



March 23- 27, 2020

SUPPLEMENTARY LESSON

TOPIC: SOLVENCY RATIOS

Solvency ratio – measure a company’s ability to pay its maturing long-term debts while sustaining operations definitely

Common Types of Solvency Ratios

1. Debt ratio or Debt to asset ratio– measures business liabilities as a percentage of total assets

Formula: Debt ratio = Total Liabilities / Total Assets

2. Equity ratio – measures the percentage of total assets financed by the owner’s investment

Formula: Equity ratio = Total Equity / Total Assets

3. Debt to Equity ratio or Financial Leverage Ratio – measures the number of times operating income can cover interest expense

Formula: Debt to Equity Ratio = Total Liabilities / Total Equity

4. Time Interest Earned – measures the company’s ability to pay the interest charged by the creditors

TOPIC: PROFITABILITY RATIOS

Profitability Ratios – measure a company’s overall efficiency and performance based on its ability generate profit from operation relative to its available assets and resources

Common Types of Profitability Ratios

1. Gross Profit Ratio – measures the mark up based on selling price or measures the percentage of peso sales earned after deducting cost of goods sold

Formula: Gross Profit ratio = Gross Profit / Net Sales

2. Operating Profit Margin – measures the percentage of income earned after deducting the cost of sales and operating expenses

Formula: Operating Profit Margin = Operating Income / Nets Sales

3. Net Profit Margin or Return on Sales – measures the profitability rate based on sales

Formula: Net Profit Margin = Net Profit / Net Sales

4. Return on Assets/Return on Investment – measures the company’s efficiency in using its level of investment in assets in order to generate income

Formula: Return on Assets = Net Income / Average total Assets

Formula: Average Total Assets = Assets of the Beginning of the year + Assets at Ending of the year



LA IMMACULADA CONCEPCION SCHOOL

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GRADE 11– FUNDAMENTALS OF ACCOUNTANCY

References: Simplified Accounting by Nelson Abeleda pp.245-246
Fundamentals of Accountancy, Business, and Management 2 by Flocer Lao Ong and
Janelle Gomendoza pp. 103 – 109

ACTIVITY

Directions: Refer to the Income statement and balance sheet of Red Corner Wholesaler.
Compute for the following ratios for 2018 and 2019. Show your solutions on one whole
sheet yellow paper.

1. Debt Ratio
2. Equity ratio
3. Debt to Equity Ratio
4. Times Interest Earned
5. Gross Profit Ratio
6. Operating Profit Margin
7. Net Profit Margin
8. Return on Assets