⇒ RATIO ANALYSIS

→ Profitability Ratios

profit & loss account

- Net Profit margin (NPM) = $\frac{\text{Net Profit}}{\text{sales}} \times 100$
  (ideal – 10-15%)

- Gross profit margin (GPM) = $\frac{\text{Gross Profit}}{\text{sales}} \times 100$
  (ideal – 20-25%)

- Return on capital Employed (ROCE) = $\frac{\text{Net Profit}}{\text{Capital}} \times 100$.
  (ideal – 15%)

→ Liquidity Ratios

balance sheet

- Current Ratio = $\frac{\text{Current Assets}}{\text{Short term liability}}$

  Ideal Ratio → 1.5 : 1
  Below 1.25 (alarming point)
  Above 1.75 (capital remains unused)

- Acid test / Quick Ratio = $\frac{\text{Current assets} - \text{Stocks}}{\text{Short term liability}}$
  (stocks are least liquid here)
  Ideal – 1
  Below 1.25 – threat.

→ Gearing Ratio = $\frac{\text{long term loan}}{\text{capital}} \times 100$.
(Ideal 50%)

If its below 50%, the business might explore for loans
If its above 50%, banks won't give more loans nor its ideal bc it increases amt. of interests