Ratio Analysis

Satvir kaur
Assistant professor in commerce
Swami Ganga Giri Janta Girls College, Raikot/PU Chd/India

Abstract: This paper gives the idea that Ratio analysis is the one of the powerful tool of the financial analysis. It provide meaningful understanding and interpretation which absolute accounting data cannot provide.

Introduction
A ratio can be used as a yardstick for the evaluating the financial position and performance of the concern. It is the relationship between two related and interdependent accounting variables expressed mathematically but they assume significant if these variables have cause and effect relationship. For example, profit earned to capital employed are significantly related but turnover cannot be said to be significantly related to investment in shares. In brief, accounting ratios provide a quantitative relationship which the analyst may use to make a quantitative judgment about various aspects of financial position and performance of an enterprise.

According to Myers, "Ratio analysis is a study of relationship among various financial factors in a business"

Accounting ratios can be expressed in various ways such as:
(a) A pure ratio say ratio of current assets to current liabilities is 2:1 or
(b) A rate say current assets are two times of current liabilities or
(c) A percentage say current assets are 200% of current liabilities or
(d) A fraction say ratio of fixed assets to share capital is ¾ (0.75).
Each method of expression has a distinct advantage over the other. The analyst will select that mode which will best suit his convenience and purpose.

OBJECTIVES OF RATIO ANALYSIS

Ratios are regarded as a test of earning capacity, financial soundness and operating efficiency of a business organization. The use of ratios in accounting and financial management analysis helps the management to know the profitability, financial position (liquidity and solvency) and operating efficiency of an enterprise. The objectives can be better understood from the following advantages of ratio analysis.

ADVANTAGES OF RATIO ANALYSIS

1. Analyzing Financial Statements

Ratio analysis is an important technique of financial statement analysis. Accounting ratios are useful for understanding the financial position of the company. Different users such as investors, management, bankers and creditors use the ratio to analyze the financial situation of the company for their decision making purpose.

2. Judging Efficiency

Accounting ratios are important for judging the company's efficiency in terms of its operations and management. They help judge how well the company has been able to utilize its assets and earn profits.

3. Locating Weakness

Accounting ratios can also be used in locating weakness of the company's operations even though its overall performance may be quite good. Management can then pay attention to the weakness and take remedial measures to overcome them.

4. Formulating Plans

Although accounting ratios are used to analyze the company's past financial performance, they can also be used to establish future trends of its financial performance. As a result, they help formulate the company's future plans.

5. Comparing Performance

It is essential for a company to know how well it is performing over the years and as compared to the other firms of the similar nature. Besides, it is also important to know how well its different divisions are performing among themselves in different years. Ratio analysis facilitates such comparison.
Ratio analysis is used by almost all the accounts managers for strategic planning and decision making. It is also a very helpful tool to know the effect of each item of financial statements by creating a relationship with other items. There is a big list of benefits of ratio analysis, but it has also some limitations. So, account managers and other parties who use ratio and its analysis should remember these limitations when they take any decision.

Following are main drawbacks or limitations of ratio analysis:

1. **Limited Use of Single Ratio**

Sometime, we can not compare our ratios with others. For example, we have started new business and our financial results are not still normal. At that time, our profitability ratio will have limited use because there is not any past data of profitability ratios.

2. **Lack of Adequate Standards**

We could not make standards of all ratios. For example, we cannot tell what is rule of them of our net profit ratio because there are lots of factors affect it. In the lack of adequate standards of ratios, we cannot give an exact comment on the basis of ratio analysis.

3. **Inherent Limitation of Financial Accounting**

Ratio analysis is just like simplification of financial accounting data. But there are lots of limitations of financial accounting which you can read at [here](http://www.onlinejournal.in). All these limitations will be absorbed by ratios. This is the one of the important limitation of ratio. I can say if base is not good, everything will be wrong. If there is a small portion of poison in milk, its effect will be in everything what you will make.

4. **Changes of Accounting Procedures**

If accounting procedures will change, our accounting ratio will be changed. At that time, we can not compare our current year ratios with our past year ratios. For example, in past year, we had used LIFO but current year, we are using FIFO for inventory valuation. Due to this, figures of closing stock will be different. On this basis, if we have calculated current ratio, it will not be comparable with past current ratio.

