General motors vs. volkswagon

GENERAL MOTORS CORPORATION & THE VOLKSWAGEN GROUP INTERNATIONAL FINANCIAL STATEMENT ANALYSIS Group Members Jose Cervantes Hilda Patricia Moreno Aracelis Nass Keila Urdaneta Florida International University ACG 6255 International Accounting Professor Leonardo Rodriguez Summer 2008 TABLE OF CONTENTS

 International Financial Statement Analysis OBJECTIVES The purpose of this paper is to determine from the perspective of an investor interested in international capital markets what companies are better to invest in. The companies analyzed in this project are General Motors Corporation (GM) based on the United States and the Volkswagen Group (VW) based on Germany. Even though the two companies belong to the automotive industry they are influenced by different legal, social, and economic environments, which have an impact on the final performance of the corporations. In addition, it is important to analyze the differences and similarities in the accounting and auditing standards that were used by each company to prepare their consolidated financial statements in 2007.

Since the two companies financial reports are stated in different currencies the Volkswagen financial statements will be translated to dollars using the current-rate method. Finally, a complete analysis of GM's and Volkswagen's financial ratios will be used to determine which company has a more efficient use of its resources and which one is more profitable. THE AUTOMOBILE INDUSTRY Today most families own a vehicle and it is projected that as the 21st century began, foreign carmakers continued to make inroads in the worldwide and North American markets. For instance, in 2000 foreign manufacturers outsold U. S.

companies in worldwide automobile sales, although sales of light trucks, including sport utility vehicles (SUVs), kept U. S. companies dominant in total sales of vehicles. It is expected that the trends of global trade and manufacturing flexibility continue. Most cars are built after an evaluation of all the different parts are taken into consideration. Also, computerization continues to be a major part of auto design and manufacture, as do the search for alternative fuels and more efficient automobile designs.

The auto industry and area of commerce in which automobile models are planned, designed, manufactured, and marketed. The automobile industry is concerned with profits and competition. And depending on the country consumer demands for styling, safety, and efficiency differ and with labor relations and manufacturing efficiency too. In the Automobile industry, many companies need to strive to make better and affordable cars. The automobile industry is concerned with profits and competition, consumer demands for styling, safety, and efficiency and it is also involved with labor relations and manufacturing efficiency. For example, in 2007, more than 73 million motor vehicles, including cars and commercial vehicles were produced worldwide.

In 2007, a total of 71. 9 million new automobiles were sold worldwide: 22. 9 million in Europe, 21. 4 million in Asia-Pacific, 19. 4 million in North America, 4.

4 million in Latin America, 2. 4 million in the Middle East and 1. 4 million in Africa. The markets in North America and Japan were stagnant, while those in South America and Asia grew strongly. Of the major markets, Russia, Brazil and China saw the most rapid growth.

In 2008, with rapidly rising oil prices, industries such as the automotive industry are experiencing a combination of pricing pressures from raw material costs and changes in consumer buying habits. The industry is also facing increasing external competition from the public transport sector, as consumers re-evaluate their private vehicle usage. Many consumers are looking for other ways of transportation due to the high fuel cost. The Automotive Industry in the United States The United States is one of the largest consumers of vehicles worldwide. The automobile industry has its roots back in 1903 when Henry Ford launched Ford Motors Co. Many companies flourished throughout the industry early decades but many went into bankruptcy and by the early 1990s the three surviving corporations were headquartered in the Detroit area.

The “ Big Three” are Ford Motor Corp. , General Motors Corp. , and Chrysler Corp. Many American and foreign companies manufacture their own vehicle in the States. For example, in 2005, around 11, 980, 912 cars were manufactured in the United States. Actually, there are 14 cars makers that have their factories in USA.

They are General Motors, Ford, Daimler-Chrysler, BMW, Navistar, Paccar-DAF, Volvo, Toyota, Nissan, Honda, Fuji Heavy Industries- Subaru, Mazda, Mitsubishi, and Isuzu. These are the most famous car’s brand around the globe. Some problems related to pollution were encountered by this industry in the early 1968. This had to do with the way automobile were built.

