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FINANCIAL RATIO ANALYSIS

THE COMPLETE FINANCIAL STATMEENT ANALYSIS

MODULE 1: THE ESSENTIAL OF FINANCIAL RATIO ANALYSIS

LEARNING MATERIAL – TAKEAWAY NOTE

DISCLAIMER

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THANK YOU!

Hello friends,

Congratulations! You've completed the Module 1 – The Essential of Financial Ratio Analysis. This is a learning note that we've prepared for you. It includes all key information in the lectures. You can take it away and revise the course from anywhere, on any device and at anytime you want.

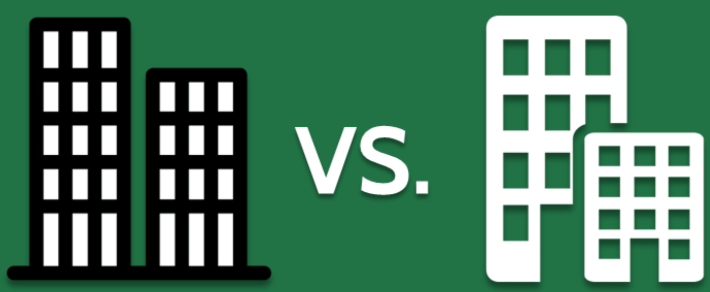
If you have any concern about the lectures, feel free to send us a message, we are always here to help you!

Best regards,
Wealthy Education Team.

THE USE OF FINANCIAL RATIOS

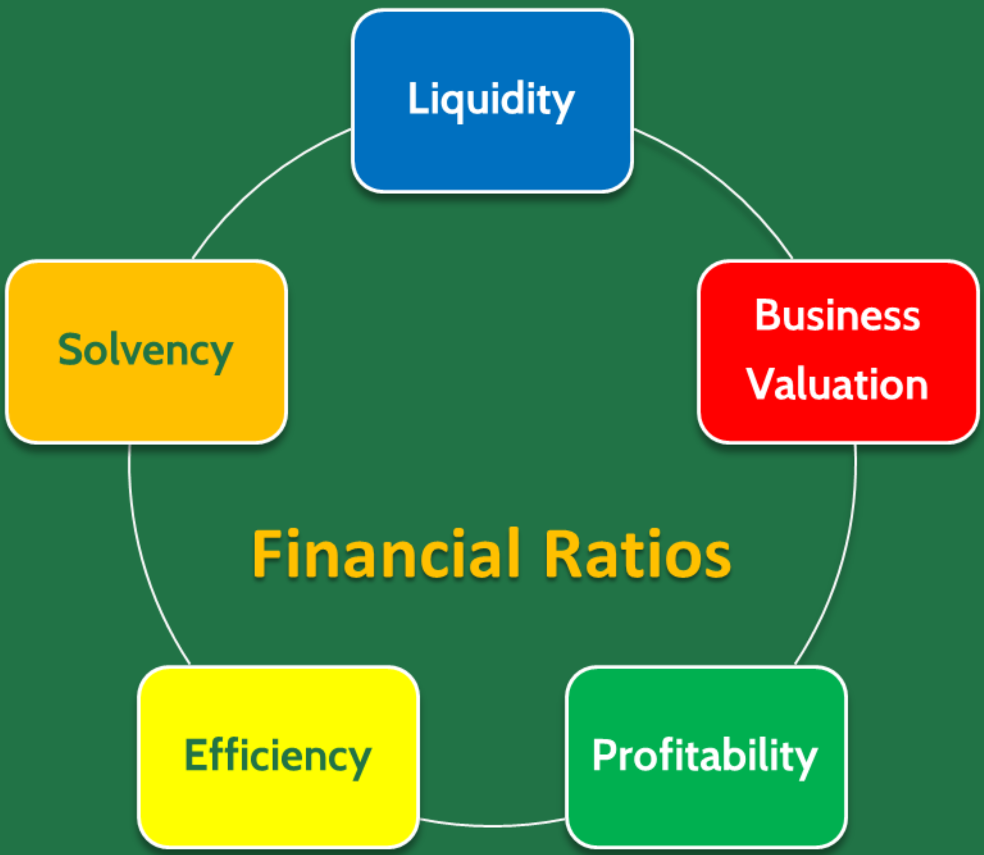
- There are 2 ways to use financial ratios:
  - ❑ Evaluate a company's fundamentals
  - ❑ Compare companies in the same industry

Analyze a company's fundamentals



Compare one company with another

CATEGORIES OF FINANCIAL RATIOS



#1 – LIQUIDITY RATIOS

- Liquidity ratios are used to determine how quickly and easily a company can convert its assets into cash
- The more liquid a business is, the better its ability to pay off its short-term debts
- If the company fails to turn its assets into cash when necessary, it will be in financial troubles
- The liquidity ratio uses information from a firm's financial statements to measure its liquid assets against its liabilities

#2 – SOLVENCY RATIOS

- Solvency ratios are used to determine a company's ability to meet its long-term liabilities, as opposed to its short-term debts
- Solvency ratios measure a company's total debt against the income it earns, the assets it owns, and its shareholders' equity
- Solvency ratios provide a clear picture of how much of your company's sustainability is based on actual resources, and how much is based on debt

#3 – EFFICIENCY RATIOS

- Efficiency ratios are used to calculate how efficiently a business is using its assets and debt to produce income
- Efficiency is determined by your company's ability to:
  - Collect payments from its customers
  - Repay its loans
  - Manage its shareholders' equity
- Efficiency ratios can be used to measure:
  - Your company's assets against its earnings
  - The amount it owes to suppliers against its inventory purchases

#4 – PROFITABILITY RATIOS

- Profitability ratios are used to measure your company's ability to generate profits from its regular business operations
- They are designed to compare a firm's income against factors like its level of sales, its investment in inventory & other assets, and its shareholders' investment
- Business valuation ratios are used to estimate the economic value of a given company
- These ratios are useful for comparing companies within the same market sector, or within the entire market as a whole

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THANK YOU!

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