5. **Window Dressing**

Because we have shown our financial data through window dressing. Our ratios will also be affected from it. Manipulation of accounts is a way of conceal vital facts and present the financial statements better than what it actually is. On the account of such a situation, presence of a particular may not be a definite indicator of good or bad management.

6. **Personal Bias**

This is reality, I saw many CAs who waste their time to optimize different ratios by changing the project financial statements figures for making attractive projects. All these activities are done for getting loan. So, this will make the drawback of ratio analysis.

7. **Matchless**

Different companies use different accounting policies, so we cannot compare their ratios.

8. **Price Level Changes**

Inflation effect is ignored in calculation of ratios. So, ratio will not give a perfect answer in changing of price level.

9. **Ratios are not Substitute of Financial Statements**

Ratio analysis is an important part of financial statements analysis. It can never become a substitute of financial statements. We just use it with cash flow analysis, fund flow analysis and other analysis.

10. **Wrong Interpretation**

We can interpret wrongly. For explaining the effect on company's position with ratios, there is a big need of experience. Wrong interpretation will be helpful for wrong decisions. So, it is limitation of ratio analysis that it does not explain all the facts, it has to explain. For a new accounts manager, it may be difficult.

In short, ratio analysis has a variety of limitations that can limit its usefulness. However, as long as you are aware of these problems and use alternative and supplemental methods to collect and interpret information, ratio analysis is still useful.
Ratio Analysis – Classification of ratios and Liquidity Ratio

In our previous blog post we have discussed ratio analysis. In this blog post we will explain classification of ratios and discuss Liquidity ratio.

Ratios are classified on the basis of the parties of their usage. Accounting ratios are used to indicate the financial position of a firm. Ratios are classified into:

- On the basis of Balance Sheet
- On the basis of Profit & Loss Account
- On the basis of Mixed Statement

Balance Sheet Ratios

Ratios calculated from taking various data from the balance sheet are called balance sheet ratio. For example, current ratio, liquid ratio, capital gearing ratio, debt equity ratio, and proprietary ratio, etc.

Revenue Statement Ratio

Ratios calculated on the basis of data appearing in the trading account or the profit and loss account are called revenue statement ratios. For example, operating ratio, net profit ratio, gross profit ratio, stock turnover ratio.

Mixed or Composite Ratio

When the data from both balance sheet and revenue statements are used, it is called mixed or composite ratio. For example, working capital turnover ratio, inventory turnover ratio, accounts payable turnover ratio, fixed assets turnover ratio, return of net worth ratio, return on investment ratio.

Classification of Ratios on the Basis of Functional Aspects

Liquidity Ratios

Liquidity ratios are used to find out the short-term paying capacity of a firm, to comment short term solvency of the firm, or to meet its current liabilities. Similarly, turnover ratios are calculated to know the efficiency of liquid resources of the firm, Accounts Receivable (Debtors) Turnover Ratio and Accounts Payable (Creditors).

Activity Ratios

Activity ratios are also called turnover ratios. Activity ratios measure the efficiency with which the resources of a firm are employed.

Profitability Ratios

The results of business operations can be calculated through profitability ratios. These ratios can also be used to know the overall performance and
effectiveness of a firm. Two types of profitability ratios are calculated in relation to sales and investments.

FUNCTIONAL CLASSIFICATION OF RATIOS

Liquidity Ratios
- Current Ratio
- Liquid Ratio
- Absolute Liquid or Cash Ratios
- Interval Measure

Activity Ratios Asset Management Ratios Profit Abilities Ratios
- Debt to total Capital Ratio
- Interest Coverage Ratio
- Cash Flow / Debt
- Capital Gearing

Long-Term Solvency Activity Ratios Asset Profit Ratios
- Debt/Equity Ratio
- Inventory Turnover Ratio
- Debtors Turnover Ratio
- Fixed Assets Turnover Ratio
- Total Assets Turnover Ratio

and Leverage Ratios Management Ratios
- Working Capital Turnover Ratio
- Payable Turnover Ratio
- Capital Employed Turnover Ratio

(A) In relation to sales
- Gross Profit Ratio
- Operating Ratio
- Operating Ratio
- Operative Profit Ratio
- Net Profit Ratio
- Expenses Ratio

(B) In relation to Investments
- Return on Investment
- Return on Capital
- Return on Equity
- Return on Total Resources
- Earnings per Share
- Price Earnings Ratio

