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BS ritgerð í viðskiptafræði

Liquidity Analysis of a Company

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Viðskiptafræðideild

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HÁSKÓLI ÍSLANDS

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Introduction

Liquidity is one of the most important indicators of a company's financial activity. Liquidity of the company relates to how easy it is able to convert its assets into cash. For any company or individual investor to remain successful under present-day conditions, liquidity is important as cash is the basis of any business. In the case if a company is unable to collect actual cash from its customers on the regular basis, the company will soon become insolvent and will not be able to meet its obligations. Analyzing of a company's liquidity position will aid the business to avoid running into difficulties in the future as liquidity gives first signals of insolvency and therefore helps to prevent smash of a business. Statistics Iceland reveals that in the year 2013, there were 920 insolvencies of enterprises (Statistics Iceland, 2014). Taking into consideration the statistical data the issue becomes much more actual nowadays.

The goal of the BS-thesis is to summarize the theoretical foundations of the liquidity concept and to maintain research of liquidity situation at a particular company. For goal achievement there were set the following tasks:

- outline the importance of execution financial analysis at a company, defining its resources and methods, such as horizontal, vertical and ratio analysis;
- consider the liquidity concept;
- define liquidity indicators and ratios, such as working capital, current ratio, quick ratio and cash ratio;
- analyze company's liquidity position using ratio and horizontal method;
- research methods to improve the liquidity position of the company.

The thesis begins with outlining importance of execution financial analysis at a company, its resources and methods. The focus is made on the company's liquidity ratio analysis as one of the most important indicator of the company's financial activity. The financial statement of the company Marel Food System will be taken into consideration and will be analyzed its liquidity. In conclusion, will be studied possible ways which can affect the company's liquidity. The thesis includes 3 chapters, with introduction, conclusion and references, 4 formulas, 5 figures and 2 tables.

1 Importance of Financial Analysis

Financial statement analysis is an integral part of financial management, its most important component. C. Paramasivan and T. Subramanian characterize financial statement analysis as a “study of the relationship among the various financial factors in a business as disclosed by a single set of statements and a study of the trend of these factors as shown in a series of statements” (Paramasivan & Subramanian, 2010).

Subramayam K. R. and J.J. Wild give the following description of financial analysis: “the use of financial statements to analyze a company’s financial position and performance and to assess future financial performance” (Subramanyam & Wild, 2009). Authors distinguish two groups of the question the managers should focus on while conducting financial analysis. One group of questions is future oriented. To them belong such issues as whether a company possesses the resources to be successful, and to perform a growth in the future? Whether it is able to invest in new projects? A second group includes investigations that estimate a company’s progress and its capability to come through desirable financial position. For instance, how strong is the company’s financial position? What is the level of the company’s profitability? Is the company able to meet its obligations in the future? Did earnings meet analyst forecasts?

In general, financial statement analysis can be defined as the process which assesses the company’s financial-economic activity in the past, present and anticipated future. Its goal is to determine the state of the financial health, identify its weaknesses, potential sources of problems in its further activity and discover strengths, on which the company can emphasize (Houston, 2003).

1.1 Users of Financial Analysis

Financial analysis is used by a various number of parties who depend upon financial information for making economic decisions about a company, such as investors, creditors, security analysts, bank lending officers, managers, auditors, taxing authorities, regulatory agencies, labor unions, customers, and many other (Analysis and Uses of Financial Statements, 2013). In addition, the users of financial statement analysis are differentiated according to their particular interest (Kieso, Weygandt & Warfield, 2011). Thus, short-term creditors such as banks are first of all concerned about the capacity of

the company to settle its currently maturing obligations. In this case will be studied the current assets and their relations to the short-term obligations to estimate the liquidity and paying capacity of the company. Contrariwise, bondholders concentrate their attention on long-term indicators, such as enterprise's capital structure, past and projected earnings, and changes in financial position. Shareholders are also concerned about characteristics that demonstrate long-term company's situation, such as earnings picture, because changes of it have considerable effect on the market price of investments. Shareholders also consider financial position of the company since it influences by implication the steadiness of earnings. Company's managers are focused on the information that has a direct influence on the structure, type and a cost of external financing that the company is able to receive. Moreover, managers use financial data to conduct, breakeven analysis, capital budgeting, variance analysis, gross margin analysis.

The results of the financial analysis are the basis for management decisions, develop a strategy for further development of the enterprise.

1.2 Sources of Information for Financial Analysis

A company's balance sheet and income statement are considered to be the two main sources of information for financial analysis. Typically the starting point for analyzing is the balance sheet. The statement of financial position (or balance sheet) presents the financial position of the organization at the end of the financial year. It reveals what the company owns and what it owes at the specific period of time. The balance sheet provides its users with information on a company's resources (assets) and its sources of capital (its equity and liabilities) (Friedlob & Schleifer, 2003).

