KEY ACCOUNTING RATIOS.

Lloyds TSB

Need to know	Ratio	What it shows	How to calculate the ratio
Solvency	Current	The current ratio looks at the relationship between current assets and current liabilities. These figures are always shown on the balance sheet.	**Current ratio = current assets ÷ current liabilities**
	Quick	The quick ratio measures liquidity more precisely than the current ratio, as it does not include the value of stock within current assets.	**Quick ratio = current assets less stock ÷ current liabilities**
Profitability	Gross profit margin	The gross profit margin looks at gross profit as a percentage of turnover. Small changes in this percentage can indicate that your costs of production are creeping up, which should prompt you to consider increasing prices or looking for cheaper suppliers.	**Gross profit % = gross profit ÷ turnover x 100**
	Break-even point	Gross margin can also be used to calculate your break-even point, which will show you the level of sales you need to achieve to make a profit.	**Break-even = fixed expenses ÷ gross margin**
	Net profit margin	The net profit margin looks at the net profit as a percentage of turnover.	**Net profit % = net profit ÷ turnover x 100**
	Return on assets	The net asset total looks at total assets less liabilities. This represents the amount of capital invested in the business.	**Return on assets = net profit ÷ net assets x 100**
Performance	Borrowing ratio (gearing)	This ratio looks at total borrowings divided by net worth of the business. The idea is that the relationship between borrowings and equity should be in balance, with equity being significantly higher than debt.	**Total borrowings ÷ net worth of business**
	Average collection period (debtor days)	This ratio is used widely within businesses to measure the effectiveness of a debt collection routine. It sets out the relationship between debtors and the sales that have been made on credit, and also shows how quickly customers are paying their invoices.	**Debtor days = debtors ÷ turnover x 365**
	Creditor days	This ratio sets out the number of days taken to pay suppliers. It can give a useful pointer as to whether the business is taking longer to pay people.	**Creditor days = creditors ÷ purchases x 365**
	Stock turnover	This ratio looks at how quickly you turn over stock into sales, and is another good measure of efficiency.	**Stock turnover = cost of goods sold ÷ stock value**
	Overheads as a percentage of turnover	Reviewing overheads in relation to turnover can be a useful tool in assessing whether they are growing more rapidly than they should. The calculation means little on its own, but when reviewed over several periods it can provide useful trend information.	**Overheads ÷ turnover x 100**