

KEY FINANCIAL RATIOS CHECKLIST

General Notes

Key financial ratios help you to interpret financial information in a way that can help you to make the right decisions when choosing a supplier, considering a strategic partnership or trying to work out how much credit to extend to a customer.

They give you a valuable insight how well an organization is managed at the highest level. Many organizations can appear successful despite deep structural problems with the way they are financed and managed.

NOTE:

- Whilst you can compare the ratios of organizations in different industries is usually of limited value because of differences in market conditions, capital requirements and competition.
- The trend over time is often more revealing than one figure in isolation and that comparisons between industries may not be very useful.
- You must have a clear understanding of what the organization actually does and the industry it operates in before you draw any conclusions from these ratios.

To use Key Financial Ratios you must

Have access to the four main financial statements of the organization you wish to assess.

- Income Statement
- Balance Sheet
- Cash Flow statement
- Statement of Retained Earnings

You must define an appropriate benchmark so that your financial ratios can be informative:

- Past performance

- Another organization

When making comparisons using key financial ratios you must select one of the following was to perform this action:

- Organizations in same sector
- Different time periods for same organization
- An organization to its industry average

As you collect the necessary financial information and statement you MUST ensure that all your data to be used in your calculations & comparison is:

- Prepared using the **SAME** account methods for
 - Each Financial Statement
 - Each Organization &
 - Each Year

If you wish to make global comparisons you need to consider:

- Seasonal influences on markets
- Different national market practices

NOTE: you need to be aware that there is no global agreement on:

- Financial accounting standards
- Presentation of financial statement
- Financial terminology

Decide which of the categories of key financial ratios you wish to use:

- Solvency
- Profitability
- Performance
- Investment