Conceptual Framework for Financial Reporting defines asset as "a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity" (The International Accounting Standards Board, 2010). In other words, assets represent resources obtained by a particular entity which result from the past transactions or events and which have future economic value. They can be measured and can be expressed in money terms. According to the IAS-1 "Presentation of Financial Statements" a classified statement of financial position of an entity must be divided into current and non-current assets and liabilities. To the

current assets belong cash or cash equivalents that will be realized in the company's normal operating cycle or within one year or held primarily for the purpose of trading. All other assets are non-current. They are held for more than 12 months and are used in business operation, including fixed assets like property, plant, and equipment; long-term investment property; and intangible assets like patents, copyrights, and goodwill (The International Accounting Standards Board, 2007). Both the total amount of assets and the elements of asset accounts are of interest to financial analysts.

Liabilities, on the other hand, "represent obligations of a company arising from past events, the settlement of which is expected to result in an outflow of economic benefits from the entity" (The International Accounting Standards Board, 2010). Current liabilities are those liabilities that the company intends to pay within its normal operating cycle or within 12 months, held for purpose of trading or for which the entity does not possess an absolute right to postpone settlement beyond one year. Other liabilities are non-current. Current liabilities are the obligations that will mature within one year, such as accounts payable, short-term loans, and taxes. Long-term debts are debts that mature more than one year from the date of the balance sheet (The International Accounting Standards Board, 2007). Liabilities are significant to financial analysts as businesses have same obligation to pay their accounts regularly because individuals, while business income tends to be less certain. Long-term liabilities are considered to be less important to analysts, since they require the urgency of short-term obligations, though their presence does indicate that a company is strong enough to be allowed to borrow money.

The statement of financial position also includes stock-holders' equity accounts, which particularize the permanent capital of the entity. The total equity commonly contains two parts: the resources that have been invested by shareholders, and the resources that have been retained from profits and reinvested in the entity. Sometimes the owners' equity is called the book value of the company. In general, equity represents the demands shareholders' (Friedlob & Schleifer, 2003).

Subramayam and Wild differentiate equity on two following items:

- financing contributed or invested by owners (contributed capital) and

- accumulated earnings exceeding distributions to owners (retained earnings) since foundation of the company.

From the owners', or shareholders', viewpoint, equity represents their claim on company assets (Subramanyam & Wild, 2009).

In comparison with the balance sheet, the income statement or profit and loss account reflects data about a company's performance during a certain period of time. Commonly it consists of one accounting year. It determines the entire operational performance of the concern like total revenue generated and expenses incurred for earning that revenue (Paramasivan & Subramanian, 2010).

The main components of the income statement according to the IAS-1 are revenues earned, gains and losses incurred, tax expenses (The International Accounting Standards Board, 2007). Revenues contain principally sales or service revenue, though revenues may also consist of royalties, interest, and extraordinary items. Similarly, operating expenses usually consist primarily of the cost of goods sold. Net income is the final result of the income statement (Fridson & Alvarez, 2002).

1.3 Methods of Financial Analysis

In analyzing financial statement data manager use different devices and methods to call out the comparative and relative significance of the financial informational provided. These methods include horizontal, vertical and ratio analysis. Weygandt J.J, Kimmel P.D and Kieso D.E. note that no one of these devices is more useful than one another. Every situation is different, and manager frequently acquire the necessary answer only upon thorough study of the interrelationships among all the information presented (Weygandt, Kimmel & Kieso, 2012).

1.3.1 Horizontal Analysis

Horizontal analysis, or trend analysis, illustrates tendency and establishes connection between articles that are presented on the same row of a comparative statement (Analysis and Uses of Financial Statements, 2013). It demonstrates changes on items in financial statements over several accounting periods. Each article (such as sales) on a row for one accounting period is compared with the same article in a different period. These periods may be several quarters over the same accounting period or they may be several different years. Horizontal analysis can be implemented in terms of changes in

money amounts, in percentages of change, or in a ratio format (Subramanyam & Wild, 2009). For instance, a user may discover that sales grew from one period to the next by \$42 million in absolute dollar amount or that it increased by a percentage such as 15% or 0,15 in ratio format.

1.3.2 Vertical Analysis

Vertical analysis is also called common-size analysis, is a method that evaluates each financial statement item as a percent of a base amount (Weygandt, Kimmel & Kieso, 2012). It includes the conversion of articles presented in statement columns into terms of percentages of a base figure to present the comparative meaning of the items. Vertical analysis allows determining the structure of assets, liabilities, income, expenses of the organization. For instance, certain items on the income statement can be expressed as specific gravity of sales. On the position statement, each assets can be expressed in terms of their relationship to total assets. Liabilities and shareholders' equity accounts can be expressed as percentage of their relationship to total liabilities and shareholders' equity (Analysis and Uses of Financial Statements, 2013). In estimating liquidity of current assets, it is often significant to know what specific gravity of current assets is composed of inventories, and not simply what proportion inventories are of total assets.

