Example of essay on accounting

[Business](), [Company]()

Ratio Analysis

Ratio analysis

Liquidity ratios

Current ratio:

Current Ratio = (Current Asset / Current Liabilities) x 100

Acid-test, or quick, ratio= (Current Assets – Inventory) / Current Liabilities

Receivables turnover:

There are no sales on the credit terms. Therefore, there are no receivables turnover days.

Inventory turnover

As AOL is not producing any products, therefore, there are no inventory turnover days.

Profitability ratios

Asset turnover = Sales / Total Assets

Profit margin = (net profit / sales) x 100

Return on assets = net income / average total assets

Return on common stockholders' equity = Net Income / average shareholder's equity

Solvency ratios

Debt to total assets = Debt / Assets

Times interest earned = EBIT / Interest Paid

AOL is not paying any interest. Therefore, there is no interest cover ratio for the AOL.

Vertical analysis of AOL

In the balance sheet of the AOL, the total assets of the company have increased in last three years. However, the main element of concern for the management of the business is that the current assets of the business have decreased by 50% in last three years from $407 million to $207 millions. Moreover, the goodwill of the business has increased, but it is very important to state that the goodwill of the business is not the monetary figure for the business. The main issue of concern for the management of the AOL is that the receivables of the business are increasing at the constant rate. The increase in receivables in last three years is 42%. Vertical analysis of liabilities and the equity do not identify any major change in the percentage portion of the relevant attributes.

Horizontal analysis of AOL

In the income statement of the AOL, the total revenue of the AOL decreased by 1% in the year 2012 and increased by 0. 05% in the year 2013 as compared to the year ended 2012. The operating income shows an abnormal increase and the decrease in the last three years. In the year ended 2012 in increased by 26 times as compared to the year ended 2011 and in the year ended 2013, then operating income decreased by 6 times as compared to the year ended 2012.

Concerns in following US GAAP

There are certain concerns in following the US GAAP accounting standards for the companies listed in the United States of America. Main concern is that in US GAAP, there is a separate standard for each and every different type of business transaction. For example, there are different standards and methods of dealing with the assets and their recognition which can cause manipulating of the accounts. Moreover, the company like AOL can face problems when they enhance their business in Europe and other countries that are not following the US GAAP standards. The US GAAP are the rule based approach for the companies as compared to the IFRS and IAS which can be modified and alter by the professionals according to their needs. (Leuz, 2003)

Importance of financial information for the management in decision making

The financial information has all the key elements for the management of the business to make strategic and short term decision for the business. The financial information of the business incorporates all the financial and non financial elements related to the business. The financial information for the management consists of ratio analysis, market research, business performance and the future growth of the business in the future. The financial information for the management is precise form of the business related to business or any production department. Therefore, the management of the business collects the information related to their strategic planning, such as make or buy decisions, costing methods and market trends. (Burgstahler, Hail, & Leuz, 2006)

The overall ratio analysis of the AOL refers that the AOL is generating the profits. However, the return on the investments is reducing. In the return on assets has reduced from 37% to 3%. Similarly the return on the equity has decreased from 95% to 8%. In these circumstances, it is highly probable that there is any abnormal gain generated by AOL in the year ended 2012. Without the effect of this abnormal gain, the overall performance of the company is stable and there is not much difference in the ratio analysis of past two years.

A company must adopt the rules applied by the accounting standards such as IFRS or GAAP. The accounts of the publically traded company must be presented timely and must have no material mistake. Due to the large interest of the general public, the financial statements of the business must be audited and the audit report must be produced by the independent auditor.

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