ratio and comparative analysis essay sample

Finance

There are many ways to evaluate and compare financial statements. Although there are many different ways and devices, no one device is more useful than another. According to " Financial Statement Analysis Primer" (n. d.), " Every situation faced by the investment analyst is different, and the answers needed are often obtained only upon close examination of the interrelationships among all the data provided.". Ratio analysis is a useful tool that is used to identify a quick indication of a firm's financial performance in several different areas. Comparative analysis is used when comparing the same information for two or more different dates or periods. At my current workplace, we use comparative analysis to see how certain products or classes sell during the same dates but for the past few years. This helps us prepare our merchandising and presentation efforts. The Comparative is the express between two entities or groups quantity and degree.

Ratio analysis is the backbone on the financial statements, For Example the line items of Balance sheet, Income statement, and Cash flow statement, one or all can be calculate to evaluate company's financial activity such as liquidity, operating, liabilities or revenues and expenses of the business. Also the ratio analysis help to see if the company future growth. I work as Supply Technician that deals with logistics of items or goods, ratio analysis are based on the items or goods that are sold or evaluate how the product is in and out. Companies or management have to understand the global market and understand how regulatory impact the business, also deal compliance of laws that have a huge impact to the company value. For example, the organizations indirect sales data has a role when calculating ratios or showing comparisons or relationship between two of the same product that are different in sales, you may have to use proportions to measure the items or convert something into quantity.

Ratio analysis is very important to the company financial information like, financing, investing, and operating income or other elements of the cash flows. A ratio analysis can forecast warnings of a potential increase of decrease with in a company’s financials. Throughout a company’s financial statement there are several ratios to be looked at such as their current ratio, the debt equity ratio, liquidity ratios etc. A ratio analysis compares companies that are in the same industry. As Kimmel & Kieso stated, a comparative analysis’s assesses the financial performance of a company. It is important to be able to calculate both because investors are able to see the future earnings of a company and whether or not a company is able to maintain a certain rate or percentage of what they are looking for. Comparative Analysis is the comparison of two or more financial statement items over several accounting periods or for a specific accounting period to identify company’s trends and evaluate performance and results. When comparing different companies, a comparative statement can show how businesses react to market conditions affecting an entire industry. (Dave Sarro, 2011)

“ Comparative Analysis will be used by companies to understand and analyze the competitor’s behavior, trends, and performance. The purpose of the comparative analysis is to understand the competitor’s investments, so that the company can estimate where it stand against other competitors.” Ratio Analysis is used to obtain an indication of a company’s financial performance in several key areas. Ratio Analysis possesses several important features important features and data, which are provided by financial statements. Ratio Analysis is used to compare company's which are of different sizes, compare financial performance of a company with industry standards, and prepare trend analysis where performance has increased or decreased.

Ratio Analysis is based on the items in financial statements like the balance sheet, income statement and cash flow statements. Some of these ratios include the current ratio, return on equity, the debt-equity ratio, the dividend payout ratio and the price/earnings (P/E) ratio. This week contained various materials that helped the team get a better understanding of financial analysis and different tools to utilize when reading information. The team is familiar with financial statements and the team also understands how to read and find desired information. This course will help us build on the material and further understand the accounting world.

References:

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