It's necessary to mention that the horizontal and vertical analyses complete each other. Thus, the vertical analysis is primarily directed on the items that have considerable specific gravity, the horizontal analysis emphasizes on items which share changed very rapidly.

1.3.3 Ratio Analysis

Ratio analysis is among the most popular and widely spread methods of financial statement analysis. Ratio analysis includes examining different relationships between various elements presented in a set of financial statements. A ratio is the mathematical relationship between one numbers to another number. The ration can be expressed in terms of a percentage, a rate or a simple proportion (Weygandt et al., 2012). Brealey A.B., Mayers, C.S., & Marcus, A.J. call ratio "a convenient way to summarize large

quantities of financial data and to compare firms' performance" (Brealey, Mayers & Marcus, 2001).

In conducting ratio analysis several aspects are important to understand. According to Robinson, Greuning, Elaine, and Broihahn the first aspect is that the computed ratio is not "the answer". The ratio is an indicator of some aspect of a company's performance, demonstrating what happened but not why it happened. Another important approach of ratio analysis is that discrepancies in accounting policies (within companies and within time) can misrepresent ratios, and a significant comparison may, therefore, include adjustments to the financial data. Third, not all ratios are necessarily meaningful to a particular analysis. The ability to choose a relevant ratio or ratios to answer the research question is an analytical skill. Finally, financial analysis in general is not limited only by calculations. It is essential to interpret the results of the ratio computation (Robinson, Greuning, Elaine & Broihahn, 2009).

Ratios can be divided into different types. From the point of view of financial management some authors single out three types of ratios: liquidity, profitability and solvency ratios. Commonly used approach is to divide them into groups presented below (Webster, 2003):

- activity ratio;
- solvency ratio;
- profitability ratio;
- debt ratio;
- liquidity ratio.

Activity ratio is also called as turnover or operational ratio. This ratio estimate how effectively the company is using its assets over a particular period and it is important to realize the position of the business concern.

Solvency ratio or leverage ratio measures the long-term obligation of the business concern. The ratio is helpful to understand, how the long-term resources are used in the business concern. They provide an assessment of the probability of a company to continue gathering its debt obligations.

Profitability ratio helps to measure the profitability performance of the business concern. Some of the major profitability ratios are profit margin on sales, rate of return on assets, rate of return on share capital, earnings per share, payout ratio and others.

Debt ratios show how the debt is used in a company's capital structure. They are also often called leverage ratios. To this type of ratios belong cash coverage ratios, total debt ratio, long-term debt ratio.

Liquidity ratios are also called as short-term ratio. These ratios give a picture of a company's short-term financial solvency. They are considered as an immediate "going concern" test (Subramanyam & Wild, 2009).

The next chapters will be dedicated to the detailed studying of the liquidity rates characteristics.

2 The Liquidity Concept. Liquidity Ratios

Liquidity is one of the most important factors for assessing the company's position. Gitman and Zutter emphasize on the importance of measuring the liquidity for the company (Gitman & Zutter, 2010). They consider that the liquidity relates to the solvency of the company's general financial position—the ease with which it can settle its debts. These ratios can provide early signs of cash flow troubles and approaching business insolvency. Apparently it is advisable that a company is able to pay its bills, so having enough liquidity for everyday operations is important. Nevertheless, liquid assets, like cash held at banks and marketable securities, do not yield an exceedingly high rate of return, so owners will not want a company to overinvest in them. Companies have to balance the need for security that liquidity provides against the low returns that liquid assets produce for investor.

The issue of liquidity concept is properly studied in economic science and sufficiently illuminated in the literature. The most narrow definition of liquidity is as the ability to convert assets into cash (Subramanyam & Wild, 2009).

On other words liquidity means the company's ability to pay its obligations as they come due. Brealey, Mayers, and Marcus adds to the liquidity's definition "the ability of an asset to be converted to cash quickly at low cost" (Brealey et al., 2001).

Liquidity relates to one accounting year or the operating cycle of the company, whichever is longer. In estimating liquidity, analysts are focused on information describing the amounts, timing, and certainty of a company's future cash flows. Ratios that directly evaluate a company's liquidity give clues regarding whether or not a company can settle its obligations that are coming due in the short run. The current (or working capital) ratio and the acid-test (or quick) ratio are important ratios that are used to measure a firm's liquidity (Analysis and Uses of Financial Statements, 2013).

2.1 Current Assets and Current Liabilities. Their Elements

Since the current assets and current liabilities are important indicators in assessing the company's liquidity we explain their each individual component in this chapter more

precisely. As was mentioned above current asset are assets that a company intends to convert into cash within one fiscal year (Weygandt et al., 2012). They consist mainly of

- cash and cash equivalents;
- marketable securities;
- receivables;
- long-term investments;
- inventories;
- prepaid expenses.

