



5.5 Analysis of Accounts

What are performance and liquidity ratios?

1. Performance ratios – measures the profitability/performance of business
 - a. Gross profit margin
 - b. Profit margin
 - c. Return on capital employed (ROCE)
2. Liquidity ratios – measures financial state/ability to pay stakeholders
 - a. Current ratio
 - b. Acid test ratio

$$\text{Gross Profit Margin (\%)} = \frac{\text{Gross Profit}}{\text{Revenue}} \times 100$$

$$\text{Profit Margin (\%)} = \frac{\text{Profit before Tax}}{\text{Revenue}} \times 100$$

$$\text{ROCE (\%)} = \frac{\text{Profit before Tax}}{\text{Capital employed}} \times 100$$

Capital employed = Non-current liabilities + Shareholders' funds = Total assets – Current liabilities

$$\text{Current ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$\text{Current ratio} = \frac{\text{Current Assets - Inventories}}{\text{Current Liabilities}}$$

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