**ACCT202 SPECIAL ASSIGNMENT**

**FINANCIAL RATIO ANALYSIS**

****

**(2013-2015)**

***Student Name Removed***

Submitted to

Earl Sedlik

ACCT202

**Notes to Students regarding this Sample Submission:**

This submission in Winter 2016 earned a 110 point grade (out of 100 points = 100%) because of the detail attachment of the calculations and the explanatory comments.

This score might have been even higher if the Comments in the TREND COLUMN of the RATIO SUMMARY TABLE amplified on the ratio changes. For example, the TIMES INTEREST EARN RATIO comment could have been:

“This remarkable increase in Solvency reflects the increasing profitability of the firm and its newly found stability in being able to cover its interest payment obligations. While maintaining a constant debt ratio, Amazon is showing very attractive “Times Interest Earned” ration because of its attractive profits in 2015. If amazon’s profit performance continues, its solvency seems to be secure.”

Compare this suggestion to the very competent comment list by the student beside the calculation description.

Please elaborate in your comments to display your personal reflections on the data and trends.

Please notice that the Appendix includes the financial data from a consecutive three-year period.

In this case, since Amazon does not pay any dividends, the analysis shows no Payout Ratio calculations and ignores the corresponding comments on dividend trends.

Earl Sedlik

**Ratio Summery**

|  |  |  |  |
| --- | --- | --- | --- |
| Liquidity Ratios | 2014 | 2015 | Trend |
| Current ratio | 1.12 | 1.08 | Decrease |
| Receivables Turnover | 17.15 | 17.78 | Increase |
| Inventory Turnover | 7.99 | 7.73 | Decrease |

|  |  |  |  |
| --- | --- | --- | --- |
| Profitability Ratios | 2014 | 2015 | Trend |
| Profit Margin | 0.27% | 0.65% | Increase |
| Asset Turnover | 1.88 | 1.78 | Decrease |
| Return on Assets | -0.44% | 0.91% | Increase |
| Return on Common stockholder’s equity | -2.35% | 4.94% | Increase |
| Earnings per Share | 0.52 | 1.28 | Increase |
| Price-earnings Ratio | -681.79 | 458.59 | Increase |
| Payout Ratio | 0.0 | 0.0 |  |

|  |  |  |  |
| --- | --- | --- | --- |
| Solvency Ratios | 2014 | 2015 | Trend |
| Debt to Total Assets Ratio | 52% | 52% |  |
| Times Interest Earned | 0.65 | 4.37 | Increase |

**Current ratio**

*Total Current Asset / Total Current Liabilities*

-> See Appendix 1A

|  |  |  |
| --- | --- | --- |
| ***2014*** |  | ***2015*** |
|  |  |  |  |  |  |  |
| *$31,327.00* |  *=*  | ***1.12*** |  | *$36,474.00* |  *=*  | ***1.08*** |
| *$28,089.00* |  | *$33,899.00* |

*Comment*

Since current liabilities in both years do not exceed current assets, it indicates that the company doesn’t necessarily go bankruptcy. The ratios in both years aren’t really in good financial health, which barely exceed 1. However, the company would be less of problem because it has very liquid assets (nearly a half of current assets is consist of cash). The ratio slightly decreased through 2014 – 2015 (0.04), which would mean the company would less easily find it refinancing its debts than it would in the previous year. However in general, it is considered that Amazon is efficiently using its money since the company is able to operate with quite a low current ratio, regarding its operating cash flow.

**Receivable turnover**

Net sales / Average net account receivables

-> See Appendix 1A, 1B, 2

|  |  |  |
| --- | --- | --- |
| ***2014*** |  | ***2015*** |
|  |  |  |  |  |  |  |
| *$88,988.00* |  *=*  | ***17.15*** |  | *$107,006.00* |  *=*  | ***17.78*** |
| *$5,189.50* |  | *$6,017.50* |

*Comment*

As shown above, Amazon was able to collect and re-loan money about 17.15 and 17.78 times each in 2014 and 2015. There is a slight increase of 0.63 in Account Receivable Ratio and it indicates an improvement in the process of cash collection on credit sales. Overall, the company’s receivables are liquid and are being collected promptly.

