Financial managerial accounting essay

Business, Company

Liquidity Ratio

1. Current Ratio

This ratio= Current Assets: Current Liabilities

So for 2009, Current Assets= 2, 575, 686

Current Liabilities= 1, 444, 711

Ratio= 2575686: 1444711= 1. 78: 1

2010, Current Assets= 2, 564, 177 Current Liabilities= 1, 134, 730

Ratio= 2564177: 1134730= 2. 26: 1

2. Quick Ratio

This ratio= Total Assets: [Total Liabilities-Share Capital-Retained Earnings]

So for 2009, Total Assets= 3, 503, 787 Total Liabilities= 1, 470, 931 Share Capital= 375, 000 Retained Earnings= 244, 294

Ratio= 3503787: [1470931-375000-244294] = 4. 11: 1

For 2010, Total Assets= 3, 596, 247 Total Liabilities= 1, 544, 836 Share Capital= 375, 000 Retained Earnings= 279, 406

Ratio= 3596247: [1544836-375000-279406] = 4. 04: 1

Profitability Ratio

1. Profit Margin Ratio

This ratio= (Net Profit/ Net Premium Income Earned) x 100

So for 2009, Net Profit= 51, 949 Net Premium Income Earned= 1, 457, 594

Ratio= (51949/ 1457994) x 100 = 3. 56%

For 2010, Net Profit= 142, 400 Net Premium Income Earned= 1, 678, 044

Ratio= (142, 400/ 1678044) x 100 = 8. 49%

2. Gross Profit Margin

This ratio= (Net Underwriting Income/ Net Premium Income Earned) x 100

So for 2009, Net Underwriting Income= 234, 065 Net Premium Income Earned= 1, 457, 594

Ratio= (234065/1457594) x 100 = 16. 1%

For 2010, Net Underwriting Income= 221, 736 Net Premium Income Earned= 1, 678, 044

Ratio= (221736/ 1678044) x 100 = 13. 2%

Conclusion about investing in Abu Dhabi Insurance Company

The liquidity ratios show how capable the company is to meet its obligations. So for the current ratio it means that for every 1 AED borrowed, there is an equivalent of 1. 78 AEDs in current assets to repay it. This ratio increased in 2010 to 2. 26: 1 meaning that in this financial year for every 1 AED in current liabilities, there was 2. 26 AEDs in current assets to repay it. This is a good sign that investing in this company would be not only be profitable but also will have a higher percentage of assurance that the money invested will be repaid because the company can meet its obligations as shown in the ratios (Ittelson, 2009, p. 78). The quick ratio further reaffirms the sentiments above- that the company can meet its obligations. The ratio however shows how easily liquefiable the company is and a high ratio shows that the investor can be assured that in case of anything, the company can liquefy its quick assets quickly and repay what the investor is owed. This company has a high quick ratio of about 4: 1. This shows that incase the investor needs their investment back, the company can liquefy its quick assets and repay the money owed. This is because from the two years it can be seen that for every 1 AED owed, the company has 4 AEDs in assets to meet the obligations.

The liquidity ratios help show that the company can repay the money it gets from an investor. However the profitability ratio shows just how high the returns will be on the investment. The profit margin in 2009 was 3. 56% while in 2010 it was 8. 49%. This shows that the ratio an increase in profit margins from 2009 to 2010. The 2010 margin shows that for every 1 AED that the company generates, it contributes 0. 85 AEDs in profit. This shows that for every 1 AED invested in the company, the investor should expect about 0. 85 AED in profits. The fact that the ratio has grown from 2009 to 2010 shows that the company is growing and hence the investor can expect higher returns from their investment as time progresses. The gross profit margin shows how effectively the company manages to meet its expenses with revenue generated (Wild & Bernstein, 1999, p. 72). The company had a margin of 16. 1% in 2009 which had a slight drop in 2010 to 13. 2%. Hence the high ratio means that the company is being effective in managing its labor related expenses and those costs associated with the services sold.

From the above discussion, it can be noted that it is recommendable to invest in Abu Dhabi Insurance Company. This is because not only is the investor assured that their debt will be repaid, but also that the investment will have high returns.

REFERENCES

Wild, J. & Bernstein, L. (1999). Analysis of Financial Statements. London: McGraw-Hill.

Ittelson, T. (2009). Financial Statements. New York: Career inc