Example Analysis: Comparing WorkPoint's performance in 2017 and 2016

Ratio	Work2017	Work2016
Current ratio	2.17	1.80
Quick ratio	2.00	1.59
Inventory turnover [a]	8.52	7.41
Average collection period [a]	53.87	37.63
Debt ratio	31.09%	44.92%
Time interest earned ratio	12.95	3.26
Gross profit margin	54.94%	44.18%
Net profit margin	23.51%	7.53%
Return on total assets	14.09%	3.74%
Return on common equity	20.45%	6.80%

[a] Based on a 360-day year.

1. Short-term solvency ratio (liquidity ratio) – current ratio and quick ratio

WorkPoint had big improvement from previous year. Both current ratio and quick ratio increased considerably from 1.80 to 2.17, and 1.59 to 2.00, respectively. Even in terms on most liquid assets, from quick ratio, the value showed that WorkPoint possessed it two times higher than current liability. The company had quite strong position in liquidity management.

2. Asset management ratio (activity ratio) – inventory turnover and average collection period

The company had an increase in production and selling cycles more than previous year, from 7.41 times on average in 2016 to 8.52 times in 2017. However, it took longer period in collection money from receivables, on average 53.87 days in 2017 which was higher than 37.63 days in 2016. We would thus expect that the company invested in account receivables more than previous year. This was consistent with the finding from liquidity management ratio showing that the company had much current assets higher than current liabilities.

3. Long-term solvency ratio – debt ratio and time interest earned ratio

WorkPoint lowered its debt level from 44.92% in 2016 to 31.09% in 2017. This implied that interest payment decreased, as shown in Income Statement. Therefore, the ability to pay interest was much improved from previous year. Looking into time interest earned ratio in 2017, the company had EBIT around 12.95 times higher than interest payment obligation, compared with 3.26 times higher in 2016.

4. Profitability ratio - gross profit margin, net profit margin, return on total assets, and return on common equity

The company had profitability ratios much higher than previous year. Gross profit margin increased around 10% to 54.94% in 2017, and net profit margin was improved 3 times higher than 2017, 23.51% in 2017. Moreover, return on assets and return on equity substantially increased to 14.09% and 20.45% in 2017, compared with 3.74% and 6.80%, respectively in 2016.