

Types of Ratio analysis:

There are four major types of ratio analysis.



1. Liquidity Ratios:

A class of financial metrics that is used to determine a company's ability to pay off its short-term debts obligations. Generally, the higher the value of the ratio, the larger the margin of safety that the company possesses to cover short-term debts.

Commonly used Liquidity Ratios:

There are two commonly use of liquidity ratios:

- Current Ratio
- Acid-test or quick ratio

● **Current Ratio:**

The current ratio compares current assets to current liabilities, giving executives information about a firm's ability to pay its current debits as they mature.

Formula to calculate current ratios:

$$\text{Liquidity Ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$