The US had to make a decision and the automotive industry introduced two exhaust-emission control systems for internal-combustion engines. One involves injecting air into the exhaust gas and the other involves engine modifications to improve carburetion, distributor calibration, and combustion. Another problem that this industry encountered was the fuel crisis: where the rising of fuel starting knocking everybody’s pocket. Many people started demanding small cars, and U. S.

manufacturers turned out their own models to compete with foreign ones. The future lay in “ downsizing” even standard models to reduce weight and increase economy. Carmakers needed to create new efficient vehicles and it was when they created the hybrid cars. Another big problem related to the auto industry was encountered in 1966 when Ralph Nader, an American lawyer and consumer-protection advocate, published the book Unsafe at Any Speed, in which he mentioned that poor automobile design was a major contributor to 50, 000 highway deaths annually in the U. S.

Congress responded in 1966 with legislation regulating automobile design for the first time and established the National Safety Bureau. Many changed were introduced to the cars after the congress response in 1966. For example, the air bags were a must when any USA company built a car. By 1992 approx.

51 percent of all cars sold in the U. S. had a driver-side air bag and many were equipped with a passenger-side air bag. In the United States in the

1990s, most U. S. automakers adopted the team approach to developing new models, bringing together experts from engineering, design, manufacturing, product planning, marketing, and other departments with suppliers of components and systems.

They did this to eliminate the time between a new concept comes out and to eliminate problems during the cycle in order to improve quality and customer satisfaction. The Automotive Industry in Germany The auto industry started in Germany when Karl Benz and Nikolaus Otto independently developed four-stroke internal combustion engines in the late 1870s, with Benz fitting his design to a couch in 1887, which actually led to the modern day motor car. In 1901 Germany was producing about 900 cars a year. In 1995, the automobile industry in Germany is one of the largest employers in the country, and it had a labor force of over 866, 000 working in the industry. Furthermore, Germany had the largest share of passenger car production in Europe with over 29 percent market share, followed by France 18 percent, Spain 13 percent and the United Kingdom nine percent.

The mass production of cars in Germany started in the 1920s. Many companies produced a limited number of models. One of the first plants created was the Volkswagen was established in 1938 in a rural community called Lower Saxony, together with the construction of a whole town known as Wolfsburg. Among the first major producers were Mercedes-Benz, Opel which is owned by General Motor since 1927, and BMW. At the end of World War II, the car industry was virtually destroyed.

Rebuilding began in the West, with concentration processes which squeezed-out many small firms. The New assembly and components plants like Opel in Bochum were created by surviving companies and new firms like Audi, which was formed as a result of a merger of firms like DKW, NSU and Horch, were founded. The creation of new plats started around major agglomerations or in adjacent rural areas with close ties to resource industries and suppliers. Among the growth of the car firms, numerous suppliers opened up or shifted plants into their vicinity. Along with that, employment steadily increased. Today, the auto industry is one of the most important sectors in Germany due to many economic activities that rely on and are linked to automobile production.

For example, the tire, plastic and metal processing industry are related to this industry. Also, if you include suppliers, car services, garages or retailers, a total of about 5 million employees or, 1 out of every 7 jobs in Germany, depend on the success of the automobile industry. This industry involves a large number of product groups like the production of trucks, buses, trailers, containers, parts and spare parts. The production of cars will, however, be the focus of this unit.

The links to other sectors are also manifested in space. The industry has been successful due to the technological competencies of manufacturers, suppliers and their respective employees. Nowadays, Germany has six major companies competing worldwide and they are VW, Audi (owned by the Volkswagen Group), BMW, Daimler AG, Porsche and Opel which is owned by General Motors. Germany is one of the most important automobile manufacturers worldwide and it is considered to be in the top three car manufacturer in the world along with the United States. COMPANY BACKGROUNDS General Motors Corporation General Motors Corporation is the world's largest automaker and has been the annual global industry sales leader for 77 years. It was founded in 1908 and GM today employs about 284, 000 people around the world.