**Inventory turnover**

*Cost of Goods Sold / Average inventory*

-> See Appendix 1A, 2A

|  |  |  |
| --- | --- | --- |
| ***2014*** |  | ***2015*** |
|  |  |  |  |  |  |  |
| *$62,752.00* |  *=*  | ***$7.56*** |  | *$71,651.00* |  *=*  | ***$7.00*** |
| *$8,299.00* |  | *$10,243.00* |

*Comment*

Amazon’s inventory turnover is 7.00 for 2015 and 7.56 for 2014. On average, Amazon’s high inventory turnover rates mean that the company is managing its inventory efficiently overall. However, there is a small decrease in the inventory turnover of Amazon from 2014(7.56 times) to 7.00 times in 2015. This indicates that in 2015 Amazon turned its inventory approximately 7 times whereas in 2014 Amazon sold off its entire inventory 7.56 times. Even with relatively higher inventories, Amazon was less efficiently using them than they did in the previous year.

**Profit Margin**

*Net Income/ Net Sales*

*-> See Appendix 2*

|  |  |  |
| --- | --- | --- |
| ***2014*** |  | ***2015*** |
|  |  |  |  |  |  |  |
| *-$241.00* |  *=*  | ***-0.0027*** |  | *$596.00* |  *=*  | ***0.0056*** |
| *$88,988.00* |  | *$107,006.00* |

*Comment*

Amazon’s Profit margin ratio shows quite low values of -0.27% and 0.56% in 2014 and 2015. This would indicate that the company’s profitability is not very secure. The reason for the low value for 2014 would be that they had too much of operating expenses (88,810) almost same with the net sale (88,988). In 2015, the profit margin increased by 0.71% with its income growth. It would mean that the company’s costs are under better control than it was in the previous year.

**Asset Turnover**

*Net Sale / Average Total Asset*

-> See Appendix 1A, 1B, 2

|  |  |  |
| --- | --- | --- |
| ***2014*** |  | ***2015*** |
|  |  |  |  |  |  |  |
| *$88,988.00* |  *=*  | ***1.88*** |  | *$107,006.00* |  *=*  | ***1.78*** |
| *$47,332.00* |  | *$59,974.50* |

*Comment*

The total asset turnover decreased from 1.88 (2014) to 1.78 (2015). In 2014, every $1 in asset was able to generate $1.88 in sales, a slight decrease in the total asset turnover ratio, in 2015 every $1 in assets generated. Even though the sales increased by $18,018 million, the decrease in the asset turnover ratio indicates that Amazon was using its assets less efficiently to generate sale revenue than it did in the previous year.

**Return on Assets**

Net Income (loss) / Total Assets

-> See appendix 1A and 2

|  |  |  |
| --- | --- | --- |
| ***2014*** |  | ***2015*** |
|  |  |  |  |  |  |  |
| *-$241.00* |  *=*  | ***-0.0044*** |  | *$596.00* |  *=*  | ***0.0091*** |
|  *$54,505.00* |  | *$65,444.00* |

*Comment*

Amazon’s Return on Assets ratio shows -0.44% and 0.91% for 2014 and 2015. It means the company’s makes 0.91% of profit in 2015 with every dollar of its assets., and in 2014 the business wasn’t profitable. This indicates Amazon’s poor management use of its assets to generate profit. However, a small increase of 0.65% from 2014 to 2015 suggests that the profitability of the company is improving.

**Return on Common Stockholder’s Equity (ROE)**

*(Net Income-Preferred Dividends) / Average Common Stockholder’s Equity*

*-> See appendix 1A, 1B, 2, and 3*

|  |  |  |
| --- | --- | --- |
| ***2014*** |  | ***2015*** |
|  |  |  |  |  |  |  |
| *-$241.00 - 0* |  *=*  | ***-0.0235*** |  | *$596.00 - 0* |  *=*  | ***0.0494*** |
| *$10,243.50* |  | *$12,062.50* |

*\* No dividends declared on Amazon’s common stock*

*Comment*

Amazon’s Return on Common Stockholders’ Equity ratio increased from -2.35% to 4.94% through 2014 and 2015. Since the company reported a net loss in 2014, the ROE ratio is also negative. The next year, as the net income increases, the ROE ratio indicates Amazon generates $0.0494 of profit for every $1 of shareholders’ equity. An increase of ROE ratio indicates that Amazon is increasing its ability to generate profit without needing as much capital.

