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Ratio Analysis

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1

Interpretation Of Financial And Non-financial Information

Agenda

1. Introduction To Ratio Analysis
2. Types Of Ratios And Calculation
3. Limitations Of Ratio
4. Past Paper
   1. 2020 January Q5
   2. 2018 June Q5
   3. 2017 January Q6
   4. 2017 June Q 7

2

Definition

What Is Ratio Analysis?

1. Ratio analysis refers to the analysis of various pieces of financial information in the financial statements of a business. They are mainly used by external analysts to determine various aspects of a business, such as its profitability, liquidity, and solvency.

Ratio Analysis		
	Comparision	← Ratio Of Other Companies/ Industry
	Trend	← Ratio At Different Times

2. Ratio analysis is a quantitative method of gaining insight into a company's liquidity, operational efficiency, and profitability by studying its financial statements.

3

Sources of Information

From Where We Can Collect Financial & Non-financial Information

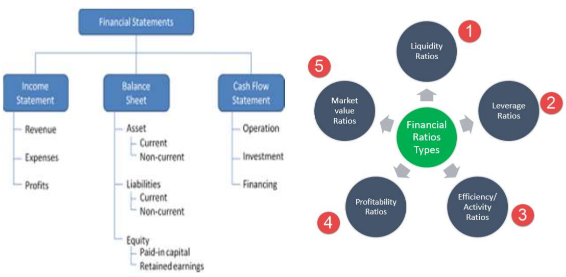
1. Financial Information Can Be Obtained From
   The Audited Financial Statements,

2. Non-financial Information Can Be Obtained From
   The Annual Report, Security Exchange Commission's Web Site, Company's Website Or Investor Relations, These Information May Include

1. Social Responsibility Statement
2. Human Capital Management
3. Relationships With Stakeholders
4. Corporate Governance

4

Linking The Financial Statement To Ratios



5

Users & Uses Of Financial Information

Parties Involved

Management

- To Monitor The Performance
- To Assess The Profit & Returns
- To Improve The Performace

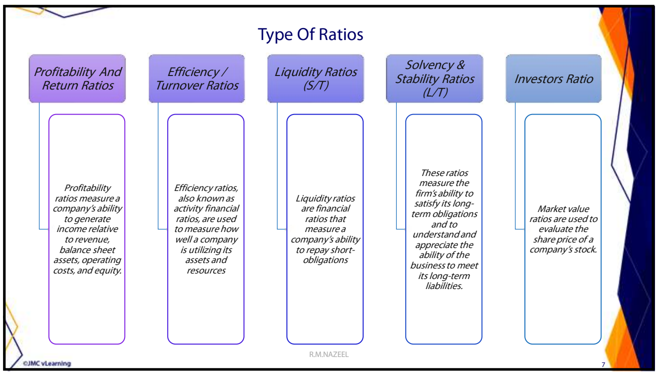
Current & Potential Investors

- Dividends And Capital Gain
- To Hold, Withdraw Investment Or Compare Alternative Investments
- If Performance Is Good & Stable, To Acquire Ownership

Analyst And Others

- Advice Clients
- Investment Promotion / Investment Roadshows
- To Issue Rating And Research Reports

6



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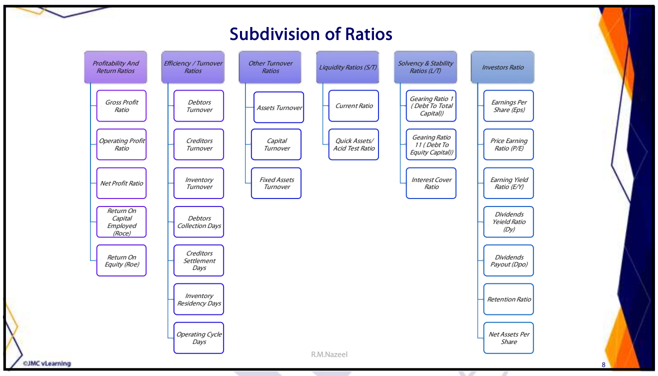

