What is Ratio Analysis?

Worksheet

Ratio analysis compares financial metrics (revenue, profit, assets, liabilities) to assess profitability, liquidity, and efficiency. Key types: current ratio, debt-to-equity, and ROE.

Questions

1. Current Ratio = Current Assets / Current Liabilities. What does it measure?

A) Profitability
B) Ability to pay short-term debts
C) Long-term growth
D) Employee efficiency

2. Profit Margin = 25%. Interpretation?

A) 25% of revenue is profit
B) 25% of debt is paid
C) 25% growth year-over-year
D) 25% ROE

3. High Debt-to-Equity Ratio indicates...

A) High profitability
B) Higher financial risk and leverage
C) Strong liquidity
D) Low operating costs

4. Which ratio is most relevant for assessing bankruptcy risk?

A) Profit Margin
B) ROE
C) Debt-to-Equity
D) Quick Ratio

5. Company A: Current Assets 50K, Current Liabilities25K. Current Ratio?

6. Company B: Net Income 100K, Revenue500K. Profit Margin?

7. Company C: Total Debt 300K, Equity200K. Debt-to-Equity Ratio?

8. Define: What is ratio analysis?

9. Define: What does a high current ratio indicate?

10. Define: What is profit margin?

Answer Key

1. B) Ability to pay short-term debts — Current Ratio is a liquidity ratio measuring short-term solvency.
2. A) 25% of revenue is profit — Profit Margin shows the percentage of revenue that becomes profit.
3. B) Higher financial risk and leverage — More debt means higher financial risk and obligation to creditors.
4. C) Debt-to-Equity — Debt-to-Equity measures long-term financial stability and solvency.
5. Current Ratio = Current Assets / Current Liabilities = 50,000 / 25,000 = 2.0 → For every 1 of liabilities,2 in liquid assets
6. Profit Margin = Net Income / Revenue = 100,000 / 500,000 = 0.20 = 20% → 20¢ profit on every $1 of sales
7. Debt-to-Equity = Total Debt / Equity = 300,000 / 200,000 = 1.5 → 1.50 debt for every1 of equity
8. Examining financial metrics to evaluate company performance, efficiency, and financial health.
9. Strong ability to pay short-term debts; company has sufficient liquid assets.
10. Net Income / Revenue — shows how much profit remains from each dollar of sales.