

ACMP

Lecture-2 (Session-2)

**Financial Statement
Analysis: Ratio Analysis
Technique**

Analysis: Comparison

- Analysis: Interpretation vs. Comment
- Types of Comparison:
 - Intercompany Comparison
 - Intracompany Comparison
 - Industry Average Comparison

Key Statements to Analyze

- Income Statement (data for period of time)
- Balance Sheet (data for point of time)
- Hence, the concept of averaging may come in case of some ratio calculations

Aspects of a Company to Analyze: Ratio Types

- Liquidity
- Profitability
- Efficiency/Activity
- Solvency

Analysis of Liquidity

- Current Ratio=Current Assets (CA)/Current Liabilities (CL)
- Quick Ratio (Acid Test)=[CA-(Inventory + Prepaid Expense)]/CL

Analysis of Profitability

- Profit (NP) Margin= $(\text{Net Income} / \text{Net Sales}) * 100$
- Return on Investment (RoI)= $\text{Net Income} / [\text{Average (LTL+OE)}] * 100$

*LTL-Long Term Liabilities

**OE-Owner's Equity

Analysis of Activity/Efficiency

- Inventory Turnover=Total COGS/(Av.)
Inventory=Selling Efficiency
- Accounts Receivable Turnover=Total
Sales/(Av.) AR=Collection Efficiency

Analysis of Solvency/Leverage

- Debt (Liabilities) to Total Asset
Ratio= $\text{Total Liability} / \text{Total Asset}$
- Debt-Equity Ratio= $\text{Total Liability} / \text{Total Equity}$