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शक्तिउत्थानआश्रमलखीसरायबिहार

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Accounting *Ratios*

Summary

1. *Financial Statement Analysis:* It is an integral part of the basic accounting to provide the necessary value addition to the users.
2. *Ratio Analysis:* An important tool of financial statement analysis is ratio analysis. Accounting ratios represent relationship between two accounting numbers.
3. *Objective of Ratio Analysis:*The objective of ratio analysis is to provide a deeper analysis of the profitability, liquidity, solvency and activity levels in the business. It is also to identify the problem areas as well as the strong areas of the business.
4. *Advantages of Ratio Analysis:* Ratio analysis offers many advantages including enabling financial statement analysis, helping understand efficacy of decisions, simplifying complex figures and establish relationships, being helpful in comparative analysis, identification of problem areas, enables SWOT analysis, and allows various comparisons.
5. *Limitations of Ratio Analysis:* There are many limitations of ratio analysis. Few are based because of the basic limitations of the accounting data on which it is based. The other set includes the limitation of the ratio analysis per set. In the first set are included factors like Historical Analysis, Ignores Price-Level Changes, Ignore Qualitative or Non-Monetary Aspects, Limitations of Accounting Data, Variations in Accounting Practices, and Forecasting. In the second set are included factor like means and not the end, lack of ability to resolve problems, lack of standardised definitions, lack of universally accepted standard levels, and ratios based on unrelated figures.
6. *Types of Ratios*: There are many types of ratios, viz. liquidity, solvency, activity and profitability ratios. The liquidity ratios include current ratio and acid test ratio. Solvency ratios are calculated to determine the ability of the business to service its debt in the long run instead of in the short run. They include debt equity ratio, total assets to debt ratio, proprietary ratio and times interest coverage ratio. The turnover ratios basically exhibit

the activity levels characterised by the capacity of the business to make more sales or turnover and include Stock Turnover, Debtors (Receivable) Turnover, Creditors (Payable) Turnover, Working Capital Turnover, Fixed Assets Turnover, and Current asset Turnover. Profitability ratios are calculated to analyse the earning capacity of the business which is the outcome of utilisation of resources employed in the business. The ratios include Gross Profit ratio, Operating ratio, Net-profit-ratio, Return on investment (Capital employed), Earnings per Share, Book Value per Share, Dividend per Share, and Price Earning ratio.