Accounting Ratios – Make Comparisons to Improve your Business

Remember the days in grade school when you were learning to calculate ratios, and wondered when it would ever benefit you in real life? Well, it turns out that using ratios can actually make a big difference within a business. Using accounting ratios can help you pinpoint areas of strength and weakness in your business, so you can increase profits and reverse negative trends. If an accounting ratios function is available within your accounting system, be sure to make use of it. Using ratios can make a big difference; here's how.

Compare your business to your competition.

A lot can be learned from looking at the trends of other businesses in your industry. Ratio calculations allow you to view industry standards and illustrate financial trends, so that you can understand where your business stands compared to your competition. The success, progress or shortfalls of a business can be understood and addressed, so proper action can be taken. By knowing where you stand against your competition, you will have a good idea about what area(s) of your business to improve, giving you a distinct advantage.

Understand the underlying data.

Using ratio analysis is one thing, but understanding the data behind the indicators takes this tool to a whole new level. If you have ratio analysis capability and are able to view the numbers that make up your data, take full advantage of it. This capability allows you to understand patterns that exist within your business, so you can make better management decisions moving forward.

Compare various time frames.

Of course, it's helpful to understand your business numbers in the here and now. And yet, there is even more power in being able to compare data from two different time frames. Maybe last year wasn't profitable and you want to turn it around. Maybe your business was struggling last month compared to this month, and you want to understand why. You can use accounting ratios as a high-level tool to see trends over longer periods of time, so you can achieve long-term financial growth

By using accounting ratios, you can access information and trends that you may not have noticed, so you can make changes accordingly, which will benefit your business! Not only that, but you will now have an answer when a child asks, "What will math ever do for me in real life?"

CenterPoint Accounting software offers a Ratios Module, for use with CenterPoint Accounting. Join a free, personalized demo to see if CenterPoint is right for your business.

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