

# [Superior's balance sheet report](https://assignbuster.com/superiors-balance-sheet-report/)

Superior Living’s Balance sheet highlights the financial health of the company over the last three years. The main aim of this report is to analyze the balance sheet and to concentrate on the working capital, current ration, short terms and long term debts. This will help identify the issues and concerns of the company.
Working Capital:
Working capital is the difference between the current assets and the current liabilities of any firm. This could also be explained as the assets that are set aside for the day – to –day operations of the business (Samuels et al, 2000). The working capitals for Superior Living for the three years are computed as follows:
Year/ ($ 000s)
Current Assets
Current Liabilities
Working Capital
2001
73, 700
34, 200
39, 500
2002
79, 200
37, 100
42, 100
2003
83, 900
41, 950
41, 950
The above calculations clearly highlights that Superior Living has had a steady working capital which is adequately higher than the current liabilities of the company. However, if the company aims at entering into newer projects and investments, the company would require to have a higher working capital.
Liquidity (Current and Quick Ratios):
The ration of the current assets and current liabilities is referred to current ratio. The current ratio highlights the liquidity position of the firm and this also highlights the ability of the firm to cover the current liabilities with the help of the current assets. The ratio between the ready cash assets and the current liabilities is referred to as the quick ratio. This is calculated as current assets – inventories – prepaid expenses. The liquidity ratios for Superior Living are computed as follows:
Year/
($ 000s)
Current Assets
Current Liabilities
Current Ratio
Quick Ratio
2001
73, 700
34, 200
2. 15
0. 59
2002
79, 200
37, 100
2. 13
0. 58
2003
83, 900
41, 950
2
0. 55
Superior Living’s ratio has been at a steady around 2 for the three years. This is a strong indication of good liquidity within the company. It is interesting to note that the inventories form a large portion of the current assets and they cannot be readily liquefied. The ideal quick ration is 1: 1 however the company has a much lower ratio and accounts to 0. 55. This highlights the fact that the short term cash needs and solvency of the company can be hard to meet (Burks and Wilks, 2007). Hence the company needs to improve the cash assets.
Short-Term and Long-Term Debts:
Superior living’s short term debts and long term debts are as in the table below. Short term debts refers to the ones which are due within a year which the long term debts refers to the ones due in more than one year (Samuels et al, 2000).
Year/ ($ 000s)
2001
2002
2003
Short-Term Debts
1, 200
1, 300
1, 450
Long-Term Debts
3, 000
3, 100
3, 400
Equity
121, 500
127, 500
132, 550
Debt-Equity Ratio
0. 02
0. 02
0. 03
Superior highlights a very low gearing ratio and is as low as 2% - 3% for the three years. It is essential to note that despite the increase in the long term debt, there is no evident change in the debt equity ratio. The company is not utilizing its borrowing abilities as an optimum gearing ratio would be around 50%.
Summary:
From the above discussion and the analysis of the Superior Living’s balance sheet it is essential to note the following issues and potential areas of concern.
a) Superior living has a high current ratio however the company needs to improve the ready assets and the inventories needs to be rethought.
b) Superior Living has not been utilising the various options that it possess like the borrowing ability, and this will enable the company to have a better balanced debt –equity ratio.
c) The steady working capital is a benefit for the company, however it is essential to understand that the company will need to increase this in case the company plans to bring in new projects and investments.
Bibliography
Burke, L. and Wilks, C., (2007), Management Accounting – Decision Management, 4th edn, CIMA Publishing
Samuels, J. M., Wilkes, F. M. and Brayshaw, R. E., (2000), Management of Company Finance, 6th edn, Thomson Learning, London