# RATIO ANALYSIS

Dr. Ruchika khandelwal
School of studies in commerce
Vikram university ujjain

# RATIO ANALYSIS

- MEANING OF RATIO ANALYSIS
- OBJECTIVE OF RATIO ANALYSIS
- ADVANTAGES OF RATIO ANALYSIS
- LIMITATION OF RATIO ANALYSIS
- CLASSIFICATION OF ACCOUNTING RATIO

# MEANING

Ratio analysis is a study of relationship among various financial factors in a business.

# OBJECTIVES

- To simplify the accounting information.
- To determine liquidity
- To assess the operating efficiency of business
- To analysis the profitability of the business
- To help in comparative analysis

# ADVANTAGES

- Useful Tool for analysis of financial statement
- Simplifies Accounting Data
- Useful in assessing the Operating Efficiency of business
- Useful for Forcasting
- Useful in locating the weak Areas
- Useful in inter-firm and intra firm comparison

# LIMITATIONS

- False Result
- Qualitative factors are ignored
- Lack of standard Ratio
- May not be comparable
- Price level changes are not considered
- Window Dressing
- Personal Bias

# CLASSIFICATION OR TYPES

LIQUDITY RATIO

SOLVANCY RATIO

ACTIVITY RATIO

PROFITABLITY RATIO

# LIQUDITY RATIO

These ratio show the ability of enterprise to meet its short-term financial obligations.

Liqudity Ratio are:-
Current Ratio
Quick Ratio

# LIQUDITY RATIO

1.Current Ratio

Current ratio =current assets/current  liabliities

It is expressed as a pure ratio 2:1

**Current assets are** : Short term investment  ,Current investment,Inventories,Trade Receivables,Cash and cash equivalents,Short term loan &advance,Other current assets

**Current liablities are**:Short term Borrowing,Trade payable,Other current Liablities

# LIQUDITY RATIO

2.Liquid /Quick/Acid test ratio

**Liquid ratio=Liquid Assets/Current Liabilities**

It is expressed as a pure ratio 1:1

**Liquid Assets are:**
Current Assets –(Inventories+Prepaid Expenses)

**Current liablities are**:
Short term Borrowing,Trade payable,Other current Liablities

# SOLVENCY RATIO

Solvancy Ratio are the the ratios which show whether the enterprise will be able to meet its long term finacial obligations,i.e.,long –term liabilities.

1. Debt to Equity Ratio
2. Total to Debt Ratio
3. Propritary Ratio
4. Interest Coverage Ratio

# SOLVENCY RATIO

Debt to Equity Ratio

**Debt to Equity Ratio= Debt/ Equity**

It is expressed as Pure Ratio 2:1

**Debt**=Long term Borrowing +Long Term Provision
Or = Total Debt –Current Liablities

**Equity/Shareholders`Fund**= Share Capital+Reserve and Surplus
Or =Non current Assets+non current Investment
+long –term Loans and Advance)+working capital –Non current liablities

# SOLVENCY RATIO

Total Assets to Debt Ratio

**Total Assets to Debt ratio= Total Assets/debt(long-term Debts)**

It is expressed as pure ratio 1:1

**Total Assets** = Non Current Assets +Non current investment +current assets

**Debt**=Long term Borrowing +Long Term Provision