

# [Balance sheet](https://assignbuster.com/balance-sheet/)

Memo It is worth mentioning that Superior Foods is overall in a strong financial position during the mentioned fiscal year of 2003. After reviewing the balance sheet of the company, I would like to pinpoint that the company’s total current assets recorded a cumulative increase of 13 – 15% from 2001 to 2003, whereas the total current liabilities increased by over 22% in the corresponding period. This is attributed to heavy growth in Accounts Payable as a result on greater purchases on credit. Nevertheless, the credit sales of company increased by just under 14%. Cash and cash equivalents also recorded a reasonable increment of 13% approximately from 2001 to 2003. However, the major underlying problem of Superior Foods is that total current liabilities figure has increased at a phenomenal rate of nearly 10% per annum during 2001 – 2003, whereas the growth rate of total current assets figure is well under 7% per annum. Therefore, it is justified to argue that Superior Food’s current ratio has been constantly declining in last 3 years. Indeed, current ration was between 2. 1 – 2. 3 in 2001 and 2002 but reduced to 2. 0 in 2003. This is an alarming trend because it may deteriorate liquidity position in next 5 years. 1) Current Ratio = Current Assets / Current Liabilities (in thousands of US $) = 83900 / 41950 = 2. 00 2) Net Working Capital = Current Assets – Current Liabilities = 83900 - 41950 = 41950 As far the liquidity / solvency of Superior Living is concerned, it should be pointed out that the current ratio indicates that for every $1 that Superior Living owes imminently, it has $2. 0 of available liquid resource in fiscal year 2003. The financial experts usually argue that an excellent current is in the range of 1. 5 – 2. 0 because it enables the firms to easily pay off their debts and future financial obligations to creditors / lenders. Hence, Superior Living is a highly liquid organization because it has $2. 0 liquid assets for each $1 short – term liability. The net working capital is 41, 950 thousands; therefore, the company enjoys net working capital equivalent to 100% of current liabilities. However, Superior Living is required to control and minimize the growth in its short-term liabilities to maintain its strong liquidity position. The long-term debts of Superior Living have recorded a cumulative increase of nearly 3% from 2001 to 2003, which is not an alarming sign. For instance, they are just 10% of total liabilities. In contrast, the long-term assets by more than 12% from 2001 to 2003 and they are nearly 60% of total assets. Total Equity also recorded a healthy increase of nearly 10% during 2001 – 2003, which is a positive sign. In conclusion, Superior Living should focus on increasing cash conversion cycle to increase highly liquid current assets. Next, the Chief Financial Officer is requested to initiate measures that would prevent greater than proportional increment in total current liabilities (against total current assets) in near future.