Financial ratios and current ratio

Based on the table 1, it shows that the financial ratio was divided into four parts which are liquidity, assets management, long-term debt paying ability and profitability. Liquidity ratios are particularly interesting to short-term creditors and it is focus on current assets and current liability. In addition, General Thumb of rule for the current ratio should be at least 2: 1. For the Gemini Electronic the current ratio is consistent and it is increase in year 2006.

But we note that Gemini Electronics is slightly less liquid than the average firm in the industry because the current ratio is lower than the industry average. Both fixed assets turnover and total asset turnover are less than industry average, indicating that Gemini Electronics is using its asset inefficiently than the industry average in generating sales. In term of collects receivable Gemini Electronics was becoming slow during year 2009. One of the causes is many retailers demanded more generous credit terms than net 30, which standard in the industry.

Besides that, interest was also not charged on overdue account. Gemini Electronics' debt ratio and debt equity ratio indicate that Gemini Electronics is more leveraged than the average firm in industry. The higher leverage in part explains Gemini Electronics poor financial performance relative to the electronics industry because the leverage commits Gemini Electronics to interest payments that must be paid regardless of economic and market conditions.

The ratios indicate that Gemini Electronic has a higher cost of sales than the average firm in the electronics industry, resulting in a lower gross profit

margin, and higher indirect costs, resulting in lower net profit margin performance relative to the electronics industry. When referring to the Gemini Electronics cases the leverage was high because of all the assets were financed with term loans. This is the factors of the leverage becoming high.