

# FINANCIAL ANALYSIS



# INTRODUCTION

FINANCIAL ANALYSIS IS THE PROCESS OF EVALUATING BUSINESSES, PROJECTS, BUDGETS, AND OTHER FINANCE-RELATED ENTITIES TO DETERMINE THEIR PERFORMANCE AND SUITABILITY. IT INVOLVES USING VARIOUS FINANCIAL DATA TO MAKE DECISIONS ABOUT HOW TO RUN OR INVEST IN A BUSINESS. FOR UNDERPRIVILEGED ADULTS, UNDERSTANDING FINANCIAL ANALYSIS CAN HELP MAKE INFORMED DECISIONS ABOUT PERSONAL AND BUSINESS FINANCES, IMPROVING THEIR ECONOMIC STABILITY.

## RATIO ANALYSIS

RATIO ANALYSIS IS A TOOL USED IN FINANCIAL ANALYSIS TO EVALUATE RELATIONSHIPS BETWEEN DIFFERENT PIECES OF FINANCIAL DATA. THESE RATIOS HELP DETERMINE A COMPANY'S PERFORMANCE, FINANCIAL HEALTH, AND OPERATIONAL EFFICIENCY.

## COMMON FINANCIAL RATIOS

COMMON FINANCIAL RATIOS:

1. LIQUIDITY RATIOS: MEASURE THE COMPANY'S ABILITY TO PAY OFF ITS SHORT-TERM DEBTS.
  - CURRENT RATIO:  $\text{CURRENT ASSETS} / \text{CURRENT LIABILITIES}$ 
    - EXAMPLE: IF A SMALL GROCERY STORE HAS CURRENT ASSETS OF \$10,000 AND CURRENT LIABILITIES OF \$5,000, ITS CURRENT RATIO WOULD BE 2. THIS MEANS IT HAS TWICE AS MANY ASSETS AS LIABILITIES, INDICATING GOOD SHORT-TERM FINANCIAL HEALTH.
2. PROFITABILITY RATIOS: MEASURE HOW EFFICIENTLY A COMPANY GENERATES PROFIT.
  - NET PROFIT MARGIN:  $\text{NET INCOME} / \text{REVENUE}$ 
    - EXAMPLE: IF A LOCAL BAKERY EARNS \$50,000 IN REVENUE AND HAS A NET INCOME OF \$10,000, ITS NET PROFIT MARGIN WOULD BE 20%. THIS INDICATES THAT FOR EVERY DOLLAR OF REVENUE, THE BAKERY EARNS 20 CENTS IN PROFIT.
3. EFFICIENCY RATIOS: MEASURE HOW WELL A COMPANY USES ITS ASSETS.
  - INVENTORY TURNOVER:  $\text{COST OF GOODS SOLD} / \text{AVERAGE INVENTORY}$ 
    - EXAMPLE: IF A RETAIL STORE HAS A COST OF GOODS SOLD OF \$30,000 AND AN AVERAGE INVENTORY OF \$10,000, ITS INVENTORY TURNOVER RATIO WOULD BE 3. THIS MEANS THE STORE SELLS AND REPLACES ITS INVENTORY THREE TIMES A YEAR.
4. LEVERAGE RATIOS: MEASURE THE DEGREE TO WHICH A COMPANY IS USING BORROWED MONEY.
  - DEBT TO EQUITY RATIO:  $\text{TOTAL DEBT} / \text{TOTAL EQUITY}$ 
    - EXAMPLE: IF A SMALL BUSINESS HAS TOTAL DEBT OF \$20,000 AND TOTAL EQUITY OF \$40,000, ITS DEBT TO EQUITY RATIO WOULD BE 0.5. THIS MEANS THE BUSINESS HAS HALF AS MUCH DEBT AS EQUITY, INDICATING A LOW LEVEL OF FINANCIAL RISK.

# PERFORMANCE EVALUATION

PERFORMANCE EVALUATION INVOLVES ANALYZING FINANCIAL STATEMENTS AND USING FINANCIAL RATIOS TO ASSESS HOW WELL A COMPANY IS DOING. THIS CAN HELP IDENTIFY STRENGTHS, WEAKNESSES, AND AREAS FOR IMPROVEMENT.

