



JAGATPUR P.G COLLEGE

**AFFILIATED MAHATMA GANDHI KASHI
VIDIYAPITH, VARANASI**



M.COM 1ST SEMESTER

NAME OF PAPER: MANAGERIAL DECISION

TOPIC: RATIO ANALYSIS

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Manoj Kumar Rai

MEANING AND DEFINITIONS OF RATIO

- *A Ratio is the relationship between two figures, and obtained by dividing the former by the latter. Ratio are designed to show how one number is related to another. Ratio analysis is an important and old technique of financial analysis.*

“A ratio is simply one number expressed in terms of another.”

- Robert N. Anthony

“A ratio is simply means of expressing, in arithmetical form, the relationship of the numbers received from financial statement.”

- Hunt, William and Donaldson

MEANING AND DEFINITIONS OF RATIO ANALYSIS

- *Ratio analysis is an important technique which implies financial analysis of business by establishing relationship between items or group of items of the same financial statement. It involves calculation comparison and interpretation of ratios between two or more items of financial statement for some specified purpose.*
- *“Ratio Analysis is a process of determining and presenting the relationship of items and groups of items in the statement.”*

- Wixon, Kell and Bedford

So, as compared to other tools of financial analysis, the ratio analysis highlights more useful facts about various aspects of the working of an enterprise.

PROCESS OF RATIO ANALYSIS

- 1. Collection of Relevant Data.*
- 2. Computation of Ratio.*
- 3. Comparison.*
- 4. Interpretation and Explanation.*
- 5. Report Presentation*

LIMITATIONS OF RATIO ANALYSIS

- *(1) Overlooking of Price Level Changes.*
- *(2) Lack of Proper standards.*
- *(3) Overlooking of Qualitative Factors.*
- *(4) Effect on Inherent Limitations of Financial Accounting.*
- *(5) Lack of Future Estimates.*
- *(6) Overlooking of Background.*
- *(7) Biased Interpretation*

Objects of Ratio Analysis

- (1) Efficiency Appraisal.*
- (2) Financial Strength Appraisal.*
- (3) Simplification of Analysis Process.*
- (4) Helpful in Planning and Control.*
- (5) Knowledge of Desirable Or Undesirable Changes.*
- (6) Helpful in the Communication Of Financial.*

Questions

- 1. What do you understand by 'Ratio Analysis'?*
- 2. Discuss its Objects and limitations.*

REFERENCE

- *Dr. Kamna Dhawan*
- *Publication: Navyug Publications (Second Edition)*

THANKYOU