

# [Managerial finance](https://assignbuster.com/managerial-finance/)

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P2-11 a) Comparing these companies to each other in terms of their ratios might be an inaccurate measure mainly because these companies are different in nature hence their ratios will not be the same. Also since they operate in different industries their idle ratios will differ from each other. b) Each industry has its own levels of current and quick ratios. The first two companies generally operate in a market which has quick fashions and fades. It has to be very flexible and keep as less as possible current assets in form of inventory etc. Whereas in terms of a business like the software industry they need to have a high current ratio as they invest heavily in producing their products and then storing them so that they can be provided as and when needed. c) The utility company can take out a large debt as it is able to sustain it as it generates enough revenue throughout the year to finance the debt where a software company which works on one of orders and generates revenue on successful orders completed hence they cannot afford to reduce their profitability and revenues by taking debt and then giving interest on it. d) The investor would not invest all the investment in one company as this will increase risk. When the investment is spread over all the various companies and various industries of different nature the inherent risk of investment is diversified and minimized. P2-15 a) The company has a very effective sales collection system in place and as per the figures the company has a defective rate of 12. 5% and rest of the sales in other terms have been collected in cash or were already collected as per the system. b) Yes it would increase the entire debt from a 12. 5% to a staggering 16. 67% which would mean the company is effectively loosing 16. 67% of the 75% sales that it is making which is a huge problem for the company. E2-4 The CEOs claims seem to be true about the company being profitable however there is something which is very alarming about the quick ratio of the company. We see that it is very close to the zero mark and is falling drastically. This shows that the current assets of the company are increasing but quicker assets which mean more liquid assets are falling. This highlights two main concerns, firstly although profits are increasing but what exactly is the key for investors? Secondly, what is the state of cash to give dividends to the investors? The two simple answers to these questions are that Cash is king and not profit. Hence it has to be said that even though profitability might be increasing but the liquidity position of the company will fall hence they cannot give dividends as they do not have cash on hand to do so. Hence it is wrong to say that the company is or will soon find profitability.