

Financial Ratio Analysis

Financial ratio analysis is the calculation and interpretation of key financial ratios based on numbers usually found in one of the three primary financial statements (i.e. income statement, balance sheet, cash flow statement).

Financial ratio analysis is usually the key task within the process of financial statement analysis. A skilled and accurate financial ratio analysis is essential to understand the historical performance of a firm. And therefore, financial ratio analysis is essential in trying to anticipate the future performance of a firm and in assessing a firm's current intrinsic value.

Financial ratios can usually be placed into one of four broad categories: profitability ratios, efficiency ratios, financial risk ratios, and valuation ratios. There is some overlap between these categories. Some ratios fit into more than one category.