

# [Advantages sales revenue generated by utilizing its](https://assignbuster.com/advantages-sales-revenue-generated-by-utilizing-its/)

[Business](https://assignbuster.com/essay-subjects/business/), [Accounting](https://assignbuster.com/essay-subjects/business/accounting/)

Advantages Forecasting and planning: Ratio analysis will see the trends in the costs, sales andprofits of businesses such as Funtime and playtime. This is extremely useful asbusinesses can forecast trends that may happen in the future and businesses canplan their future activities which may be aims and objectives relative to theirbusiness. BUDGETING: A budget is a certain estimate of future activities that isbased upon past events occurred in the business and accounting ratios can helpthe business understand their budgets. For example, Funtime and Playtime canprepare a sales budget due to the help of the analysis of past sales. Measurement of operatingefficiency: Ratio analysis can show a business’s efficiency in terms oftheir management and uses of its assets. As different ratios can indicate howbusinesses operational efficiency is, the solvency of a firm can depend on thesales revenue generated by utilizing its assets. Communication: Communication is an important part of a business, as ratioanalysis is an effective way of communicating as its informs positions of andprogress made by the business which affects employees, owners and shareholders.

Control of performance and cost:  Ratio analysis can be used to control performance fordifferent departments in a business and controlling costs for differentdepartments too. For example, as playtime and Funtime are both businesses whichdistribute apparatus and equipment for children’s play areas they will bothhave different departments and the marketing department will both be pressured torely on their budgets and control it by the management team. Inter firm comparison: This is when businesses will compare the performance of twoor more firms which can reveal efficient and inefficient firms, thus it willenable the inefficient firms to adapt their practices and measures forimproving their efficiency. This is extremely useful for playtime and Funtime asthey are both competing in the same markets. Indication of liquidity position: Ratio analysis will help businesses to assess its liquidity positionas these liquidity ratios can indicate the ability of the business to paybackcredit by banks, creditors and suppliers of short term loans.  Indication of long term solvency position: Ratio analysis is used to assess the businesses ability topay long term debts, the better the solvency position it will indicate thebusinesses earning power and the functioning efficiency, the ratio analysisshows the strengths and weaknesses in a business.

Indication of overall profitability: The owners and management of Funtime and playtime areconstantly concerned with the overall profitability of their business as theywant to know whether the business has the ability to meet its long and short-termobligations to creditors and such. This will secure the higher utilisation ofthe assets of the firm.  Understanding failure of a business: This is when a business fails to generate a profit and aregular basis, thus meaning that the business is suffering severe liquidity crisis. Ratio analysis can indicate the businesses expenses and liabilities which meansthe business can get on top of this beforehand which can prevent the occurrenceof failure. Aid to decision- making: Ratio analysis can help a business make a decision whichwill impact the business rightly, for example, whether the business shouldsupply goods on credit to another firm or whether bank loans will be madeavailable. 12: Simpler financial statements: Ratio analysis can make the business documents easier tograsp the relationship between different items and can help understanding thefinancial statements.