividend yield Ratio
6.Return on Equity
7.Return on Investment (ROI) or Return on Capital Employed (ROCE)

1. Profit after interest, Tax & pref dividend = 250000
no. of Equity share = 25000

1. Earning per share = 250000/25000 = 10/-

2. Co. declare dividend for this year = 20%

So total equity dividend declare = 250000 x 20% = 50000
no. of Equity share = 25000

2. Dividend per share = 50000/ 25000 = 2/-

3. Dividend Payout ratio $= \dfrac{\textbf{Dividend per share}}{\textbf{Earning per share}} \times 100$

$= \dfrac{2}{10} \times 100 = 20\%$

Result : dividend per share is 20% of earning per share

Let market price per share = 28/-

4. PE Ratio $= \dfrac{\textbf{Market price per share}}{\textbf{Earning per share}}$

$= \dfrac{28}{10} = 2.8$

if earning per share is 10 then market price is 28
so in future if we earn per share 20/- then market price should be = 28/10 x 20 = 56/-
market analysis: if PE ratio is decrease than the average PE ratio then it indicates that share price is under priced so it is the time to buy additional share.
if PE ratio is increase than the average PE ratio then it indicates that share price is over valued so it is the time to sell the availabe shares as the shares are over priced.

Trick :::: for remember this ratio read as ME ratio

5.Dividend Yield Ratio $= \dfrac{\textbf{Dividend per share}}{\textbf{Market price per share}} \times 100$

$= \dfrac{2}{28} = 7.14\ \%$

Result : Dividend per share is 7.14 % of market per share
As per market rate co. declare dividend @ 7.14 % (28 x 7.14% = 2/-)

6.Return on Equity $= \dfrac{\textbf{Net income}}{\textbf{Avg.Equity shrareholders fund}}$

or

Avg.Net worth

7.Return on Investment $= \dfrac{\textbf{Total Earnings}}{\textbf{Capital Employed}}$

Numerator = Profit after tax
Add: Tax + Interest + non trading incomes - non operating Incomes

Denominator = Equity Share capital
+ Pref share capital
+ Reserve & surplus
+ Debentures
+ long term loans
- Losses
- Non trading Investments

OVERALL/LONG TERM SOLVENCY RATIOS

1.Debt Equity Ratio
2.Capital Gearing Ratio
3.Debt Service Coverage Ratio
4.Proprietory Ratio
5.Interest Coverage Ratio

Net Worth = Equity Shareholders fund + Res & surplus - losses

$$\textbf{1.Debt Equity Ratio} = \frac{\text{Total Debt (long term and short term)}}{\text{Equity Shareholders fund + Res \& surplus - losses}}$$

Numerator = These are total debt i.e Pref share, debenture, loan (long & short) , C.liablities

$$\textbf{2.Capital Gearing Ratio} = \frac{\text{Pref share cap + debenture + long term loan}}{\text{Equity Shareholders fund + Res \& surplus - losses}}$$

Numerator = These are those capital or loan on which fixed dividend or intt. have to pay

$$\textbf{3.Debt Service Coverage Ratio} = \frac{\text{Earning before Intt. But after tax + non cash Exp. (EBIT)}}{\text{Annual Installment + Annual Intt.}}$$

Numerator = Earning after Intt. & tax then add back Interest
adding non cash exp because this cash is also available for pay off intallments and intt.

$$\textbf{4.Proprietory Ratio} = \frac{\text{Equity Shareholders fund + Res \& surplus - losses}}{\text{Total Assets - losses}}$$

In Denominator Losses = e.g misc. expenditure

$$\textbf{5.Interest Coverage Ratio} = \frac{\text{Profit before Interest and Tax}}{\text{Annual Interest on Loan}}$$

SHORT TERM SOLVENCY RATIOS

1. Current Ratio
2. Quick Ratio
3. Cash Ratio
4. Net Working Capital

1. Current Ratio = $\dfrac{\textbf{Current Asset}}{\textbf{Current Liability}}$

2. Quick Ratio or Acid Test Ratio = $\dfrac{\textbf{Current Asset - Stock- Prepaid Expenses}}{\textbf{Current Liability - Bank Overdraft}}$