STEPS IN PERFORMANCE EVALUATION:

1. REVIEW FINANCIAL STATEMENTS: EXAMINE THE INCOME STATEMENT, BALANCE SHEET, AND CASH FLOW STATEMENT TO UNDERSTAND THE FINANCIAL HEALTH OF THE BUSINESS.
2. CALCULATE FINANCIAL RATIOS: USE THE RATIOS MENTIONED ABOVE TO GET A CLEARER PICTURE OF THE COMPANY'S PERFORMANCE.
3. COMPARE WITH INDUSTRY BENCHMARKS: COMPARE THE COMPANY'S RATIOS WITH INDUSTRY AVERAGES TO SEE HOW IT STACKS UP AGAINST COMPETITORS.
4. ANALYZE TRENDS: LOOK AT FINANCIAL DATA OVER MULTIPLE PERIODS TO IDENTIFY TRENDS AND PATTERNS.
5. IDENTIFY AREAS FOR IMPROVEMENT: BASED ON THE ANALYSIS, DETERMINE WHICH AREAS NEED ATTENTION AND IMPROVEMENT.

EXAMPLE: IMAGINE A LOCAL RESTAURANT. BY REVIEWING ITS FINANCIAL STATEMENTS, CALCULATING RATIOS, COMPARING THEM WITH OTHER RESTAURANTS, AND ANALYZING TRENDS, THE OWNER DISCOVERS THAT WHILE THE RESTAURANT IS PROFITABLE, IT HAS A HIGH INVENTORY TURNOVER RATE. THIS SUGGESTS THAT THE RESTAURANT COULD BENEFIT FROM BETTER INVENTORY MANAGEMENT PRACTICES TO REDUCE COSTS AND INCREASE EFFICIENCY.



# IMPORTANCE OF FINANCIAL ANALYSIS FOR UNDERPRIVILEGED ADULTS

FOR UNDERPRIVILEGED ADULTS, UNDERSTANDING FINANCIAL ANALYSIS CAN HAVE SEVERAL BENEFITS:

1. IMPROVED FINANCIAL LITERACY: GAINING KNOWLEDGE ABOUT FINANCIAL RATIOS AND PERFORMANCE EVALUATION CAN HELP INDIVIDUALS MAKE BETTER PERSONAL AND BUSINESS FINANCIAL DECISIONS.
2. BETTER BUDGET MANAGEMENT: BY APPLYING FINANCIAL ANALYSIS TO THEIR PERSONAL FINANCES, INDIVIDUALS CAN IDENTIFY AREAS WHERE THEY CAN SAVE MONEY AND IMPROVE THEIR FINANCIAL SITUATION.
3. ENHANCED BUSINESS OPERATIONS: FOR THOSE RUNNING SMALL BUSINESSES, FINANCIAL ANALYSIS CAN HELP OPTIMIZE OPERATIONS, INCREASE PROFITABILITY, AND ENSURE LONG-TERM SUCCESS.
4. INVESTMENT DECISIONS: UNDERSTANDING FINANCIAL ANALYSIS CAN HELP INDIVIDUALS MAKE INFORMED DECISIONS ABOUT INVESTMENTS, LEADING TO BETTER RETURNS AND FINANCIAL GROWTH.

## CONCLUSION

FINANCIAL ANALYSIS IS A CRUCIAL SKILL FOR UNDERSTANDING AND MANAGING FINANCES EFFECTIVELY. BY MASTERING RATIO ANALYSIS AND PERFORMANCE EVALUATION, UNDERPRIVILEGED ADULTS CAN IMPROVE THEIR PERSONAL AND BUSINESS FINANCIAL HEALTH, LEADING TO GREATER ECONOMIC STABILITY AND GROWTH. WHETHER FOR PERSONAL BUDGETING OR RUNNING A SMALL BUSINESS, FINANCIAL ANALYSIS PROVIDES THE TOOLS NEEDED TO MAKE INFORMED, STRATEGIC DECISIONS.

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*ENJOY!*

**Thank  
You!**

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