

FINANCIAL RATIOS - SAMPLE

By Acads.ai [Marksup]

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We advise all SEBI aspirants to stay away from any lengthy /bulky material. Read only what you can revise multiple times. SEBI syllabus is huge and you need to prepare accordingly. We are a team of IITB, IIMA, SRCC, CFA, FRM alumni working day and night to equip you with the best material for SEBI. Grade A exam. Please do not waste your time in researching on it.

MarksUp brings to you the most compact (but comprehensive) notes for SEBI exam. The focus is on trying to cover each subject in 40-50 pages, enabling you to retain the content and then reproduce in the exam.

Understand and accept the limitation of your brain. You won't be able to retain anything unless you are not reading it 5-7 times. Do not commit the same mistakes that 99% of aspirants commit – Reading everything and retaining nothing.

-Phani Ganiseti
Content Head, SEBI+RBI
(IIT JEE AIR 30, IIT Bombay CSE, IIMA, CFA, FRM)

1. Ratios is one of the most important topic from finance. However one must not be scared of it.
2. For Financial Ratios, Team Acads have analysed previous year question papers of RBI, SEBI, CA, CFA. 90% of SEBI/RBI questions are going to be on following lines
 - a. Type of Ratio
 - b. Meaning of Ratio
 - c. Interpretation
 - d. Ideal Ratio
 - e. Users and Significance
 - f. Basic Numericals
3. There is no need to go through any other source. However, you need to revise it at least 4 times.

Type	Ratio	Meaning	Formula	Interpretation	Users
Liquidity Ratios		- The terms 'liquidity' and 'short-term solvency' are used synonymously. - Liquidity or short-term solvency means ability of the business to pay its short term liabilities.			- Creditors - Employees
	Current Ratio	- The Current Ratio is one of the best known measures of short term solvency. - It indicates whether the business has enough current assets to meet the payment schedule of its current debts	$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$ Where, Current Assets = Inventories + Sundry Debtors + Cash and Bank Balances + Receivables/ Accruals + Loans and Advances + Disposable Investments + Any other current assets. Current Liabilities = Creditors for goods and services + Short-term Loans + Bank Overdraft + Cash Credit + Outstanding Expenses + Provision for Taxation + Proposed Dividend + Unclaimed Dividend + Any other current liabilities.	Ideal ratio 2:1	- Creditors - Employees
	Quick Ratio	- The Quick Ratio is sometimes called the "acid-test" ratio and is one of the best measures of liquidity. - Quick Assets consist of only cash and near cash assets. Inventories are deducted from current assets	$\text{Quick Ratio or Acid Test Ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilities}}$ Where, Quick Assets = Current Assets – Inventories – Prepaid expenses Current Liabilities = As mentioned under Current Ratio.	Ideal ratio 1:1	- Creditors - Employees
	Cash Ratio	Measures the absolute liquidity of the business	$\text{Cash Ratio} = \frac{\text{Cash and Bank balances + Marketable Securities}}{\text{Current Liabilities}}$ Or, $\frac{\text{Cash and Bank balances + Current Investments}}{\text{Current Liabilities}}$	Only tests short-term liquidity in terms of cash and marketable securities/ current investments.	- Creditors - Employees
	Basic Defense Interval Ratio	Measures ability of company to sustain on it's own	$\text{Basic Defense Interval} = \frac{\text{Cash and Bank balances + Marketable Securities}}{\text{Operating Expenses} \div \text{No. of days (say 360)}}$ Or $\text{Interval Measure} = \frac{\text{Current Assets - Inventories}}{\text{Daily Operating Expenses}}$ $\text{Daily Operating Expenses} = \frac{\text{Cost of Goods Sold + Selling Administration and other General expenses - Depreciation and other non cash expenditure}}{\text{No. of days in a year}}$	Helps determine the number of days for which the company can cover its cash expenses without the aid of additional financing	- Creditors - Employees

	Net Working Capital Ratio	Difference between Current Assets & Current liabilities	$\text{Net Working Capital Ratio} = \frac{\text{Current Assets} - \text{Current Liabilities}}{\text{Current Assets} - \text{Current Liabilities}}$ (Excluding short-term bank borrowing)	Determines a company's ability to weather financial crises Eg. During granting a loan	- Creditors - Employees
Leverage Ratios/ Long term Solvency Ratios		- Those financial ratios which measure the long term stability and structure of the firm. - These are concerned with: (i) Periodic payment of interest (ii) Repayment of principal amount on maturity.	- Types: - Capital Structure Ratios - Coverage Ratios		- Investors - Lenders - Employees - Mangers
Capital Structure Ratios		Provide an insight into the financing techniques used by a business and focus, on the long-term solvency position.			
	Equity Ratio	•		•	
	Debt Ratio	•			
	Debt-Equity Ratio	•		•	
	Debt to Total Assets Ratio	•			
	Capital Gearing Ratio	•			
	Proprietary Ratio	•		•	
Coverage Ratios		•			
	Debt Service Coverage Ratio	•		•	
	Interest Coverage Ratio	•		•	
	Preference Dividend	•		•	

	Coverage Ratio				
	Fixed Charges Coverage Ratio	•			
Activity Ratios/ Efficiency Ratios/ Performance Ratios/ Turnover Ratios		•			•
Assets Turnover Ratios		•			
	Total Assets Turnover Ratio				
	Fixed Assets Turnover Ratio				
	Capital/Net Assets Turnover Ratio				
	Capital Assets Turnover Ratio				
Working Capital Turnover Ratio					
	Inventory Turnover Ratio	•		•	
	Debtor Turnover Ratio	•			

	Average Collection Period	•			
	Creditors Turnover Ratio			•	
	Average Payment Period				
Profitability Ratios					•
Based on sales	Gross Profit Ratio	•		•	
	Net Profit Ratio			•	
	Operating Profit Ratio	•		•	
	Expenses Ratio	•			
Based on overall Assets/Investments	Return of Investments	•			
	Return on Assets	•			
	Return on Capital Employed				
	Return on Equity	•			
Based on owner's PoV	Earnings Per Share	•			
	Dividend Per Share	•			
	Dividend Payout	•			
Based on Investors	Price-Earnings Ratio	•		•	

	Dividend Yield				
	Earnings Yield	•			
	Market Value/Book Value per share	•		•	
	Q Ratio	•			

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