

Area	Core Concept	Key Ratios	Formula	What it does it tell you?	Key Points	Examples
Profitability	How profitable is the company relative to the revenue it earns?	Revenue Growth	$\text{Current Revenue} / \text{Prior Yr Revenue} - 1$ Answer in %	How much has revenue grown/declined over the past year?	<p>Various profit margin ratios - e.g. gross profit, operating profit, net profit</p> <p>Consider key driver of profit movement (e.g. revenue up/down, costs up/down)</p> <p>Important to consider profitability relative to revenue earned but also relative to the capital invested in the business - two different perspectives</p>	S'17 Q5
		Gross Profit Margin	$\text{Gross Profit} / \text{Revenue} * 100$ Answer in %	How much of every euro in revenue is left after taking off direct costs (i.e. COS)?		A'15 Q4
	How profitable is the company relative to the amount of capital invested in the business?	Net Profit Margin	$\text{Net Profit} / \text{Revenue} * 100$ Answer in %	How much of every euro in revenue is left after taking off all costs?		S'12 Q7
		Return of Capital Employed (ROCE)	$\text{PBIT} / (\text{Debt} + \text{Equity}) * 100$ Answer in %	What return is the business earning on the capital it has invested? Compare to other investment opportunities for the capital.		S'10 Q2
Liquidity	How able is the business to pay off its short term debts as they fall due?	Current Ratio	$\text{Current Assets} : \text{Current Liabilities}$ Answer in times	How much current assets are available relative to the current liabilities outstanding?	<p>Higher/Lower ratios suggest better/weaker liquidity position</p> <p>Very large ratios could suggest inefficient management of current assets</p> <p>Unless given specific benchmarks, "ideal" ratios are: Current - 2:1 Quick - 1:1</p>	A'15 Q4
		Quick Ratio (Acid Test)	$(\text{Current Assets} - \text{Inventory}) : \text{Current Liabilities}$ Answer in times	How much current assets (Excl. inventory) are available relative to the current liabilities outstanding?		A'14 Q7
Efficiency	How efficient are management in utilising the assets of the business?	Non Current Asset Turnover	$\text{Revenue} / \text{Non-Current Assets}$ Answer in times	How many euros in revenue does the business earn for every euro invested in non-current assets?	<p>Use credit sales and purchases where possible - if not told, use total sales/COS as a proxy</p> <p>Typically use average balances (e.g. average inventory) - if not told, use closing balance</p> <p>Days Ratios are important for Working Capital topic - e.g. cash conversion cycle</p>	A'18 Q2
		Current Asset Turnover	$\text{Revenue} / \text{Current Assets}$ Answer in times	How many euros in revenue does the business earn for every euro invested in current assets?		A'17 Q3
		Inventory Days or Inventory Turnover	$\text{Inv Days} = \text{Inventory} / \text{COS} * 365 = \text{Days}$ $\text{Inv Turnover} = \text{COS} / \text{Inventory} = \text{Times}$	On average, how many days are inventory held before being sold? OR On average, how many times inventory is turned over in a year?		S'16 Q3
		Trade Receivables Days	$\text{Trade Receivables} / \text{Revenue} * 365$ Answer in days	The average number of days credit taken by customers		A'15 Q4
		Trade Payables Days	$\text{Trade Payables} / \text{Credit Purchases} * 365$ Answer in days	The average number of days credit taken by the business from its suppliers?		A'14 Q7
						S'13 Q7

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Gearing	What does the company's financial (capital) structure look like?	Gearing	$LT\ Debt / (LT\ Debt + Equity) * 100$ Answer in %	How much debt is in the business relative to equity?	<p>Gearing ratios are important for Finance Decisions topic - e.g. source of finance, capital structure decisions</p> <p>Other variations of gearing ratio possible - ensure you know which you are being asked for</p> <p>If no benchmarks given (e.g. industry average) - >50% would be classified as highly geared</p>	S'18 Q3
		Income Gearing	$(Interest + Pref\ Div) / PBIT * 100$ Answer in %	What % of profit is spent on servicing debt or quasi debt (preference shares)? Measure of how sustainable the interest payments are.		A'17 Q1
	How sustainable is the company's financial position?	Interest Cover	$PBIT / Interest$ Answer in times	How many multiples of interest does the profit figure represent? Measure of how sustainable the interest payments are.		A'15 Q7
		Operating Leverage	$Contribution / Net\ Profits * 100$ Answer in %	How much fixed costs are in a company's cost base? Measure of how risky the cost base is.		S'14 Q1
Investment	What does this company look like from an existing/potential investor's perspective?	Earnings per Share (EPS)	$Net\ Profit\ after\ Pref\ Div / \#\ of\ Ord.\ Shares$ Answer in € or c per share	How much profit was earned in period per share?	<p>Consider the type of business it is - a private company will not have a share price and thus no P/E ratio or Dividend Yield is possible</p> <p>Consider if you are an existing investor or a prospective investor</p> <p>Be careful when calculating the number of shares from the SOFP - always check what the nominal value of each share is first (See S'16 Q1)</p>	S'18 Q3
		Price Earnings Ratio (PE)	$Market\ price\ per\ share / EPS$ Answer in times	How many multiples of profit per share is an investor willing to pay for one share?		S'17 Q5
		Dividend Per Share (DPS)	$Ordinary\ Dividend / \#\ of\ Ord.\ Shares$ Answer in € or c per share	How much dividend was paid per share?		S'16 Q1
		Dividend Yield	$Ordinary\ Dividend / Market\ price\ per\ share * 100$ Answer in %	How much is the dividend relative to the share price? Measure of the income return paid on the share investment.		A'15 Q7
		Dividend Cover	$Net\ Profit\ after\ Pref\ Div / Ordinary\ Dividend$ Answer in times	How many multiples of dividend does the profit figure represent? Measure of how sustainable the dividend payment is.		S'14 Q1
		Payout Ratio	$Ordinary\ Dividend / Net\ Profit\ after\ Pref\ Div * 100$ Answer in %	What % of profit is paid out as dividends?		S'13 Q2
						A'13 Q5
						S'12 Q4