

we know

$$\text{Asset} = \text{liabilities} + \text{Equity}$$

Assets are of two types

1. Current Asset
2. Fixed Asset

Examples of Current Asset

- ⇒ ~~Stock~~ (Inventory) = stock + prepaid expenses
- ⇒ Trade Debtors & Sundry Debtors & Debtors
- ⇒ Cash at bank & Cash in hand
- ⇒ Investment

Examples of fixed Asset

- ⇒ Building
- ⇒ Land
- ⇒ Furniture.
- ⇒

Similarly Liabilities are of two types.

1. Current liabilities
2. Non-current liabilities.

* Examples of Current liabilities:

- ① Creditors or Sundry Creditors
- ② Bills payable
- ③ Tax or provision for tax
- ④ Outstanding expenses
- ⑤ Proposed Dividend.

* Examples of Non-current liabilities

- ① Debenture.

* Equity or Capital

Examples of Equity or Capital

- (1) Paid up Capital
- (2) Surplus
- (3) Reserve
- (4) Shareholder equity
- (5) Proprietor's fund
- (6) Equity
- (7) Capital.

Types of financial ratio :-

(A)

(1) Current Ratio = $\frac{\text{Current Asset}}{\text{Current liability}}$

(2) Quick Ratio = $\frac{(\text{Current Asset} - \text{Inventory})}{\text{Current liabilities}}$

where inventory = Stock + prepaid expenses.

(B) Leverage Ratio

(1) Debt Ratio = $\frac{\text{Total liabilities}}{\text{Total Asset}}$ or $\frac{\text{Total Debt}}{\text{Total Asset}}$
(~~Debt to~~ Debt to Asset Ratio)

Total liabilities = Current liability + Non-Current liability

Total Asset = Current Asset + Non-Current Asset

② Debt - Equity Ratio

$$= \frac{\text{Total liabilities}}{\text{Shareholder equity}} = \frac{\text{Total Debt}}{\text{Shareholder fund}}$$

③ Interest Coverage Ratio

$$= \frac{\text{Profit before interest \& taxes}}{\text{Interest}}$$

④ Debt-Service Coverage Ratio

$$= \frac{\text{Net Profit before int. \& taxes}}{\text{Fixed interest Charges or Total Debt Service}}$$

* Turnover Ratio!

① Inventory or Stock Turnover

$$= \frac{\text{Cost of Goods Sold or } \cancel{\text{Sales}}}{\text{Average Stock}}$$

$$= \frac{\text{Sales} - \text{Gross Profit}}{\text{Average Stock}}$$

where Average stock = ~~Operat~~ $\frac{\text{Opening Stock} + \text{Closing Stock}}{2}$

② Debt Turnover

$$\text{Debt turnover} = \frac{\text{Net sales}}{\text{Total or average receivable}}$$

(3) Average Collection Period

$$= \frac{\text{Average receivable}}{\text{Net sales}} \times \text{No. of days in a year}$$

(4) Fixed Asset turnover ratio

$$= \frac{\text{Sales} \text{ or } \text{Cost of goods sold}}{\text{Fixed Asset}}$$

(5) Total Asset turnover

$$= \frac{\text{Net Sales} \text{ or } \text{Cost of goods sold}}{\text{Total Asset}}$$

(6) Capital turnover Ratio

$$= \frac{\text{Cost of goods sold}}{\text{Capital Employed.}}$$

* Profitability Ratio

(1) Gross Margin ratio = $\frac{\text{Gross Profit}}{\text{Net sales}} \times 100$

$$= \frac{\text{Sales} - \text{Cost of goods sold}}{\text{Net sales}} \times 100$$

$$(2) \text{ Net Profit Margin ratio} = \frac{\text{Net Profit}}{\text{Net Sales}} \times 100$$

$$(3) \text{ ~~Return on Asset~~ =}$$

$$(4) \text{ Return on Asset or Return on Total Asset} \\ = \frac{\text{Net profit after tax}}{\text{Total asset}} \times 100$$

$$(5) \text{ Return on Capital employed} \\ = \left(\frac{\text{Net profit}}{\text{Capital employed}} \right) \times 100$$

$$= (\text{~~Asset turnover~~})$$

$$(6) \text{ Operation Profit ratio} = \frac{\text{operating Profit}}{\text{Net sales}} \times 100$$

where operating profit = Cost of goods sold
+ operating expenses.