

# Ratio Analysis

## Ratio analysis

### Uses

- Inter firm comparison
- Intra-firm comparison

### Limitations

- different methods of accounting by different firms may affect the credibility of ratios
- comparing business performance between different years may produce misleading results due to other economic influences
- past year performance may not be an indicator of future

### Performance ratios

- Return on capital employed(%)  $\frac{\text{Operating Profit}}{\text{Capital employed}} \times 100$
- Net profit margin (%)  $\frac{\text{Gross Profit}}{\text{Sales turnover}} \times 100$
- Gross profit margin(%)  $\frac{\text{Net Profit}}{\text{Sales turnover}} \times 100$

### Liquidity ratios

- Current ratio  $\frac{\text{Current Assets}}{\text{Current liabilities}}$
- Acid test/liquid ratio  $\frac{\text{Current assets - stocks}}{\text{Current liabilities}}$

Mindmap downloaded from [www.dineshbakshi.com](http://www.dineshbakshi.com)  
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