Appendix 1 : Formulae of Ratios

mark-up = $\dfrac{\text{gross profit}}{\text{cost of goods sold}} \times 100\%$

gross profit ratio/margin = $\dfrac{\text{gross profit}}{\text{sales}} \times 100\%$

net profit ratio/margin = $\dfrac{\text{net profit before tax}}{\text{sales}} \times 100\%$

return on capital employed = $\dfrac{\text{profit before interest and tax}}{\text{average capital employed}} \times 100\%$

Capital employed =
1. Sole proprietorships: capital balance
2. Partnerships: capital account balances + current account balances (if any)
3. Limited companies: non-current liabilities + shareholders' fund

working capital / current ratio = $\dfrac{\text{current assets}}{\text{current liabilities}} : 1$

quick / liquid / acid test ratio = $\dfrac{\text{current assets} - \text{inventories}}{\text{current liabilities}} : 1$

inventory turnover (times) = $\dfrac{\text{cost of goods sold}}{\text{average inventory}}$

average trade receivables collection period = $\dfrac{\text{average trade receivables}}{\text{credit sales}} \times 365 \text{ days}/12 \text{ months}$

average trade payables repayment period = $\dfrac{\text{average trade payables}}{\text{credit purchases}} \times 365 \text{ days}/12 \text{ months}$

trade receivables turnover (times) = $\dfrac{\text{credit sales}}{\text{average trade receivables}}$

trade payables turnover (times) = $\dfrac{\text{credit purchases}}{\text{average trade payables}}$

earnings per share = $\dfrac{\text{net profit after tax} - \text{preference dividend}}{\text{number of ordinary shares issued}}$

total assets turnover (times) = $\dfrac{\text{sales}}{\text{total assets}}$

gearing ratio = $\dfrac{\text{non--current liabilities} + \text{preference share capital}}{\text{non-current liabilities} + \text{shareholders' fund}} \times 100\%$

dividend cover for ordinary shares (times) = $\dfrac{\text{net profit after tax} - \text{preference dividend}}{\text{ordinary dividend paid}}$

price-earnings ratio = $\dfrac{\text{current price per ordinary share}}{\text{earnings per share}}$