Ratio analysis report examples

[Business](), [Company]()

The operations of Kudler Fine Foods have been improving over years since 2003. The financial ratios for the business provide a clear picture whether the management has been working around the clock to ensure prosperity of the company. In addition, the horizontal analysis which compares the company 2009 performance and 2003 performance is used to show how the operations of the business have improved overtime

Liquidity ratios

Current ratio= current assetscurrent liabilities = 1971, 000116, 920 = 16. 94.

This ratio is used as an indicator to suppliers whether the company will be able to pay its current liabilities especially credit purchases. The ratio is more than one meaning that the company does not have any problem in settling its current liabilities promptly.

Quick ratio = current assets-inventorycurrent liabilities= 1971000-429000116290 = 13. 19

This ratio is useful to both the management and credit supplies. It is used to access the ability of an organization to meet its current liabilities without necessarily selling its inventory. The calculations shows that the company does not need to sell stock so as to pay its current liabilities because the ration is higher than one.

Receivable turnover = net credit salesaverage account receivable= 10, 796, 200/86000 = 125. 53

This is ratio which is used by management to show the efficient of the company in collecting money from customers who buy goods on credit. The ratio obtained is high indicating that the company is either selling on cash basis or it is very effective in collecting debts.

Inventory turnover = cost of goods sold avarage stok

Average stock= opening stock+closing stock2 = 467890+429, 0902= 448490

Inventory turnover= 8474831/ 448490 = 18. 9

This ratio is used to show the efficiency of the company in converting inventory into sales. Therefore, it is useful to the management. The results of the calculations show that the company purchases and sells stock almost 19 times in a year.

Profitability ratios

Assets turnover= salestotal assets= 107962002675250= 4

This ratio is useful to both the management and owners of a business. It is used to show the efficiency of the company in using assets to generate sales. The results show that every dollar of asset is used to generate 4 dollars of sales.

Profit margin = net profitsales= 67697510796200= 0. 06

This is a ratio which is used by the management to show the proportion of net profit in the sales of a company. The ratio shows that, for every dollar of sales the profit of the company generated is 0. 06 dollars.

Return on assets = net incometotal assets= 6767952695250= 0. 25

This ratio is used to show how the assets are being used to generate returns. Therefore, it is useful to both managers and owners of a business. The results show that for every dollar invested in assets it generates a profit of 0. 25 dollars

Return on common stock = net incomecommon stock = 6769751, 928, 960=

0. 35

This ratio is useful to shareholders and potential investors of a company. It is used to indicate the amount of returns expected from any dollar invested by the owners. The results show that for every dollar invested the owners expect 0. 35 dollars by the end of financial year.

Solvency ratios

Debt to total assets = total debttotal assets= 7462902675250= 0. 28

This is a gearing ratio which shows how the business has financed purchase of its assets from long term and short-term debts. It is useful to financial institution because they would like to check the availability of assets which can be used as security for loans. The results show that the company has used debts to finance less than 50% of its assets. This is an indication that financial institutions can still offer loans to and use assets as security.

Time interest earned

Earnings before interest and tax/ interest charged = 676795+6376863768= 11. 6

This ratio is useful to financial institutions because they use it to analyze ability of a company to pay interest expense. The ratio shows that the company can pay interest without any financial strain.

Horizontal analysis

This analysis indicates that the business has been expanding over years. The negative change in expense shows that the company has been able to control its expenses and it’s enjoying economies of scale.

Vertical analysis

The analysis based on total sales indicates that the company is able to keep its expenses relatively low, and it has not been overpricing its commodities. This means that it will be able to expand its market share. The analysis on total assets indicates that the company has not excessively relied on external finances. In addition the current assets have been low hence the likely hood that the risk of bad debts is minimal.

Memo to the CEO

The performance of Kudler Fine Foods has been improving over years since 2003. This has been depicted by the horizontal analysis of the firm’s balance sheet and trading profit and loss for the company since 2003 to 2009. For example, the negative percentage change in expense has depicted effectiveness of the management to control overheads despite expansion of the company. This has shown that, the company enjoys economies of scale. In addition, the vertical comparison between expenses to sales shows that the percentage of total expenses to total sales is very low. While the comparison of cost of goods sold to sales shows that the company has not been over pricing its commodities. Therefore, this may explain the reason of the increasing sales revenue.

According to the ratio analysis on the liquidity of the company, the company is in a position to pay its current liabilities as they fall due. This is despite the fact that, the firm deals with stock which is easily convertible into cash. This ratio is relevant to suppliers who may wish to offer goods on credit.

Regarding the firm’s profitability, the relevant ratios show that the company is effective in using its assets to generate income. However, the level of effectiveness can only be determined if ratios from other similar firms are compared. Despite, the unavailability of ratios from other similar companies it can be seen from horizontal analysis that the profitability of the company has increased by 285% comparing performance in 2003 with that of 2009. This ratio is important to shareholders, potential investors and the management.

The company solvency ratio shows that it is unlikely that, the company can suffer from insolvency problems. This is because the level of external financing has generally been low. This ratio also indicates that the company can borrow externally to finance its expansion incase internal sources of capital are not enough. This is because the company can offer enough collateral to obtain loan. This ratio is important to financial institution which may offer loan to the company.

On the other hand, Time interest earned ratio indicates that the company can comfortably pay interest expense. This is because the earnings before interest and tax is 11. 6 times more than the interest expense. The ratio should be compared to that of similar companies to see whether it fall within the industry’s limits. This ratio is important to financial institution because it shows capability of a company to pay interest charged on loans offered to the company.

References

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