With global headquarters in Detroit, United States GM manufactures its cars and trucks in 33 countries. GM's largest national market is the United States, followed by China, Canada, the United Kingdom and Germany. GM's OnStar subsidiary is the industry leader in vehicle safety, security and information services. For instance, in 2006, 9. 1 million GM cars and trucks were sold globally under the following brands: Buick, Cadillac, Chevrolet, GMC, GM Daewoo, Holden, HUMMER, Opel, Pontiac, Saab, Saturn and Vauxhall. GMs not only sells cars but also parts, accessories, transmissions, and engines.

GM develops, manufactures and markets vehicles worldwide through its four automotive regions: GM North America (GMNA), GM Europe (GME), GM Latin America/Africa/Mid-East (GMLAAM) and GM Asia Pacific (GMAP). GMAC provides a range of financial services, including consumer vehicle financing, automotive dealership and other commercial financing, residential mortgage services, automobile service contracts, personal automobile insurance coverage and selected commercial insurance coverage. General Motors is both active in environmental causes and, as a major industrial force, implicated in ecologically harmful activity. The company has long worked on alternative-technology vehicles, and has recently led the industry with clean burning fuel vehicles that can run on either ethanol or gasoline. In May 2004, GM delivered the world's first full sized hybrid pickups, and introduced a hybrid passenger car. In 2005, the Opel Astra diesel Hybrid concept vehicle was introduced.

The 2006 Saturn Vue Green Line was the first hybrid passenger vehicle from GM and is also a mild design. GM sold 843 hybrids of all types during the first quarter of 2008, according to the industry newspaper Automotive News compared with his competitor Ford, which sold 5, 225 hybrids during that time. For the future GM is seriously increasing its hybrid output. GM expects it to produce 40, 000 to 50, 000 hybrids this year, more than doubling last year's production. The Volkswagen Group Volkswagen is a manufacturing brand of motor automobile, based in Wolfsburg, Germany.

It is the world's fourth largest car producer after General Motors, Toyota, and Ford respectively. The company ranks first as the largest car maker in Europe. The Volkswagen name means " people's car" in German. Volkswagen consists of two divisions: Automotive and Financial Services. The activities of the Automotive Division comprise the development of vehicles and engines, as well as the production and sale of passenger cars, commercial vehicles, trucks and buses, and the genuine parts business. The Financial Services Division's portfolio of services includes the Company's dealer and customer financing, leasing, banking and insurance activities and fleet management business.

The Company is made up of eight brands from six European countries: Volkswagen, Audi, Bentley, Bugatti, Lamborghini, SEAT, Skoda and Volkswagen Commercial Vehicles. Volkswagen has cars named from climate patterns, insects, and small mammals, Volkswagen leads the Continent as

Europe's #1 carmaker. Along with Golf (referring to the Gulf Stream) and the New Beetle, VW's annual production of 5 million cars, trucks, and vans includes such models as Passat, Jetta, Rabbit, and Fox. VW operates plants in Africa, the Americas, Asia/Pacific, and Europe. It also holds 68% of the voting rights in Swedish truck maker Scania and about 30% of MAN AG and it also offers consumer financing.

The Company operates 48 production plants in 13 European countries and a further six countries in the Americas, Asia and Africa. It sells its vehicles in more than 150 countries worldwide. During the year ended December 31, 2007, the Company delivered some 6. 2 million vehicles to customers worldwide. ENVIROMENTAL FACTORS The United States and Germany have been, historically, countries with great economies and both are recognized by their technological advances it the world.

They are linked by many similarities, that make both of these countries some of the biggest economies of the world. To be able to determine which company is more profitable in the market, we not only have to compare their financial statements, but we have to take a close look at factors like the legal, social, and economic environment of each country. Germany Legal System Probably one of the most important aspects when comparing both companies is to have a close look in to their legal environment; which may influence accounting standards. Germany is ruled under the Code Law; which can be described as a legal system based on precise rules and regulations to be followed. Under this legal system codification of accounting standards and procedures is natural and appropriate. In Code Law countries the accounting rules are usually incorporated into national laws and tend to be highly prescriptive and procedural.

Since the end of World War II the environment of Germany has been changing, including their legal and accounting systems. As mentioned above, Germany is ruled under the Code Law system, but even within this system there have been modifications throughout the years. They have been transitioning from different standards and codes like the Commercial Code, which stipulated that they were under the orderly bookkeeping systems and they had their independent auditors. The main event in accounting has been the harmonization of accounting standards promotes by the European Union. This began in 1970 and adopted the forth, seventh and eight directives.