The above classification further grouped into:

- Liquidity or financial or solvancy Ratios
  1. Current ratio
  2. Acid test or liquid or quick ratio
  3. Absolute liquidity or super quick ratio

- Profitability ratios
  1. Gross profit ratio
  2. Operating ratio
  3. Expense ratio
  4. Operating profit ratio
  5. Net profit ratio
  6. Return on capital employed or overall profitability ratio

7. Return on total assets ratio

- Turnover Ratios
  1. Capital turnover ratio
  2. Fixed asset turnover ratio
  3. Total asset turnover ratio
  4. Stock turnover ratio
  5. Debtors turnover ratio
  6. Creditors turnover ratio

- Market test ratios
  1. Earning per share
  2. Price earning ratio
  3. Payout ratio
  4. Dividend yield ratio

- Coverage ratios
LIQUIDITY RATIOS

The scope to which there is quick convertibility of assets into money, for the purpose of paying obligation of short-term nature can be termed as liquidity. Apropos to obtaining an indication of a firm's ability to meet its current liabilities, the utility of the liquidity ratios is instrumental. As a flipside, however, it does not bring to the light, the effectiveness of the optimal management of cash resources. It is also termed as Short-Term Solvency Ratios. To measure the liquidity of a firm, the following Liquidity ratios are commonly used:

1. Current Ratio:

The relationship between current assets and current liabilities is established by Current Ratios. It attempts to measure the ability of a firm to meet its current obligations. Current assets and current liabilities comprise of two pivotal components of this ratio. Assets that can be easily converted into cash, within the time frame of less than a year, can be termed as current assets. While, conversely, current liabilities encompass those liabilities which can be paid off with in a year.

\[
\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}
\]

The ideal current ratio is 2:1. It is a stark indication of the financial soundness of a business concern. When Current assets double the current liabilities, it is considered to be satisfactory. Higher value of current ratio indicates more liquid of the firm's ability to pay its current obligation in time.

Advantages of Current Ratio:

- It tells us the liquidity position of a firm
- It is used to remove the errors of current ratio
- It is used as supplementary to the current ratio

Disadvantages of Current Ratio:

- Its accuracy can be deterred, pertaining to different businesses, depending on a variant of factors
- Over-valuation of stock also contributes to its tipping accuracy
- It measures the firm liquidity on the basis of quantity and not quality, which comes across as a crude method

2) Quick Ratio or Acid Test Ratio:

The acid test ratio is a stringent and meticulous test of a firm's ability to pay its short-term obligations 'as and when they are due. Quick assets and current liabilities can be associated with the help of Quick Ratio.

The ideal Quick Ratio is 1:1 and is considered to be appropriate. High Acid Test Ratio is an accurate indication that the firm has relatively better financial position and adequacy to meet its current obligation in time.

\[
\text{Quick Ratio} = \frac{\text{Liquid Asset (Current Assets – Stock & Prepaid Expenses)}}{\text{Current Liabilities}}
\]

Advantages of Quick Ratio:

- It tells us the liquidity position of a firm
- It is used to remove the errors of current ratio
- It is used as supplementary to the current ratio

The relationship between the absolute liquid assets and current liabilities is established by this ratio.

3. Absolute Liquid Assets

Absolute Liquid Assets take into account cash in hand, cash at bank, and marketable securities or temporary investments. The most favourable and optimum value for this ratio should be one, i.e., 1:2. It indicates the adequacy of the 50% worth absolute liquid assets to pay the 100% worth current liabilities in time. If the ratio is relatively lower than one, it represents the company's day-to-day cash management in a poor light. If the ratio is considerably more than one, the absolute liquid ratio represents enough funds in the form of cash in order to meet its short-term obligations in time.
Absolute Liquid Ratio = Absolute Liquid Ratio / Current Liabilities.

Profitability ratios

The profitability ratios, also known as performance ratios, assesses the firm’s ability to earn profits on sales, assets and equity. These are critical to determining the attractiveness of investing in company shares, and investors use these ratios widely. We will examine five important profitability ratios, namely, gross profit margin, operating profit margin, net profit margin, return on assets, and return on equity.

Gross profit ratio

Gross profit ratio (or gross profit margin) shows the gross profit as a percentage of net sales. The ratio provides a pointer of company’s pricing policy.

