TITLE OF THE PAPER

by Student’s Name

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INTRODUCTION

Giving loan or lending a loan to any organization or a business is not a one day game. It requires a holistic approach, in which the lenders see the financial outlook of the company and then comes up with the decision (Armstrong et al., 2010). In case of ACE Company, at least two recent year financial statements are to be studies. Several measures will be implemented on the given information, to get insight about the decision.

INVENTORY TURNOVER

Inventory turnover is very important for the lender to see, as it identifies the operating mode and condition of the company (Hitching, 1998).

The given information indicates that the company's inventory turnover is lower than the industry average. In 2016 and 2017, the inventory turnover was 1.94 and 1.82. However, the average industry turnover is 10 times per year. This shows that ACE Company has a lower inventory turnover than the industry.

As for the question of either higher or lower turnover, which is better? Generally, the company with a higher inventory turnover is considered better because it indicates that it is selling the inventory inefficiently and effectively (Choudhary and Tripathi, 2012). However, a lower inventory turnover shows that the inventory could be managed more effectively. Also, the lower inventory turnover shows that valuable resources are being tied up, leading to higher storage and holding costs.

As per the information given by ACE Company, the inventory turnover decreased from 2016 to 2017, and turnover decreased from 1.94 times to 1.82 times. It portrays that this indicator is getting worst. The reason for such a worst condition can be that either the demand for ACE company products is falling or the management needs to be more vigilant in taking care of inventory. In this regard, ACE Company should take measures to improve the declining condition of inventory turnover.

ACCOUNT RECEIVABLE TURNOVER

Account receivable turnover is another important tool to consider the company's financial health (Salek, 2005). The trend, as per the given information of two years, shows that in 2016, the ACE Company Account receivable turnover was 4.68 times. And in the year 2017, the turnover is 5.06 times. To see the relevance of the trend, it can be said that the increasing trend in the account receivables ratio shows that the company is efficient enough in collecting its receivables – a positive sign. However, a decreasing trend depicts that the company is not efficient enough in collecting its outstanding debt, which is a source of financial distress (Rusdiyanto et al., 2019). In the case of ACE Company, the trend is upward. Account receivable turnover increased in the year 2017. From this, it can be said that the turnover has improved from 2016-2017 – 4.68 to 5.06. Therefore, the company had a better financial position in 2017 than 2016.

SHORT-TERM & LONG-TERM CREDIT

The short-term and long-term creditworthiness is of immense importance for the lender to analyze the company's position (Babalola and Abiola, 2013). The current position of long-term credit shows that the liability has decreased from $10000 to $9800. Not a drastic decrease, but still, there is. As for short-term, the current ratio increased from 1.53:1 to 1.79:1. For inventory turnover, and it decreased from 1.94 times to 1.82 times.

From this, long-term creditworthiness has improved for ACE Company, which means that the company is good at paying off loans. In the context of the current ratio, the current worthiness has increased, which means it has enough balance to pay off its loan.

CASH BALANCE

The cash balance of ACE Company increased from $1800 to $2547 in 2016-2017. This means a good liquidity position for the company as it has the cash to pay off the loans or other expenses.

DEBT TO EQUITY

The ACE Company debt to equity ratio increased from 3.78 to 2.49 in 2016-2017. This shows that the company is relying less on liability in 2017, as compared to 2016. , ACE Company has improved its financial leverage.

NET PROFIT

ACE Company's net profit has increased from 14% in 2016 to 16.2% in 2017. This means that the company is improving and rising high on the ladder.

GROSS PROFIT

Company’s Gross profit has increased from $9500 to $10000. And as per the ratio calculated, the margin was 47.2% in 2016, which increased to 50% in 2017. This shows a positive gesture in financial statements that is able to increase its sale along with profit.

TIME INTEREST EARNED

The time interest earned ratio has increased from 8 times in 2016 to 10.2 times in 2017. This indicates that the company is better able to meet its interest obligation.

RECOMMENDATION AS A LOAN MANAGER

After analyzing ACE Company's financial data, it is evident that the company's performance is fair enough. The company's profitability has improved, debt financing has been reduced, and liquidity has increased. Based on the provided financial ratios, **I suggest approving the loan request.** However, it is essential to conduct further due diligence to assess the associated risks thoroughly. Though the financial ratios indicate good performance, they are only a partial picture of the company's financial health. Therefore, information such as management competence, market trends, and industry-specific factors should be analyzed to make an informed decision. The loan manager should ensure that all necessary information is gathered and scrutinized before making a final decision. The loan approval decision should be based on a comprehensive review of the company's financial and non-financial aspects. Ultimately, a well-thought-out decision will ensure the company's success and the lending organization's profitability.

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APPENDIX

BALANCE SHEET

	2017	2016
	$	$
ASSETS		
Cash	2547	1800
Account Receivables	4000	3900
Inventory	6000	5000
Property, Plant, and equipment, net of depreciation	10000	9800
Other Long-term asset	1000	1000
Total Asset	**23547**	**21500**
LIABILITY AND EQUITY		
Current Liability	7000	7000
Long term liability	9800	10000
Common Stock (50000 shares issued and outstanding)	2000	2000
Retained Earning	4747	2500
Total Liability and Equity	**23547**	**21500**

INCOME STATEMENT

	2017	2016
	$	4
Net Sales	20000	18000
Cost of goods sold	10000	9500
Gross profit	10000	9500
Operating expense	4000	3700
Operating Income	6000	4800
Interest Expense	588	600
Income before tax	5412	4200
Income Tax	2165	1680
Net Income	**3247**	**2520**

RATIOS

	2017	2016
Current Ratio	1.79	1.53
Debt to Equity Ratio	2.49	3.78 times
Account Receivable Ratio	5.06 times	4.68times
Inventory Turnover Ratio	1.82 times	1.94 times
Net Profit Margin	16.2%	14%

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Gross profit Margin	50%	47.2%
Earnings Per share	$6.49	$5.04
Time Interest Earned	10.2 times	8 times
Dividend Payout	30.8%	39.7%
Dividend Yield	1.9%	2.5%
Price to earning	16.02	16.07

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