

Interpretation of Accounts RATIO ANALYSIS

ratio analysis is a method of evaluating the financial information presented in accounts

it can be applied after the bookkeeping and the preparation of financial accounts

there are six main types of ratios: (also are given the most important of them)

- profitability
 - ROCE - return on capital employed
 - gross profit ratio
 - net profit ratio
- efficiency
 - debtors collection period
 - creditors collection period
 - stock turnover ratio
 - asset turnover ratio
- liquidity
 - current ratio
 - quick ratio
- gearing
- cash flow
- investment
 - dividend yield
 - dividend cover
 - earnings per share
 - price earnings ratio
 - interest cover

performance indicators are used for non-profit oriented business

four limitations of ratios:

- they must be used in context
- the absolute size of the business must be considered
- ratios must be calculated on a consistent and comparable basis
- international comparisons must be made with care