Cash and cash equivalents are considered the most liquid of all assets. Having cash on hand means the company has no limits regarding buying and selling items. Cash equivalents can be realized rapidly and tend not to lose value in the process. Examples of cash equivalents include commercial paper, money market funds, savings and checking account money (Friedlob & Schleifer, 2003). Since cash equivalents are usually low-yielding securities a company tries to minimize its investment in these assets (Haber, 2004).

Marketable securities are very liquid securities that can be converted into cash rapidly at a fair price. Marketable securities usually have to be repaid within less than one year. Furthermore, the rate at which these securities can be bought or sold has unimportant influence on their prices.

Receivable are the amounts of money customers, other companies and individuals owe on account. Accounts receivables arise mostly from the sale of goods and services (Weygandt et al., 2012).

Long-term investments are less liquid than cash and cash equivalents. Because some of them lose value if they are converted before their maturity dates, the owner cannot convert them to cash with ease. Examples of long-term investments are certificates of deposit, bonds and other assets that are expected to be held for at least a year (Friedlob & Schleifer, 2003).

Inventories are less liquid asset items that a company holds for sale or goods that it will use in the production of goods to be sold.

Prepaid expenses are expenditures for future benefits. As they are usually obtained within a fiscal year, they preserve the outlay of current funds. Prepaid expenses are typically small relative to other current assets (Kieso et al., 2011).

Current liabilities are assets that a company supposes to convert into cash, sell or use within a year. Current liabilities typically include:

- accounts and notes payable;
- current maturities of long-term debt;
- short-term obligations expected to be refinanced;
- dividends payable;
- unearned revenues;
- tax payable;
- employed-related liabilities.

Accounts payable is the money owed to suppliers for goods or services purchased. Accounts payable result from the time delay between the acquisition of services and the payment for them.

Current maturities of long-term debt are the part of long-term obligations that mature within the next 12 months. They could include bonds, mortgage notes, and other long-term liabilities.

Short-term obligations are indebtedness expected to mature within one accounting period after the date of the company's statement of financial position. They are scheduled to be refinanced on a long-term basis.

Dividends payable are the dividends declared by the company Board of Directors that have not yet been paid to the shareholders.

Unearned revenues are payment acquired before a good is sold or a service is provided.

Taxes payable are taxes owed to the government that have not yet been settled.

Companies also report as current obligations amounts owed to employees for salaries or wages at the end of an accounting period (Weygandt et al., 2012).

2.2 Working Capital

Working capital is really not a ratio in the strictest sense. It is an absolute amount. Computing working capital will let an analyst know whether there are more current assets than current liabilities, and how much cash is available to work with. Working capital measures the surplus resources the company will have available for operations, excluding any new funds it generates during the year. It is calculated by subtracting the balance sheet current liabilities from the current assets:

$$\text{Cash Ratio} = \frac{\text{Cash and Cash Equivalents} + \text{Marketable Securities}}{\text{Current Liabilities}}$$

Formula 1. Working Capital

It is preferable to have more current assets than current liabilities. If the number is negative, then it is necessary to correct that situation as soon as possible (Haber, 2004). Working capital is considered as a “safety cushion” to creditors. A large balance is needed when the company has difficulty borrowing at short notice (Webster, 2003).

2.3 Current Ratio

The current ratio is the standard measure of any company’s financial health. It gives an overall assessment of assets’ liquidity showing how much in current assets is available to cover each dollar of liabilities. In other words, the current ratio measures the ability of the company to pay its current obligations (Friedlob & Schleifer, 2003).

This ratio represents current assets in relation to current liabilities.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Formula 2. Current Ratio

A greater ratio denotes a greater level of liquidity (i.e., a higher capability to pay short-term obligations). Current ratio of 1:0 would mean that the book value of its current assets exactly equals the book value of its current liabilities. A lower ratio signifies less liquidity, implying a greater dependence on operating cash flow and

external financing to pay short-term obligations (Robinson et al., 2009). W.H. Webster considers the standard meaning for the current ratio is 2:1. The value of more than 3 may be „indicative of unsustainable capital structure, it may be associated with slowing the turnover of funds invested in stocks unjustified increase in accounts receivable” (Webster, 2003).

Subramayam and Wild emphasize the relevance of the current ratio distinguishing its ability to assess the following indicators:

- current liability coverage. The greater the amount of current assets to current liabilities, the higher guarantee the company has that current liabilities will be settled.
- buffer against losses. The greater the buffer, the lower the risk. The current ratio presents the margin of safety available to cover decline in noncash current asset values when eventually disposing of or liquidating them.
- reserve of liquid funds. The current ratio is important as a measure of the margin of safety against unsteadiness, shocks to a company’s cash flows. Uncertainties and shocks, such as strikes and unplanned losses, can unexpectedly impair cash flows (Subramanyam & Wild, 2009).

2.4 Quick Ratio

The quick ratio (also called the acid-test ratio) is more conservative than the current ratio because it consists of only the more liquid current assets (“quick assets”) in relation to current liabilities (Haber, 2004). It is similar to the current ratio except that inventory are excluded in numerator, since they are as was mentioned above the least liquid current asset. Gitman, and Jutter differ two main factors explaining the low liquidity of inventory:

- many kinds of inventory cannot be readily sold as they are partially completed items, special-purpose items and the like;
- inventory is usually sold on credit, which signifies that it becomes an account receivable before being converted into cash.

