Measures of profitability

Gross Profit Ratio \[= \frac{\text{Gross Profit}}{\text{Net Sales}} \times 100\]

Net Profit Ratio \[= \frac{\text{Net Profit}}{\text{Net Sales}} \times 100\]

Rate of Return on Owner’s Equity \[= \frac{\text{Net Profit}}{\text{Average Owner’s Equity}} \times 100\]

(Ratios to be calculated to the nearest two decimal places)

Measure of financial stability

Gearing Ratio \[= \frac{\text{Total Liabilities}}{\text{Total Equity}} \times 100\]

(Ratio to be calculated to the nearest two decimal places)

Measure of liquidity

Current (or Working Capital) Ratio \[= \frac{\text{Current Assets}}{\text{Current Liabilities}}\]

(Expressed as a ratio to 1)

Measures of efficiency

Debtors Collection Period \[= \frac{\text{Average Accounts Receivable}}{\text{Net Credit Sales}} \times 365\]

(Expressed as the number of days)

Break-even

Break-even point \[= \frac{\text{Total Fixed Costs}}{\text{Selling price per unit – Variable cost per unit}}\]

(Round up to the next full unit)