

## Interpretation of Accounts.

<u>Category</u>	<u>Title</u>	<u>Formula</u>	<u>Answer</u>
<b><u>Profitability</u></b>	1 Return on Capital Employed	$\frac{\text{Net Profit (Before Interest)} \times 100}{\text{Capital Employed}}$	%
	2 Return on Shareholders Equity	$\frac{\text{Net Profit (After Pref Dividend)} \times 100}{\text{Capital Employed (Minus Debt)}}$	%
	3 Gross Profit Margin (%)	$\frac{\text{Gross Profit} \times 100}{\text{Sales}}$	%
	4 Net Profit Margin (%)	$\frac{\text{Net Profit} \times 100}{\text{Sales}}$	%
<b><u>Gearing</u></b>	5 Gearing Ratio	$\frac{\text{Debt Capital} \times 100}{\text{Total Capital}}$	%
	6 Interest Cover	$\frac{\text{Net Profit (Before Interest)}}{\text{Interest}}$	Times
<b><u>Liquidity</u></b>	7 Current (Working Capital) Ratio	Current Assets : Current Liabilities	? : 1
	8 Acid Test (Quick) Ratio	Current Assets - Stock : Current Liabilities	? : 1

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<b><u>Activity</u></b>	9 Stock Turnover	$\frac{\text{Cost of Sales}}{\text{Average Stock}}$	Times
	10 Debtors Collection Period	$\frac{\text{Debtors} \times 12}{\text{Credit Sales}}$	Months
	11 Creditors Collection Period	$\frac{\text{Creditors} \times 12}{\text{Credit Purchases}}$	Months
<b><u>Investment</u></b>	12 Earnings Per Share	$\frac{\text{Net Profit} - \text{Preference Dividend}}{\text{Number of Ordinary Shares}}$	cent
	13 Dividend Per Share	$\frac{\text{Total Dividend} - \text{Preference Dividend}}{\text{Number of Ordinary Shares}}$	cent
	14 Earnings Yield	$\frac{\text{Earnings Per Share} \times 100}{\text{Share Price}}$	%
	15 Dividend Yield	$\frac{\text{Dividend Per Share} \times 100}{\text{Share Price}}$	%
	16 Price Earnings Ratio	$\frac{\text{Share Price}}{\text{Earnings Per Share}}$ <i>(Sometimes Dividend Per Share)</i>	Years
	17 Dividend Cover	$\frac{\text{Net Profit} - \text{Preference Dividend}}{\text{Total Dividend} - \text{Preference Dividend}}$	Times