

6 Profitability Ratios You Should Know

$$\text{Return on Assets} = \frac{\text{Net Income}}{\text{Total Assets}}$$

$$\text{Return on equity} = \frac{\text{Net income}}{\text{Average shareholders' equity}}$$

Formula and Calculation of Return on Capital Employed (ROCE)

The formula for ROCE is as follows:

$$\text{ROCE} = \frac{\text{EBIT}}{\text{Capital Employed}}$$

EBIT=Earnings before interest and tax

Capital Employed=Total assets – Current liabilities

$$\text{Gross Profit Margin} = \frac{\text{Net Sales} - \text{COGS}}{\text{Net Sales}}$$

$$\text{Operating Profit Margin} = \frac{\text{Operating Income}}{\text{Revenue}} \times 100$$

$$\begin{aligned}\text{Net profit margin} &= \frac{R - \text{COGS} - E - I - T}{R} \times 100 \\ &= \frac{\text{Net income}}{R} \times 100\end{aligned}$$

where:

R = Revenue

COGS = The cost of goods sold

E = Operating and other expenses

I = Interest

T = Taxes