Research paper on tootsie roll inc

Business, Company

Financial ratios are used in financial and managerial accounting in order to evaluate the effectiveness of business and the overall financial conditions. Further you will find analysis of liquidity, solvency and profitability ratios of Tootsie Roll Inc., based on their 2010 annual report.

Liquidity ratios

1. Current ratio = (current assets-prepaid expenses)/ current liabilities

For 2007, the current ratio of Tootsie Roll Inc. was 3. 39 and it is slightly higher than standard level and average in this industry. Current ratio projects a company’s ability to pay off its debts and therefore, Tootsie Roll Inc. has enough resources to cover its needs, but on the other hand, it means that those resources are not used properly and are not generating more income.

2. Quick ratio = (current assets-prepaid expenses-inventory)/current liabilities

Once again, the company is liquid, because this indicator shows the ratio between the most liquid assets and liabilities. The ratio 2. 34 is higher, than average standard of approximately 0. 7 to 1.

3. Cash ratio= (cash&cash equivalents + marketable securities)/current liabilities

This is an indicator that reflects company’s ability to pay off debts and obligation with cash, so our company’s most liquid assets exceed current liabilities more than twice.

Profitability ratios

The higher are the ratios of this type – the more profitable is the company. They compare several components of the income statement with the balance sheet.

1. GPM= GP/Sales ; OPM = OP/Sales ; NPM = NP/Sales

Three of this profitability ratios show the relation to of gross profit, operating profit and net profit to the revenue or sales. Net Profit Margin in our company is 10. 48%, which means that the company earns 10. 48% net income from their revenue.

2. ROA = Net Income/total assets

Tootsie Roll Inc. earns approximately 6. 35% of profit on their assets and this ratio usually indicates whether management is using own assets efficiently.

3. ROE= Net Income/ Owner's Equity

Tootsie Roll Inc. earns 8. 09% of net income by using the money from owner's equity.

Solvency ratios

Solvency ratios measure the capability to pay long term debt and the interest rate. It's important to measure Tootsie Roll's solvency ability before the loan will be given. Every company can have multiple risks, and financial ratios help to determine whether the company is going to survive. The difference between solvency and profitability is, that here we consider long-term debt. Tootsie Roll Inc. has only 21. 47% of debt in comparison to their assets, so this is positive indicator in case of issuing a loan.

References

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TR+Balance+Sheet&annual

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