An additional authors consider that the problem with inventory as a liquid asset is concluded in that the times when companies meet the direst need for liquidity, when business is bad, are exactly the times when it is most difficult to convert inventory into cash by selling it (Gitman & Jutter, 2010).

Formula for calculating the ratio is presented below:

$$\text{Quick Ratio} = \frac{\text{Cash} + \text{Accounts Receivable} + \text{Marketable Securities}}{\text{Current Liabilities}}$$

Formula 3. Quick Ratio

According to Robinson and others, in situations where inventories are less liquid assets, the quick ratio may be a better indicator of liquidity than the current ratio (Robinson et al., 2009).

Like the current ratio, a higher quick ratio denotes the greater liquidity. Paramasivan, and Subramanian note that the normal value of the ratio is 1:1 On the other hand, the value of more than 3:1 may be indicative of irrational company's capital structure that may result from the slow turnover of the funds invested in inventory, the growth of accounts receivable. Furthermore, if the current ratio is within an acceptable range while the quick ratio is unacceptably low, it means that the company can recover its technical solvency through the sale of its inventory and receivables, but because of this it may lose opportunity to function normally (Paramasivan & Subramanian, 2010).

2.5 Cash Ratio

The cash ratio, also known as the doomsday ratio, is even more conservative than the quick ratio. This is due to the fact that inventory and accounts receivable are not taken into consideration in calculation. Since these two accounts are a large part of many companies, the ratio should not be used in assessing company value, but simply as one factor in assessing liquidity. It measures the capability of a company to settle its current liabilities with the cash and short-term securities. Formula for calculating the cash ratio is presented below:

$$\text{Cash Ratio} = \frac{\text{Cash and Cash Equivalents} + \text{Marketable Securities}}{\text{Current Liabilities}}$$

Formula 4. Cash Ratio

The cash ratio is useful if the collectability of a company's accounts receivables is in doubt (Friedlob & Schleifer, 2003). The cash ratio should be close to 1:1 and higher is better (Brealey et al., 2001).

The cash ratio is considered to be a good estimation of how a company can endure difficult times. In difficult times, cash is the most important asset many companies owns. If the company possesses enough cash it can survive, for instance, unpredictable reduction in sales. However, the cash ratio is not frequently used in financial reporting and in the fundamental analysis of a company. It is not rational for a company to hold intentionally high levels of cash assets to cover current liabilities. The reason is that this money could be used elsewhere to produce higher returns (Liquidity Measurement Ratios: Cash Ratio, 2013).

3 Analysis of the Company's Liquidity

3.1 Description of the Company under Analysis

The enterprise under analysis is Marel Food Systems (further the Company) is an Icelandic company that provides equipment, systems and services to the food processing industry. The operations of the Company include three business units:

- poultry processing;
- fresh meat systems;
- further processing.

The business units of the Company include Stork Food Systems, Stork Poultry Processing and Townsend Further Processing. The Company was established on March 17, 1983 and is headquartered in Gardabaer, Iceland. In 2007, Marel changed its corporate identity to Marel Food Systems. Nevertheless, in 2010, after its integration with Stork Food Systems was finished, the name was replaced back to Marel. At the end of 2012, it had 4,069 employees and annual revenues of EUR 714 million (Marel Food Systems, 2014).

3.2 Analysis of the Company's Liquidity

In this chapter will be examined more precisely the liquidity position of the Company by calculating the main liquidity indicators: working capital, current ratio, quick ratio and cash ratio. In the calculations have been used the data obtained from the financial statements of the Company from 2007 to 2013 and published at the Company's website (Marel Food Systems, 2014). In the summary table 1 are grouped the main balance sheet items of the Company used in calculating the liquidity ratios.

Table 1. Separate Articles of the Company's Balance Sheet from 2007 to 2013, thousand EUR

	2007	2008	2009	2010	2011	2012	2013
Inventories	61 587	113 636	81 054	80 590	99 364	99 178	91 796
Production contracts	15 168	26 473	11 992	18 354	38 046	40 163	24 829

Trade receivables	52 871	85 603	67 184	87 780	77 497	70 816	68 737
Assets held for sale			33 330	598	555		
Other receivables and prepayments	20 427	34 652	23 597	27 815	28 051	27 657	22 135
Derivative financial instruments	3 041	4 364					
Loan to Associate	49 607						
Restricted cash			25 882				
Cash and cash equivalents	30 437	21 038	46 022	63 908	30 934	15 945	19793
Current assets	233 138	285 765	289 061	279 045	274 447	253 759	227 290
Current liabilities	123 251	311 706	179 950	200 931	221 960	194 683	178 249

In fig. 1 dynamics of current assets and current liabilities are presented in 2007 through the end of 2013.

