Interpretation of Financial Statements.

→ Financial Ratio

① Net Profit Ratio $= \dfrac{\text{Net Profit}}{\text{Net Sales}} \times 100$

② Gross Profit Ratio $= \dfrac{\text{Gross Profit}}{\text{Net Sales}} \times 100$

③ Return on Capital Employed or Investment (ROI or ROCE) $= \dfrac{\text{Net Profit}}{\text{Capital Employed or Investment}} \times 100$

- Capital Employed.
  - different from capital
  - capital comes under this
  - Total money invested under this business

- ~~Two shares~~
  - ~~Equity - Dividend is ~~fixed~~ based.~~
  - ~~Preference - Dividend is based or~~

Two shares

Equity - Dividend is based on how well the company does.

Preference - Dividend is fixed.

Debenture :

Bond to mobilize money

Share Capital & Share Premium.

Eg. #TCS has share capital ₹.1

Share premium ₹.950

so,

capital Employed = Capital + Preference share capital

+ Reserves & Surplus

Accumulated Profit

+ Debentures + Long term loan

- Accumulated losses and Investments outside.

To start company we need.

Memorandom of association and articles of association

Capital employed can be calculated from balance sheet

(4) Operating Profit Ratio = $\frac{\text{operating Profit}}{\text{Net Sales}} \times 100$

Operating Profit = Net profit + Non operating expences

- Non operating incomes.

(5) Operating Expence Ratio = $\frac{\text{Operating Exp}}{\text{Net Sales}} \times 100$

↳ Operating Expences :
All operating Expences

Ratios based on Turnover ↳ means Sales.

(1) working Capital Turnover = $\frac{\text{Sales}}{\text{working capital}}$

(its like _ times)

working Capital = Current Assets - Current Liabilities

↓ Stocks + Debtors + Cash + Bank + Prepaid expences.

↓ Bank Overdraft + S/n Creditors + Expences outstanding

(2) Fixed Assets Turnover Ratio = $\frac{\text{Sales}}{\text{Fixed Assets}}$

1. Working capital Utilisation

Working capital turnover ratio = $\frac{\text{Net Sales}}{\text{working Capital}}$

2. Fixed Assets Utilisation

Fixed asset turnover ratio = $\frac{\text{Net Sales}}{\text{Fixed Assets}}$

3. Stock Utilisation

Cost of Goods Sold = $\dfrac{\text{Net Sales} - \text{Gross Profit}}{\text{Average Stock.}}$

↓

Stock value changing so take avg

$$\text{Average Stock} = \frac{\text{Closing Stock} + \text{Opening Stock}}{2}$$

~~Be~~ we are doing this cost of Goods sold insted of sales coz stock is a cost element (No profit element) so we are removing profit from sales to get just the cost element for a fair comparison.

4. Average Collection Period

$$= \frac{\text{Avg Debtors}}{\text{Net Sales}} \times 12 \text{ Months.}$$

$$\text{Avg Debtors} = \frac{\text{Opening} + \text{Closing}}{2.}$$

5. Average Payment Period.

$$= \frac{\text{Avg Creditors}}{\text{Average credit purchases}} \times 12 \text{ months}$$

Financial Capability / Position

(or)

Solvence

→ Short term
→ Long term
→ Repayment of loan

(a) Short term financial stability.

Current Ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$

Poor financial stability
If less than 2
More than 2 (Cio..)
Not being efficient

Ideal current ratio = 2 : 1

(b) Instant financial Position.

Quick Ratio = $\frac{\text{Liquid or quick Assets}}{\text{Liquid or quick Liabilities}}$

Liquid or quick Assets = Current Asset − Stock − Prepaid Expences

Cash
(bank & receivables)

Liquid or quick Liabilities
(Creditors & Expences outstanding)

(c) Own funds vs Loan

$$\text{Debt equity ratio} = \frac{\text{Debt (long term debt)}}{\text{Equity (Share capital + reserves)}}$$

→ Loans + debentures

Ideal debt equity ratio : ~~3:4~~ 3 : 1

If 10 : 1 → High loan, cant repay, poor financial stability

1 : 5 → Conservative, not making use of loans.

If tax is say 35% for the company then the interest paid for the loan can be showed init.

Loan Repayment Capacity :

Debt Service ~~P~~ Coverage ratio (DSCR)

$$\text{DSCR} = \frac{\text{Net Profit after Income Tax but before Interest}}{\text{Term loan Interest} + \text{Term loan Instalment}}$$

This should be more than 1

Shareholders.

1) Earnings per share EPS

(Profit earned by one share of the company)

$$EPS = \frac{\text{Net Profit} - \text{Income Tax} - \text{Divident payable to preference share}}{\text{No. of equity share}}$$

EPS is always for equity share.

2) Price Earnings Ratio (PER)

$$PER = \frac{\text{Market Price of the share}}{\text{Earnings per share}}$$

3) Dividend payout Ratio

$$= \frac{\text{Dividend paid per share}}{\text{Earnings per share}}$$