Financial statement analysis essay

[Business](), [Company]()

All three ratios portray that in three years the company is profitable in comparison to the market ratios. In three the profitability has also increased. This increase is due to the increase in the assets of the company as well as the increase in sales revenue. Another reason can be due to the decrease in shareholder equity. Profitability is always a good sign for a well-growing company (Bringham, E, F, 2008). b) Liquidity Both current and quick ratios have decreased. This decrease is due to an increase in liabilities.

The decrease is not a good sign as it has gone below the market level even and it will be difficult for the company if its gears up to further and consequences might lead to bankruptcy even. It will be difficult to pay back to the creditors and other concerned parties if themoneyis stuck up (Helfert, E, 2001). c) Asset efficiency Asset turnover ratio of the company has increased over the three years while the debtor days have decreased which is a good indication that the cash cycle would be decreased and there can be better opportunities to invest money elsewhere even.

Inventory turnover days fluctuated in 2009 which can be due to the increase in demand. The company hasfoodasset management as it's all relevant ratios are well above that of the market ratio. Therefore it is a better indication of good company (Higgins, R. C, 2008). d) Capital structure The debt ratio increased in 2009 and then decreased back in 2010. But if we compare the company’s ratio with the market ratio it is still below it. It means that there is a tendency for the company to gear up a little bit more.

An increase in 2009 can be due to the increase in liabilities and decrease the inequity of the shareholder. While in 2010 both liabilities and equity almost remained the same with a very little increase (Peterson. P. P, Fabozzi. F. J, 1999). e) Overall recommendation Overall the performance of the company in three years is quite good. All the ratios are better than that of the market. Therefore it is a good decision to invest in the company whose profitability is growing over the years while maintaining a certain level of debt even.

References:

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