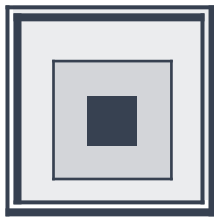


YOUR SCHOOL / COLLEGE NAME

Accountancy



Assignment on

Ratio Analysis

Using accounting ratios to judge performance

Submitted in partial fulfilment of the requirements for the degree of Bachelor of Technology

SUBMITTED BY	SUBJECT	SUBMITTED TO
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INTRODUCTION

Ratio analysis studies the relationship between items in financial statements. It helps owners, lenders and investors judge a firm's liquidity, profitability and efficiency.

TYPES OF RATIOS

Ratios are grouped by what they measure.

- Liquidity ratios — current ratio, quick ratio
- Solvency ratios — debt-equity ratio
- Activity ratios — inventory turnover
- Profitability ratios — net profit ratio, return on investment

Ratio	Formula	Ideal (rule of thumb)
Current ratio	$CA \div CL$	2 : 1
Quick ratio	$\text{Quick assets} \div CL$	1 : 1
Debt-equity	$\text{Debt} \div \text{Equity}$	2 : 1 or less
Net profit ratio	$NP \div \text{Revenue} \times 100$	Higher is better

KEY FORMULAS

Current ratio = Current assets ÷ Current liabilities. Quick ratio = Quick assets ÷ Current liabilities. Net profit ratio = Net profit ÷ Revenue from operations × 100.

Remember

A ratio means little alone; compare it with past years or similar firms.

LIMITATIONS

Ratios are based on historical data, ignore qualitative factors and can be affected by different accounting policies.

- Based on past data
- Ignores qualitative factors
- Window dressing can distort results

CONCLUSION

Used carefully and in comparison, ratios are a quick and powerful way to understand a business's financial health.

BIBLIOGRAPHY

- NCERT textbook, relevant chapter (latest edition).
- Reference book on the subject, standard edition.
- Class notes provided by the teacher.