**Earnings Per Share (EPS)**

*(Net Income-Preferred Dividends) / Weighted average number of common shares outstanding*

-> See Appendix 2

|  |  |  |
| --- | --- | --- |
| ***2014*** |  | ***2015*** |
|  |  |  |  |  |  |  |
| *-$241.00 - 0* |  *=*  | ***-0.52*** |  | *$596.00 - 0* |  *=*  | ***1.28*** |
| *$462.00* |  | *$467.00* |

\* Diluted weighted average number of common shares used.

*\* No dividends declared on Amazon’s common stock*

Amazon reported its EPS rates 1.28 for 2015. The rates are far different than -0.56 for the EPS ratio in 2014. It is considered that Amazon wasn’t financially healthy in 2014, since higher earnings per share is always better. As like other profitability ratio, Amazon doesn’t seem profitable regarding EPS ratio. On the other hand, in 2015, Amazon’s higher EPS is a sign of higher earnings and strong financial position than it was in 2014.

**Price-earning Ratio**

*Market Value Price per Share / EPS*

|  |  |  |
| --- | --- | --- |
| ***2014*** |  | ***2015*** |
|  |  |  |  |  |  |  |
| *$354.53* |  *=*  | ***-681.79*** |  | *$587.00* |  *=*  | ***458.59*** |
| *-0.52* |  | *1.28* |

\* This method is trailing P/E ratio since calculated using EPS from the past year.

*Comment*

Amazon’s P/E ratio for 2014 is not reported as shown below, but my calculation shows a negative number of -681.79. In 2015, its P/E ratio shows 458.59, which would suggest that investors in the stock market are willing to pay $458.59 for every $1 of earnings that the company makes. This extreme growth in P/E ratio could be explained by the increase of company’s earnings. While Amazon posted losses in 2014 (net loss of -241), the next year it reported a net income of 591. If its P/E ratio in 2014 is regarded 0, this dramatic increase of 458.59 shows company’s high confidence in the stock market and market’s high expectation for Amazon’s growth in the near future.



https://www.stock-analysis-on.net/NASDAQ/Company/Amazoncom-Inc/Long-Term-Trends/P-E

**Payout Ratio**

*Dividends per Share(DPS) / EPS*

*-> See Appendix 3 and EPS ratio*

|  |  |  |
| --- | --- | --- |
| ***2014*** |  | ***2015*** |
|  |  |  |  |  |  |  |
| *$0.00* |  *=*  | ***0.00*** |  | *$0.00* |  *=*  | ***0.00*** |
| *-$0.52* |  | *$1.28* |

*Comment*

Since Amazon declares no dividends on common stock, its payout ratio shows zero, which means they do not pay a dividend to its stockholders

**Debt to Total Assets Ratio**

*(ST debt + LT debt) / Total Assets*

|  |  |  |
| --- | --- | --- |
| ***2014*** |  | ***2015*** |
|  |  |  |  |  |  |  |
| *$28,089.00* |  *=*  | ***$0.52*** |  | *$33,899.00* |  *=*  | ***$0.52*** |
| *$54,505.00* |  | *$65,444.00* |

*Comment*

Debt to Total Assets Ratio shows 52% for both years. This would be considered less risky since the company has twice as many assets as liabilities.

**Times Interest Earned (TIE)**

*Earnings before Interest and Tax(EBIT) / Interest Expense*

-> See Appendix 2

|  |  |  |
| --- | --- | --- |
| ***2014*** |  | ***2015*** |
|  |  |  |  |  |  |  |
| *$136.00* |  *=*  | ***0.65*** |  | *$2,005.00* |  *=*  | ***4.37*** |
| *$210.0000* |  | *$459.0000* |

*Comment*

The TIE ratio is one ratio shows a company’s ability to pay off its interest expenses with its available earnings. Amazon’s TIE ratio significantly increased by 3.72 from 2014 to 2015. Its lower value in 2014 would mean that the company was barely paying off its current interest expense. Its increased ratio of 4.37 means that the company makes enough income to pay for its total interest expense 4 times over.

