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Accounting 211

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**Financial Ratio Project For Safeway.Inc**

* **Return on Assets = Net Income/Average total assets**

This ratio primarily measures the profitability of a company and how well it can compete with its competitors

For the year of 2006, the Safeway Company Return on Assets:

870.6/ {(16273.8+15756.9)/2}

= 5%

* **Debt Ratio = Total Liabilities/ Total Assets**

This ratio shows how company’s assets able to cover their liabilities without having to borrow any other capital besides their assets.

For the year of 2005, the Safeway Company Debt Ratio:

10837.2/15756.9

= 69%

This company relies most on creditor financing at 69%.

For the year of 2006, the Safeway Company Debt Ratio:

10606.9/16273.8

= 65%

This company still depends most on creditor financing at 65% even though the number of this ratio is less than last year.

* **Profit Margin = Net Income/ Net Sales**

This ration is a useful measure of company’s operating results.

For the year of 2004, the Safeway Company Profit Margin:

560.2/35822.9

= 2%

This number shows that they earn 2 cents for each dollar of sales recorded.

For the year of 2005, the Safeway Company Profit Margin:

561.1/38416

= 1%

This number shows that they earn 1 cent for each dollar of sales recorded.

For the year of 2006, the Safeway Company Profit Margin:

870.6/40185

= 2%

This number shows that they earn 2cents for each dollar of sales recorded.

\* These numbers show a favorable trend because at least they earn a profit in each dollar of sales recorded, which allowing them to continue their businesses.

* **Current Ratio = Current Assets/ Current Liabilities**

The current ratio is a ratio shows the ability of the company to pay its short-term obligation. This ratio affects creditors because when they see a good ratio they will be more interested in investing or lend the money to the company. In addition, It shows the company responsibility in fulfilling their short-term liabilities.

For the year of 2005, the Safeway Company Profit Margin:

3702.4/4263.9

=87%

This ratio shows that the company is in a good situation because their current assets exceed their current liabilities.

For the year of 2006, the Safeway Company Profit Margin:

3565.7/4601.4

=77%

This ration shows that the company is still in a good situation even though the ration for this year less than last year.

* **Acid-Test Ratio = (Cash and equivalents + Short-term investments + current receivables) / Current liabilities**

This ratio is design to check the liquidity of the company, whether or not it can pay off their liabilities on a moment notice. In addition, this ratio is often called the quick ration because it includes all current assets and their equivalents divided by their current liabilities.

For the year of 2005, the Safeway Company Profit Margin:

(373.3+350.6)/4263.9

=17%

This number shows unfavorable trend because the percentage is too low and that the company can only pay off 17% of their liabilities with their quick assets on a moment notice.

For the year of 2006, the Safeway Company Profit Margin:

(216.2+461.2)/4601.4

=15%

This number also shows unfavorable trend.

* **Gross Margin Ratio = (Net Sales–COGS)/ Net Sales**

This is a ratio that shows a company's pricing, cost structure and production efficiency.

For the year of 2004, the Safeway Company Profit Margin:

10595.3/35822.9

=30%

This ratio shows a favorable trend because the company makes 30 cents on each dollar they earn.

For the year of 2005, the Safeway Company Profit Margin

11112.9/38416

=29%

This ratio shows a favorable trend because the company makes 29 cents on each dollar they earn, but it is less than last year.

For the year of 2006, the Safeway Company Profit Margin

11581/40185

=29%

* **Day’s Sales in Inventory= Ending Inventory/COGS\*365**

This is a ratio that often called day’s stock on hand. It shows how much inventory is available in terms of the number of day’s sales.

For the year of 2005, the Safeway Company Day’s Sales in Inventory:

2766/27303.1\*365

=37 days.

This ratio shows that the current inventory will convert to cash or AR in 37 days.

For the year of 2006, the Safeway Company Day’s Sales in Inventory:

2642.5/28604\*365

=34 days.

This ratio shows that the current inventory will convert to cash or AR in 34 days.

* **Accounts Receivable Turnover= Net Sales/Average Accounts Receivable**

This ratio is a calculating of both the quality and liquidity of AR. It points out how often receivable are received during the period.

For the year of 2006, the Safeway Company Accounts Receivable Turnover:

40185/ {(461.2+350.6)/2}

=99

This ratio shows that the company’s average AR balance was converted into cash 99 times in 2006

* **Price-Earnings Ratio= Market Value (price) per share/Earning per share**

This ratio shows that what the market is willing to pay for company’s current earning stream.

For the year of 2004, the Safeway Company P/E Ratio:

19.38/1.26

=15

This number shows that the company has a moderate P/E ratio.

For the year of 2005, the Safeway Company P/E Ratio:

23.29/1.25

=17

For the year of 2006, the Safeway Company P/E Ratio:

34.30/1.96

=17.5

* **Return on Common Stockholders’ Equity=(Net Income-Preferred Dividend)/Average Common Stockholders’ Equity**

This ratio measures a company success in reaching its goal which is to earn net income for its owner(s).

For the year of 2006, the Safeway Company Return on Common Stockholders’ Equity:

870.6/ {(5666.9+4919.7)/2}

=8%