Ratio analysis

Finance

Financial ratio analysis affiliation Financial ratio analysis, simply ratio analysis, is the data contained in the company's financial statement. The analysis is solely based on the balance sheet, cash flow statement, and income statement. From such parameters of the company, it possible to evaluate company's performance with regards to efficiency, possibility of liquidity, profitability, and solvency of the company. In the end, such ratios will give a trend of the company whether it is improving or deteriorating. Comparison of these ratios with other companies will give a hand in comparative valuations.

Financial ratio has its advantages to the company and the customers in equal or less gravity. In an article of transoceanic financial ratio analysis, it is easy for customer to look how the stocks look like. Customer will find it easy to evaluate the company-using price to earnings ratio. Such metric valuation uses the wisdom that that nonoperational aspects of the company such as asset impairment can affect earnings per share (Xiao, 2014). With this valuation, the company and customer can make advised decisions while investing or rectifying the areas of problem.

Financial ratio analysis is also advantageous in that it is easy to come up with the components of returns. Such returns include pre-taxed interest and the pre-taxed margin. The two are the core profitability of the company before interest and the taxes. The higher margins show better prospects of the company. Another component of return is the assets turnover. Asset turnover is the revenue generated for the expenses of the assets (Xiao, 2014). In the Transoceanic financial ratio analysis article, it has a higher number indicating it is efficient in using its assets.

On the disadvantages side, financial ratio analysis has couple of demerits.

First and foremost, the financial ratio analysis cannot be used singularly or standalone method. They must be used hand in hand with an aggregate economy. The full economic cycle must be factored in, during analysis. Secondly, inflation can badly bloat the company's balance sheet. On such scenario, the profit of the company will be affected in a bad fashion. In the long run of the financial analysis, the judgment will be will be interrupted on the patches where inflation infiltrated the company's balance sheet. Financial analysis thus has its advantage and disadvantages.

Reference

Xiao, Z., Dang, X., Yang, D., & Yang, X. (2014). Financial ratio selection for business failure prediction using soft set theory. Knowledge-Based Systems, 6359-67. doi: 10. 1016/j. knosys. 2014. 03. 007