Business industrie

Business

Financial analysis is the assessment on the effectiveness with which funds investment and debt are employed in a firm. It reviews the efficiency and profitability of the company operations, and value and safety of debtors' claims against its assets. Financial analysis employs techniques such as 'funds flow analysis' and financial ratios to understand the problems and opportunities inherent in an investment or financing decision

Further, the financial analysis will be done on some important financial ratios to assess the company strength and also the value for the investors to invest in their company. Hence, the company that has the stronger financial standing and potential for growth will finally be the choice of investors. All of the data's financial reports are from the years 2000 until 2009, which selected from DataStream at the Faculty of Economics and Management, University Putra Malaysia (UPM) and the annual reports of the companies.

Three financial statements have been mainly approached, which are Profits and Loss Accounts, Balance Sheets, and Cash Flow Statements. These ratios can measure the liquidity of a company. Companies have to ensure that they have the liquidity required to meet all their commitments. Liquidity ratios attempt to measure a company's ability to pay off its short-term debt obligations. It is essential for a company the measuring of the cash flows over the time to be aware of the liquid resources available to afford the obligations.

The most used liquidity ratios are: current ratio and acid test ratio. These would examine the relationship between liquid resources held and creditors due for payment in the near future1. Current ratio: this kind of ratio shows the size of the relationship between current assets (cash and assets which would become cash in a short time) and current liabilities (creditors falling due within one year), enhancing the comparability between firms. The result of the division expresses the times that the current assets would cover the current liabilities.

The current ratio can give a sense of the efficiency of a company's operating cycle or its ability to turn its product into cash. Companies that have trouble getting paid on their receivables or have long inventory turnover can run into liquidity problems because they are unable to alleviate their obligations. The higher the current ratio, the more capable the company is of paying its obligations. A ratio under 1 times suggests that the company would be unable to pay off its obligations if they came due at that point.

While this shows the company is not in good financialhealth, it does not necessarily mean that it will go bankrupt - as there are many ways to access financing - but it is definitely not a good sign. The ideal ratio is 2 times, that is, for every RM1 of current liabilities, a firm should have RM2 of current assets. Acid Test ratio: It is another reflection of the liquidity of a business It tells you if the business could meet its current obligations with quickly convertible assets. To calculate it, we have to take the current assets, subtract the stock or inventory and divided the result by the current liabilities.

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