

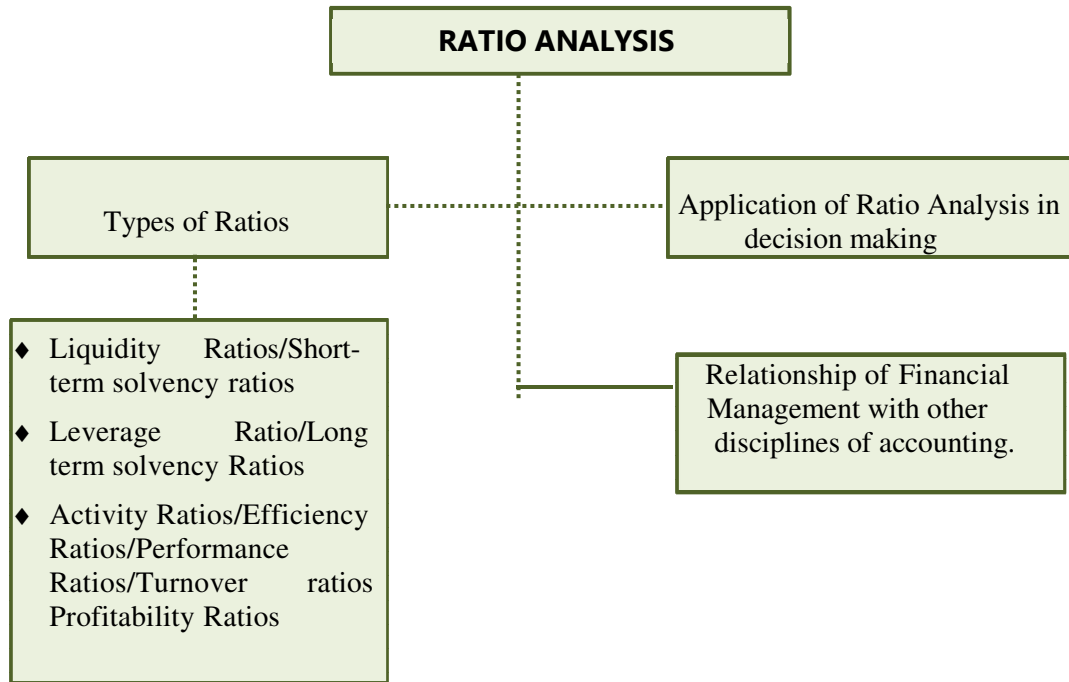
RATIO ANALYSIS

(Lecture-2)

SEMESTER – 6

JUHI JAISWAL

Chapter Overview



INTRODUCTION

The basis for financial analysis, planning and decision making is financial statements which mainly consist of Balance Sheet and Profit and Loss Account.

Particulars	Disclosure
Profit & loss account	The operating activities of the concern
Balance sheet	Balance value of the acquired assets and of liabilities at a particular point of time

However, the above statements do not disclose all of the necessary and relevant information.

The financial manager has certain analytical tools which help in financial analysis and planning. One of the main tool is Ratio Analysis.

RATIOS AND RATIO ANALYSIS

Ratio Analysis

The term financial ratio can be explained by defining how it is calculated and what the objective of this calculation is

a. Calculation Basis (Basis of Calculation)

- A relationship expressed in mathematical terms;
- Between two individual figures or group of figures;
- Connected with each other in some logical manner; and
- Selected from financial statements of the concern

b. Objective for financial ratios is that all stakeholders (owners, investors, lenders, employees etc.) can get some clear point of views about the

- Performance (past, present and future);
- Strengths & weaknesses of a firm; and
- Can take decisions in relation to the firm.

Ratio analysis is based on the fact that a single accounting figure by itself may not communicate any meaningful information but when **expressed relative to some other figure**, it may definitely provide some significant information.

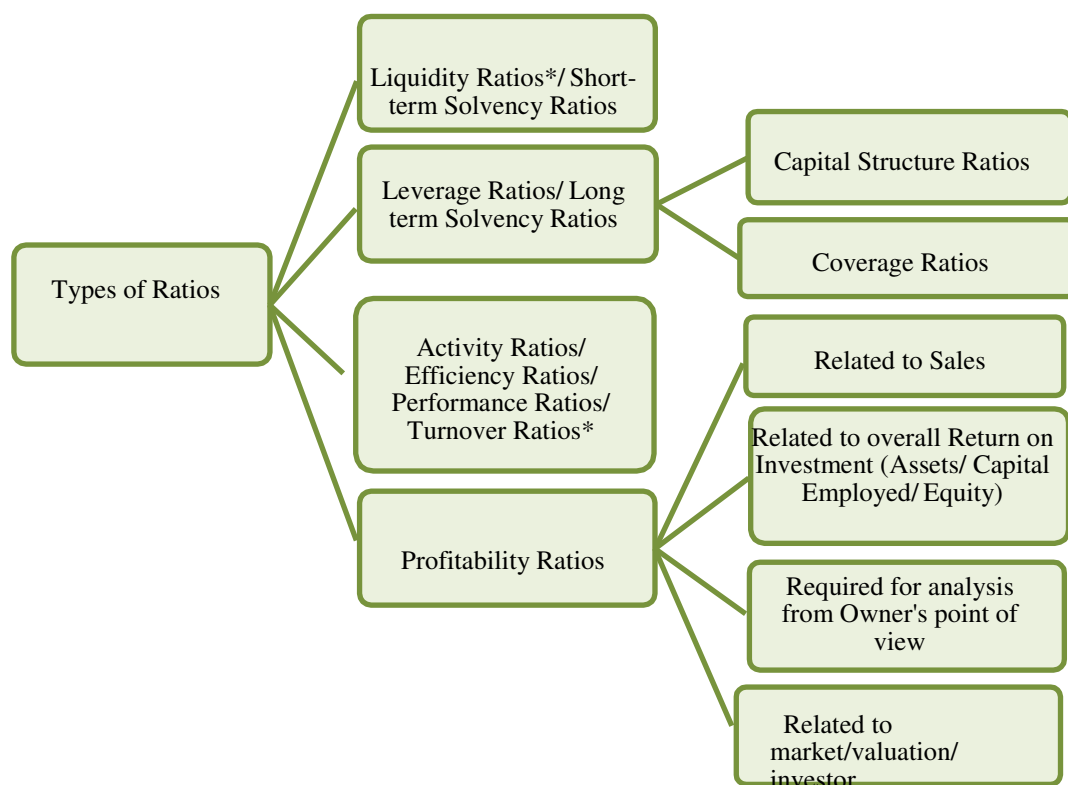
Ratio analysis is not just comparing different numbers from the balance sheet, income statement, and cash flow statement. It is comparing the number against previous years, other companies, the industry, or even the economy in general for the purpose of financial analysis.

Sources of Financial Data for Analysis

The sources of information for financial statement analysis are:

1. Annual Reports
2. Interim financial statements
3. Notes to Accounts
4. Statement of cash flows
5. Business periodicals
6. Credit and investment advisory services

TYPES OF RATIOS



SELF NOTE