Example of term paper on financial audit

[Business](), [Company]()

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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