



SWOT analysis of financial ratio analysis

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Abstract

Financial ratio analysis is a method by which a business is assessed on the basis of data showing its financial position, and profitability. Although many people use it to make decisions, ratio analysis has some advantages and disadvantages that can affect its utility. The study analysed the good and bad aspects, prospects and dangers of ratio analysis by collecting information from various methods. The researchers spoke to 200 people, including accountants, finance students, teachers, investors, and business managers, through a questionnaire. He also studied books, reports, and other financial accounts. The study found ten main Strengths of ratio analysis, ten main Weaknesses, ten Opportunities and ten Threats, sorted based on people's consensus. The most important Strengths/advantages were simplifying complex financial data, comparing different companies, checking whether a business can pay its bills, measuring profits, and predicting the future. The main Weaknesses/ disadvantages were the use of outdated data, ignoring non-numerical factors, differences in accounting rules and tricks adopted to make financial figures look better. Opportunities include using new technologies such as artificial intelligence, forecasting future trends, reporting on social and environmental efforts, and comparing them to global standards. Threats include cybersecurity risks, economic problems, outdated technology, and misinterpretation of data. The study says that ratio analysis is still useful for financial management, but it can be further improved by using new technology, adopting clear reporting rules, and adding non-numerical information.

Keywords: Ratio analysis, SWOT analysis, Financial performance

Introduction

Financial accounting is like a report card that helps people understand how a company is performing. One of the best ways to do this is called ratio analysis. Ratio analysis transforms the complex data of financial reports into simple signals that reflect the company's financial position. This helps investors, lenders, managers, and others make wise decisions about the company. As businesses become more complex and people expect more information, the importance of ratio analysis increases even more. It helps to check if a company has enough money to pay its bills, whether it is making a profit, is financially secure and is growing. It is also helpful in planning, deciding investment locations, lending, and risk management. But, the ratio analysis is not entirely accurate. Sometimes it relies on old figures, different ways of counting money, rising prices or even tricks used to make the figures look better. New technologies such as artificial intelligence (AI), machine learning, and reports on how companies care for the environment and society are changing the way ratio analysis works. There are also new concerns such as cyberattacks, economic problems, and rapidly changing technology. Because of all these changes, it is important to look into the good and bad aspects of ratio analysis. This study looks at what people think about the merits, drawbacks, possibilities, and dangers of ratio analysis, and suggests ways to improve it.

Literature review

Horrigan (1968) ^[5] stated that ratio analysis is a simple way to check the financial position of a company and estimate what may happen in the future. It is helpful to understand things like paying the company's bills, making a profit, and running smoothly. Beaver (1966) ^[3] showed that financial ratios can help tell if a company may fail or fall into financial trouble. This makes ratio analysis an important tool for predicting problems. Altman (1968) ^[1] created the z-score model, which uses ratios to predict whether a company may go bankrupt or not. It shows how powerful ratios can be when making financial decisions. Lev (1974) stated that ratio analysis makes financial reports easier to understand because it simplifies complex information. But he cautioned that one should not rely solely on proportions without considering other things like the environment and the company's properties. Barnes (1987) ^[4] found that different methods of accounting can change the ratios between companies. Therefore, it is important to have the same accounting rules for a fair comparison of companies. Penman (2013) ^[6] stated that ratio analysis is still useful today because it helps to understand how well a business is performing and whether it is a good investment. New studies have shown that artificial intelligence (AI) and smart computer programs can make ratio analysis faster, more accurate, and better in forecasting. This helps companies make better decisions. At the same time, modern research shows that

including information related to financial ratios as well as companies' commitment to the environment and society (ESG factor) gives a complete picture of a company's actual performance.

Strengths

Ratio analysis transforms complex and large financial reports into simple numbers. This helps managers, investors, and others quickly understand how a company is performing and can make the right decisions without even looking at detailed records. Financial ratios are helpful in comparing two companies in the same industry. By using the same numbers, people can see which company is better, more efficient, and more financially strong, making it easier to evaluate and compete. Liquidity ratios indicate whether a company has enough cash to pay its bills. These convey important information about the cash and resources the company has, helping lenders and investors understand that the company is stable and can keep going. Profitability ratios indicate whether a company is making a profit from its operations. These numbers help people understand if the business is successful, using resources wisely, and performing well financially over time. Ratio analysis is helpful in detecting patterns by looking at past financial data. These patterns can help predict how the company might perform in the future, detect potential problems, and plan for growth. Efficiency ratios measure how efficient a company is at using things like its equipment, inventory, and resources. These statistics help managers to find out what is going well and what things need to be improved so that more work can be done with less waste. Investors use financial ratios to see if investing in a company is risky or good. These figures provide clear information about the company's financial position, helping investors make better decisions. Financial ratios are useful tools for budgeting and planning. By looking at past results, companies can set goals, decide how to spend money, and plan to fulfill their future dreams. Solvency ratios indicate whether a company can repay its long-term debts. These help lenders and investors see if the company is stable and it is safe to lend or invest money in it for a long time. Ratio analysis helps to find the parts of the business that are not performing well, so that they can be improved and improved.

