Principle of finance at samsung and apple

Samsung and Apple are the leading companies in the world in electronic and technology. Their mission needs effectual financial management and planning. Ratio analysis is the essential management tool that provides their understanding regarding financial results trends over a period of time and at the same time present key indicators of their performance. The use of the ratio analysis enables the two companies to pin down strength and weaknesses so that they can come up with initiatives. Both shareholder and stakeholders use ratio analysis to assess the outcomes against other organization that they have invested in. Ratio analysis is basically the process of finding out and interpreting numerically the relationship based on the financial statement. The relationship can be articulated as a quotient and or percentage.

Ratio Analysis

Apple is Multinational Corporation found in the United States that competes with Samsung. The companies most sold products include iPhone smartphone, Mac line PC system, iPod media player and iPad product. In order to remain more competitive, the company has come up with customer based programs which include safari browser, iTunes media, and OS X. Samsung is a highly leveraged company thus its financial ratio is greater that of apple. The comparison of Samsung and its close competitor in terms of financial ratio is given in the table below.

Table I. Ratio Analysis

Apple	Samsung

Current Ratio	1. 86	1. 50
Quick Ratio	1. 43	1. 47
Net Working Capital Ratio	37. 65	19. 11
Average Collection Period Days	48 days	25
Inventory Turnover	7. 83	112. 12
Fixed Asset Turnover	2. 93	7. 15
Total Asset Turnover	1. 11	0. 89
Debt Ratio	0. 32	0. 33
Debt to Equity Ratio	0. 48	0. 49
Times Interest is Earned	NA	NA
Gross Profit Margin	43. 87%	37. 02%
MET Profit Margin	26. 67%	11. 86%
Return on Investment	42. 84%	18. 82%
Return on Equity	35. 30%	19. 62%

Under the analysis, the current ratio of Samsung is 1. 86% that is greater than Apple which is 1. 50%. The reason is that Samsung uses various financial instruments to increase potential return of its investment. Apple has a higher asset ratio than Samsung which has an asset ratio of 1. 43%. Samsung has a greater networking capital of 37. 65% as compared to apple (Chen&Bao-Yi). This was facilitated by the increase in revenue every year of 10%-20% which stood at 180% billion. Additionally, when it comes to average revenue collection, Samsung has 48 days more than Apple because it uses debt in its capital structure that needs to be repaid. The inventory level of Apple is less as compared to that of Samsung; the reason is that the demand for Apple is more than more than the supply. Samsung has a total fixed asset ratio of 2. 93% which is less as compared to that of Apple which stood at 7. 15% (Go).

Since Samsung is totally based on leverage while Apple is highly reserving Company. Samsung has a much greater total asset turnover of 1. 11%) as compared to Apple. This is because Samsung are market leaders in terms of revenues as compared to Apple and this is why investment in a capital ratio of Samsung is incrementing every time . Since Samsung is venturing into new markets with incrementing revenues, its debt ratio of 0. 32% is less as compared to Apple’s debt ratio which is 0. 33% (Go). Notably, Samsung is based on total leverage and that’s why the debt equity ratio is much greater than that of Apple. The demand for Apple product is higher than the supply as compared to Samsung whose supply is higher than the demand. This is why Apple has gross profit margin ratio as compared to Samsung that stands at 37. 02%. Even when the demand is high, the company supplies fewer products to the market as compared to Samsung; furthermore, Apple products command the higher premium. This is the reason why there are differences in the net profit margin why the net profit margin of Samsung that stands at 37. 02% while that of Apple 43. 84%.(Chen&Bao-Yi) Focusing on the return on investment, the rate of investment for apple is has 42. 84% higher as compared to Samsung which is 18. 82%. Samsung operates in a mobile environment and at the same time in the value markets making the ROI ratio not appealing because of cost pressure in volume markets.

Table ii. Apple past Four Years Ratios

Years	Current ratio %	Quick ratio %	Net working capital	Net profit %	Price earning %	Debt to equity%	Avg inventory	Inventory turnover	EPD	Capitalization
2012	1. 6084	1. 5806	17, 018	23. 95	14. 34	0. 3650	783. 5	20. 5960	0. 0143	73754
2013	2. 0112	1. 9605	20, 956	21. 48	20. 15	0. 4335	913. 5	15. 7113	0. 116	48390
2014	2. 7424	2. 7029	20, 049	19. 19	31. 17	0. 3636	753	24. 1713	0. 0091	29396
2015	2. 4616	2. 4255	20, 598	16. 32	15. 80	0. 6700	482	26. 1721	0. 008	126. 12

Table iii. Samsung past Four Years Ratios

Years	Current ratio %	Quick ratio %	Net working capital	Net profit %	Price earning %	Debt to equity	Avg inventory	Inventory turnove	EPD	Capitalization

						y%		r		
2012	1. 6133	1. 2061	235697 99	8. 3235	6. 8517	0. 5281	126810 9 6. 5	7. 6679	77. 23	835558 20
2013	1. 51133	1. 1475	188408 71	10. 442 0	5. 0328	0. 5029	101436 7 2	8. 8868	93. 07	735094 95
2014	1. 6455	1. 2789	208655 12	7. 3599	5. 4687	0. 6767	805227 5	10. 5294	56. 13	479750 14
2015	1. 5204	1. 0988	133345 15	4. 8561	7. 9296	0. 7291	694566 8. 5	10. 2812	29. 98	373988 81