8

Profitability Ratios - Explanations

Ratios	Key Points To Focus
Gross Profit Ratio	= (Gross Profit / Sales) * 100 = X% Gp Mark-up = Gross Profit / Cost Of Sales * 100 This Explains How Much We Retain From Sales
Operating Profit Ratio	= (Pbit / Sales)* 100 = X% Pbit Is Calculated By Adding Tax And Interest To Pat Or Deducting Admin & Selling Cost From Gp This Explains How Much We Retain After Paying Non-manufacturing Operating Cost.
Net Profit Ratio	= (Profit Before Tax / Sales) * 100 = X% This Explains How Much We Retain After Paying Finance Charges. We May Take Profit After Tax Also

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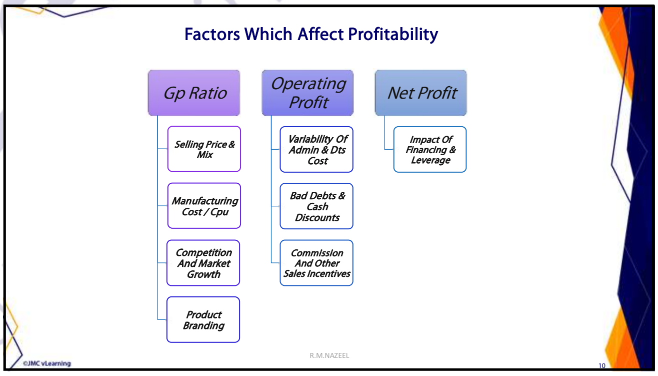
9



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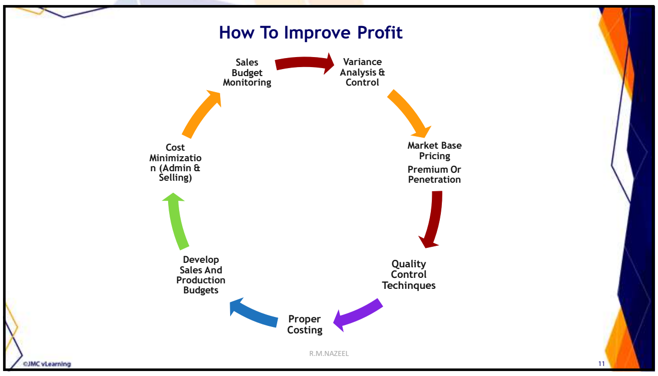

11

Diagnosing A Problem

Description	Amount	Ratio
Sales	150,000	
Cos Of Sales	75,000	
Gross Profit	75,000	50.00%
Operating Exp	35,000	
Operating Profit	40,000	26.67%
Interest Exp	5,000	
Pbt	35,000	23.33%

Description	Amount	Ratio
Sales	150,000	
Cos Of Sales	75,000	
Gross Profit	75,000	50.00%
Operating Exp	80,000	
Operating Loss	5,000	-3.33%
Interest Exp	5,000	
Lbt	10,000	-6.66%

Description	Amount	Ratio
Sales	150,000	
Cos Of Sales	75,000	
Gross Profit	75,000	50.00%
Operating Exp	35,000	
Operating Profit	40,000	26.67%
Interest Exp	50,000	
Lbt	10,000	-6.66%

Question The Non-manufacuting Expenes

Question The Loan Interest Rate And Term (Bank Od Or Long Term)

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12

Profitability Ratios - Explanations

Ratios	Key Points To Focus
Return On Capital Employed	= (Pbit / Capital Employed) * 100 = X% Capital Employed = (Total Assets – Current Liabilites) Or (Stated Capital + Reserves + Non-current Liabilites) We Should Include Current Portion Of Ncl This Explains How Much Return We Generate For The Providers Of Capital. We Need To Generate Sufficient Return To Compesante For Risk (Morethan Tb Rate)
Return On Equity	= (Pat – Pre. Shares Dividends / Total Equity) * 100 = X% Total Equity = Stated Capital + Reserves This Explains How Much Return We Generate For The Providers Of Equity. Please Note Pref.Shares Are Debt Capital For Ratios