***Appendix 1A B/S (2015)***

**AMAZON.COM, INC.**

**CONSOLIDATED BALANCE SHEETS**

**(in millions, except per share data)**

|  |
| --- |
|  |
|  |  |  |  |  |  |  |  |
|   | **December 31,** |
|   | **2015** |   | **2014** |
| **ASSETS** |   |   |   |
| Current assets: |   |   |   |
| Cash and cash equivalents | $ | 15,890 |  |   | $ | 14,557 |  |
| Marketable securities | 3,918 |  |   | 2,859 |  |
| Inventories | 10,243 |  |   | 8,299 |  |
| Accounts receivable, net and other | 6,423 |  |   | 5,612 |  |
| Total current assets | 36,474 |  |   | 31,327 |  |
| Property and equipment, net | 21,838 |  |   | 16,967 |  |
| Goodwill | 3,759 |  |   | 3,319 |  |
| Other assets | 3,373 |  |   | 2,892 |  |
| Total assets | $ | 65,444 |  |   | $ | 54,505 |  |
| **LIABILITIES AND STOCKHOLDERS’ EQUITY** |   |   |   |
| Current liabilities: |   |   |   |
| Accounts payable | $ | 20,397 |  |   | $ | 16,459 |  |
| Accrued expenses and other | 10,384 |  |   | 9,807 |  |
| Unearned revenue | 3,118 |  |   | 1,823 |  |
| Total current liabilities | 33,899 |  |   | 28,089 |  |
| Long-term debt | 8,235 |  |   | 8,265 |  |
| Other long-term liabilities | 9,926 |  |   | 7,410 |  |
| Commitments and contingencies (Note 7) |  |  |   |  |  |
| Stockholders’ equity: |   |   |   |
| Preferred stock, $0.01 par value: |   |   |   |
| Authorized shares — 500 |   |   |   |
| Issued and outstanding shares — none | — |  |   | — |  |
| Common stock, $0.01 par value: |   |   |   |
| Authorized shares — 5,000 |   |   |   |
| Issued shares — 494 and 488 |   |   |   |
| Outstanding shares — 471 and 465 | 5 |  |   | 5 |  |
| Treasury stock, at cost | (1,837 | ) |   | (1,837 | ) |
| Additional paid-in capital | 13,394 |  |   | 11,135 |  |
| Accumulated other comprehensive loss | (723 | ) |   | (511 | ) |
| Retained earnings | 2,545 |  |   | 1,949 |  |
| Total stockholders’ equity | 13,384 |  |   | 10,741 |  |
| Total liabilities and stockholders’ equity | $ | 65,444 |  |   | $ | 54,505 |  |

***Appendix 1B – B/S (2014)***

**AMAZON.COM, INC.**

**CONSOLIDATED BALANCE SHEETS**

**(in millions, except per share data)**

|  |
| --- |
|  |
|  |  |  |  |  |  |  |  |
|   | **December 31,** |
|   | **2014** |   | **2013** |
| **ASSETS** |   |   |   |
| Current assets: |   |   |   |
| Cash and cash equivalents | $ | 14,557 |  |   | $ | 8,658 |  |
| Marketable securities | 2,859 |  |   | 3,789 |  |
| Inventories | 8,299 |  |   | 7,411 |  |
| Accounts receivable, net and other | 5,612 |  |   | 4,767 |  |
| Total current assets | 31,327 |  |   | 24,625 |  |
| Property and equipment, net | 16,967 |  |   | 10,949 |  |
| Goodwill | 3,319 |  |   | 2,655 |  |
| Other assets | 2,892 |  |   | 1,930 |  |
| Total assets | $ | 54,505 |  |   | $ | 40,159 |  |
| **LIABILITIES AND STOCKHOLDERS’ EQUITY** |   |   |   |
| Current liabilities: |   |   |   |
| Accounts payable | $ | 16,459 |  |   | $ | 15,133 |  |
| Accrued expenses and other | 9,807 |  |   | 6,688 |  |
| Unearned revenue | 1,823 |  |   | 1,159 |  |
| Total current liabilities | 28,089 |  |   | 22,980 |  |
| Long-term debt | 8,265 |  |   | 3,191 |  |
| Other long-term liabilities | 7,410 |  |   | 4,242 |  |
| Commitments and contingencies (Note 8) |  |  |   |  |  |
| Stockholders’ equity: |   |   |   |
| Preferred stock, $0.01 par value: |   |   |   |
| Authorized shares — 500 |   |   |   |
| Issued and outstanding shares — none | — |  |   | — |  |
| Common stock, $0.01 par value: |   |   |   |
| Authorized shares — 5,000 |   |   |   |
| Issued shares — 488 and 483 |   |   |   |
| Outstanding shares — 465 and 459 | 5 |  |   | 5 |  |
| Treasury stock, at cost | (1,837 | ) |   | (1,837 | ) |
| Additional paid-in capital | 11,135 |  |   | 9,573 |  |
| Accumulated other comprehensive loss | (511 | ) |   | (185 | ) |
| Retained earnings | 1,949 |  |   | 2,190 |  |
| Total stockholders’ equity | 10,741 |  |   | 9,746 |  |
| Total liabilities and stockholders’ equity | $ | 54,505 |  |   | $ | 40,159 |  |