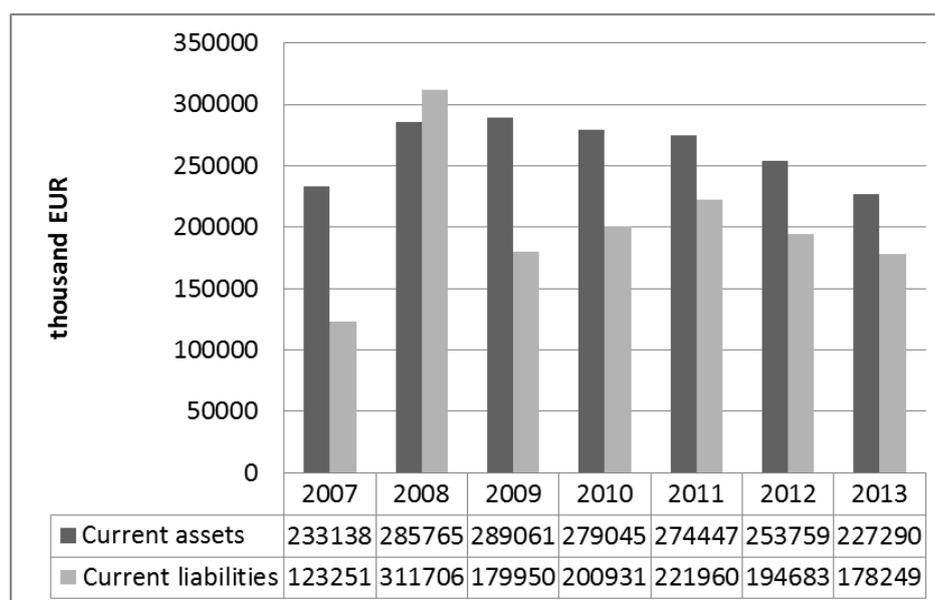


Fig. 1. Dynamics of Current Assets and Current Liabilities

It is apparent from the fig. 1 that in general during the research period a decrease in current assets and increase in current obligations has been observed. Thus, current

assets increased in 2008 from EUR 233,1 million to 285,8 million in 2008 and in whole were unchangeable till 2012 when they reduced to the point of EUR 253,7 million. Current liabilities, on the other hand, increased significantly in 2008 and reached its maximum, EUR 311,7 million and then also significantly were reduced to EUR 180,0 million in 2009.

In the table 2 are demonstrated the results of calculating liquidity ratios by plugging the data from the table 1 to the formulas 1-4.

Table 2. Liquidity Ratio Values, thousand EUR

	2007	2008	2009	2010	2011	2012	2013
Working capital	109887	(25941)	109111	78114	52487	59076	49041
Current ratio	1,89	0,92	1,61	1,39	1,24	1,30	1,28
Quick Ratio	1,23	0,44	1,02	0,85	0,66	0,65	0,76
Cash ratio	0,67	0,08	0,40	0,32	0,14	0,08	0,11

For the purpose of visual demonstration results presented in the table 2 the figures showing the obtained calculations have been created. Thus, fig. 2 presents the dynamics of working capital of the Company during the research period.

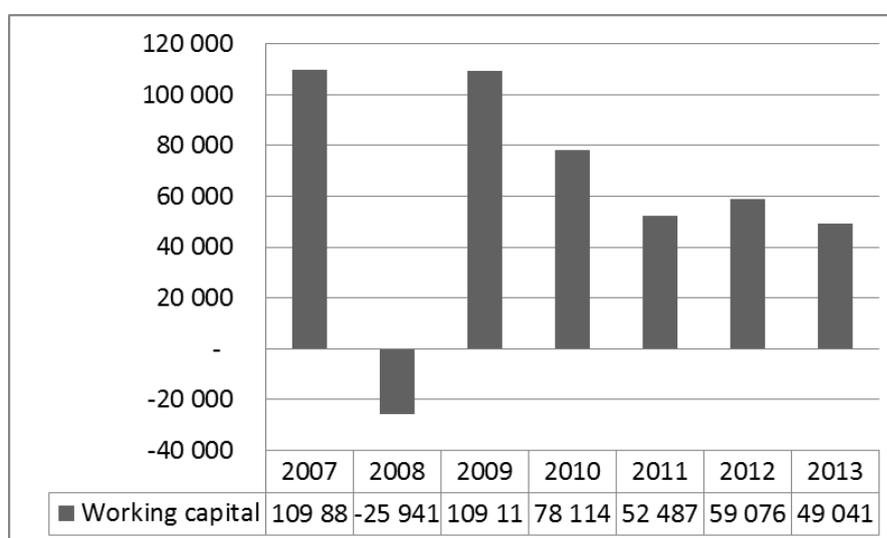


Fig. 2. Dynamics of Working Capital

Figure 2 indicates that the working capital indicators had positive value over the study period with the exception of 2008 when current obligations exceeded current assets over EUR 25,9 million. This can be easily explained by the impact of the recession in 2008. As a negative fact it is also necessary to match significantly decline in working capital since 2009 from EUR 109,1 million to EUR 49,0 million in 2013. Such trend was caused mainly by the current assets reduction during the period as presented in the table 3.1. Reduction of working capital for a long period is an unfavorable sign.

