Maria hernandez case

Law, Capital Punishment

Maria Hernandez Van Ness team 10

The Story: Maria Hernandez & Associates is a company that started its business with a cash deposit. On June 20, 2004 Maria Hernandez transferred all her savings of $30, 000 into a new Bank account under her company's name, two days later she transferred another $20, 000 which she had borrowed from her father on a 6% p. a. interest rate. Thus, with an amount of $50, 000 in its bank account Maria Hernandez and Associates was ready to start its life in the Webpage designing sector.

After the Bank account transactions, Maria Hernandez quickly took care of the initial expenses that included pre-paid rent for the new office, giving a security deposit for the same, buying used computers and software from her previous employers and also ordering and acquiring office stationary. On July 2, 2004 Maria Hernandez & Associates opened its doors for business. The substance of our report covers the first two months of the company's operations. At the start of the operations i. e.

July 2nd, 2004 the amount in the company bank account was $12, 000; however on August 31st, 2004 (roughly two months of operations) the amount had declined to $6, 600. We are therefore left with two key questions to answer. 1. How would we report on the operations of Maria Hernandez & Associates through August 31, 2004? Had the company made a profit as Maria Hernandez believed? If so, how can we explain the decline of cash in the bank? 2. What can we say about the status of the business on August 31, 2004?

To answer these questions we analyzed the company's income statement and balance sheet for the months of July-August, 2004 and have come up with the following analysis and suggestions: Financial Ratios: Through the analysis of the Income Statement and Balance Sheet, we were able to extrapolate the following Ratios, which gave us an insight into the workings of Maria Hernandez & Associates | Financial Ratio | Figures | | Current Ratio | 4. 17 | | Return on Equity | 13% | Return in Assets | 7% | | Profit Margin | 9. 8% | | Debt to Equity | 0. 74 | By and large, the ratio's displayed are lower than ideal. However, given the fact that the operation is only 2 months old, the figures are very promising; especially since there was an increase in workload of the company in early August with four new clients by way of referrals. Considering all the ratios in more details we would like to start our analysis with ROE ratio that measures a company's profitability.

We have 13% what means that the company is making 13 cents out of every dollar invested. This figure is relatively low, but for a start-up company it is rather satisfactory, because it indicates a growth opportunity with increasing operations. ROA ratio shows us how many dollars the company makes in relation to its assets, thus 7 cents per 1 dollar. The ratio is deceptive because by definition a lower ratio denotes inefficient use of assets. But considering a start-up that operates for only 2 months, there is a scope for improvement since the number of operations has been increasing.

In addition, this ratio can vary depending on the industry in which the company operates. This is why our suggestion to Maria Hernandez is to compare ROA every month in order to be able to realize how productive or unproductive the business is. Profit margin represents the percentage of revenue that a company keeps as profit after accounting for fixed and variable costs. In other words, it is company'shealthindicator. The company is keeping 9. 8 cents of sales as earnings for every dollar that the company earns.

It is a good sign because the company was able to recoup the initial fixed costs and also showed a profit in the books within 2 months, on the other hand the usual trend for web-page design companies to show a profit is 1-2 years. Debt to equity ratio indicates extend to which the business relies on debt financing. As we know, Maria Hernandez borrowed $20, 000 from her father at 6% interest rate and invested $30, 000 cash from her own savings. In addition, the company made revenue of $40, 000 in cash that helped to cover all the expenses and operational purchases.

So, we can conclude that the company is growing on cash mainly and in the tech industry this ratio is bound to go down, because once the assets [computers and software] are acquired there is no need to take on debt to grow the company, as the growth can come from the revenue itself. On an average computer companies have a Debt to Equity ratio of under 0. 5 Current ratio that shows the ability of the company to pay off its liabilities at a given period of time is the only point of concern. As a rule the acceptable figure is between 1 and 2, in our case we have 4. 7, what means that Maria Hernandez can pay off her loan with interest however, she has some excessive cash on hand what indicates inefficient management of funds. Suggestions: We would first like to address the matter of treating the Interest and Depreciation. The interest is accumulating and since the interest has to be paid at the end of the year, the amount at the moment is incomplete. Therefore, the interest payable should be accounted in the Balance Sheet, and interest expense in the Income Statement. In case of the equipment, accumulated depreciation is to be taken into consideration.

The depreciation per month is $750, thus the accumulated depreciation is $1500 after 2 months of operation. As the expected life of the equipment is 3 years Maria Hernandez should credit the accumulated depreciation for 1/3 of the value of the assets, subtract accumulated depreciation from the equipment in the Balance Sheet and include depreciation expense in the Income Statement. An analysis of the Expense to Income ratio showed that currently 86% of the income is being used to write off expenses such as rent and salaries, which explains the decline in the bank balance as on August 31st.

We recommend reducing such expenses by keeping fewer full-time staff and hiring interns or keeping staff on a part-time basis at least for the initial period of the companies life. Conclusion: In conclusion we would like to say that Maria Hernandez & Associates is doing rather well as a Start-up company. The numbers are mostly in its favor, and are bound to get better as the life of the company progresses. The only flaw in the design is by way of the expenses incurred in form of Salaries, which can easily be fixed.