

Advantages sales revenue generated by utilizing its

[Business](#), [Accounting](#)



Advantages Forecasting and planning: Ratio analysis will see the trends in the costs, sales and profits of businesses such as Funtime and playtime. This is extremely useful as businesses can forecast trends that may happen in the future and businesses can plan their future activities which may be aims and objectives relative to their business. **BUDGETING:** A budget is a certain estimate of future activities that is based upon past events occurred in the business and accounting ratios can help the business understand their budgets. For example, Funtime and Playtime can prepare a sales budget due to the help of the analysis of past sales. **Measurement of operating efficiency:** Ratio analysis can show a business's efficiency in terms of their management and uses of its assets. As different ratios can indicate how businesses operational efficiency is, the solvency of a firm can depend on the sales revenue generated by utilizing its assets. **Communication:** Communication is an important part of a business, as ratio analysis is an effective way of communicating as it informs positions of and progress made by the business which affects employees, owners and shareholders.

Control of performance and cost: Ratio analysis can be used to control performance for different departments in a business and controlling costs for different departments too. For example, as playtime and Funtime are both businesses which distribute apparatus and equipment for children's play areas they will both have different departments and the marketing department will both be pressured to rely on their budgets and control it by the management team. **Inter firm comparison:** This is when businesses will compare the performance of two or more firms which can reveal efficient and

inefficient firms, thus it will enable the inefficient firms to adapt their practices and measures for improving their efficiency. This is extremely useful for Playtime and Funtime as they are both competing in the same markets. Indication of liquidity position: Ratio analysis will help businesses to assess its liquidity position as these liquidity ratios can indicate the ability of the business to pay back credit by banks, creditors and suppliers of short term loans. Indication of long term solvency position: Ratio analysis is used to assess the business's ability to pay long term debts, the better the solvency position it will indicate the business's earning power and the functioning efficiency, the ratio analysis shows the strengths and weaknesses in a business.

Indication of overall profitability: The owners and management of Funtime and Playtime are constantly concerned with the overall profitability of their business as they want to know whether the business has the ability to meet its long and short-term obligations to creditors and such. This will secure the higher utilisation of the assets of the firm. Understanding failure of a business: This is when a business fails to generate a profit and a regular basis, thus meaning that the business is suffering severe liquidity crisis.

Ratio analysis can indicate the business's expenses and liabilities which mean the business can get on top of this beforehand which can prevent the occurrence of failure. Aid to decision-making: Ratio analysis can help a business make a decision which will impact the business rightly, for example, whether the business should supply goods on credit to another firm or whether bank loans will be made available. 12: Simpler financial

statements: Ratio analysis can make the business documents easier to grasp the relationship between different items and can help understanding the financial statements.