Figure 3 depicts the current ratio values over the period 2007-2013.

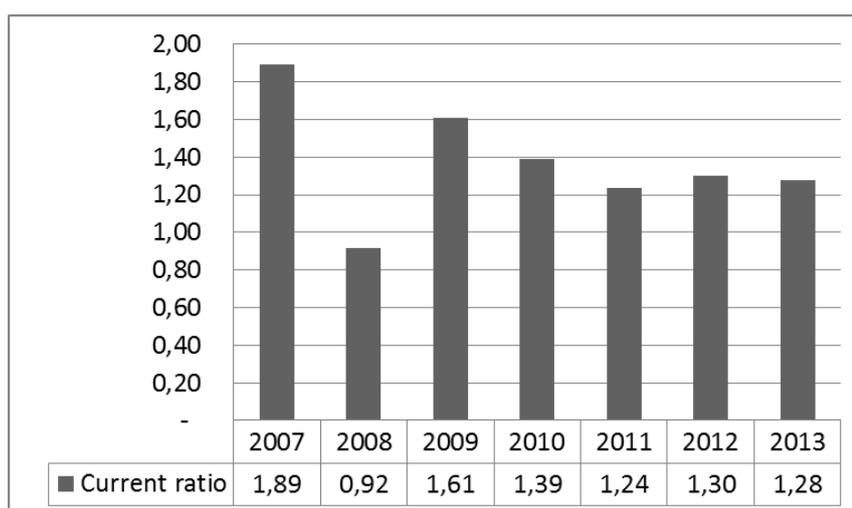


Fig. 3. Dynamics of Current Ratios

The current ratio of the Company showed decreasing and fluctuating trend during 2007-2013. The result indicates that the Company has less ability to pay its short-term debt at the end of 2013 than it had in 2007. The ratio ranged between 1,89 in 2007, 0,92 in 2008 and 1,28 in 2013. The minimal current ratio point was 0,92 in 2008 and the maximum one at the beginning of the period, 1,89. The ratio was not according to the norms of 2:1 during the research period. A low current ratio might suggest that the business is not well placed to pay its debts. It might be required to raise extra finance or extend the time it takes to pay creditors.

The quick ratio values of the Company are presented in the above fig. 4. The ratio showed downward trend during the study period. The ratio was 1,23 in 2007 and then it inclined to 0,44 in 2008. In 2009 it was 1,02 and went up in the last 2 years. The minimal quick ratio point was 0,44 in 2008 and the maximum point 1,23 in the last year. The

change from 1,23 to 0,76 indicates that the Company has a diminished ability to pay its current liabilities as they mature with its “quick” assets. The ratio showed that during the research period the Company could only maintain the quick ratio according the norms of 1:1 in 2007 and 2009.

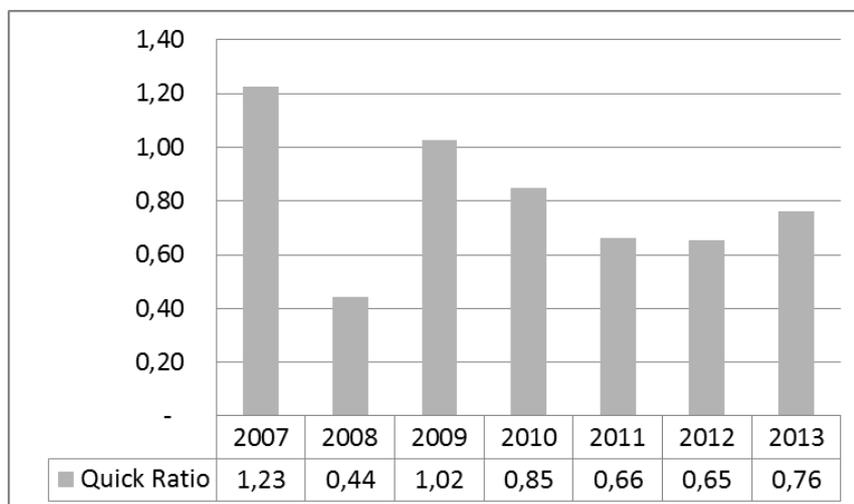


Fig. 4. Dynamics of Quick Ratios

The cash ratio of the Company is presented in the fig. 5. During the period from 2007 to 2013 the cash ratio changed significantly. It ranged between 0,65 in 2007, then it went down in 2008 to 0,08 and at the last year it was 0,11 which mean that the Company can cover 11% of its short-term liabilities by its cash and cash equivalents. Thus, the cash ratio did not meet the advisable norm of 1:1.