Description	Amount	Description	Amount
Nca	1,000	Stated Capital	750
Ca	500	Reserves	250
Total Assets	1,500	Total Equity	1,000
Stated Capital	750	Ncl	300
Reserves	250	Total Captial	1300
Ncl	300		
Cl	200		
Total Equity And Liabilites	1,500		

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13

Efficiency Ratios - Explanations

Ratios	Key Points To Focus
Assets Turnover Ratio	= (SALES OR TURNOVER / TOTAL ASSETS) = X Times How Many Times We Are Converting Our Assets Into Sales Or How Efficient We Are Converting Our Assets Into Sales, It Is Recommended To Have A Higher Rate.
Capital Turnover Ratio	= (SALES OR TURNOVER / TA - CL) = X Times

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14

Dupont - Roce

Dupont	Formula	Explanation
Operating Profit Ratio	(Profit Before Interest & Tax (Op) / Sales) * 100 = X%	Profitability
Capital Turnover	(TURNOVER OR SALES / TA - TL) = X Times	Efficiency
Roce	(Profit Before Interest & Tax (Pbit) / Ta-cl) * 100 = X%	Profitability * Efficiency
Roce	Net Profit Ratio * Assets Turnover Ratio	Approximating Formula

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15

Roce – Explained

Ratios	Key Points To Focus
Roce	The Roce Is The Function Of Np Margin And Operating Efficiency That's Why Roce Can Be Caculated As, Roce = Np Margin * Assets Turnover Ratio
	So A Company Can Achive Higher Roce Either Through 1. The Maintenance Of Margins - Already Explanied 2. Countinous Operating Efficiency – Refer Next Slide
	We Will Refer The Excel To Understand The Concept

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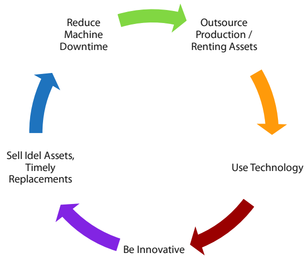
16

How to Improve Assets Utilization



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17

Test Your Understanding

Description	2019	2018
Turnover	11,200	9,750
Cost Of Sales	8,460	6,825
Gross Profit	2740	2925
Interest	80	60
Pbt	465	320
Nca	1,850	1,430
Ca	1,950	1,690
Cl	890	790

Calculate All The Profitability Ratios For 2019,2018 And Interpret With The Industriy Ratios

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18

Test Your Understanding

Refer Working Sheet For Answer

19

Interpretation of Ratios

Return On Capital Employed Has Improved Considerably Between 2018 And 2019 And Is Now Higher Than The Industry Average.

Net Income (Pbit) As A Proportion Of Sales Has Also Improved Noticeably Between The Years And Is Also Now Marginally Ahead Of The Industry Average. Gross Margin, However, Is Considerably Lower Than In The Previous Year And Is Only Some 70% Of The Industry Average. This Suggests Either That There Has Been A Change In The Cost Structure Of Silva PLC Or That There Has Been A Excessive Wastages In The Production. Either Way, This Is A Marked Change That Requires Investigation. The Company May Be In A Period Of Transition As Sales Have Increased By Nearly 15% Over The Year And It Would Appear That New Non-current Assets Have Been Purchased.

Asset Or Capital Turnover Has Declined Between The Periods Although The 20x9 Figure Is In Line With The Industry Average. This Reduction Might Indicate That The Efficiency With Which Assets Are Used Has Deteriorated Or It Might Indicate That The Assets Acquired In 20X9 Have Not Yet Fully Contributed To The Business. A Longer Term Trend Would Clarify The Picture.

