

Unit – 4

Analysis of Financial statements

Ratio Analysis

- **Liquidity Ratios**

- Current ratio
- Quick ratio
- Absolute liquid ratio

- **Solvency Ratios**

- Debt equity ratio
- Net worth ratio
- Fixed assets to net worth ratio
- Current assets to net worth ratio
- Capital gearing ratio
- Solvency ratio

• **Turn over ratios**

- Stock turnover ratio
- Debtors turnover ratio
- Creditors turnover ratio
- Working capital turnover ratio
- Fixed assets turnover ratio
- Current assets turnover ratio

• **Profitability Ratios**

- Gross profit ratios
- Net profit ratio
- Operating ratio
- Expenses ratio
- Operating profit ratio
- Return on capital employed ratio
- Earning per share ratio
- Price earning ratio

Solved problems on calculation of ratios and preparation of balance sheet using ratios

Cash flow statement

Advantages

- Planning and co-ordination of financial operations
- Control device
- Useful to internal financial management
- Profit and cash position
- Short term financial decisions

Classification of cash flows:

- Cash flow from operating activities
- cash flow from investing activities
- Cash flow from financing activities

Solved problems on cash flow statement under method AS - 3