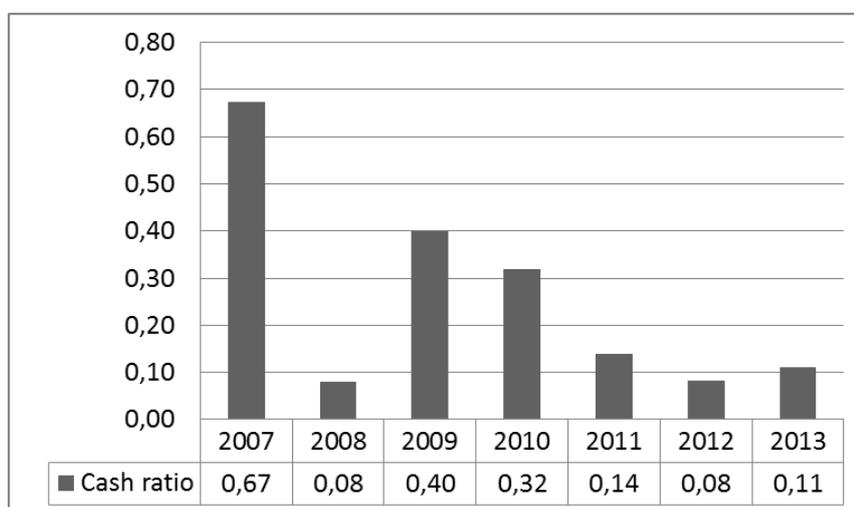


Fig. 5. Dynamics of Cash Ratios

3.3 Ways to Improve Company's Liquidity

As was discovered in the previous section the Company's liquidity ratios do not correspond to the generally accepted norms. Moreover, the examined liquidity ratios showed the regressing trend during the research period. Such situation needs effective methods of liquidity improvement. It is obvious that the Company may improve its liquidity ratios by managing the amount of its current assets and short-term liabilities. The goal is to enlarge current assets and to reduce current liabilities. It can be executed in several ways.

- accounts receivables monitoring;
- managing accounts payable;
- payment of current liabilities;
- increasing current assets with equity;
- selling unproductive asset.

Accounts receivables monitoring is considered to be effective method to make sure that a company is billing its clients duly and that it is receiving rapidly payoff. Faster cash turnover via accounts receivables will keep the current ratio under control. A regular monitoring with the accounts receivables can improve the collections from debtors. Moreover, it is also advisable to negotiate credit term as short as possible.

Another way to improve the current ratio is to take a long-term loan for all of the current liabilities. In this case the current liabilities will be completely eliminated which results in an increasing of liquidity ratios. The debt's amount however, is unchangeable, but will be paid over a longer period of time (Business Liquidity Ratios, 2010).

Payment of current liabilities as often and as early as possible is another way to improve the liquidity ratios. It would decline the amount of current liabilities and therefore improve the ratios. Let us examine the possible changes in current ratio of the Company. For instance, the Company had in 2007 EUR 233,1 million in current assets with EUR 30, 4 million in cash and EUR 123,2 million in current liabilities. The current ratio was 1,89. Assume that the Company would had paid off EUR 20 million debt in cash. The current ratio would improve in this case to the level of 2,02.

In the case of increasing current assets financed by equity rather than the receivables, the level of current assets would increase and current liabilities would remain the same. Consequently, these arrangements will improve the liquidity ratios. Assume that the Company would get EUR 20 million in cash by issuing ordinary shares. The current liabilities would remain EUR 123,2 million and the current ratio rate would become 2,05 instead of 1,89.

Ridding of unproductive assets that a company is just storing, like buildings, equipment and vehicles, could be efficient method of raising liquidity. In such case the cash level will be increased in the result of selling assets. The cash is unnecessarily blocked into them and useless money accrues interest cost (Newman, 2007).

Conclusion

In this BS-thesis have been fulfilled three main settled goals: study theoretical foundation of financial analysis and the concept of liquidity; analyzing liquidity position of Marel Food Systems; and research the possible ways to improve the liquidity indicators at the Company.

As was admitted above, financial analysis plays important role in financial management of a company, and liquidity is one of the most essential factors for assessing the company's position. In general, liquidity means the ability of the company to pay off its obligations as they mature.

The analysis of the Company's financial reports has revealed that during the research period a decrease in current assets and increase in current obligations has been observed, which is reflected in the level of liquidity of the Company. The liquidity ratios declined, especially this trend is observed in 2008. The international financial crisis and the slowdown of the global economy have affected the Company's operation. Also, throughout the period of liquidity did not meet recommended standards, which may indicate a possible risk of default on obligations in both the short and long term.

In order to avoid these risks, companies should conduct a series of activities aimed at optimizing the structure of assets and liabilities. Such ways as accounts receivables monitoring, managing accounts payable, payment of current liabilities, increasing current assets with equity, selling unproductive asset could be used to the company with the purpose to improve its assets liquidity.

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