***Appendix 2 – Consolidated Statements of Operations***

**AMAZON.COM, INC.**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

**(in millions, except per share data)**

|  |
| --- |
|  |
|  |  |  |  |  |  |  |  |  |  |  |  |
|    | **Year Ended December 31,** |
|   | **2015** |   | **2014** |   | **2013** |
| Net product sales | $ | 79,268 |  |   | $ | 70,080 |  |   | $ | 60,903 |  |
| Net service sales | 27,738 |  |   | 18,908 |  |   | 13,549 |  |
| Total net sales | 107,006 |  |   | 88,988 |  |   | 74,452 |  |
| Operating expenses (1): |   |   |   |   |   |
| Cost of sales | 71,651 |  |   | 62,752 |  |   | 54,181 |  |
| Fulfillment | 13,410 |  |   | 10,766 |  |   | 8,585 |  |
| Marketing | 5,254 |  |   | 4,332 |  |   | 3,133 |  |
| Technology and content | 12,540 |  |   | 9,275 |  |   | 6,565 |  |
| General and administrative | 1,747 |  |   | 1,552 |  |   | 1,129 |  |
| Other operating expense (income), net | 171 |  |   | 133 |  |   | 114 |  |
| Total operating expenses | 104,773 |  |   | 88,810 |  |   | 73,707 |  |
| Income from operations | 2,233 |  |   | 178 |  |   | 745 |  |
| Interest income | 50 |  |   | 39 |  |   | 38 |  |
| Interest expense | (459 | ) |   | (210 | ) |   | (141 | ) |
| Other income (expense), net | (256 | ) |   | (118 | ) |   | (136 | ) |
| Total non-operating income (expense) | (665 | ) |   | (289 | ) |   | (239 | ) |
| Income (loss) before income taxes | 1,568 |  |   | (111 | ) |   | 506 |  |
| Provision for income taxes | (950 | ) |   | (167 | ) |   | (161 | ) |
| Equity-method investment activity, net of tax | (22 | ) |   | 37 |  |   | (71 | ) |
| Net income (loss) | $ | 596 |  |   | $ | (241 | ) |   | $ | 274 |  |
| Basic earnings per share | $ | 1.28 |  |   | $ | (0.52 | ) |   | $ | 0.60 |  |
| Diluted earnings per share | $ | 1.25 |  |   | $ | (0.52 | ) |   | $ | 0.59 |  |
| Weighted-average shares used in computation of earnings per share: |   |   |   |   |   |
| Basic | 467 |  |   | 462 |  |   | 457 |  |
| Diluted | 477 |  |   | 462 |  |   | 465 |  |
| \_\_\_\_\_\_\_\_\_\_\_\_\_ |   |   |   |   |   |
| (1)    Includes stock-based compensation as follows: |   |   |   |   |   |
| Fulfillment | $ | 482 |  |   | $ | 375 |  |   | $ | 294 |  |
| Marketing | 190 |  |   | 125 |  |   | 88 |  |
| Technology and content | 1,224 |  |   | 804 |  |   | 603 |  |
| General and administrative | 223 |  |   | 193 |  |   | 149 |  |

***Appendix 3 – dividends***

***Dividends***

We have never declared or paid cash dividends on our common stock. See Item 7 of Part II, “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources.”