Since the Code Law rules Germany, these directives became a law, stipulating that integration of accounting law, financial, reporting, disclosure law where joint into a single law. This is all known as the third book of the German Commercial Code. There were two laws passed on 1998; the first code allowed German companies to issue equity or debt on capital markets. The second law allowed the firms of the private sector to set accounting standards for consolidated financial standards. Creditor protection is a fundamental concern of the German accounting as embodied in the commercial code.

Creditor protection however, is said to create undervalue of assets or overvalue of liabilities. Germany's legal system is divided into three branches, Executive, Legislative and Judicial. The Judicial branch of Germany is independent from the legislative branch and executive branch. The

Executive branch consists of the President or the chief of state, who is elected for 5-year terms and they are eligible for a second term.

The Executive Branch Also Includes the Federal Convection, which includes all members of the Federal Assembly and an equal number of delegates. The dominant political parties have been the Christian Democratic Union and the Social Democratic union since 1949. United States Legal SystemThe United States governmental system is separated into three branches, the Executive, Legislative, and Judicial. Responsible for deliberating and bringing law into power is the assignment of the Legislative branch. The US legal system is ruled under the Common Law practices and US law is based on the supreme law of the land, which is the constitution, and who carries a democratic tradition.

The United States is ruled under the Common Law system, which stipulates that the laws are created under generally accepted principles and decisions that have been made in previous cases in courts of law. Constitutional Law is the law that sources its power in the Constitution of the United States; this is done thru the implementation of the amendments. The US is ruled under the Common Law system; which develops on a case-by-case basis. In Common Law countries, accounting development is influenced by experience and judgment. This system tends to be more flexible, adaptive, and innovative than the Code Law system. Its main focus is on economic substance.

Initially accounting in the United States has based on the principles of the Common Law system but it has gradually moved towards a ruled based system. German Economic Environment Germany’s economy is the fifth strongest in the world today. With a considerable growth in the last year, 2. 6% at the end of 2007. This is and important growth rate since in the last couple of years the highest increment the country had been 0.

7%. This also had an effect on unemployment, they have lowered their unemployment rata to about 8% today, and they are still working on bringing that number down. “ Since the age of industrialization the country has been motor, innovator and beneficiary of an ever more globalize economy. Exports from Germany are the leading in the world. They export per year around $ 1. 33 trillion, which in turn generated revenues of 165 billion Euros.

The economy of Germany is mainly incorporated in the service sector, about 70% of the workforce populations are involved in services for the public, and such services may include transportation, distribution of wholesales and retailing. Service sectors are a characteristic of developed economies, like that one of the United States. Industry is the second contributor to GDP, almost 30% are involved in this piece of the pie. This of course includes their very strong and competitive automobile industry. Germans have always characterized their industry by being leaders on the technology inventions, like wind turbines and solar power technology, they are now the leaders producers.

Another important fact to note about Germany is that is an important stock market for listed companies in the world, and has 37 that are housed in Germany. The workforce in Germany is of bout 43 million, and their GDP per capital is of about $ 35, 000. They only have an 11% of the population that is under the poverty line. United States Economic Environment The United

States has always been known to be one of the most powerful nations in the world. It has abundant natural resources, a very well developed infrastructure, and high productivity.

The GDP is of $ 46, 000, and it has a market oriented economy, which means that private individuals and business firms have a great influence in the countries economy. In contrast to Europe and Japan, the US has greater flexibility to conduct business internationally. The US is also a leader in technological advances, mostly in computers and the medical field. The US economy has been an example of low inflation and low unemployment.

It has the highest level of economic output in the world; the GDP of the country is valued at around $ 13. trillion at the end of 2006. In recent times the US economy has been affected, the attacks of 911 left a major resilience in the economy. " The onrush of technology largely explains the gradual development of a " two-tier labor market" in which those at the bottom lack the education and the professional/technical skills of those at the top and, more and more, fail to get comparable pay raises, health insurance coverage, and other benefits". These health services are almost always available for free to everyone in Western Europe, including Germany.

