

Principles of finance in general motors and honda motors

[Finance](#)



Principal of Fin. 3

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ASSIGNMENT 1

Assignment 1 would evaluate the financial position of General Motors and Honda Motors, so as to state the difference in the financial health and the probable reasons of the success and failure of both the companies.

Overview of Financial Health

General Motors is an American Auto-maker which recently filed its bankruptcy due to its instable financial condition. General Motors was among

the top auto-makers of America, but due to issues like hike in the prices of the commodities such as raw materials and labor, government pressure towards production of fuel efficient cars, critical issues of corporate governance, etc, the company filed its bankruptcy in the court of Manhattan.

Honda Motor Corp. from Japan is considered as the fifth largest motorcycle manufacturer and auto-maker in the world. The company has a sustainable financial condition because it has posted a profit of ¥234. 4 billion, which is about US\$2. 7 billion in its first quarter of 2011. Moreover, the company has also posted a profit of ¥135. 92 billion in quarter 2. Honda has a huge market share in the Asian markets.

Analysis of the Financial Statements

As we can see in Appendix 1(a), that General Motors has to face a gross loss of US\$ 8, 791, 000, in 2009. In 2010, and 2011, the gross profit was US\$ 16, 554, 000, and US\$ 19, 047, 000 respectively. This indicates an improvement in the financial condition since 2009. However, the net income has reduced from 2009 to 2010 and 2011. In 2009, the net income was US\$ 104, 821, 000, in 2010 it was US\$ 6, 172, 000 and in 2011, US\$ 9, 190, 000. So this signifies that the operating expenses have increases in 2010 and 2011 than 2009. That is why even after having a considerable increase in revenue, the net income of the company was decreasing. In Appendix 1(b), we can see that the total assets of the company have increased in 2011 to US\$ 144, 603, 000 from US\$ 136, 295, 000. The assets have remained almost constant over the years, with a consistent increase in current assets. This means the company maintained its liquid assets over the period of 2009-11.

The long-term debt of the company has increased considerably from US\$ 5, 562, 000 to US\$ 10, 551, 000 in 2012. The balance sheet for all the three years of the company shows a negative net tangible asset balance.

In Appendix 2(a), the income statement reveals that the revenue of Honda Motor Corp has decreased in 2011 to US\$ 96, 581, 000 than its previous year, 2010, which was US\$ 107, 829, 000. The gross profit figure also reflects the revenue different in 2011 and 2010. The net income has also decreased to US\$ 2, 570, 000, which was US\$ 6, 444, 000 in 2010 and US\$ 2, 872, 000 in 2009. So 2011 had to bear a considerable amount of loss. The company does not have a negative income figure, but the profit had reduced a lot. Considering Appendix 2(b), the total assets which includes the current or liquid assets remains consistent all throughout 2009-11. Long term debts of the company have not increased much as it was US\$ 24, 754, 000 in 2009, US\$ 24, 653, 000 in 2010 and, US\$ 27, 158, 000 in 2011. The net tangible assets show a positive balance, which reveals a balanced financial status of the company.

Analysis of Financial Ratios

The key ratios of both the companies can be seen in Appendix 1(c) and 2(c), where Honda Motors shows a high liquidity of 1. 34 in its latest quarter. Honda Motors have a consistent debt equity ratio. This proves that the company maintains a balance between the debt and equity. The net profit margin has increased and the return on the capital invested has revived after a sharp decrease in 2012 third quarter. If we see the key ratios of General Motors, we can see that the liquidity position of the company is low, which is only 0. 59, though it has increased, but the position in 2008-12

quarter shows the lowest. In comparison to Honda Motors the financial position of General Motors is not sustainable.

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Appendices

Appendix 1(a) General Motors

Appendix 1(b) General Motors

Appendix 1(c) General Motors - Key ratios

Appendix 2(a) Honda Motors

Appendix 2(b) Honda Motors

Appendix 2(c) Honda Motors - Key ratios