

Presenting to Stakeholders

Axia College of University of Phoenix

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“Financial statements provide insight into the company’s current status and lead to the development of policies and strategies for the future” (Axia, 2007). Financial statements and notes to the financial statements should be used to analyze the company. For instance, what do the financial statements reveal about why the company has requested a loan or purchased items on credit? What is the firm’s capital structure and what does the firm have outstanding? How well can the company pay back debt? What recourses are used to pay debt? What is the company’s performance record and are there any future expansions? What are the expected returns and how successful is the company compared to industry averages? Which areas of operations contributed to the company’s success, and what are the strengths and weaknesses of the company? What changes can be made to improve the future performance of the company?

Key financial ratios will assist in determining the information requested. Liquid ratios measure a firm’s ability to meet cash needs as they arise. The current ratio is a good tool to use because it measures the ability the firm has to pay debts when due. The current ratio for REC is at 2.4 times for 2007, although it is down from 2006 the company is still able to pay current debt when due. Cash flow ratio considers cash flow from operating activities has increased from 2006, and this indicates an improvement in short-run solvency. Average collection period has gone down 5 days within the last year. The cash conversion cycle gives in-site on why the cash flow has improved or decreased, in this case the conversion period for REC has improved by 26 days.

Activity ratios measure the liquidity of specific assets and the efficiency of managing assets. Accounts payable turnover is up seven times from the prior year and inventory turnover is also up .25 from last year. Accounts payable turnover is down 9.05 from 12.10 in 2006. This means that the company is taking longer to repay payables. The fixed asset turnover and total asset turnover ratios are used to assess management's skills in generating sales from investments in assets. The fixed asset turnover has dropped slightly, but the total asset turnover has risen slightly. The increase in total asset turnover comes from improvements in inventory and accounts receivable turnover.

Leverage ratios measure the extent of a firm's financings with debt relative to equity and its ability to cover interest and other fixed charges (Axia, 2007). Debt ratio, long-term debt to total capitalization and debt to equity have all raised slightly implying a slightly riskier capital structure. The times interest earned and the cash interest coverage have increased since 2006. The interest payments can be covered 7.4 times this year. The cash interest has improved due to the operating profits and cash from operations. The fixed coverage ratio is also important in cases where companies use operating leases. In this case, the fixed charges have increased slightly.

Profitability ratios are used to measure the overall performance of a firm and its efficiency in managing assets, liabilities, and equity. The ratios used are the gross profit margin, operating profit margin and net profit margin. All of which have improved for REC. As well as the cash flow margin, return on total assets, return on equity and cash return on assets. Over all the company seems to be in well financial standings and looking toward a profitable year.