

Significance of Ratio Analysis

- 1) The ability of a firm to meet its current obligations, i.e. liquidity position.
- 2) The extent to which the firm has used its long-term solvency for borrowing funds.
- 3) The efficiency of the firm in utilizing its various assets in generating sales revenue; and
- 4) The overall operating efficiency and performance of the firm.

Limitations of Ratio Analysis

- Limited use of a single ratio
- Lack of Adequate Standards:
- Inherent limitations of Accounting
- Change in Accounting procedure
- Window Dressing
- Personal Bias
- Qualitative factors cannot be considered
- Other Limitations