

APPENDIX 2: FORMULAE SHEET

Measures of profitability

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

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

$$\text{Rate of Return on Owner's Equity} = \frac{\text{Net Profit}}{\text{Average Owner's Equity}} \times 100$$

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

Measure of financial stability

$$\text{Gearing (or Debt to Equity) Ratio} = \frac{\text{Total Liabilities}}{\text{Total Equity}} \times 100$$

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

Measure of liquidity

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

(Expressed as a ratio to 1)

Measures of efficiency

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

(Expressed as the number of days)

Break-even

$$\text{Break-even point} = \frac{\text{Total Fixed Costs}}{(\text{Selling price per unit} - \text{Variable cost per unit})}$$

(Round up to the next full unit)