IB Ratio Analysis				
Ratio	**Formula**	**What it tells us**	**Acceptable ratio**	**How can we improve it?**
Performance ratios				
Return on capital employed (net assets)	Profit before tax & interest x 100 Capital employed (Net assets = assets – liabilities, sometimes called capital employed)	Tells us what the owners get back (their return) for investing their money in the business.	Needs to be compared to other similar businesses and bank interest rates. (Currently Thai banks offer 1-2% interest) Needs to be compared with previous years	Reduce costs through, for example, finding a new location with lower rent. Increase sales through use of different advertising strategies. Improve efficiency through staff training.
Gross profit Margin	Gross Profit x 100 Sales turnover	Tells us the percentage of sales turnover that is made up of gross profit	Needs to be compared with other similar businesses (e.g. supermarkets will have a lower GP margin than luxury car dealers) Needs to be compared with previous years	Find a new, cheaper supplier (be careful not to compromise quality which may lead to loss of customers). Increase the selling price (be careful not to increase it too much which may lead to loss of customers).
Net profit Margin	Profit before tax & interest x 100 Sales turnover	Tells us the percentage of sales turnover that is made up of net profit.	Needs to be compared with other similar businesses. Needs to be compared with previous years.	Increase GP Margin – see above Reduce expenses e.g. finding a new location to reduce rent, conserve energy to reduce electricity bills, staff redundancies (last resort).
Liquidity ratios				
Current ratio	Current assets Current liabilities = ? : 1	Tells us the ability of the business to repay its short term (less than 12 months) debts.	A ratio of between 1.5:1 and 2:1 is safest. Anything higher than 2:1 indicates an inefficient use of resources	Sell fixed assets (e.g. vehicles machinery) not being used to repay short term loans Refinance short term loans so that they become long term
Acid test or liquid ratio	Current assets – stock Current liabilities = ? : 1 Stock is removed because it cannot easily be converted to cash	Tells us the ability of the business to repay its immediate (next month) debts.	A ratio of between 1:1 and 1.5: 1. anything higher than 1.5: indicates an inefficient use of resources	Sell fixed assets (e.g. vehicles machinery) not being used to repay short term loans Refinance short term loans so that they become long term
Ratio	**Formula**	**What it tells us**	**Acceptable ratio**	**How can we improve it?**

		Management efficiency ratios		
Stock turnover ratio	Cost of Sales Average Stock = ? times / year OR Sales Average stock = ? times / year	Tells us the number of times per year (on average) our stock is completely sold (and our shelves are restocked)	Needs to be compared with other similar businesses (e.g. supermarkets will have a higher stock turnover than luxury car dealers) Needs to be compared with previous years	Use of marketing strategies e.g. sales promotions, TV advertising, etc.
Trade debtors collection period	Trade debtors x 365 Sales Revenue	Tells us the number of days (on average) it takes for our customers to pay us the money they owe us.	30 days is the usual credit term given by businesses to their customers. We would expect it to be around this number. > 45 days would be a cause for concern.	Offer discounts for early payment; send regular statements; contact customers as soon as an account is overdue; charge interest for overdue accounts.
Trade Creditors payment period	Trade creditors x 365 Total Purchases	Tells us the number of days (on average) it takes for us to pay creditors the money we owe them.	30 days is the usual credit term given by businesses to their customers. We would expect it to be around this number. > 45 days would be a cause for concern.	Improve the payments systems within the organisation so that invoices are paid promptly.
		Shareholder Ratios		
Return on Equity (ROE)	(Profit after tax, interest & dividends / Ordinary share capital) x 100	The return that shareholders get for investing their money in the company.	Needs to be compared to other similar businesses and bank interest rates. (Currently Thai banks offer 1-2% interest) Needs to be compared with previous years	Reduce costs through, for example, finding a new location with lower rent. Increase sales through use of different advertising strategies. Improve efficiency through staff training.
Earnings per share	(Net profit after tax + preferred dividend) / number of shares	The return that each share gets.		
Dividend Yield	Dividends per share x 100 Market price of share	The dividend paid to each share as a percentage of its current value.		
		Gearing		
Gearing Ratio	(Loan Capital + Preference capital) / Total Capital)) x 100	The percentage of total capital that is financed by long term borrowing	> 50% represents high (excessive) gearing, which further implies excessive amounts being paid in interest and outsiders having greater ownership in the company than its owners.	Repay long term debt through: selling of fixed assets; selling of shares (if possible); exchanging loan principals for shares.