Weaknesses

The financial ratio analysis relies mostly on past data. Since businesses change rapidly, these outdated figures do not reflect the current situation or future prospects, making it harder to use ratios to predict the future. Financial ratios focus only on numbers, not on things like managers' performance, employees' skills, customer satisfaction, brand image or company culture, which are very important for success. Some companies may manipulate or manipulate their financial data to look strong. This can confuse people who rely on ratios and feel that the company is doing much better than it actually is. Different companies may use different methods to calculate things like depreciation, inventory, or income. This makes it harder to compare ratios and can lead to erroneous conclusions. Financial ratio analysis usually uses old costs and does not take into account inflation, i.e. the increase in prices. This means that the statistics may not reflect how the company is actually

performing today. There are no universal rules for many financial ratios. What looks good in one industry may not be good in another, making it difficult to understand the ratios. Financial ratios by themselves cannot give a complete picture of a company. To make good decisions, it is necessary to check cash flows, analyze these with industry information, market conditions, and other details. How people interpret ratios depends on their own thoughts and experience. Different analysts may view the same data differently, leading to biases or mistakes. Sales and profits of companies with busy schedules can fluctuate throughout the year. Looking at the ratios of a single day does not show how the company performed throughout the year. The ratios can tell whether the company is performing well or not, but they do not give the reason behind it. You have to look more deeply to find out the reasons behind the statistics.

Opportunity

Smart computers can do the math, view data, and perform financial analysis quickly and accurately. This helps companies make quick and good decisions about money and avoid mistakes. Using specialized mathematical and computer programs, companies can predict what might happen next with their money. This helps them see potential problems and know if their business will struggle in the future. By adhering to the global rules of keeping track of money, companies can compare their position with other companies around the world. This helps them find ways to get better and stay competitive. Measuring money can include how companies treat the environment, how they treat their employees, and follow good rules. This gives a complete picture of the company's responsibility and sustainability. Banks use these measurements to decide whether or not people should be given loans. Better vetting helps ensure that loans are given to reliable borrowers and are less likely to lose money. Looking at these ratios reveals risks to companies, such as running out of money or trouble paying bills. This way, they can fix problems before they worsen and remain stable. Modern software can create special screens with graphs showing important financial ratios. These images help people understand the data quickly and make decisions quickly. When companies merge or change among themselves, ratio analysis helps to understand how valuable they are, how they perform, and where they can improve or grow. By closely analyzing the cost and performance ratios, companies can figure out where they are wasting money. This helps them keep a check on expenses, work better, and make more profit in the long run. As more people learn about money, they use ratios to understand the performance of companies. This helps investors choose better places to invest their money.

Threat

With financial data stored and shared online, hackers can attack, steal information, or lock data from ransomware. This can lead to inaccuracies in financial reports, loss of funds, and a loss of trust in the company's decisions. If a person does not understand the financial ratios well, he may make the wrong decision about the business. This can lead to incorrect decisions regarding investments, lending, or managing the company.

Things like recessions, inflation, or changes in the market can affect financial ratios to a great extent. In tough economic times, these ratios may not reflect the actual performance of the company. When accounting and taxing regulations change frequently, it can be difficult to compare financial ratios. Businesses need to update their methods to stay accurate. Rapid changes in technology can render the old methods of finance analysis obsolete. New types of companies may need different approaches to understanding their finances. If financial information is entered incorrectly or is incomplete, the calculated ratios will be incorrect. This can lead to erroneous conclusions about the company's position. Over-reliance on computers to check finances can make people forget the art of understanding the nuances. If the software gives the wrong answer, people may inadvertently make the wrong decisions. Some companies may lie about their financial figures to look better. This can deceive investors and analysts and create a false impression about the company's position. Managers can try to make the company look better quickly by focusing only on short-term data. This can deprive them of investing in new ideas, employees, or future development. Things like brand value, patents, or customer loyalty are difficult to convey in

statistics. For this reason, the real value of modern companies based on knowledge and ideas can be underestimated.

