# Accounting

Accounting FedEx Express is “ a global air-and-ground” transportation company that offers a wide variety of shipping services within the United sand other 220 countries world-wide. It boasts of more international locations than any of its competitors with “ unmatched air route authorities” and a guaranteed delivery that meets each particular needs of the customer. Founded in 1971 as Federal Express Corporation (FedEx n. d.).

United Parcels Services, Inc. or UPS on the other hand, likewise operates in the United States and serves 200 other countries providing delivery and shipments of packages, letters, etc. It also caters to a wide variety of financial services like short and long term financing, credit cards, working capital, etc. UPS was founded in 1907 and has its origin in Atlanta, Georgia (United Parcel Services, Inc. (UPS) n. d.).

Companies, big or small need to analyze how their business is faring. With big organizations like FedEx Express and UPS, whose operations are from continent to continent, the need to inform its creditors and stockholders how their respective financial operations are faring is essential to attract more solid investments in order to maintain overhead costs, increase yearly profits and gain the public trust for a better flow of business.

To identify and project a company’s financial condition, financial ratio analysis is often used to evaluate the financial stability of a certain entity. Financial ration analysis falls into the following categories (Credit Research Foundation, 1999):

1. Liquidity Ratios – shows the ability to meet current obligations.
2. Profitability Ratios – weighs management’s ability to control and earn returns
3. Leverage Ratios – measures the protection of long-term funds and the

company’s capacity to pay its liabilities.

4. Efficiency, Activity or Turnover Ratios – provide information about the management’s ability to control expenses and still earn returns.

Sample Computation of Ratios for FedEx Express and UPS, based on the financial statements for the year end 2007:

Ratio and Formula

FedEx Express

(in millions)

UPS

(in millions)

Liquidity Ratio:

Current Ratio = Current Assets

Current Liabilities

*Current Ratios show the liquidity of a business. Liquidity refers to the ability of a company to pay its obligations on time or has the ability to convert its assets into ready cash when needed

*A current ratio of $1 or higher indicates that the company is liquid enough to make timely payments.

$ 6, 351

$ 4, 910

= $1. 29

$ 11, 760

$ 9, 840

= $1. 19

Profitability Ratio:

Total Debt Ratio = Total Liabilities

Total Assets

*Total Debt Ratio shows the company’s ability to absorb losses without endangering the interest of its creditors.

*A total debt ratio of $1 or less is a good sign that the investments made on the company are secured.

$ 8, 580

$ 11, 122

= $0. 769

$ 26, 859

$ 39, 042

= $0. 687

By taking a look at the above sample computations for FedEx Express and UPS, the ratios indicate that both companies are adequately liquid and could cover up for any financial loss without losing their creditors’ investments. Using financial ratios to directly compare the financial standing of companies using a different accounting method or flow different accounting practices is not feasible. However, there is no world wide standard for calculating the data

presented in all financial statements.

But if investment is to be made, a good investor would not only look at the financial statements and calculate ratios. Other factors must be taken into consideration like how long has the company been around, the stock value of the company and the coverage of its operations. Given the history of FedEx and UPS it could be seen that United Parcels Services, Inc. has been around longer being founded in 1907 while FedEx was found in 1971. However, investors also look at the fluctuation of stock prices of the company shares.

The stock market so far has shown that the FedEx stocks have a higher value than UPS stocks. Aside from this development, FedEx covers a lot more territory in its business as of the present than UPS, making a wider margin of profits and revenues amidst the volatility of the global market and the high oil price.

Hence, if investment decision were to be currently made on which company would be the best to invest in at the moment, then FedEx is the best bet.

References

Credit Research Foundation. (1999) Ratios and Formulas in Customer Financial Analysis. Retrieved on April 25, 2008 from http://www. crfonline. org/orc/cro/cro-16. html

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