

## SUMMARY OF COMMONLY USED RATIOS WITHIN HN ACCOUNTING UNITS AT SCQF LEVELS 6, 7 AND 8

**These are the most commonly used ratios but other alternatives are acceptable in line with current accounting practice.**

### Profitability Ratios

*'Profit before interest' is profit before interest and tax where applicable.*

$$\text{Gross Profit ratio} = \frac{\text{Gross Profit}}{\text{Net Sales (Revenue)}} \times 100$$

*(also known as Gross Profit percentage)*

$$\text{Mark up} = \frac{\text{Gross Profit}}{\text{Cost of Sales}} \times 100$$

$$\text{Operating Profit ratio} = \frac{\text{Profit Before Interest}}{\text{Net Sales (Revenue)}} \times 100$$

*(also known as Operating Profit percentage)*

$$\text{Return on Capital Employed (ROCE)} = \frac{\text{Profit Before Interest}}{\text{Capital Employed}} \times 100$$

$$\text{Return on Equity} = \frac{\text{Profit After Preference Dividends}}{\text{Ordinary Shares + Reserves}} \times 100$$

$$\text{Return on Total Assets} = \frac{\text{Profit Before Interest}}{\text{Non-current Assets + Current Assets}} \times 100$$

$$\text{Operating Expenses to Revenue ratio} = \frac{\text{Operating Expenses}}{\text{Net Sales (Revenue)}} \times 100$$

$$\text{Non-current Asset Turnover} = \frac{\text{Net Sales (Revenue)}}{\text{Total Net Book Value of Non-current Assets}}$$

Liquidity Ratios

$$\text{Current ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$\text{Acid Test (or Quick) ratio} = \frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$$

Efficiency Ratios

$$\text{Trade Receivables Turnover} = \frac{\text{Trade Receivables}}{\text{Credit Sales}} \times 365 \text{ days}$$

(also known as Average Collection Period)

$$\text{Trade Payables Turnover} = \frac{\text{Trade Payables}}{\text{Credit Purchases}} \times 365 \text{ days}$$

(also known as Average Payment Period)

$$\text{Inventory Turnover} = \frac{\text{Average Inventory}^*}{\text{Cost of Goods Sold}} \times 365 \text{ days}$$

$$*\text{Average Inventory} = (\text{Opening Inventory} + \text{Closing Inventory}) / 2$$

OR

$$\text{Rate of Inventory Turnover (times per year)} = \frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}$$

$$\text{Working Capital Cycle} = \text{Trade Receivables Turnover} + \text{Inventory Turnover} - \text{Trade Payables Turnover}$$

$$\text{Working Asset Turnover} = \frac{\text{Net Working Assets}^*}{\text{Net Sales (Revenue)}} \times 100$$

$$*\text{Net Working Assets} = \text{Inventories} + \text{Trade Receivables} - \text{Trade Payables}$$

Capital Structure Ratios

$$\text{Interest Cover (times)} = \frac{\text{Profit before Interest}}{\text{Finance Costs (Interest Payable)}}$$

$$\text{Gearing ratio} = \frac{\text{Fixed Cost Capital}}{\text{Total Capital}} \times 100$$

$$\text{OR} = \frac{\text{Non-current Liabilities} + \text{Preference Share Capital}}{\text{Issued Ordinary Share Capital} + \text{all Reserves} + \text{Non-current Liabilities} + \text{Preference Shares}} \times 100$$

Investment Ratios

$$\text{Earnings per Share} = \frac{\text{Profit after Tax} - \text{Preference Dividend}}{\text{No of Issued Ordinary Shares}}$$

$$\text{Price Earnings ratio} = \frac{\text{Market Price per Share}}{\text{Earnings per Share}}$$

$$\text{Dividend Yield} = \frac{\text{Ordinary Dividend}}{\text{Market Price per Ordinary Share}} \times 100$$

$$\text{Dividend Cover} = \frac{\text{Profit for the Year} - \text{Preference Dividend}}{\text{Ordinary Dividend}}$$

$$\text{Dividend per Share} = \frac{\text{Ordinary Dividend}}{\text{No of Issued Ordinary Shares}}$$