# Liqudity ratios essay

Business, Company

This paper presents analysis of Woolies ltd financial statements. Company's financial analysis is of essence since it will be of significance in determining the performance and financial position of the company. The human resource director is subsequently able to interpret the company's performance with respect to the profitability level, earnings per share or control as well as the liquidity position of the company.

The paper therefore undertakes the analysis of Woolies ltd cash flow statement, balance sheet, and the analysis of income statement. Income statement tells the performance of the company throughout its financial period. The balance sheet is analyzed since its significance lies in showing the status of the company. Nevertheless, cash flow statement shows the variation in cash position of the company. Generally, they present the financial health of Woolies ltd.

Basically; analysis is geared towards the profitability ratios, leverage ratios, activity ratios and the liquidity ratios. Liquidity ratios measure the efficiency with which Woolies ltd uses various funds to realize better returns. It as well measures the management's ability to control the various expenses in the firm to help maximize the profit. Liquidity ratios measure the company's ability to meet its short term maturity commitments. Leverage ratios will be used to analyze the extent to which Woolies ltd has been financed by non-owner sourced finances.

Activity ratios determine the effectiveness with which the company is using various assets to generate sales revenue. It basically shows how a company's assets are active or are performing. Lastly, investor ratios show the relative value of the firm and returns anticipated by the Woolies ltd owners.

## Current Ratio

2010

2009

= Current Assets / Current Liabilities

= 2074/1178

= 1. 76: 1

= 1709 /1481

= 1. 15: 1

Woolies ltd current ratio of financial year 2010 i. e. 1. 76: 1 is more liquid than that of 2009. It was thus able to meet its short term maturity obligations easily as when compared to 2009’s 1. 15: 1 current ratio. Higher ratios signify higher liquidity.

## Acid test ratio

2010

2009

(Current Assets – Inventory)/ Current Liabilities

= (2074-721)/1178

= 1. 15: 1

= (1709-527)/ 1481

= 0. 8: 1

Financial year 2010 has a higher acid test ratio of 1. 15: 1 signifying that the company had an improved liquidity position than that of 2009’s 0. 8: 1

## WORKING CAPITAL

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2010

2009

## Inventory Turn over

= (Inventory/ Cost of Sales) X 365 days

## Days Receivables

=(Receivables/ Sales Revenue) X 365 days

## Days Payables

= (Payables/ cost of sales) X 365

## Therefore, cash conversion cycle = ITO + ADR-ADP

=(721/3704) X 365 Days

= 71 days

=(1036/6332) X365

= 59 days

= (773/3704) X 365

= 76 days

= 71 +59- 76

= 54 days

(527/3264) X 365 days

= 59 days

(846/5376)X365

= 57 days

=(1013/3264) X 365

= 113 days

= 59 + 57 – 113

= 3 days

## MANAGEMENT PERFORMANCE/ PROFITABILITY OF WOOLIES LTD

MANAGEMENT PERFORMANCE

2010

2009

## Gross Profit Margin

= (Gross Profit/ sales revenue)100

## Operating Profit Margin

=(profit before interest and tax/sales revenue)100

## Return on capital employed

={Profit before Interest and Tax/(Share Capital + Reserves + Non Current Liabilities)}100

## Return on shareholders' funds

=(profit after tax/share capital + reserves)100

## Net profit margin

=( after tax/ sales revenue)100

## Debt Equity Ratio

=(long term liabilities/ share capital +reserves)100

=(2628/6332)100

= 41. 5%

=(718/6332)100

= 11. 3%

= 718/(3005+431)X100

= 20. 9%

= (483/3005)100

= 16. 1%

=(483/6332)100

= 7. 6%

= (431/3005)100

= 14. 3%

= (2112/5376)100

= 39. 3%

=(461/5376)100

= 8. 6%

= 461/(2315 + 400)X100

= 17%

=(318/2315)100

13. 7%

=(318/5376)100

= 5. 9%

=(400/2315)100

= 17. 3%

Return on capital employed shows how efficiently the company is using its net assets to generate returns in the business. It is evident that the company efficiently used its assets better in 2010 than 2009 since the value of asset efficiency in 2010 is 20. 9%.

It is also evident that owner’s equity is improving. Debt equity ratio of 2009, 17. 3%, is higher than that of 2010, 14. 3%. This shows an improved performance in the way Woolies ltd is using the owner’s capital to generate returns.

In conclusion, from the analyzed ratios, the Human Resource Director should be convinced that the company performance is in the increase. Basically, there is an improved in the financial health of the business in terms of profitability and liquidity.

# Evaluation of the HR Report

Going by the company’s progress, it’s true that the company capitalizes and makes good use of its cultural diversity. 45, 000 employees worldwide means that the company is multi-cultural and enjoys a wider market that cuts across various cultures, thus the success. The success of every company depends on its human capital (Taylor, 1991). It is therefore paramount that WOOLIES Ltd continues with its initiatives aimed at developing the human resource. Such initiatives include the company’s programs that develop high potential employees.

# Reference

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