

# ACC315116

## ACCOUNTING

### EXTERNAL EXAM INFORMATION SHEET

#### Depreciation formulae

Diminishing Balance Method	=	Rate of Depreciation × (Original Cost – Accumulated Depreciation)
Straight Line Method	=	$\frac{\text{Original Cost} - \text{Estimated Residual Value}}{\text{Estimated Life}}$

#### Financial decision-making formulae

##### *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	=	$\frac{\text{Net Profit}}{\text{Average Owner's Equity}} \times 100$
Rate of Return on Total Assets	=	$\frac{\text{Net Profit} + \text{Interest Expense}}{\text{Average Total Assets}} \times 100$
Expenses to Sales Ratio	=	$\frac{\text{Expense}}{\text{Net Sales}} \times 100$

##### *Measures of liquidity*

Current (or Working Capital) Ratio	=	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$
Quick Asset (or Acid Test) Ratio	=	$\frac{\text{Cash Assets} + \text{Receivables}}{\text{Current Liabilities}}$

##### *Measures of financial stability*

Debt Ratio	=	$\frac{\text{Total Liabilities}}{\text{Total Assets}} \times 100$
Equity Ratio	=	$\frac{\text{Total Owner's Equity}}{\text{Total Assets}} \times 100$

##### *Measures of efficiency*

Debtors Collection Period (number of days)	=	$\frac{\text{Average Accounts Receivable}}{\text{Net Credit Sales}} \times 365$
Turnover of Inventories (times per year)	=	$\frac{\text{Cost of Goods Sold}}{\text{Average Inventories}}$