Ratio analysis-amazon essay

Amazon's Mission Statement Our vision is to be earth's most customer centric company; to build a place where people can come to find and discover anything they might want to buy online. Amazon.

com is one of the major leaders in online retailing. Amazon may have concerns in the near future about; the statement of cash flows, revenue, debt, and the company's liabilities. Below is a summary with various ratios to determine the future of the Amazon. Ratio Analysis The savings ratio measures the relationship between total annual savings and total expense.

The savings ratio is an important component of longevity, as high ratios may indicate excessive savings. In Amazon's case, and any other business model, it would be beneficial to have more revenue than expenses. 20052006 Total Revenue8, 49010, 711. 0 Total Expenses16072067 Savings Ratio4. 284.

18 These numbers are extremely high for Amazon. Amazon has quadrupled the amount of revenue in comparison to the total amount of expenses. If the savings ratio continues to increase, the amount of excess savings will increase. Amazon will be in a better position if the savings ratio decreased. The Liquid Funds Indicators measures an organization's operating liquidity by dividing fund balances (excluding land, equipment, building, and frozen endowment) by an average month's expenses. 20052006 Net Assets1030841 Permanently Restricted00 Land, Building, and Equipment348457 13781298 Total Expenses16072067 Liquid Funds Indicator5.

092. 22 This has a similar effect of savings ratio. Excessive savings can cause Amazon's resources to not be utilized. If there is excess, it can be

shown by: not enough funds, not enough land, buildings, or equipment. Amazon has to determine if it will function while paying both the current and long-term debt. The debt ratio helps to measure a company's ability to pay these debts.

If liabilities exceed assets, Amazon would have to function by borrowing more money from other contributors. 20052006 Total Assets3, 696. 04, 363. 0 Total Liabilities3, 450.

03, 932. 0 Debt Ratio93%90% Amazon functions with a very high debt ratio. Amazon debt ratio for 2005 was 93%. And in the following year, the percentage dropped to 90%.

The company's assets are almost the same as the company's liabilities. This shows that the company is seriously at risk of not being able to pay its debts. The average company functions with a 60% – 80% debt ratio. If the company continues to function with such a high debt ratio, the creditors can eventually take the business away from the owner. If total assets increase, and total liabilities decrease, Amazon will be able to target new ventures.

As the current assets and liabilities continue to increase, Amazon will not be able to pursue other opportunities to expand. As with savings ratio, there is a need to examine the Amazon's current assets and liabilities. The current ratio helps to measure the company's ability to pay its current liabilities. Savings ratio makes it necessary for Amazon to operate with more assets than liabilities. If not, then it can also cause for the Amazon to seek other ways to maintain their current liabilities.

20052006 Current Assets29293373 Current Liabilities18992532 Current Ratio1. 541. 33 As the ratio suggest, Amazon has more current assets than current liabilities. As the current ratio decrease, it shows that eh company may have issues with paying their debt from 2005 to 2006.

Also, the current assets are not increasing at the same rate as the current liabilities. If it continues to change at this rate, it will also affect chance for Amazon to expand its company. A major concern is how Amazon will pay its bills. As the number lowers for the account payable aging indicator, it is easier to for the company to pay bills in an efficient manner. 20052006 Accounts Payable13661816 Accounts Payable X 121639221792Total Expenses16072067 Accounts Payable Aging Indicator10. 210.

5 From 2005-2006, the account payable has increased. This means that the bills for Amazon are becoming more difficult to pay. The change is minimal from year to year, but may be a concern in the future if it continues to increase. The last ratio calculated is the operating cash flow ratio. This will measure how well current liabilities are covered by the cash flow generated from Amazon's operations.

20052006 Cash from Operating Activities733 Current Liabilities18992532 OCF Ratio0. 3859930. 77251 From 2005 to 2006, the amount of cash flow decreased and current liabilities increased. This shows that Amazon has less money to pay for current liabilities. Amazon, according to the ratios listed, has had success in the past, but face issues with; current ratio decreasing, a high debt ratio, and a high savings ratio. If all the other ratios maintain their pace, and the savings and debt ratio change, then Amazon may have a strong future ahead of them.

But until these ratios are resolved, Amazon may face the possibility of going bankrupt.