Accounting and finance, information tools

Finance

Accounting & Finance, Information Tools Explaining each ratio trend whether the ratio or trend indicatesstrength of the company; a likely weakness, threat, or emerging problem; or a satisfactory condition that management should not view as a strength or weakness Company G current ratio declined from 1. 86 in 2011 to 1. 79 in 2012 indicating company weakness in at fulfilling creditor’s obligation. The acid test ratio declined from 0. 64 in 2011 to 0. 43 in 2012. This indicates company weakness and implies that the company had fewer current assets to meet creditor’s obligation. Additionally, the inventory turnover decrease from 6. 1 in 2011 to 5. 2 in 2012, this indicates company weakness because more of its cash had been tied up in stocks. In addition, account receivable turnover decreased from 32. 2 to 30. 5 in 2012, this indicates company weakness. On the contrary, day’s on sales receivable turnover increased from 11. 1 to 12. 0 in 2012. This indicates company strength in colleting its account receivable within a schedule time (Stickney, 2010). On the contrary, the debt ratio increased from 28. 34 to 29. 54% in 2012 this indicates no concern. However, management should to reduce debt ratio because it may exposes the company to leverage risk (Ehrhardt & Brigham, 2011). In addition, times interest-earned ratio increased from 31. 12 to 35. 55 indicating companies’ strength. On the contrary, the rates of return on net sales increased from 6. 12 to 6. 21 this also indicated company strength. Connectively, the rate of return on total assets indicated company strength by increasing significantly in 2012. In addition, the rate of returns on common stock holders increased from 0. 672 to 1. 05, indicating the strength of company G. On the contrary, the price earnings ratio decreased from 6. 3 to 5. 48 this further indicated company weakness. The book value per share of common stock increased from 4. 25

to 5. 89 indicating company strength that management should maintain (Stickney, 2010). 2. Justify your identification of each ratio or trend as a strength, weakness, or satisfactory condition The current ratio was determined by dividing the current assets with current liabilities. Based on this computation the ratio was found to be lower indicating company weakness towards meeting its creditor's short term obligations. Additionally, the acid test ratio was computed by adding cash, short term investment and account receivable and then dividing the sum with the short term investments. This ratio indicated weakness of company G because it decreased from 0. 64 to 0. 43. This implies that company G had few current assets to meet its short term obligations (Horngren & Harrison, 2009). Additionally, the turnover ratio was computed by dividing the net credit sales with net receivable. This ratio displayed company weakness in managing its inventories. Connectively, account receivable ratio was calculated by dividing net sales with average receivable. Whereby, a decrease in account receivable turn over ratio was an indication of company weakness in collecting its account receivables (Ehrhardt & Brigham, 2011). Connectively, sales receivable turnover ratio increased slightly. Therefore, no concern was needed because company G had strong ability of collecting account receivables from its debtors. In above connection, debt ratio of G Company was computed by finding the total current assets divided by the total liabilities. This ratio displayed weakness of company G because it decreased from 28. 34 to 29. 54 in 2012. This means that company G was under a high exposure of leverage risk. On the contrary, times interest ratio was determined by dividing the EBIT by interest expenses. The ratio indicates company strength because an increase in times interest ratio is an indication that company has strong ability of repaying its loans and interest attached (Stickney, 2010). The rate of return computed by taking into account amount of investments and dividends dividend by total cost incurred. The ratio indicated company strength to efficiently utilize its strategies to boast sales. Connectively, the rate of return on total assets indicated the strength of company G in utilizing its assets to create wealth. The rate of returns on common stock holders displayed company strength because it increased from0. 672 to 1. 05 in 2012 meaning that the company had ability to pay higher dividends its to common stock holders. Additionally, the price earnings ratio was computed by dividing share price by earning per share. The ratio increased from 5. 21 to 5. 48 this indicating company strength in paying its stock holders. The book value per share of common stock was calculated by dividing the dividends with the numbers of common stock. The ratio increased from 4. 25 to 5. 89 indicating safety of common stock holders after all debts had been offset (Stickney, 2010). 3. Evaluate the Company G ratios and trends against the available ratios and trends for the home center industry Both the current and acid test ratios of company G declined on a rage of 2. 1 and 0. 9 respectively, as compared to home center industry ratios. Connectively, inventories turn over and accounts receivable turn over ratios remained within a range of 10. 2 and 31. 4 with reference to home industry. However, in 2011 company G day’s sale in receivables ratio were within a rage of 11. 3 in home center rage of ratios while in 2012 trend the ratio fluctuated and later fallen under a range of 13. 5. Connectively, debt ratio displayed an increasing trend from 2011 and 2012 in relation to home center ratios. Additionally, the times interest ratios’ was substantially higher as compared to home center industry ratio over the past two years.

Additionally, ratios such as rate of return on net sales, rate of return on total assets, returns on common stock holder’s equity, price earning ration and book earning ratio displayed an increasing trend relative to a list of ratios of home center industry (Financial Analysis Students Template , 2011).

References Ehrhardt, M. C., & Brigham, E. F. (2011). Corporate finance: A focused approach. Mason, OH: South-Western Cengage Learning. Financial Analysis Students Template (2011 April, 12). Final task_1xls Horngren, C. T., & Harrison, W. T. (2009) Accounting (7th ed). Upper Saddle River, NJ: Prentice Hall. ISBN-13: 9780136072973. Retrieved :< http://www. gobookee. com/accountin -7th-horngren/>. on 5th my 2013 Stickney, C. P. (2010). Financial accounting: An introduction to concepts, methods, and uses. Mason, OH: South-Western/Cengage Learning.