**Rapid Revision: Ratio Analysis**

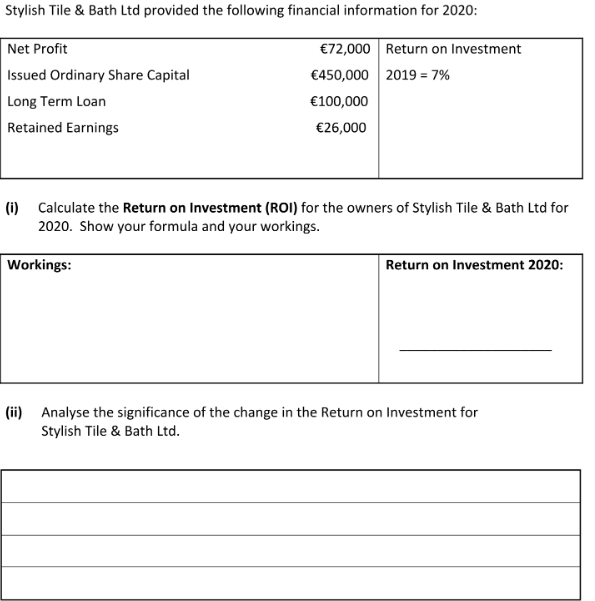
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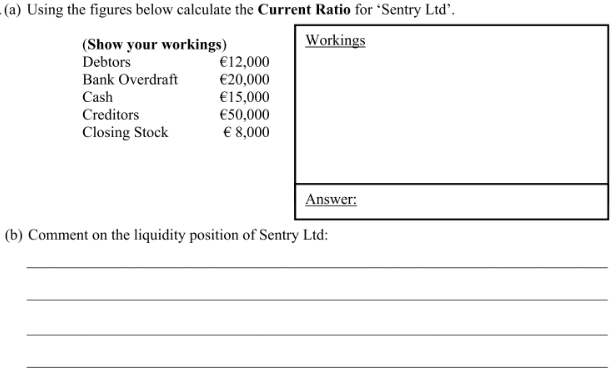
1. **Write out the formula for each of the following Ratios:**

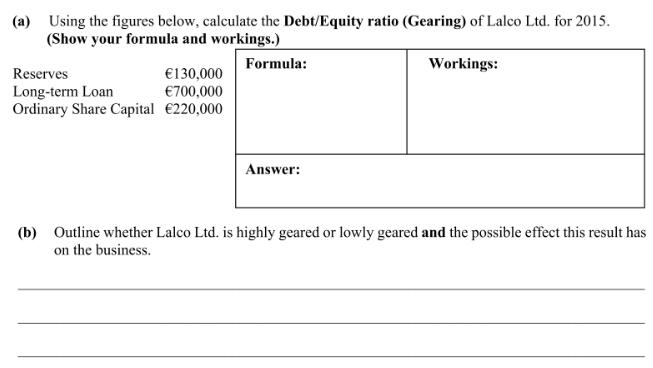
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| **Ratio** | **Formula** | **Important to Note** |
| **Gross Profit Margin**  **(Profitability)** |  | **Expressed as percentage, you want to be as high as possible** |
| **Net Profit Margin**  **(Profitability)** |  | **Expressed as percentage, you want to be as high as possible** |
| **Return on Investment/Return on Capital Employed**  **(Profitability)** |  | **Expressed as percentage, you want to be as high as possible** |
| **Current/Working Capital Ratio**  **(Liquidity)** |  | **Ideal 2:1 or higher** |
| **Acid Test/Quick Ratio**  **(Liquidity)** |  | **Ideal 1:1 or higher** |
| **Debt/Equity Ratio**  **(Gearing)** |  | **Ideal 1:1 or lower** |

1. **Circle the correct option from the following information**

* A way to improve Net Profit Margin is to **increase/reduce** expenses such as staff wages or source cheaper suppliers
* Return on investment should always be compared with the risk-free investment offered by **shareholders/the bank**
* **Liquidity/Profitability** measures a business ability to pay **short/long term** debts as they fall due
* Making high interest payments and low dividends to shareholders is a result of being **highly/lowly geared**
* It is better for a business to have **more/less** debt capital than equity capital







1. **Outline three limitations of using Ratio Analysis**

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