The main financial indicator used to ascertain if a company is making the profit is the net profit margin. From the above table, the net profit of Samsung has been increasing. From 2012 to 2015, the net profit Margin of Apple is high. This is a clear indication that Apple manages its expenses effectively thus making it to be more effective in converting income into genuine profit. Focusing on the table, the percentages shows that Samsung has a good budget. The companies resources are improved in terms of money and the responsibilities of Samsung are improving in reducing pattern as compared in the recent past. In fact, the responsibilities of Samsung are much improved as compared to its resources, but the firm has fewer resources in a phrase of money.

Notably, it is quite evident that Samsung has been generating more gross profit based on the performance of every year and for the past three successive years, the company has recorded profit. Over the years, the gross profit of Samsung has been rising with a huge margin as compared to Apple. The two companies have different gross profits since Samsung earns 20% of what Apple makes. These differences are as a result of strategies that both companies use in the pricing of their products. Apple has superior brand name thus prices its products higher than Samsung which is known for selling its products at avoidable prices. The two companies are operating on a technological basis and none of them have recorded gross loss (Haslam *et al* .).

Ratio and Margin

Samsungs Return of investment and return on equity are at the moment standing at 15. 4% and 20. 13% respectively. Apple posts slightly high modest figures, at a return of equity of 18. 4% and a rate of in return of investment of 33. 34%. Looking at the two scenarios, the company's ratios are above the averages of the industry, but the capital structure for Apple uses very little debt and this is what makes them useful. Samsung investors have been troubled by the debt the company has, as much as the company is making a lot of profit, a good percentage of cash is being used to settle the debt it's the company had when it was establishing itself. The debt of the company's is 9. 07% which is on an increasing trend as compared to previous years. Focusing on operational competence, Apple continues to perform poorly in their 25 days of operation as compared to Samsung 48 days. The company is in partner with a number dissimilar data service providers that provide a variety and lest strict credit policies (Haslam *et al* .)

Liquidity management

Over the passing years, the current assets of Samsung are gradually increasing every year. Looking at the current calculations, the current assets of Samsung stood at it is almost 48% then Apple. As much as the cost the company incurred in selling the product is 63% the noncurrent assets are 52% and the costs that are incurred indirectly is 22% the net income computed is approximately 12%(Haslam *et al* .). This means that the company is in a better position to settle short term debts because of high liquidity. The turnover at Samsung shows the better utilization of assets which stands at 1. 99% as compared to turnover at Apple which stands at 0. 8. This means that the assets of the company are well managed while the utilization is not stiff.

Samsung should control supplying of more products to the market when the demand is very low in the market. This will enable the company to save on costs that are related to an oversupply of products as the return of the investment takes long since the market was not ready for the supplied product. Additionally, with the change in technology, other new products are being supplied to the market on the daily basis and if and since some of the Samsung products stay longer on the market, customers may prefer the newly supplied products.

Samsung should also focus controlling of its indirect expenses by assessing its overhead costs and trying to find out if there are opportunities to reduce these expenses in order to increase its profitability that have been on the rise in recent years. For instance, India remains one of the potential markets of its product and hence the company should try to pay more attention to it as the opportunity of growth is available. The company should also make the profitability ratio strong and charge high prices on high tech products while targeting markets such as the United States, Europe, and Asia.

Apple should also make some changes in its overall operation and should focus on maximum utilization of its assets in order to get better returns. The company asset turnover is very high as compared to Samsung that fully maximizes the usage of its asset efficiently in order to generate sales revenues. Furthermore, it should pay more attention to assets that are unproductive since these assets are not playing any role in generating profits and yet they are being stored and maintained.

It is my recommendation that, investors should own stocks in Samsung Company as compared to Apple. The company has been generating good gross profit on annual performance for the past three years though the company incurs more indirect expenses due to its large market. This means that if it focuses on reducing these expenses, the company will earn more profit. The company has established a vast market worldwide and has maintained a competitive advantage over Apple. Furthermore, the company produces a wide variety of products which are attractive and easy to use and this is satisfactory to the customer’s taste and preferences. If investors invest in such a company, they are sure of earning more profit and will have an opportunity be associated with one of the world’s valued company

Apple is a well-established brand with high product and services. The company has vast markets that have made its financial status be stable. The company is known for producing attracting products as compared to Samsung. The performance of the company is above par and it has a very remarkable track record. On the other hand, Samsung appears to be doing well and it is doing well on the market due to good management and unique products. The company has experienced challenges in recent years but it has managed to control the markets for its products and after looking at the two companies, Samsung is much better in terms of investment as it appears more promising. With financial trends projecting the growth for the future, it is much clear that any investment at the company is promising.

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