Gross profit Ratio: Gross Profit/net salesx100

Where;

Gross profit = Net sales – Cost of goods sold (COGS); and

Net sales = Gross sales – Sales returns or returns inwards

Both the components of the formula (i.e., gross profit and net sales) are usually available from trading and profit and loss account or income statement of the company

Interpretation of gross profit ratio:

Certain businesses aim at a faster turnover through lower prices. Such businesses would have lower gross profit percentage but a larger volume of sales. Some businesses that have higher fixed (or indirect costs) need to have a greater gross profit margin to cover these costs. Such businesses aim to cover their fixed costs and have a reasonable return on equity through larger gross profit margin from a smaller sales base.

Net profit ratio

Net profit ratio (NP ratio) is a popular profitability ratio that shows relationship between net profit after tax and net sales. For the purpose of this ratio, net profit is equal to gross profit minus operating expenses and income tax. All non-operating revenues and expenses are not taken into account because the purpose of this ratio is to evaluate the profitability of the business from its primary operations. Examples of non-operating revenues include interest on investments and income from sale of fixed assets. Examples of non-operating expenses include interest on loan and loss on sale of assets.

Formula: Net profit(after tax)/Net salesx100

Significance and Interpretation:

Net profit (NP) ratio is a useful tool to measure the overall profitability of the business. A high ratio indicates the efficient management of the affairs of business

Operating ratio

Operating ratio is computed by dividing operating expenses by net sales. It is expressed in percentage. The basic components of the formula are operating cost and net sales. Operating cost is equal to cost of goods sold plus operating expenses. Non-operating expenses such as interest charges, taxes etc., are excluded from the computations.

Formula: Operating Cost/Net Salesx100

Significance and interpretation:

This ratio is used to measure the operational efficiency of the management. It shows whether the cost component in the sales figure is within normal range. A low operating ratio means high net profit ratio i.e., more operating profit

Expense ratio

Expense ratio (expense to sales ratio) is computed to show the relationship between an individual expense or group of expenses and sales. It is computed by dividing a particular expense or group of expenses by net sales. Expense ratio is expressed in percentage. The numerator may be an individual expense or a group of expenses such as administrative.

Formula: Particular expense/net sales x100

Significance and Interpretation:

Expense ratio shows what percentage of sales is an individual expense or a group of expenses. A lower
ratio means more profitability and a higher ratio means less profitability. Analyst must be careful while interpreting the ratio of expenses to sales. Some expenses vary with the change in sales (i.e. variable expenses). The ratio for such expenses normally does not change significantly as the sales volume increases or decreases. For fixed expenses (rent of building, fixed salaries etc.), the ratio changes significantly as the sales volume changes. The ratio is helpful in controlling and estimating future expenses.

**Return On Capital Employed (ROCE)**

Return on capital employed (ROCE) is a financial ratio that measures a company's profitability and the efficiency with which its capital is employed. ROCE is calculated as:

\[
\text{ROCE} = \frac{\text{Earnings Before Interest and Tax (EBIT)}}{\text{Capital Employed}} \times 100
\]

“Capital Employed” as shown in the denominator is the sum of shareholders' equity and debt liabilities; it can be simplified as (Total Assets – Current Liabilities). Instead of using capital employed at an arbitrary point in time, analysts and investors often calculate ROCE based on “Average Capital Employed,” which takes the average of opening and closing capital employed for the time period.

**Interpretation**

A higher ROCE indicates more efficient use of capital. ROCE should be higher than the company’s capital cost; otherwise, it indicates that the company is not employing its capital effectively and is not generating shareholder value.

**Return On Assets (ROA)**

Return on assets (ROA) is an indicator of how profitable a company is relative to its total assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings. Calculated by dividing a company's annual earnings by its total assets, ROA is displayed as a percentage. Sometimes this is referred to as "return on investment".

\[
\text{Formula: Net Income/Total Asset}
\]

**Interpretation**

It only makes sense that a higher ratio is more favorable to investors because it shows that the company is more effectively managing its assets to produce greater amounts of net income. A positive ROA ratio usually indicates an upward profit trend as well. ROA is most useful for comparing companies in the same industry as different industries use assets differently. For instance, construction companies use large, expensive equipment while software companies use computers and servers.

**Turnover Ratios**

A measure of the number of times a company's inventory is replaced during a given time period.