Other events like hurricane Katrina that damaged the Gulf Cost had only a small impact on the economy. The labor force of the United States is of 153. 1 million; which includes the unemployed, but is estimated to be at a low 4. 6%. German Social and Business Environment The social environment of Germany is very different to that of the United States. The official language of Germany is German, which is one of the 23 official languages of the European Union.

There are also a minority that speaks Danish, Sorbian, Romany and Frisian, but the most spoken foreign languages are Turkish, Polish and Balkan. Germans are also divided into several religions, where most of them practice Christianity; more than have of the populations are Christians. There are also large groups of Islam's, Buddhist, and Jews. According to Hofstede's research, German society has an individualistic approach. Meaning that they have more emphasis on the I, they are not group oriented.

They are also influenced by the masculinity approach and uncertainty avoidance. The later one means Germans prefer not to have surprises or sudden changes. For Germans, the business dress code is very conservative; man wears dark suits with solid conservative ties and white shirts. They view the business transactions as very serious; they do not like interruptions in business meetings or even a little humor that may deviate the subject.

They usually keep a large personal space, even larger than the Americans do, they like about 6 inches more. United States Social and Business Environment The United States has English as its main language, and as of 2003 82% of the population only spoke English. The second most commonly used language is Spanish, where over 10% of the population uses it. In the religion side, most of Americans practice Christianity, where Protestants and RomanCatholics are the denominations mostly practiced.

The population is mainly of European descent, but immigration from all over the world has settled here. The Hofstede analysis for the United States is very similar to other World Countries that have their heritage founded in Europe with strong ties to the British Isles. The United States also rates very high on individualism, actually there are only 6 other countries who have individualism as the highest dimension, which means a very individualistic society. The US also ranks very high on the masculinity dimension, a 62 pints, where the average worldwide is of 50. This is why we see females be more competitive and assertive to be treated equally. On the other hand, they are ranking low on Uncertainty Avoidance, the score was of 46 points, and an average of the world is of 64.

ACCOUNTING AND AUDITING STANDARDS USED BY GM AND VW General Motors Corporation consolidated financial statements are prepared in US dollars and in conformity with accounting principles generally accepted in the United States which is the home country of the company. US GAAP has a very detailed framework based on guidelines established by the Financial Accounting Standards Board (FASB). GM must also follow rules and regulations issue by the Securities and Exchange Commission (SEC) for listed companies. Financial reporting in the United States is oriented to providing information to investors; as a consequence the reports tend to provider greater disclosure. The Volkswagen Group prepares its consolidated financial statements in euros and according to the regulations of the European Parliament and of the Council. The reports comply with the International Financial Reporting Standards (IFRS) that the European Union requires for listed companies.

The regulations of its home country, Germany, are also taken into account. Volkswagen complies with all provisions of German commercial law and with the German Corporate Governance Code. The German accounting standards can be considered similar to the ones of the Unites States; however, German financial reporting is more oriented to tax reporting and creditor protection. Since the reports are more conservative important items such as net income can be affected when compared to a different set of accounting standards. Some detail differences and similarities between IFRS and US GAAP can be found in Annex 1 and the copies of the financial statements for the two companies are in Annex 2. When looking at the presentation of the financial statements of the two companies it is important to note that one of the differences between IFRS and US GAAP is number of years of comparatives all listed companies must provide for all the numerical information in their financial statements.

IFRS requires one year of comparatives while SEC requires two years (except for the balance sheet, which requires only one year). Consolidation MethodsGM includes in its consolidated statements its majority-owned subsidiaries and variable interest entities from which the corporation considers to be the primary beneficiary. The corporation includes earnings or losses of nonconsolidated affiliates in the consolidated operating results using the equity method when GM can influence operating and financial decisions of the affiliates. When there is not such an influence in the entity the cost method is used. In a similar way VW consolidated statements comprise all subsidiaries which activities benefit the group and which financial and operating policies can be governed.

