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} – \text{Variable cost per unit})}

(Round up to the next full unit)