20

Test Your Understanding

2020 January Question 05 –

Description	2019	2018	2017
Turnover	300,000	275,000	260,000
Cost Of Sales	179,960	178,425	169,450
Gross Profit	120,040	96,575	90,500
Pbit	43,400	38,300	41,250
Pbt	38,000	35,700	34,300
Pat	27,500	28,300	27,800
Stated Capital	110,000	110,000	110,000
Retained Earnings	60,000	32,500	4,200
Total Equity	170,000	142,500	114,200
Non-current Liabilities	42,000	56,000	38,000
Total Capital	212,000	198,500	152,200
Calculate All The Profitability Ratios For 2019,2018,2017			

21

Test Your Understanding

Refer Working Sheet For Answer

22

Test Your Understanding

2020 January Question 05 –

Ratio	Formula	2019	2018	2017
Gp Ratio	Gross Profit / Sales * 100	40.01%	35.12%	34.81%
Op Ratio	Pbit / Sales *100	14.47%	13.93%	15.87%
Np Ratio – Before Tax	Npbt / Sales * 100	12.67%	12.98%	13.19%
Np Ratio – After Tax	Npat / Sales * 100	9.17%	10.29%	10.69%
Roce	Pbit / Ce *100	20.47%	19.29%	27.10%
Roe	Pat / Te *100	16.18%	19.86%	24.34%
Capital To	Turnover / Capital	1.41	1.38	1.70
So Roce	Op Ratio * Capital To	14.47% * 1.41 = 20.40%	13.93% * 1.38 = 19.22%	15.87% * 1.70 = 26.97%

23

Interpretation Of Ratios

2020 January Question 05 –

Ratio	2019	2018	2017
Sales	100.00%	100.00%	100.00%
Cost Of Sales	59.99%	64.88%	65.19%
Gross Profit	40.01%	35.12%	34.81%
Operating Expenses	25.54%	21.19%	18.94%
Operating Profit	14.47%	13.93%	15.87%
Interest Expnes	1.80%	0.95%	2.68%
Np - Before Tax	12.67%	12.98%	13.19%
Tax	3.50%	2.69%	2.50%
Np – After Tax	9.17%	10.29%	10.69%
Roce	20.47%	19.29%	27.10%
Roe	16.18%	19.86%	24.34%

24

Interpretation Of Ratios

2020 January Question 05 – Hypothetical Explanation

The Gp Ratio Stood At 40.01% In The Year 2019, Which Is A 5.2% Growth When It Was Compared With The Year 2018. I Have Noted That The Sales Has Gradually Grown Over The Years And The Cost Of Sales Has Only Grown Marginally, The Management Could Have Employed Sound Cost Control Measures To Keep Cos Under Control. Further The Company Could Be In A Growing Market With A Limited Competition & They Could Have Established The Brand Name To Charge A Premium Price From Customers, These Could Have Improved Profitability.

On The Other Hand The Np Ratio Has Deteriorate By 1.4% And Stood At 14.47% In 2019 When It Was Compared With 2017 (15.87%), This Shows That The Non-manufacturing Exepenses Has Escalated Very Much Over These Years, Which Has Absored The Favorable Gp Growth Of 5.2%. It Is Very Much Important To Investigate The Variation In Those Expenses, Further The Management Should Consider The Amount Of Bad Debts, Cash Discounts, Debt Collection Cost And Other Sales Incentives Payment, As These Are Positively Corelated To Sales Growth. If The Management Can Control And Limit These Expenses, We Can Secure A Np Ratio Of 20% In The Forthcoming Years.

The Roce Has Fluctuated Over The Years And Stood At 20.47% In 2019, The Main Negative Factor Which Has Affected Such Deteriorations Was The Profitability. On The Other Hand The Assets Turnover Ratio Has Marginally Improved From 1.38 X TO 1.41 X IN THE YEAR 2018. It Will Be Better, If The Company Could Reinstate The Efficiency Levels To The Figures In 2017. This Can Be Achieved Through Proper Plant Utilization, Innovative And Efficient Production And Selling Idel Assets. Further The Roe Has Also Deteriorated Due To The Profitability Concerns And Over The Years The Capital Bases Has Also Increased With Out Any Dividedns Payments