Companies where the group has significant influence are accounted for using the equity method. The subsidiaries or associates that are not significant are not consolidated and are carried in the consolidated statements at the lower of cost or fair value. Foreign Currency Translation Methods The assets and liabilities of GM's foreign subsidiaries that use their local currency as the functional currency are translated to US dollars using the exchange rate of the date of the balance sheet and any necessary adjustments that result from the translation are included in Accumulated other comprehensive income (loss). Revenues and expenses are translated using the average exchange rates of the period presented. The Net income (loss) includes any gains or losses arising from foreign currency transactions. Volkswagen and its consolidated subsidiaries translate transactions in foreign currency in the single-entity financial statements at the rates prevailing at the transaction date.

Foreign currency monetary items are recorded in the balance sheet using the middle rate of the balance sheet date. Foreign exchange gains and losses are recognized in the income statement. Assets and liabilities are translated at the closing rate but income and expenses recognized directly in equity are translated at historical rates. Differences in foreign exchange are taken directly to equity until disposal of the subsidiary concerned and are presented as a separate item in equity. Income statement items are translated into euros at weighted average rates using the modified closing rate method.

Auditing StandardsGeneral Motors Corporation audit is conducted in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB) in the United Stated. The audit is also based on criteria established in Internal Control – Integrated Framework issued by the

Committee of Sponsoring Organizations of the Treadway Commission about internal control over financial reporting. Auditors in the United States are required to express their opinion about the fairness of the reports according to US GAAP and whether the company has been consistently used US accounting standards in its reports throughout the years. As with the accounting standards the Volkswagen Group consolidated financial statements are audited in accordance with IFRS as adopted by the European Union, with requirements of the German commercial law that are incorporated in the German Commercial Code (HGB), and with German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (IDW). The audit includes assessing the annual financial statements of the entities included in the consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the company’s Board of Management, as well as evaluating the overall presentation of the consolidated financial statements and the combined management report.

TRANSLATION METHOD The method used to translate the Volkswagen financial statements from euros nto dollars was the current-rate method (see Exhibit 1). This method consists of applying the date of the report exchange rate to all current assets and liabilities. The reason for using the current-rate method in this project is the fact it is very popular in Europe where Volkswagen is located. No calculation of purchasing power gain or loss was done neither a restating of cost of goods sold nor depreciation because due to the low inflation rates in Germany the process was not relevant. All items were translated at the exchange rate of December 31, 2007; except for inventories that were translated using an average rate for 2007 (this rate was calculated as an average of the last day of the fourth quarters of 2007).

FINANCIAL RATIOS ANALYSIS Accounting is designed to provide information for decision making by shareholders as well as by stakeholders that can be used to compare the progress of a company throughout the years or to compare its overall performance with that of its competitors. In this analysis 4 different categories of ratios (see Exhibit 2) will be used to compare the efficiency of the companies in managing its assets, liabilities, and equity to obtain profitability the overall performance of two competitors, VW and GM, within the automotive industry. It is important to note that the some of the following differences in accounting practices in the United States and Germany may influence the value of the ratios: ? “ German managers have great discretion in their use of reserves” ? Financial reporting is more conservative in Germany and this usually results in lower net income and lower reported shareholders’ equity” ? “ Germany usually has higher leverage than the United States because of its higher debt capital structure” ? “ Companies in the United States have a lot of pressure to report steadily increasing net income” Liquidity Ratios: Short-Term Solvency The liquidity of a company, or the measure of how quickly an item can be converted to cash, can be evaluated by the following ratios. The current ratio is used to evaluate the ability of a company to pay its liabilities with its available current assets. The above results indicate that Volkswagen is more liquid than GM and it is more capable of meeting short terms debts than GM. However, the 1.

22 current ratio of VW is not considered very strong because the norm for most industries is around 1. 50. GM results indicate lack of liquidity with a 0. 85 ratio, in other words the company does not have sufficient current assets to maintain its normal business operations.

The quick ratio is used to measure if a company would be able to pay all of its current liabilities if they had to be paid immediately. A quick ratio higher than 1. 00 indicates that if the sales revenue disappear the business could meet its current obligations. A quick ratio between 0. 90 and 1. 00 is acceptable in most industries.