3. Cash Ratio = $\dfrac{\textbf{Cash \& Cash Equivalent}}{\textbf{Current Liabilities}}$

4. Net Working Capital = Current Assets - Current Liabilities

PROFITABILITY RATIOS

These all Ratios are divided by Net Sales

Where , Net sales = Sales - Sales Return

1. GP Ratio
2. NP Ratio
3. Cost of goods sold Ratio
4. Operating Profit Ratio
5. Expense Ratio
6. Operating Ratio

1. Gross Profit Ratio $= \dfrac{\text{Gross profit}}{\text{Net Sales}}$

2. Net Profit Ratio $= \dfrac{\text{Net profit}}{\text{Net sales}}$

3. Cost of goods sold Ratio $= \dfrac{\text{COGS}}{\text{Net Sales}}$

4. Operating Profit Ratio $= \dfrac{\text{Operationg Profit}}{\text{Net Sales}}$

5. Expense Ratio $= \dfrac{\text{Respective Expense (E.g salary)}}{\text{Net Sales}}$

6. Operating Ratio $= \dfrac{\text{Operating Cost}}{\text{Net sales}}$

TURNOVER/ACTIVITY/PERFORMANCE RATIOS

1. Debtor Turnover Ratio
2. Debtor Holding Period/ Debtor Velocity/ Avg. Collection Period

3. Creditor Turnover Ratio
4. Creditor Holding Period/ Creditor Velocity/ Avg. Payable Period

5. Stock Turnover Ratio
6. Stock Holding Period or Stock Velocity

7. Fixed Assets Turnover Ratio
8. Working Capital Turnover Ratio
9. Capital Turnover Ratio or Capital Employed Turnover Ratio

1. Debtor Turnover Period =
(DTR)

$$\frac{\textbf{Credit Sale}}{\textbf{Debtor + B/R}}$$

2. Debtor Velocity or Avg. Collection Period =

$$\frac{\textbf{365}}{\textbf{DTR}} \quad \text{Ans in Days}$$

$$\frac{\textbf{12}}{\textbf{DTR}} \quad \text{Ans in Months}$$

$$\frac{\textbf{52}}{\textbf{DTR}} \quad \text{Ans in Weeks}$$

3. Creditor Turnover Ratio =
(CTR)

$$\frac{\textbf{Credit Purchase}}{\textbf{Creditor + B/P}}$$

4. Creditor Velocity or Avg. Payable Period =

$$\frac{\textbf{365}}{\textbf{CTR}}$$

Question

Credit Sale	15000
Debtor	3000
Bills Receivable (B/R)	2000

$$\text{Debtor Turnover Ratio} = \frac{\text{Credit sale}}{\text{Debtor + B/R}} = \frac{15000}{5000} = \mathbf{3}$$

This Ratio indicates how much money block by debtor due to credit sales.
Higher the Ratio = more benificial for Entity

Debtor Velocity or
Avg. Collection Period =

$$\frac{365}{\text{DTR}} = \frac{365}{3} \quad 121.67 \text{ Days}$$

$$\frac{12}{\text{DTR}} = \frac{12}{3} \quad 4.0 \text{ Months}$$

$$\frac{52}{\text{DTR}} = \frac{52}{3} \quad 17.33 \text{ Weeks}$$

5. Stock Turnover Ratio (STR) = $\dfrac{\textbf{COGS or Sale}}{\textbf{Avg. Stock or Closing stock}}$

Generally consider COGS as numerator but if can't find COGS then consider Sale
1st pref = COGS
2nd pref Sale

Avg. Stock = $\dfrac{\text{Opening stock + Closing stock}}{2}$

COGS = Sales - GrossProfit

6. Stock Velocity or Avg. Holding Period = $\dfrac{\textbf{365}}{\textbf{STR}}$

7. Fixed Asset Turnover Ratio = $\dfrac{\textbf{Sales}}{\textbf{Fixed Asset}}$

8. Working Capital Turnover Ratio = $\dfrac{\textbf{Sales}}{\textbf{Working Capital}}$

9. Capital Turnover Ratio = $\dfrac{\textbf{Sales}}{\textbf{Capital Employed}}$