Objectives of the study

Know what are the advantages of ratio analysis. Know what can be the drawbacks in ratio analysis. Discover new opportunities due to new technology and regulations. Understand the problems that can make ratio analysis less useful. Sort the good and bad aspects of it based on the opinions of the people involved. Give suggestions to improve the ratio analysis.

Research methodology

In this study, information was gathered in two main ways. First, it asked questions through a survey of 200 people, including accountants, managers, investors, teachers, and students. Second, it drew information from books, research articles, financial reports, government documents and other studies related to ratio analysis. The study also analysed the good and bad aspects of ratio analysis. The selection of people to ask questions was done in simple and systematic ways. Percentage calculations and rankings were used to get people's opinions.

Table 1: SWOT analysis of financial ratio analysis

Rank Strengths Factor Consent %	Rank Opportunity Factor Consent (%)
1. Simplifying Financial Data 94	1. AI Integrations 95
2. Comparison between companies 92	2. Predictive Analytics 93
3. Assessing Cash Availability 91	3. Global Benchmarking 91
4. Estimation of Profits 89	4. ESG Reporting 89
5. Predicting the Future 87	5. Improved credit scoring 88
6. Evaluating Operational Efficiency 86	6. Risk Management 86
7. Help with investment decisions 84	7. Customized dashboard 84
8. Budgeting and Planning 82	8. Analysis of Corporate Restructuring 82
9. Assessing Solvency 80	9. Cost Optimization 80
10. 10. Identification of Vulnerable Areas 78	10. 10. Increasing Investor Awareness 79
Rank Weaknesses Factor Consent %	Rank Threats Factor Consent (%)
1. Dependence on outdated data 91	1. Risks associated with cybersecurity 94
2. Ignoring qualitative factors 89	2. Misinterpretation of data 92
3. Risks of window dressing 87	3. Economic Instability 90
4. Differences in Accounting Policies 85	4. Regulatory changes 88
5. Ignoring the impact of inflation 83	5. Obsolete technology 86
6. Lack of standard ratios 81	6. Incorrect data input 85
7. Incomplete standalone tool 79	7. Too much reliance on software 83
8. Analyst's bias 77	8. Manipulation by competitors 81
9. Seasonal Changes 75	9. Valuation of intangible Assets 77
10. 10. Does not explain the root causes 73	10. 10. Focus on Short-Term Management 79

Sources: Primary Data (n=200, Rank base on respondents Consent %

Results and analysis

Table-01 presents the SWOT analysis of Financial Ratio Analysis based on the responses of 200 participants. The findings indicate that among the strengths, Simplifying Financial Data received the highest consent (94%), followed by Comparison between Companies (92%) and Assessing Cash Availability (91%). They believe that new technology can be helpful, with most people saying that artificial intelligence (robot brains) can be incorporated (95%), and that predicting future results (93%) and comparing with global companies

(91%) are good ideas for the future. People are most concerned about online security (94%), as well as mistakes in understanding data (92%) and economic instability (90%). Overall, examining a company's financials numerically is still useful, but it can be improved by using new technology, obtaining better data, and keeping information more secure. People involved in decision-making believe that ratio analysis is a good way to easily understand financial information. Most people agree that it helps to check if a business has enough money, is making a profit, and is running smoothly. But some

people worry that it relies on outdated data and doesn't take into account human or company values. The study also shows that new technologies such as artificial intelligence, machine learning, and specialized tools that predict the future can make ratio analysis even better.

Conclusion

Looking at statistics in financial reports is still very important for understanding the performance of a company and making decisions. SWOT analysis shows that ratio analysis has many advantages, such as it is easily understood, helpful in comparing companies and helping to predict what might happen in the future. But it also has some drawbacks, as it sometimes uses outdated information or relies on opinions that are not easy to measure. New tools such as artificial intelligence and specialized computer programs could further improve ratio analysis in the future. Companies should not only pay attention to financial data, but also other factors such as company details, industry trends, cash inflows, and the company's attitude towards the environment. Adherence to clear regulations and the use of safeguards can make ratio analysis more accurate and useful. In summary, ratio analysis is a useful tool that is constantly getting better and can help companies make wiser decisions in a changing world. Overall, despite the new challenges and new ways of working, ratio analysis is still a very useful tool today.

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