Jetblue airways financial analysis

Business, Industries

Financial and Accounting Analysis.

- a) Liquidity ratio

Looking at the table below one will notice that the liquidity position of the company is deteriorating. The current ratio has declined from 1. 05: 1 to 0. 94: 1. This is far below a recommended ratio of 2: 1 for companies to be in a good position. The current ratio is an indication of the ability of the firm to pay its short term current obligation with less difficulty. In the year 2005, it means for every dollar of debt there are 0. 94 dollars of assets. This cannot cover all the liabilities for the company. And unfortunately, this includes stock which cannot be disposed of with ease. Creditors consider current assets as a buffer for current liabilities and hence they prefer high ratios. The acid test ratio also declined from 1. 03: 1 to 0. 9: 1. This is also a decline in the performance of the company in terms of meeting short-term liquidity position. However, this uses the most liquid assets of the company. In brief, the quick ratio shows that the liquidity position of the firm has gone down in terms of the ability to meet short-term obligations. The cash ratio is another ratio that can be used to determine the position in paying short term liabilities and in this case it stands at 0. 92: 1 and 0. 72: 1 for years 2004 and 2005 respectively. There is also a decline in this ratio. The reason may be due to the fact that the company invested more in investment securities.

Activity ratios

The ratio calculated here includes inventory turnover ratio, days sales inventory, receivables turnover, days sales in receivables, and asset turnover. The company turned the inventory 126 times in 2004 and 109. 7 in

the year 2005. This is a better performance in the year 2004 but deteriorated in the year 2005 if converted into days it shows that on average 3 days in the year 2004 and four days in the year 2005. It means the management declined its efficiency in selling its stock from 3 to 4 days. The overall conversion period shows a decline therefore the management should maintain a base as it is more than the previous year. Looking at the converting debt to cash we find that the company converted sales into cash 34. 2 times in the year 2004 and 26 times in the year 2005. Converting this into the number of days to collect cash from the number of sales it was 11 days and 14 days for the years 2004 and 2005 respectively. This is again afailureby the management to improve its efficiency in utilizing its state to generate cash. The higher turnover shows that management is having some problems in trying to manage her resources. Utilizing total assets to generate revenue to the company turned the assets 0. 45 times in the year 2004 and at the same time 0. 51 in the year 2005. This is far much less than expected because the turnover on assets measures the business ability to utilize assets to generate high returns. It measures how the dollar invested in assets is turned. In every dollar invested in the year 2005, there is 0. 51dollar of assets.