The 0. 98 quick ratio of Volkswagen is a positive result that indicates that the company has enough cash, receivables, and short-term investments to cover its debts. On the other hand GM has a lower ratio of 0. 64 below what is satisfactory acceptable. This means that they would be able to cover only a percentage of their obligations if they had to pay them all at once. The cash-flow liquidity ratio measures the immediate amount of cash available to satisfy short-term debt.

The ratios of both companies are similar but once again Volkswagen is in a better position with a 0. 48 ratio compare to the 0. 37 ratio of GM. The cash resources of these two companies are not enough to cover the total amount of their obligations. They need to relay on other current assets, in addition to the ones being evaluated here, to meet their short-term obligations. Activity Ratios: Liquidity of Specific Assets These ratios measure the ability of a company to sell inventory and collect receivables.

The average collection period ratio measures the company's ability to collect its receivables, indicates the average number of days sales remain as Accounts Receivables, shows how liquid the Accounts Receivables are, and provides information about credit policies. A high ratio indicates a tight credit policy and a low ratio indicates a collection problem, part of which may be due to bad debts. Volkswagen shows an Average Collection Period of 19. 8 and GM shows 19.

46 in averages both companies are doing fairly well collecting their receivables in less than 30 days. It is an indication that the customers of both companies are very responsible about paying on time and that neither Volkswagen nor GM cash flows are being affected by their receivables. The accounts receivable turnover ratio is the number of times that Accounts Receivables are collected throughout the year. It shows the efficiency of a company in regards to collection and credit policies. The higher the Accounts Receivable turnover is the better. Volkswagen's ratio is 19.

13 and GM's is 18. 75. These results indicate that the companies are collecting their receivables approximately 19 times per year and that they may have similar collection policies standard for their industry. The inventory turnover ratio measures the number of times a company sells its product during the year.

A high ratio indicates ease in selling inventory whether a low ratio indicates difficulty in selling. Volkswagen inventory turnover ratio is 6. 59 while GM is 11. 12.

In this case GM is more efficient than Volkswagen in regards to moving their inventory. GM sells it average inventory approximately 11 times during the year while Volkswagen sold its inventory only 7 times. The total asset turnover ratio is a measure of how well assets are being used to produce revenue. GM's ratio is 1. 21 while Volkswagen's ratio is 0.

74. GM demonstrates more efficiency in generating sales with the assets that they have and that they required smaller investment in order to produce sells. The lower ratio of Volkswagen indicates that they are less efficient in the use of their assets. GM's results show that they are able to sell more using fewer assets. As we can see from the information above, even though Volkswagen assets are higher their sales are lower. GM is more efficient in managing all of it assets.

Leverage Ratios: Debt Financing and Coverage The following ratios are important indicators of a company's ability to be responsible for the payment of its long-term liabilities. The debt ratio shows the reliance on debt financing and the proportion of assets financed with debt. A 1. 00 ratio indicates that all assets are been financed with debt.

GM has a 1. 24 debt ratio and Volkswagen a 0. 78 ratio. GM's higher debt ratio indicates that the company is already overburdened with debt and their assets are not sufficient to cover their debt with the assets that they have. In other words, GM does not have enough collateral to cover their obligations, which places the company in a very high financial risk.

Even though Volkswagen's debt ratio is lower than GM's the percentage of debt compare to their assets is still really high since the average debt ratio for most companies is between 0. 57 and 0. 67. The cash debt coverage ratio measures the percentage of debt the company can pay during the year based nly on the cash received from operating activities. In the case of Volkswagen 14% of its debt can be paid from cash generated from operating activities while GM due to its low incoming cash flow (compare to its liabilities) can only pay 4% of its obligations per year. This is not a good sign for creditors because it means that GM would need more than 20 years to repay its actual debt.

The times interest earned ratio is a measure of the credit worthiness of a company and measures the number of times operating income can cover interest expenses. A high ratio indicates ease in paying interest expenses while a low one shows difficulty in making interest payments. The norm for companies is usually between 2. 0 and 3. 0.

