Icelandic enterprises essay sample

[Finance](), [Financial Analysis]()

As I comment on International Cosmetics' policies on the basis of " as reported" earnings, the calendar between the year 2001 and 2002, Icelandic Enterprise's annual sales volume rose from Ikr 8. 2 billion to Ikr 14. 6 billion while earnings doubled. When translated to dollars at average exchange rates prevailing during this period, Icelandic's sales increased from $328 million to 462 million. Dollar earnings increased by 112 percent. Based on " as reported" earnings, International Cosmetic's demand for dollar dividends appears justified and Icelandic can easily accommodate it. Management's statement that currency translation " automatically approximates the impact of inflation" is true only if exchange rates are perfectly negatively correlated with differences in national inflation rates. This condition, known as purchasing-power parity, does not exist here.

A quick review of the price level and exchange rate information shows that the difference in inflation between Iceland and the United States was not offset by changes in the dollar value of the kronur. Thus, some form of inflation accounting prior to currency translation would provide useful information for the managements of both International Cosmetics, Ltd. and Icelandic Enterprises, Inc. Based on the adjusted kronur earnings, Icelandic Enterprises is not doing as well as it appears at first glance, whether viewed in kronur or dollars. Accordingly, International Cosmetic's policy of pressing Icelandic for dividends appears unwise, especially as dividends come out of after-tax earnings.

Rather than withdraw cash from the business, International Cosmetic should invest more resources, or at least not withdraw funds needed for investment in equipment. In an inflationary environment such as Iceland, International

Cosmetics should seek to at least preserve the general purchasing power of its original investment. Better yet, it should act to preserve Icelandic’s productive capacity or the current cost model.

International Cosmetics should reconsider its original motives for investing in Iceland. If the investment was prompted by a desire to maintain or increase International Cosmetics share of a market offering long-run growth potential, withdrawing funds from Icelandic will hurt its ability to compete and expand. On the other hand, if International Cosmetic decides that Iceland no longer is as promising as originally thought, it should liquidate its investment there. This is much better than its present policy, which will bleed Icelandic Enterprises of needed capital. Either way, the parent company should decide based on real instead of nominal earnings numbers.