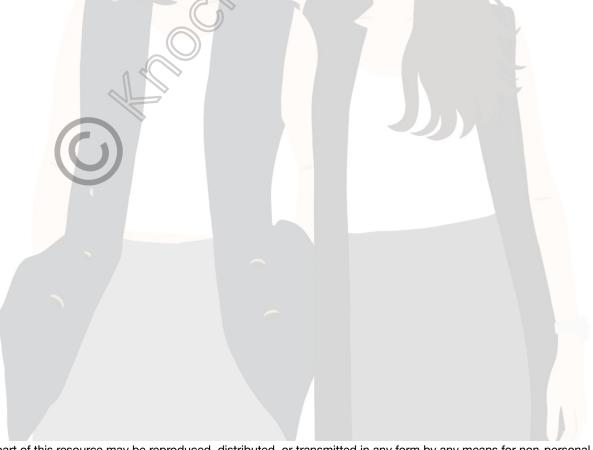
#### **Chapter 18 Ratio analysis**

### **Key terms**

- 1. Fraud: the illegal act of cheating somebody to get money.
- 2. Gearing: the ratio of a company's loam capital to its share capital.
- 3. Gearing ratios: explore the capital structure of business by comparing the proportions of capital raised by debt and equity.
- 4. Performance indicator: a type of performance measurement that evaluates the success of an organization or of a particular activity.
- 5. Profitability or performance ratios: illustrate the profitability of a business compared to other business.
- 6. Ratio analysis: to investigate accounts by comparing two connected figures.
- 7. Return on capital employed(ROCE): the profit of a business as percentage of total amount of money used to generate it
- 8. Window dressing: the legal adjusting of accounts by a business to present a financial picture that is to its benefit.



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#### 1. Profitability ratio

1) Gross profit margin: gross profit made on sales turnover / revenue

2) Operating profit margin: operating profit profit made on sales revenue/turnover.

## 3) Profit for the year (Net profit) margin:

 Net profit takes into account all business costs, include financial costs, other non operating costs and exceptional items.

Profit for the year margin = Net profit before tax X 100

(Net profit margin) Revenue

# 2. Liquidity ratio Measuring liquidity

- 3. Gearing ratios; shows the long-term financial position of the business.
- → It can show the relationship between loans on which interest is paid and shareholders' equity on which dividends might be paid.

Capital employed (fund for longterm investment) = Total asset - current .liability) or NC liability + Equity

4. Return on capital employed (ROCE or primary ratio)

ROCE = Operating profit or EBIT (Earning Before Interest and tax)

Capital employed (A - CL or NC(L) + E)