

## Analysis and Interpretation of Accounts

### Important Ratios – Handy Guide

1	Average Period of Credit given to Debtors	$\frac{\text{Debtors} \times 12 \text{ (or 365)}}{\text{Credit Sales}}$	Answer is in months or days
2	Earnings per (Ordinary) Share	$\frac{\text{Net Profit (After DI and PD)}}{\text{Number of Ordinary Shares}}$	Answer in in € Multiply by 100 for cent
3	Price Earnings Ratio	$\frac{\text{Market Price of Share}}{\text{Earnings per Share}}$	Answer is in Years
4	Rate of Stock Turnover	$\frac{\text{Cost of Sales}}{\text{Average Stock}}$	Answer is in "times"
5	Dividend per Ordinary Share	$\frac{\text{Ordinary Dividends}}{\text{Number of Ordinary Shares}}$	Answer in in € Multiply by 100 for cent
6	Dividend Yield	$\frac{\text{Dividend per Ordinary Share} \times 100}{\text{Market Price per Ordinary Share}}$	Answer is a %
7	Interest Cover	$\frac{\text{Net Profit before debenture interest}}{\text{Debenture Interest}}$	Answer is in "times"
8	Return on Capital Employed	$\frac{\text{Net Profit (Before DI)} \times 100}{\text{Capital Employed}}$	Answer is a %
9	Return on Equity Funds	$\frac{\text{Net Profit (after DI \& PD)} \times 100}{\text{Shareholder's Funds (O. shares + P\&L)}}$	Answer is a %
10	Current Ratio/Working Capital Ratio	Current Assets : Current Liabilities	Answer is a ratio
	Quick Ratio/Acid Test Ratio	Current Assets – C. Stock : Current Liab.	Answer is a ratio
11	Ordinary Dividend Cover	$\frac{\text{Net Profit (after DI and PD)}}{\text{Ordinary Dividends}}$	Answer is in "times"
12	Average Period of Credit received from Creditors	$\frac{\text{Creditors} \times 12 \text{ (or 365)}}{\text{Credit Purchases}}$	Answer is in months or days
<b>Note</b>	<b>DI = Debenture Interest; PD = Preference Dividend</b>		