**Part 1**

Ration analysis means the analysis of financial statements. It is a process by which the connections between the items of financial statements can be determined and interpreted. To provide a meaningful comprehension of the performance and financial position of a company is the purpose of ration analysis. Therefore, it can be said that this is a technique for analysing the financial statements with the help of the computation of the ratios.

Some of its’ objectives are:

* Simplification of the information of the accounting section.
* Determination the short term and long term solvency of an organization.
* Assessment of the efficiency of operation of a business.
* Analysing the business’s profitability ratio.
* To help with the ‘inter’ and ‘intra’ firm comparisons of the company.

**Part 2**

The four main categories of financial ratios are:

1. Liquidity ratios
2. Leverage ratios
3. Performance ratios
4. Activity ratios