**Capital Turnover**

A ratio of how effectively a publicly-traded company manages the capital invested in it to produce revenues. It is calculated by taking the total of the company's annual sales and dividing it by the average stockholder equity, which is the average amount of money invested in the company.

\[
\text{Formula: Annual Sales/Average Stockholder Equity}
\]

**Interpretation**

A high ratio indicates that the company is using its capital well, while a low ratio indicates the opposite. It is also called equity turnover.

**Fixed Asset Turnover Ratio**

The fixed asset turnover ratio is an efficiency ratio that measures a company's return on their investment in property, plant, and equipment by comparing net sales with fixed assets. In other words, it calculates how efficiently a company is producing sales with its machines and equipment.

\[
\text{Formula: Net Sales/Fixed Assets-Accumulated Depreciation}
\]

**Interpretation**

A high turnover indicates that assets are being utilized efficiently and large amount of sales are generated using a small amount of assets. It could also mean that the company has sold off its equipment and started to outsource its operations. Outsourcing would maintain the same amount of sales and decrease the investment in equipment at the same time. A low turnover, on the other hand, indicates that the company isn’t using its assets to
their fullest extent. This could be due to a variety of factors.

**Asset Turnover Ratio**

Asset turnover ratio is the ratio of a company's sales to its assets. It is an efficiency ratio which tells how successfully the company is using its assets to generate revenue.

Formulas: $\frac{Net \ Sales}{Total \ Average \ Assets}$

Interpretation

If a company can generate more sales with fewer assets it has a higher turnover ratio which tells it is a good company because it is using its assets efficiently. A lower turnover ratio tells that the company is not using its assets optimally. Total asset turnover ratio is a key driver of return on equity.

**Inventory Turnover Ratio**

The inventory turnover ratio measures the rate at which a company purchases and resells products to customers. There are two formulas for inventory turnover:

$\frac{Sales}{Inventory}$ OR $\frac{Cost \ of \ Goods \ Sold}{Average \ Inventory}$

Interpretation

In general, low inventory turnover ratios indicate a company is carrying too much inventory, which could suggest poor inventory management or low sales. Excess inventory ties up a company's cash and makes the company vulnerable to drops in market prices. Conversely, high inventory turnover ratios may indicate a company is enjoying strong sales or practicing just-in-time inventory methods. High inventory turnover also means a company is replenishing cash quickly and has a lower risk of becoming stuck with obsolete inventory.

**Debtor turnover ratio**

Debtor turnover ratio is the relationship between net sales and average debtors. It is also called accounts receivable turnover ratio because we use accounts receivable's total is used for following formula $\frac{Net \ Credit \ Sales}{Average \ Debtors \ (sundry \ debtors + bill \ receivables)}$

$Average \ Debtors = Opening \ balance \ of \ debtors + closing \ balance \ of \ debtors / 2$

$Net \ Credit \ Sales = Total \ sales \ - \ sales \ return - cash \ sales$

Interpretation of Debtor Turnover Ratio

A higher debtor turnover ratio is good because more debtors are being collected faster. A lower debtor turnover ratio is not good because it tells us that we have not managed debtors better. Money from debtors is not collected fastly. If we calculate average collection period on the basis of debtor turnover ratio, we can analyze our debtors more deeply.

**Creditors turnover ratio**

It is a ratio of net credit purchases to average trade creditors. Creditors turnover ratio is also know as payables turnover ratio. It is on the pattern of debtor turnover ratio. It indicates the speed with which the payments are made to the trade creditors. It establishes relationship between net credit annual purchases and average accounts payables. Accounts payables include trade creditors and bills payables. Average means opening plus closing balance divided by two. In this case also accounts payables' figure should be considered at gross value i.e. before deducting provision for discount on creditors (if any).

Creditors turnover ratio: $\frac{Annual \ net \ credit \ purchases}{Average \ accounts \ payable}$

$Accounts \ payable = Trade \ creditors + Bills \ payable$

The above ratio is usually complemented with average payment period which may be calculated as follows: $\frac{Average \ accounts \ payable}{Average \ daily \ credit \ purchases}$
Where average daily credit purchases = Net annual credit purchases / No. of days in the year
Alternatively average payment period can also be calculated with the following formulae.
(Average accounts payable x No. of days in the year) / Annual net credit purchases
Or No. of days in the year / Payable turnover ratio

**Interpretation:**
Shorter average payment period or higher payable turnover ratio may indicate less period of credit enjoyed by the business it may be due to the fact that either business has better liquidity position; believe in availing cash discount and consequently enjoys better credit standing in the market or business credit rating among suppliers is not good and therefore they do not allow reasonable period of credit. The above two alternative conclusions are contradictory of each other therefore the ratio should be interpreted with caution.