Keep In Mind

1. We Have Not Seen The Correct Asset Base Of The Company And The Capital Has Grown Dramatically.

Efficiency / Working Capital Ratios

Efficiency / Turnover Ratios	Formula	Explanation
Debtors Turnover	(CREDIT SALES / AVERAGE DEBTORS) = X Times	How Many Times We Are Converting Our Debtors Into Sales
Creditors Turnover	(CREDIT PURCHASES / AVERAGE CREDITORS) = X Times	How Many Times We Are Converting Our Creditors Into Purchases
Inventory Turnover	(COST OF SALES / AVERAGE INVENTORIES) = X Times	How Many Times We Are Converting Our Inventories Into Cos & Sales
Debtors Collection Days	365 / Debtors Turnover = X Days	How Fast We Are Collecting From Customers
Creditors Settlement Days	365 / Creditors Turnover = X Days	How Fast We Are Settling To Suppliers
Inventory Residency Days	365 / Inventory Turnover = X Days	How Long We Are Holding The Inventory

Efficiency Ratio – Explained

Ratios	Key Points To Focus
Turnover Ratio	1. Average Is Calculated As Follows Average = (Op.Balance + Cl.Balance) / 2 , If We Cannot Calculate Avergae Then We Can Take Closing Balance 2. If We Do Not Have Credit Sales We May Assume Total Sales Represent The Credit 3. If We Do Not Have Credit Purchases Then We Can Take Purchases Or Cos 4. Ensure Consistency In Taking Figure, So We Can Compare Those.
If One Year Was Given We Can Only Take Closing Balance, If 2 Years Are Given Then We Can Take Averages Provided That Exam They Ask Current Year.	
We Will Discuss The Debtors , Creditors And Inventory Days In Next Slides	

How to Convert the Ratio to Days

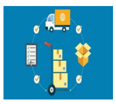
Ratio	Formula
Debtors Turnover	(Credit Sales / Average Debtors)
Debtors Collection Days	365/ (Debtors Turnover)
	365/ (Credit Sales /Average Debtors)
	(Average Debtors /Credit Sales) *365

Efficiency / Working Capital Ratios – Days

Efficiency / Turnover Ratios	Formula	Formula
Debtors Collection Days	(Average Debtors / Credit Sales) * 365 = X Days	365/ (Credit Sales / Average Debtors) = X Days
Inventory Residency Days	(Average Inventories / Cost Of Sales) * 365 = X Days	365/ (Cost Of Sales/ Average Inventories) = X Days
Creditors Settlement Perios	(Average Creditors / Credit Purchases) * 365 = X Days	365 / (Credit Purchases / Average Creditors) = X Days

Operating and Cash Cycle - Optional

Operating Cycle



Inventory Days

Debtors Days

Operating Cycle

Cash Cycle

Creditors Days

Cash Cycle

Test Your Understanding

2018 June Question 05 -

Description	2018	2017	2016
Turnover	127,500	105,000	133,000
Cost Of Sales	88,500	71,200	93,100
Gross Profit	39,000	33,800	39,900
Pbt	10,260	9,200	14,000
Inventories	2,680	11,530	18,650
Debtors	15,460	14,220	18,900
Creditors	6,400	6,100	8,440
Credit Sale 55%, Purchases 90% Cos & Out Of Which 70% Credit.			
Calculate Ratio - Inventory To & Residency, Debtors To & Collection, Creditors To & Settlement For 2018 & 2017			
Can We Use Average , Yes Only Both Years Were Required			

Test Your Understanding

REFER WORKING SHEET FOR ANSWER

Test Your Understanding

2018 June Question 05 –

RATIO	FORMULA	2018	2017
Inventory To	Cos / Average Inventory	12.46	4.72
Inventory Residency	365 / Inventory To	29.30 Days	77.36 Days
Debtors To	Credit Sales / Average Debtors	4.73	3.49
Debtors Collection	365 / Debtors To	77.24 Days	104.66 Days
Operating Cycle	Inventory Residency + Debtors Collection	106.55 Days	182.02 Days
Creditors To	Credit Purchases / Average Creditors	8.92	6.17
Creditors Settlement	365 / Creditors To	40.92 Days	59.16 Days
Cash Cycle	Operating Cycle – Creditors Days	65.63 Days	122.87 Days
Average Inventory		(2680+11530)/2 = 7105	(11530 + 18650) / 2 = 15090
Average Debtors		(15,460 +14,220) / 2 = 14840	(14,220+18,900)/2 =16560
Average Creditors		(6,400 + 6,100) /2 = 6250	(6,100+8,440) / 2 = 7270