This means than Volkswagen with a 3. 73 ratio is above the norm while GM has a negative ratio of -1. 51. This shows difficulties paying its debt or an inability to pay its interest expenses from income generated by operating expenses. Volkswagen is obviously in a better capacity to pay their interest than GM and it is a more attractive company for creditors. Profitability Ratios: Overall Efficiency and PerformanceThe main goal of a corporation is to be profitable and that is why the following ratios are fundamental.

The following three profitability ratios show different phases of a company's ability to generate earnings through income coming from its net sales. ? The gross profit margin ratio indicates how profitable they company and provides an idea of the efficiency of the company in regards to pricing, cost structure, and production. Volkswagen is 15% profitable based on net sales versus cost of products sold while GM is generating only 7% earnings. The operating margin ratio incorporates the fixed costs to the above equation and may determine if those fixed costs are too high for the production volume.

Once again Volkswagen has better results than GM showing a higher overall operating efficiency. Volkswagen has a 6% profit after deduction all cost and expenses. In the case of GM results show that the price of their products is 2% lower than what there are spending to produce it. ? The net profit margin ratio determines the percentage of net sales earned as net income. The higher the ratio the more net sales end up as a profit.

Volkswagen has a 4% ratio while GM has a negative ratio of 21% showing the company's deficit. Based on this ratio we can conclude that Volkswagen is more successful when it comes to generating profits than its competitor. The cash flow margin ratio determines how liquid a company is according to its sales. In other words it measures the ability of the firm to translate sales into cash.

Volkswagen has a 14% cash flow margin while GM has a very low cash flow margin of 4% meaning that Volkswagen is better equipped to generate cash from its sales. The return on investment is a key ratio for investors because it provides information about the return on investor's equity or the amount of profit earned by a company compare to its total investment. Since GM has unable to generate profits and end up having losses its return on investment was negative by 26%. Volkswagen's investors on the other hand got a 3% return on their investments, which is not very high but at least they did not have to face losses on their investments. VW's low return may have been the result of conservative German accounting standards in regards to reverses plus the lack of pressure to report high profits found in the United States. CONCLUSION After a detail analysis of General Motors Corporation, the Volkswagen Group, their industry, and their respective environments, significant red flags have been identified in regards to the financial performance of the two companies, especially GM, that need to be considered by investors when making decisions.

GM has been the sales leader of the automotive industry for 77 years out its 100 years of history; however, it is evident by its financial results that GM needs to reconsider its strategic planning in order to save the company from continuous losses. Some of the environmental factors affecting GM sales have been the impact on the US economy by events such and 9/11, Katrina, or the changes in accounting standards that followed the accounting scandal by companies such as Enron and WorldCom. Another external factor is the worldwide increase in gas prices due the higher demand of the commodity. These increases are influencing consumer habits in regards to what type of vehicle to buy.

Recent years seem to show a preference by consumers for high efficient or hybrid vehicles, which are not among GM's top products. Even though GM has been very efficient in managing its inventory turnover, collections of receivables, and the company's assets as sales generators, the corporation is not liquid or profitable and the debt that they have acquired is impressive. It is astonishing that their debt amounts for 124% of their assets or that they are unable to cover their interest expenses by using operating profits (GM had operating losses). Volkswagen is the fourth largest car producer and its financial results reflect in a way the stability of the European Union and Germany during 2007. The increase in gas prices mentioned above has also affected Europe but the type of cars produced by Volkswagen are less affected by changes in consumer preferences than the type of cars produced by GM. Volkswagen is definitely in a more favorable position than GM.

Volkswagen has more liquidity, is generating profits and the necessary cash inflows, and is being efficient in the way they manage their debt. However, Volkswagen's profitability is not very attractive for investors. Their return on investment was only 3% and their net profit margin 4%. These low margins may be the result of more conservative accounting standards used by German companies which used different principles for reserves and other items that influence net profits results.

The debt ratio can also be analyzed from an environmental point of view since German companies appear to have higher levels of leverage that US companies because they rely more in banking financing than in capital markets. It is also important to note that in Germany tax laws and tightly link to accounting. Even though there are differences between IFRS and US GAAP, the two sets of accounting principles look for high quality reporting useful for different user groups of financial statements. Investors can confidently compare opportunities and in this case unfortunately GM is not a good option at the moment.