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Financial management is one of the most important success tools for any organization. A company that is financially viable is most likely to compete favorably with its peers. In this paper, I have analysed the financial performance of Microsoft Corporation with comparison to Oracle Corporation. Both the companies are giants in the software industry.
Microsoft Corporation’s core services include the development, manufacturing, licensing and support of a vast range of software products and services. They include operating systems, servers, server applications, high performance computing applications, software development tools as well as the business solution applications. Oracle Corporation is a software giant that provides softwares for managing business data and for the coordination purposes. It also offers business applications for data warehousing, customer relationship management, and supply chain management.

## Ratio analysis

Presented hereunder are the financial ratios of the considered companies as per the 2011 annual reports.
Profitability
Ratio
Formula
Microsoft Corporation
Oracle Corporation
Gross profit margin
Gross profit / Net sales
54, 366. 0 / 69, 943. 0
= 77. 7%
27, 224. 0 / 35, 622. 0
= 76. 4%

## Net profit margin

Net Income / Net Sales
23, 150. 0 / 69, 943. 0
= 33. 1%
8, 547. 0 / 35, 622. 0
= 24. 0%

## Return on Total Assets

Net Income / Total Assets
23, 150. 0 / 108, 704. 0
= 0. 213
8, 547. 0 / 73, 535. 0
= 0. 116

## Return on Equity

Net Income / Shareholder's Equity
23, 150. 0 / 57, 083. 0
= 0. 405
8, 547. 0 / 39, 776. 0
= 0. 215
Profitability ratios measure the ability of a firm to generate earnings with respect to the expenses and other incurred costs during the specified financial period.
The above ratios depict that Microsoft Corporation is generally more profitable that Oracle corporation. Microsoft’s performance is outstanding comparing its gross profit and net profit margins of 77. 7% and 33. 1% against Oracle’s 76. 4% and 24. 0% respectively. Microsoft’s assets are better performing in generating income, with a return on assets of 21. 3% compared to Oracle’s 11. 6%. Shareholders’ equity in Microsoft Corporation is also used more effectively in generating earnings, with a return equity of 40. 5% compared to Oracle’s 21. 5%

## Liquidity

Ratio
Formula
Microsoft Corporation
Oracle Corporation
Current Ratio
Current Assets / Current liabilities
74, 918. 0 / 28, 774. 0
= 2. 60
39, 174. 0 / 14, 192. 0
= 2. 76

## Quick Ratio

Current Assets less inventory / Current liabilities
(74, 918. 0 - 1, 372. 0) / 28, 774. 0
= 2. 56
(39, 174. 0 - 303. 0) / 14, 192. 0
= 2. 74
Liquidity ratios measures the company’s ability to meet its short-term financial obligations. The higher the ratio, the more liquid the firm is.
In terms of liquidity, Oracle Corporation is better off compared to Microsoft. This means that Oracle is at a better position of meeting its short-term financial needs, with Current Ratio and Quick Ratio of 2. 76 and 2. 74 against Microsoft’s 2. 60 and 2. 56 respectively. Oracle Corporation is more liquid.

## Asset Utilization or Turnover Ratios

Ratio
Formula
Microsoft Corporation
Oracle Corporation
Total Asset turnover ratio
Net sales revenue / Average total assets
69, 943. 0 / 108, 704. 0
= 0. 643
35, 622. 0 / 73, 535. 0
= 0. 484

## Inventory turnover

Cost of goods sold / Average inventory balance
15, 577. 0 / 1, 372. 0
= 11. 4
8, 398. 0 / 303. 0
= 27. 7
Asset Utilization or Turnover Ratios measure the effectiveness with which the firm’s assets are utilized. From the asset turnover ratio, we conclude that Microsoft’s assets are utilized more effectively compared to Oracle’s assets.
Inventory turnover measures the liquidity of the inventory. It reveals the number of times the inventory was sold on the average during the financial period. Oracle’s inventory is more liquid than Microsoft’s.

## Financial Stability/Leverage/Gearing or long-term Solvency Ratios

Ratio
Formula
Microsoft Corporation
Oracle Corporation
Debt ratio
Total Liabilities / Total assets
51, 621. 0 / 108, 704. 0
= 0. 475
33, 759. 0 / 73, 535. 0
= 0. 459

## Equity ratio or Proprietary ratio

Total shareholders’ equity / Total assets
57, 083. 0 / 108, 704. 0
= 0. 525
39, 776. 0 / 73, 535. 0
= 0. 541
Leverage ratios measure the extent to which a firm is financed by the non-owners. Microsoft Corporation is financed more by non-owners as compared to Oracle Corporation.

## In the same period, Microsoft Corporation had earnings per share of $ 2. 69 while that of Oracle was $ 1. 75.

Based on the financial ratio analysis, it is clear that Microsoft Corporation performs better than Oracle Corporation in terms of profitability and asset utilization. However, Oracle Corporation is more liquid and less financed by the non-owners.

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