**Market test ratios**

Market Test Ratios help investor to estimate the attractiveness of a potential or existing investment and get an idea of its valuation. These ratios are concerned with the return on investment for shareholders, and with the relationship between return and the value of an investment in company's shares.

**Earnings per share (EPS)**

Earnings per share (EPS) is the portion of a company's profit that is allocated to each outstanding share of common stock, serving as an indicator of the company's profitability. ...

\[ EPS = \frac{Net\ Income}{Average\ Outstanding\ Common\ Shares} \]

**Price-Earnings Ratio - P/E Ratio**

The price-earnings ratio (P/E Ratio) is the ratio for valuing a company that measures its current share price relative to its per-share earnings.

\[ \text{Formula: Market Value per Share} / \text{Earnings per Share} \]

**Interpretation**

The payout ratio is a key financial metric used to determine the sustainability of a company's dividend payments. A lower payout ratio is generally preferable to a higher payout ratio, with a ratio greater than 100% indicating the company is paying out more in dividends than it makes in net income.

**Dividend Yield**

A financial ratio that indicates how much a company pays out in dividends each year relative to its share price. Dividend yield is represented as a percentage and can be calculated by dividing the value of dividends paid in a given year per share of stock held by the value of one share of stock.

\[ \text{Formula: Annual Dividend Per Share / Price Per Share} \]

**Interest Coverage Ratio**

The interest coverage ratio measures the ability of a company to pay the interest expense on its debt. The ratio, also known as the times interest earned ratio.

\[ \text{Formula: EBIT/Interest Expense} \]

**Interpretation**

An interest coverage ratio of two or higher is generally considered satisfactory.

**Debt Service Coverage Ratio**

The debt service coverage ratio measures how well a company is able to pay its entire debt service. Debt service includes all principal and interest payments due to be made in the near term.

\[ \text{Formula: Net Operating Income/Total Debt Service} \]

**Interpretation**

A ratio of one or above is indicative that a company generates sufficient earnings to completely cover its debt obligations.

**Asset Coverage Ratio**

The asset coverage ratio is similar in nature to the debt service coverage ratio but looks at balance sheet assets instead of income in comparison to debt levels.
**Formula:** Total Tangible Assets - Short-term Liabilities / Total Debt Outstanding

**Interpretation**

A ratio suggests that the company has sufficient assets on hand to manage its debt load, although an acceptable figure may vary depending upon the industry the company operates in.

**Financial Leverage**

Financial leverage can be aptly described as the extent to which a business or investor is using the borrowed money. Business companies with high leverage are considered to be at risk of bankruptcy if, in case, they are not able to repay the debts, it might lead to difficulties in getting new lenders in future. It is not that financial leverage is always bad. However, it can lead to an increased shareholders’ return on investment. Also, very often, there are tax advantages related with borrowing, also known as leverage.

The most well known financial leverage ratio is the debt-to-equity ratio (see also debt ratio, equity ratio). It is calculated as:

\[
\frac{\text{Total debt}}{\text{Shareholders Equity}}
\]

**Operating leverage**

Operational leverage is a measurement of the degree to which a firm or project incurs a combination of fixed and variable costs.

**Formula:** Contribution Margin / Net Operating Income

**Interpretation**

A business that makes sales providing a very high gross margin and fewer fixed costs and variable costs has much leverage. The higher the degree of operating leverage, the greater the potential danger from forecasting risk, where a relatively small error in forecasting sales can be magnified into large errors in cash flow projections.

**Conclusion**

Ratio analysis stands for the process of determining and presenting the relationship of items and groups of items in financial statements. It is a vital tool of financial analysis. It is a way in which a financial stability and health of a concern can be judged.

**References:**

Books: cost and management accounting by S.P. jain, K.L. Narang
 Accountancy –ii by C.Mohan Juneja, Dr. Baljinder Singh, Dr. R.K. Mahajan
 Online search: financial dictionary, Indian institute banking and finance, business finance online