

# Ratio analysis findings essay sample



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Ratios are used to analyze financial statements to determine their profitability, liquidity and solvency. Liquidity Ratios are used by suppliers and short-term creditors such as bankers to measure the ability of an organization to pay its maturing short-term financial obligation. This is also used to determine whether the organization will be able to meet any unexpected financial need for cash. Profitability ratios are used by creditors and investors to evaluate the earning power of an organization. Profitability is used to measure the operation success of an organization for any given time period. Solvency ratios are used by investors, stakeholders and financial analyst to determine whether an organization will be able to survive over a long period of time. The Huffman trucking liquidity ratios reveals that in the year 2011 the current assets are greater by approximately two thousand dollars and the current liabilities are greater in the year 2011 as well.

The quick ratio reveals that the Huffman Trucking Company has more cash and accounts receivables than the current liabilities. When comparing the year 2011 with the year 2010 the quick ratio shows an approximately one thousand dollar difference with the year 2011 being greater.

The receivable turnover reveals that Huffman Trucking had an increase in Net Credit Sales of approximately one thousand dollars. The average net receivables decreased from the year 2010 to 2011 approximately thirty thousand dollars.

The Profitability Ratios: The asset turnover is greater in the year 2011 by two thousand dollars. The average assets stayed the same making the asset turnover ratio greater in the year 2011.

The receivables Turnover revealed the same in the years of 2010 and 2011 leaving the average being the same.

The profit margin reveals that Huffman Trucking's net income increased approximately four thousand dollars; net sales also increased by one hundred and forty thousand. The profit margin for the year of 2011 is 5.33%.

The return on assets has increased in the year 2011 because Huffman's Trucking net income increased and total also increased.

The return on common stockholder's equity ratio increased in the year of 2011 by one percent. The shareholder's equity increased in the year of 2011 by approximately five thousand dollars.

The Huffman Solvency Ratios reveals that the debt to total assets ratio is less in 2011 than the prior year. Huffman Trucking total debt increased by approximately ten thousand dollars but the total assets also increased approximately ten thousand as well.

The current ratio for 2010 is 1.62: 1 and 2011 was 1.63: 1. The current ratio indicates an increase from 1.62: 1 to 1.63: 1. The current ratio indicates that for every dollar of current liabilities, Huffman Trucking had \$1.62 and \$1.63 in current assets respectively. The quick ratio for 2010 and 2011 are 1.57, and 1.56 respectively. The quick ratio is used to measure immediate liquidity of an organization. The quick ratios for 2010 and 2011 indicate that Huffman Trucking is highly liquid. Receivables turnover increased from 11.9 in 2010 to 21.4 in 2011. The quick ratio indicates that Huffman is very liquid

and can easily convert certain assets quickly to cash. Asset turn over ratio increased from 3. 71 times in 2010 to 4. 25 times in 2011.

This indicates that Huffman is able to generate \$4. 25 for every dollar it had invested in assets. This indicates that the company is a very profitable one. Profit margin decreased from in 2011 by 0. 40% indicating that for each dollar of sales, there is a 5. 33% in net income. This is a good sign indicating that Huffman is a profitable company. Return on common stock holders equity was 56% in 2011 and 55% in 2010. This indicates that for every dollar invested by the owners of the organization will generate 56% of net income. Times Interest Earned ratio was 202. 83 for 2011 and 116. 14 for 2010. This indicates that Huffman is able to meet interest payments as they come due. This increases investors confidence in the business. Debt to total assets ratio was 60. 48% for 2011 and 60. 58% for 2010. This means that creditors have provided 60. 48% of Huffman's assets. The above indicators shows that Huffman Tracking is a profit making organization, liquid and solvent.

## References

Weygandt, J. J., Kimmel, P. .., & Kieso, D. E. (2010). Financial Accounting (7th ed.). Hoboken, NJ: John Wiley & Sons.