Intepretation Of Ratios

2018 June Question 05 – Hypothetical Explanation

We Have Noted A 20% Growth In The Sales In 2018, Together With The Reduced Inventory Levels Had Improved The Inventory Residency Period From 77 Days To 30 Days. This Strategy Will Ease The Company Working Capital And Will Reduce Inventory Storage & Any Nrv Losses, But There Is A Considerable Risk In Reducing The Inventories To This Level, Considering The Sales Levels. Where The Company May Face Stock Out Situation & Could Lose Future Sales. Still The Management May Take This Aggressive Approach With The Aid Of Modern Inventory Management Techniques.

The Debtors Days Has Reduced By 27 In 2018 & Stood At 77 Days, It Seems The Credit Evaluation And Collection Procedures Has Generate Positive Results, As The Reduced Collections Days Will Reduce Bad Debts, Interest Cost And Debt Collection Cost And Eventually Increase The Np. On The Other Hand The Management Should Consider The Industry Average To Make A Decision Regarding Credit Policies, As Strict Policies Will Affect Sales And Cash Sales Could Require Additional Discounts.

Creditors Settlement Days Has Dropped From 59 Days To 40 Days, The Drop Of 19 Days Will Not Make A Major Difference As The Other Ratios Has Improved Dramatically, It Will Be Appropriate If The Company Can Secure An Additional Discounts For The Early Payments.

Over All The Operating Cycle Of The Company Has Improved From 6 Months To 3 1/2 Months, This Is A Major Improvement In The Working Capital And Will Definelty Improve The Profitability. Considering The Cash Cycle, The Company May Plan The Funding/ Working Capital Requirement For 65 Days.

Efficiency / Working Capital Ration - Explained

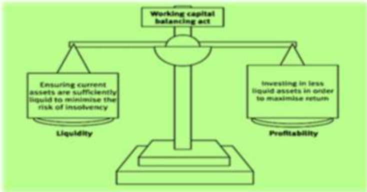
Ratios	Key Points To Focus
Debtors To / Debtors Collection Days	1. Fast Is Better, Because Our Money Is Tied-up With Customers 2. We Should Have Sound Credit Evaluation & Control Policies 3. Delays Indicate Bad Debts, Debt Recovery Cost And Factoring
Inventory To / Inventory Residency Days	1. Fast Is Better, Because Excesive Inventory Lead To Nrv Loss 2. Extended Holding Leads To Additional Storage & Insurance Cost 3. Good Inventory Control Menthods Such As Eoq And Jit Will Minimize Delays 4. Aviod Stock Out Situations
Creditors To / Creditors Settlement Days	1. Delays Will Be Better For The Company, As It Is Free Source Of Finance 2. We Need To Look Into The Reputation Of The Company & Future Supplies, If We Delay
Operating Cycle	= Inventory Days + Debtors Days This Explaines How Long It Will Take From Procuring The Fg Till Collecting The Money From Customers It Is Better, If The Company Can Reduce Such Day In The Cycle
Cash Cycle	= Operating Cycle – Creditors Days From Operating Cycle If We Substract Creditors Days We Can Get Cash Cycle. This Explains How Long We Need Our Finance Facility

Liquidity Ratios

Liquidity Ratios (S/T)	*Formula*
Working Capital	*Current Assets - Current Liabilites*
Current Ratio	*Current Assets : Current Liabilites = X : 1*
Quick Assets/ Acid Test Ratio	*(Current Assets – Stocks - Prepayments) : Current Liabilites = X : 1*

