**Statement of Financial Position: Ratios**

**Stakeholders affected by a business performance**

**Management**

They will want information to know how the business has performed over the year and to learn if any changes are needed. This will help make decisions if needed

**Shareholders**

They will want to know if the money that they have put into the business has been used wisely by the firm in order to generate profits and pay them a dividend

**Banks**

They want to know if the business is profitable enough to be able to make loan repayments and interest repayments

**Trade Unions**

They will keep an eye on the company’s profits because if they know the business is doing very well, they may look for wage increases

**Suppliers**

These are interested in a business’s accounts in order to assess the firm’s credit-worthiness

**Employees**

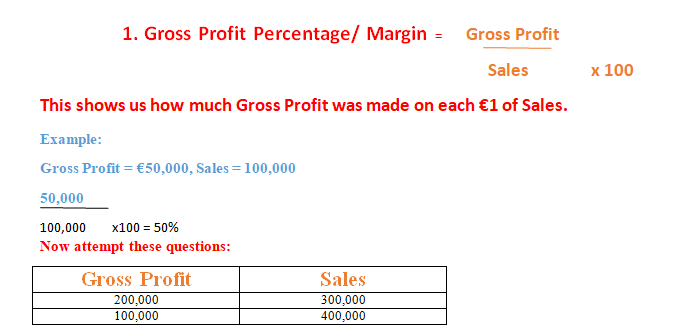
Will want to see if the firm is performing well for job security and promotion prospects

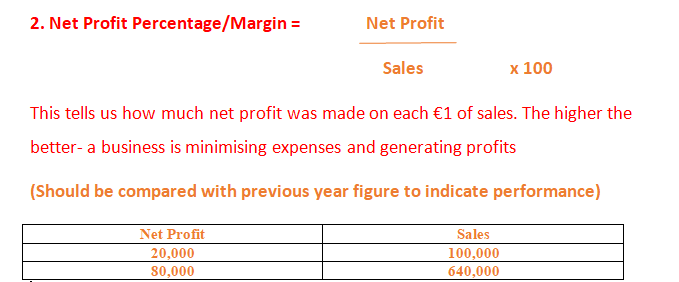
***So why does a business need Ratios?***

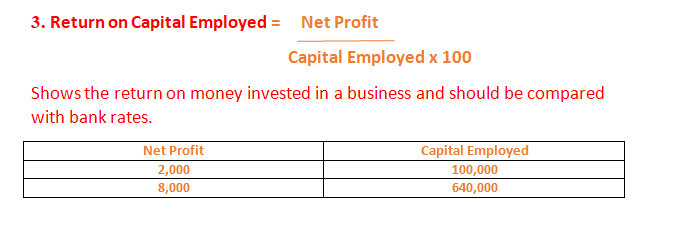
In the same way that a doctor examines a patient to find out what is wrong with him, a business must examine their accounts to make sure that it is in a healthy position.

**Ratio Number 1: Profitability**

**Profitability:** This measures how successful the management of a business has been in making a profit

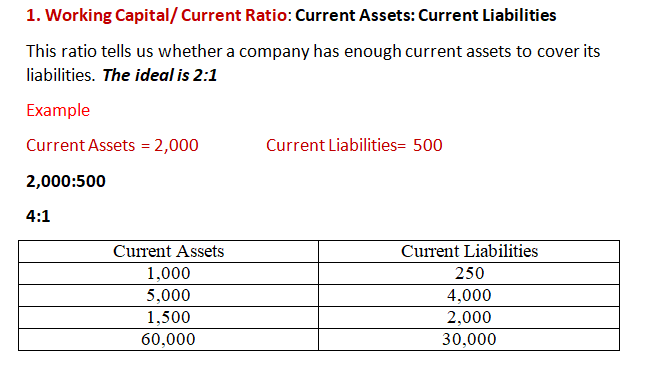


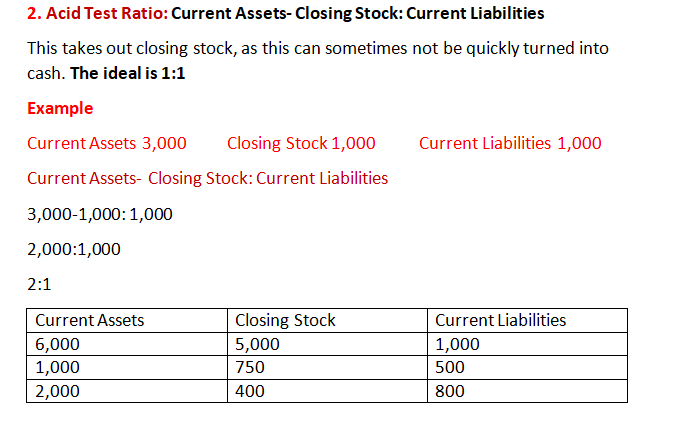




**Ratio Number 2: Liquidity**

Liquidity: This is the ability of a company to pay off its debts as they fall due





**Ratio Number 3: Solvency**

**Solvency: This is a business’s ability to meet its liabilities. Its formula is:**

Total Assets: All External Liabilities

**Ratio Number 4: Stock**

**There are two ratios that are concerned with stock. They are**

**Average Stock:** This is done by adding the values of stock at the start and the end of the year and getting its average. Its formula is:

Average Stock = Opening + Closing Stock

2

**Stock Turnover:** This shows how many times a business’s stock has been bought and sold throughout the year. Its formula is:

Stock Turnover = Cost of Sales

Average Stock

*We will now put all of these ratios into practice in class.*