

Worksheet 3: Financial Ratios — Reference & Practice

Use the formula sheet to calculate ratios for XYZ Ltd and interpret results.

Part A — Formula Quick-Reference Card

Ratio	Formula	Healthy Benchmark
Current Ratio	Current Assets / Current Liabilities	> 1.5x
Quick Ratio	(Current Assets - Inventory) / Current Liabilities	> 1.0x
Gross Profit Margin	Gross Profit / Revenue x 100	Varies by industry
Net Profit Margin	Net Profit / Revenue x 100	> 10% (good)
Return on Equity	Net Profit / Shareholders Equity x 100	> 15%
Return on Assets	Net Profit / Total Assets x 100	> 5%
Debt-to-Equity	Total Debt / Shareholders Equity	< 2.0x
Interest Coverage	EBIT / Interest Expense	> 3.0x
Inventory Turnover	COGS / Average Inventory	Higher = better
Days Sales Outstanding	365 / Receivables Turnover	Lower = better

Part B — Case Study: XYZ Manufacturing Ltd

Financial data for the year ended 31 March 2025:

Item	Amount (■)	Item	Amount (■)
Revenue	80,00,000	Total Assets	60,00,000
Cost of Goods Sold	50,00,000	Total Liabilities	24,00,000
EBIT	15,00,000	Shareholders' Equity	36,00,000
Interest Expense	3,00,000	Current Assets	20,00,000
Net Profit	9,00,000	Current Liabilities	10,00,000
Average Inventory	8,00,000	Average Receivables	12,00,000

Calculate each ratio and interpret what it tells you about XYZ Ltd:

Ratio	Your Calculation	Result	Interpretation (Good/Concern/Investigate)
Current Ratio			
Gross Profit Margin			
Net Profit Margin			
Return on Equity			

Debt-to-Equity			
Interest Coverage			
Inventory Turnover			

Answer Key

Ratio	Answer	Verdict
Current Ratio	$20/10 = 2.0x$	Good - comfortable liquidity
Gross Profit Margin	$30/80 \times 100 = 37.5\%$	Depends on industry; review vs. peers
Net Profit Margin	$9/80 \times 100 = 11.25\%$	Healthy margin
Return on Equity	$9/36 \times 100 = 25\%$	Excellent - strong returns for shareholders
Debt-to-Equity	$24/36 = 0.67x$	Conservative leverage - low risk
Interest Coverage	$15/3 = 5.0x$	Comfortable - well above 3x safety benchmark
Inventory Turnover	$50/8 = 6.25x$	Review vs. industry; roughly every 58 days