

# [Company financial analysis essay](https://assignbuster.com/company-financial-analysis-essay/)

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## Liquidity

Current ratio= current assets/current liabilities 2010: 29021/19483= 1. 49 2011: 24245/18960= 1. 28

Quick ratio= (current assets- inventories)/current liabilities 2010: (29021-1301)/19483= 1. 42 2011: (24245-1051)/18960= 1. 22

Cash ratio= cash/current liabilities 2010: 13913/19483= 0. 71 2011: 10635/18960= 0. 6

## Financial Leverage

Total debt ratio= (total assets-total equity)/total assets 2010: (29021-7766)/29021= 0. 73 2011: (24245-5641)/24245= 0. 77

Debt equity ratio= total debt/total equity 2010: 30833/7766= 3. 97 2011: 28011/5641= 4. 97

Equity multiplier= total assets/total equity 2010: 29021/7766= 3. 74 2011: 24245/5641= 4. 29

## Turnover

Inventory turnover= cost of goods sold/inventory 2010: 49128/1301= 37. 76 2011: 42789/1051= 40. 71

Days sales inventory= 365/inventory 2010: 365/1301= 0. 28 2011: 365/1051= 0. 35

Receivables turnover= sales/account receivables 010: 61494/10136= 6. 07 2011: 52902/8543= 6. 19

Days sales in receivables= 365/receivables turn over 2010: 365/10136= 0. 04 2011: 365/8543= 0. 04

Total assets turn over= sales/total assets 2010: 61494/38599= 1. 59 2011: 52902/33652= 1. 57

Capital intensity= total assets/ sales 2010: 38599/61494= 0. 63 2011: 33562/52902= 0. 63

## Profitability ratios

Profit margin= net income/sales 2010: 2635/61494= 0. 04 2011: 1433/52902= 0. 09

Return on assets= net income/total assets 2010: 2635/38599= 0. 31 2011: 1433/33652= 0. 04

Return on equity= net income/total equity 2010: 2635/7766= 0. 4 2011: 1433/5641= 0. 25

Emirates Computer products and services bring revenue from their sales. Revenues from January 2010 to January 2011 were about 16% that is an increase from the previous years. This was mainly because of the recovery in the economy. A company’s economichealthis critical because the products it sells are not primary products and therefore people prefer buyingfoodthan spendingmoneyto acquire a computer. This explains the reasons why there was a decline in revenue for the year 2009, which was about 13. 0 % drop in comparison to the previous years. 2010 has reported an increase and this is due to a change in the strategies involved in the business. The revenue stream of the company has changed due to the solution and services that Emirates Computers has put in place. The service revenue has shown a tremendous increase over the years. There has been a gradual appreciation from 14. 3% of revenue in January to about 18. 7% of revenue in January 2011. There has been a profitable growth of 25% in 2010 and a growth of about 5% in the year 2009.

The percentage of revenue for the past three years has been due to the cost of goods and services, which has shown a relative growth. Expenses like selling and administrative expenses and other expenses have been constant for over three years. There was an increase in intangible assets in addition to other costs. This is because of an increase in intangible assets from the Perot systems in 2010. The increase in facility action costs and severance was because of the closure of some facilities that manufacturers used in addition to using contract manufacturers to provide cheaper services.

The company has shown an increase in values because of its stability in percentage revenues because the company has good management, which understands the business, and controls its costs. The company is well informed, they understand every detail that may challenge its operation, and therefore they never encounter surprises that may negatively influence them. The company has registered an excellent net income in the year 2011 which showed an increase of over 80% from the years before. Return on assets is 2. 5 % and the profit margin is 1. 6%, which comes because of the increase in net income.

Additionally, the growth in the company has been because of higher revenues and good cost control. The change in the company’s way of operation has led to an increase in net income. The services of the operation of this company have increased as compared to the cost of manufacturing the product. The acquisition of the Perot systems led to the decrease in net income to 42. 2 % in 2010. Health wise the company has shown progress and therefore Emirates Computers has plans to keep expanding its services to a higher level, which will eventually help the company (Peterson & Fabozzi, 2012).

There has been an increase in the current assets as compared to the previous year from 72% to 75% in the year 2011. The company has recognized all highly liquid investments such as credit cards from banks with three-month original maturities. These because there was an increase in cash provided by operations while a decrease in cash in investing activities. The decrease in cash in investing activities is mainly because of a lack of material they are important for acquisitions in 2011 as compared to 2010. Generally, the company has portrayed a good fiscal year and good health.

It indicates an improvement in the ability to generate profits and income. The company has shown efficiency and effectiveness in because all three Profitability ratios that involve profit margin, return on assets, and return on equity. The company has a qualified auditor who analyses thefinancial statementof accounts of the company. Although at one point, the auditor gave an unqualified opinion concerning its financial statements. This is evident when analyzing the property plant equipment account, which is not very heavy in the balance sheet. The only representation is only 5. 1% of assets own by Emirates Computers.

Another aspect that the company has shown strength in is its Liquidity. The company current assets increased while its current liabilities and the current ratio and quick ration showed an increase from 1. 2% and 1. 22% in 2010 to 1. 49% and 1. 42%. Current liabilities on a dollar remained stable. Nevertheless, the increase in total assets, led to a decrease in current liabilities to 5. 8 %. All changes made Emirates Computers be liquid and this gave it a boost and an advantage thus indicating good health. The company’s equity of stakeholders increased to about 2 billion dollars (Fridson & Alvarez, 2011).

This is because of the increase as is the suit of earnings retained. In the year 2010 - 2011 return on equity (ROE) rose from 28. 8% to 39. 3% in 2011 while net income increased greater the stakeholders' equity. Therefore, Emirates Computers makes a profit with the stock price variation because it does not pay dividends (Tracy, 2009). Conclusively, the purpose of Emirates Computers Company is mainly to offset gains and losses that resulted from their exposure on contract. This reduces the volatility of the earnings in addition to protecting the values of assets and liabilities.

Emirates Computers carry out assessments in order to ensure effectiveness both at the beginning of hedge and at regular intervals in order to pinpoint out any ineffectiveness that might occur.

## References:

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