

Accounting Ratios



Accounting ratios are financial measures that are employed to analyze a firm's performance, efficiency, and financial well-being. They facilitate informed decisions by investors, analysts, and managers through the comparison of financial statement information. Some of the popular types include liquidity ratios (e.g., current ratio, quick ratio) to determine short-term financial health, profitability ratios (e.g., return on assets, net profit margin) to gauge earnings, and leverage ratios (e.g., debt-to-equity) to measure financial risk. Efficiency ratios, such as inventory turnover, signal operational effectiveness. By comparing these ratios over time or with industry standards, companies can recognize strengths, weaknesses, and opportunities for improvement, facilitating strategic planning and financial decision-making.