

Financial Ratios

Module Guide: Financial Ratios

Module Location

Settings > Accounting Settings > Financial Ratios

Module Purpose

The **Financial Ratios** module serves as a fundamental **mapping tool** that links the key components of financial ratio formulas (such as "Current Assets," "Net Profit") to specific accounts within the Chart of Accounts (CoA). By defining this mapping, the system can automatically calculate various important financial ratios used for analyzing company performance.?

1. Main View (Financial Ratio Mapping Page)

The main page is a form where users can visually map each ratio component to multiple CoA accounts at once.

View Explanation

- **Ratio Component Column:** The column on the left displays a list of basic terms or components required for ratio calculations (e.g., `Current Assets`, `Current Liabilities`, `Sales`, `Net_Profit`).
- **Account Mapping Column:** A multi-select box next to each component. Here, users can select one or more accounts from the Chart of Accounts that collectively make up the value of that component.

- **Action Button:**

- **Update:** A button to save all mapping configurations made on this page.

2. Steps to Set Up Ratio Mapping

- **Identify Component:** Select a ratio component you want to define, for example, **Current Assets**.
- **Select Related Accounts:** Click on the multi-select box to the right of the component. From the list of accounts that appears, select all accounts that fall under the Current Assets category (e.g., all Cash and Bank accounts, Accounts Receivable, Inventory, etc.).
- **Repeat for All Components:** Perform the same process for all other components listed on the page (**Current Liabilities**, **Total_Assets**, **Sales**, etc.).
- **Save Changes:** After all components have been correctly mapped to their corresponding accounts, click the **Update** button at the bottom to save the entire configuration.

3. Integrated Workflow & Business Process

- **Foundation for Automated Calculation:** The mappings set in this module are the foundation for the financial reporting or analytical dashboard modules.

- **Example Workflow:** When a manager runs a "Current Ratio" report, the system will do the following in the background:
 - Look up the Current Ratio formula, which is $\frac{\text{Current Assets}}{\text{Current Liabilities}}$.
 - Refer to this **Financial Ratios** module to find all accounts you have mapped to the "Current Assets" component.
 - Sum the balances of all those accounts to get the total value of Current Assets.
 - Do the same for "Current Liabilities."
 - Calculate the final ratio by dividing the total Current Assets by the total Current Liabilities.
- This automates financial analysis and ensures that ratio calculations are always consistent and based on pre-approved definitions.?

4. Tips & Important Notes

- **Accuracy is Key:** The accuracy of all financial ratios generated by the system depends entirely on the correctness of the mapping in this module. A small mistake, like forgetting to include one cash account, will invalidate all related ratios.?
- **Managed by Experts:** This setup should be performed by a **Financial Controller** or **Senior Accountant** who has a deep understanding of the company's CoA structure and the definitions of each financial statement component.

- **Periodic Review:** This mapping must be reviewed periodically, especially when new accounts are added to the Chart of Accounts, to ensure the new accounts are included in the correct components.

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