Ratio Analysis:- A Summary of financial statements
→ short way to analyze performance of the company.

Govt. → Public Limited company → General Public
Every single information must be shared with Stake-holders. (are the bodies which are affected by the operations and decisions of the company.
→ Customers, Govt, Banks, Supplier.

RATIOS.

Profitability Ratio	Liquidity Ratio	Efficiency Ratio

Profitability Ratio

- Gross profit Ratio

Mark-up $\frac{\text{Gross Profit}}{\text{cost of sales}} \times 100$

Margin $\frac{\text{Gross Profit}}{\text{Sales}} \times 100$

Net Profit Ratio $\frac{\text{Net Profit}}{\text{Net Sales}} \times 100$

Net Profit = Profit after interest and Taxation.

ROCE = Return on Capital Employed.

$= \frac{\text{Operating Profit}}{\text{Capital Employed}} \times 100$

Liquidity Ratio

- Current Ratio

C.R = $\frac{\text{Current Asset}}{\text{Current Liabilities}}$

2 : 1

Acceptable 1.5 : 1

- Quick Ratio / Acid Test Ratio / working capital R /

Q.R = $\frac{\text{Current Asset} - \text{Stock}}{\text{Current Liabilities}}$

Acceptable 1 : 1

Efficiency Ratio

→ due to space issue discussed on the next page: #2.

operating profit = profit before interest and Tax.

capital Employed = NCL + Equity

Substitute formula: = Total Assets − Current Liabilities.

Efficiency Ratio:-

- Inventory Turnover Ratio = (Times) $\frac{\text{Cost of good sold}}{\text{Average Inventory}}$

Average Inventory = $\frac{\text{opening Inventory} + \text{Closing Inventory}}{2}$

- Inventory Turnover Ratio = (Days) $\frac{\text{Average Inventory}}{\text{cost of good sold}}$

→ In Case of days formula will be opposite.

- Trade Receivable Turnover Ratio = $\frac{\text{Trade Receivables}}{\text{Net Credit Sales}} \times 365$

Net means "Returns" should be deducted.

- Trade payables Turnover Ratio = $\frac{\text{Trade Payables}}{\text{Net Credit purchases}} \times 365$

- Non-Current Asset Turnover = $\frac{\text{Net Sales}}{\text{Net book value of Non Current Asset.}}$