

# [Ratio of profitability and liquidity](https://assignbuster.com/ratio-of-profitability-and-liquidity/)

[Finance](https://assignbuster.com/essay-subjects/finance/)

Ratio of Profitability and Liquidity Background ARM Holdings is a semiconductor and software company that is centrally located in Britain. Its main product outputs are processors, however it is also prominently involved in designing and licensing of software development tools. It operates under the brand names RealView and KEIL. The corporation’s main market dominance has been linked to the company’s production of mobile chip technology. One of the main aspects of this technology is that it requires extremely limited energy, making it particularly apt for mobile technology. The company was originally founded in 1990 as a joint venture involving Apple Computer, Acorn Computers, and VLSI Technology. The company’s main intention in forming was to further develop and progress the Acorn RISC Machine’s RISC chip. After producing this chip the organization continued further innovation and its developments now are found at the core of processing for a large amount of custom application-specific integrated circuits (ASICs). Indeed, nearly all modern mobile phones implement ARM technology, with approximately of 75% of phones implementing ARM’s 32-bit microprocessor. In addition, the technology is also implemented in handheld gaming devices, including Nintendo’s Game Boy Advance. Today the corporation has offices throughout an extensive variety of world regions, including San Jose, California, Munich, Germany, Taiwan, China, India, and Slovenia.
Profitability Ratio
When examining the profitability ratio there are a number of prominent areas of investigation. One of the most important aspects of profitability emerges in terms of gross and operating profit margins. In terms of operating profit margin both ARM Holdings and IBM demonstrated increases between 2009 and 2010. Notably, ARM Holdings demonstrated close to a 100% increase during this period, demonstrating considerable improvement in terms of management efficiency. In terms of gross profit margin both organizations conservative increases. Another prominent area of concern in terms of profitability between these companies emerges in terms of ROSF. Both organizations demonstrate considerable fluctuations in terms of this financial ratio. While ROSF increased for ARM and decreased IBM in the 2009-2010 period, ARM has demonstrated decreased in past climate notably a significant decline in 2006-2007. The same is true of ARM Holdings return on capital employed (ROCE), while IBM demonstrated general stability. In these regards, one notes a significant shift in ARM’s 2009 6. 159 level as compared to their 2010 12. 923 level. This seems to indicate that ARM has shown tremendous efficiency and investment success during the last year. The underlining assumption is that while ARM has tremendous upside, especially in light of last year’s ROCE upshift, they lack the general stability of IBM.
Liquidity Ratio
In examining the liquidity ratio between these organizations there are a number of metrics and considerations. One of the most overarching ratios in examining company liquidity is the current ratio. The current ratio is a proportion of the organization’s current assets and liabilities. In examining the current ratio between these organizations it’s clear that ARM Holdings current ratio of 2. 42 is significantly higher than IBM’s ratio of 1. 18. The main understanding in these regards is that IBM has significantly higher liabilities than Arm Holdings. Another prominent area of analysis is in terms of the acid test ratio. This ratio constitutes a stringent analytic criterion for determining if a firm has enough short-term assets to cover its liabilities. In these regards, ARM Holdings also contains a much higher accident test ratio (2. 41) than IBM’s (1. 125). Ultimately, this is perhaps reflective of IBM’s more entrenched business.