Liquidity Vs Profitability

Liquidity Vs Profitability



37

Liquidity Ration – Explained

Ratios	Key Points To Focus
Liquidity	1. Liquidity Is Imporatant As To Profitability 2. There Is No Universal Best Ratio, It Is Depending On The Industry, But For Appropriateness It Will Better To Have 2 : 1 3. Liquidity Crisis Will Affect Profitability Through Borrowings At A Higher Interest Rate 4. It Will Be Difficult To Secure Future Purchases And Collections Of Debts, If Company Faces Liquidity Crisis 5. We Should Not Over-capitalize The Current Assets, As A Security Measure. As The Excessive Investment Will Erode The Profits.

38

Test Your Understanding

Description	2019	2018
Inventories	640	490
Receivables	1230	1080
Cash	80	120
Payables	750	690
Bank Od	140	100
Sales	11200	9750
Cost Of Sales	8460	6825
Calculate All The Liquidity Ratios And Working Capital Ratios		

39

Interpretation Of Ratios

The current ratio has improved slightly over the year and is marginally higher than the industry average. It is also in line with what is generally regarded as satisfactory (2:1).

The quick ratio has declined marginally but is still better than the industry average. This suggests that Silva PLC has no short term liquidity problems and should have no difficulty in paying its debts as they become due.

Receivables as a proportion of sales is unchanged from 20X8 and are considerably lower than the industry average. Consequently, there is probably little opportunity to reduce this further and there may be pressure in the future from customers to increase the period of credit given.

The period of credit taken from suppliers has fallen from 37 days' purchases to 32 days' and is much lower than the industry average; thus, it may be possible to finance any additional receivables by negotiating better credit terms from suppliers.

Inventory turnover has fallen slightly and is much slower than the industry average and this may partly reflect stocking up ahead of a significant increase in sales. Alternatively, there is some danger that the inventory could contain certain obsolete items that may require writing off. The relative increase in the level of inventory has been financed by an increased overdraft which may reduce if the inventory levels can be brought down. The high levels of inventory, overdraft and receivables compared to that of payables suggests a labour intensive company.

40

Solvency & Stability Ratios

Solvency & Stability Ratios (L/T)	Formula
Gearing Ratio 1 (Debt To Total Capital))	(Debt Capital / (Debt + Equity Capital)) * 100 = X%
Gearing Ratio 11 (Debt To Equity Capital))	(Debt Capital / Equity Capital) * 100 = X%
Interest Cover Ratio	PBIT / INTEREST = X Times

41

Solvency & Stability Ratios - Explained

Ratios	Key Points To Focus
Gearing Ratio	1. Equity Capital = Stated Capital + Reserves 2. Debt Capital = Debentures + Bank Loans + Other Ncl+ Pre.Shares
Gearing Or Solvency	1. This Consider The Long Term Stability Of The Company 2. Excessive Borrowing Leads To Financial Risk (Maximum 40%) 3. If Business Suffer Losses, There Is A Commitment To Pay Interest
Interest Cover	1. The Strength Of The Profit To Pay Interest Commitment 2. Higher Will Be Better For The Company 3. As Profits Are Fluctuating, A Strong Figure Is Always Better

42

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Test Your Understanding

2017 January Question 06 – Modified

Description	2016	2015
Pbit – Calculated	2,940	2,145
Interest Exp	240	220
Inventories	2,000	2,100
Prepayment (This Also Excluded)	450	300
Other Current Assets	4,100	4,850
Current Liabilities	2,900	2,720
Equity	6,700	5,200
Ncl – Debentures	2,000	2,000
Calculate Ratio – Current Ratio, Quick Ratio, Gearing 1, Gearing 11, Interest Cover 2016 & 2015		

43

Test Your Understanding

REFER WORKING SHEET FOR ANSWER

44

Test Your Understanding

2017 January Question 06 – Modified

Ratio	Formula	2016	2015
Current Ratio	Current Asset : Current Liabilities	2.26	2.67
Quick Asset Ratio / Acid Test	Current Asset – (Inv+prepayment) : Current Liabilities	1.41	1.78
Gearing 1 (Debt To Total Capital)	Debt Capital / Total Capital * 100	22.99%	27.78%
Gearing 11 (Debt To Equity)	Debt Capital / Equity Capital * 100	29.85%	38.46%
Interest Cover	Pbit / Interest	12.25	9.75

