Ratio analysis

2017-18

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- *Profitability ratio*: shows how well business is doing
- *Return on capital employed* (ROCE): measures profitability of business

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- if *gearing ratio* $> 50\%$
  $\rightarrow$ large proportion of business finance is borrowed
- if *gearing ratio* is low
  $\rightarrow$ more finance is provided by shareholders (owners)

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- For investments to be worthwhile:
  $\rightarrow$ ROCE $>>$ return on safe investment

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LIMITATIONS OF RATIO ANALYSIS

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