

# Accounting for decision makers - discussion question

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Decision Makers Accounting El Paso Investment Brokers has the intention of purchasing Rio Valley. El Paso thus has to analyze the financial statements of Rio Valley, so as to determine the strengths, weaknesses and common size applications. The key strength of the Rio Valley company is the increasing sales revenue. The 2010 sales revenue is \$4, 000, 000 and the 2014 sales revenue is \$5, 100, 000. The continuous increase in sales revenue illustrates that the company is very competitive in the market. It aims at attracting and retaining as many customers as possible. The high sales revenue also implies the company has effectively entered new markets and thus increasing the sales revenue (Humphrey, 2012).

The major weakness of Rio Valley involves low levels of net income. In 2014, the net income was \$1, 425, 000. This is very low when compared to the revenue amounts in 2014 of \$5, 100, 000. The low net income explains that the operating expenses form a huge proportion. The company should thus adopt strategies that ensure financial efficiency. One example entails, adopting production technology that minimizes labor requirements, and thus reduces labor costs like salaries, motivation, retirement, and training expenses.

One common size measure utilized in analyzing dollar amounts is the percentage increase in sales, based on 2010 as the base years. The sales level in 2014 is \$5, 100, 000. This sales level illustrates 127. 5% increase in the 2010 value of \$4, 000, 000 (Al & Wayne, 2015).  $127.5\% \text{ of } \$4,000,000 = \$5,100,000$ . El Paso should thus invest in Rio Valley, due to the sales revenue increasing trends. However, adequate strategies must be utilized in minimizing production expenses and also operating costs.

## References

Al, Hartgraves & Wayne, Morse. (2015). Management Accounting. Cambridge Business Publishers.

Humphrey, Albert. (2012). " SWOT Analysis for Management Consulting". SRI Alumni Newsletter.