45

Interpretation Of Ratios

2017 January Question 06 – Modified

Test Your Understanding

1. Liquidity Ratio - Is It Safe Or Not ?
2. Reducing Liqudity From 2.6 To 2.2, Is It Good?
3. Acid Test Ratio – Is It Safe Or Not ?
4. Can We Redcued It Further ?
5. Gearing Ratio – Is It Safe Or Not ?
6. If We Need Capital, Which Source We Need To Approach ?
7. Is Our Interest Cover Is Safe ?
8. Sensitivity Of Profit ?

46

Investors Ratio

Investors Ratio	*Formula*	*Explanations*
Earnings Per Share (Eps)	*(Profit Attributed To Os / Weighted Avg. Number Of Os) = X Per Share*	*How Much The Profit Attributed To Ordinary Share Holders*
Price Earning Ratio (P/E)	*MPS / EPS = X Times*	*In Simple Term How Long It Will Take To Recover The Price, Higher Pe Ratio Shows Share Holder Confidence*
Earning Yield Ratio (E/Y)	*(Eps / Mps) * 100 = X%*	*Expressing The Pe Ratio As A %*
Dividends Yield Ratio (Dy)	*(Dps / Mps) * 100 = X%*	*Expressing The Dividend Return As A %*
Dividends Payout (Dpo))	*Dps / Eps = X*	*Out Of The Earnings How Much The Company Is Paying To Sh*
Retention Ratio	*1 – Dpo = X*	*After Dividends, How Much Retained For Future Investments*
Net Assets Per Share	*(Ta – Tl) / Number Of Shares = X Per Share*	*What Is The Book Value Of Shares*

47

Test Your Understanding

Sample Question

Description	2016	2015
Pat	7,000	3,000
Stated Capital	20,000	20,000
Retained Earnings	7,750	4,000
No. (Weighted Average) O/S	2,500	2,500
Dps	1.30	.30
Mps	26	14
Calculate All The Investor Ratios 2016 & 2015		

48

Test Your Understanding

REFER WORKING SHEET FOR ANSWER

49

Test Your Understanding

Sample Question

Ratio	Formula	2016	2015
Eps	(Profit Attributed To Os / Weighted Avg. Number Of Os)	2.80	1.20
Pe Ratio	Mps / Eps	9.29	11.67
Earning Yield	Eps / Mps) * 100	10.77%	8.57%
Dividend Yield	(Dps / Mps) * 100	5.00%	2.14%
Dpo Ratio	Dps / Eps	0.46	.25
Retention Ratio	1- Dpo	0.54	.75
Naps	TA – TL) / Number OF SHARES	11.60	9.60

50

Limitations In Ratios Analysis

51

Test Your Understanding

State three(03) limitations of ratio analysis.

52

Test Your Understanding

2017 June question 07

You are the newly recruited Accountant of **PG Holdings (Pvt) Ltd.** You have been asked by the Managing Director of the company to submit a report on the following matters comparing the previous year:

- Liquidity of the company.
- Profitability of the company.
- Efficiency of the working capital management.

You have computed the following ratios for the years ended 31st March 2017 and 31st March 2016 to include when preparing the report:

Ratio	2017	2016
Current Ratio	1.2 times	2 times
Quick Assets Ratio	0.25 times	1.2 times
Gross Profit Ratio	23%	35%
Net Profit Ratio	15%	20%
Debt collection period	45 days	30 days
Creditors' settlement period	20 days	15 days

You are required to:

Prepare a report to be submitted to the Managing Director of the company commenting on the liquidity, profitability and efficiency of the working capital management of the company using the above computed ratios. (10 marks)

53

Test Your Understanding

REFER WORKING SHEET FOR ANSWER

54

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