

Financial Analysis Report

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Analysis Results

Financial Analysis Report for Sample Company

1. Income Statement Analysis: a. Service Revenue: \$2,750 b. Operating Expenses: \$1,360 c. Operating Income: \$1,390 d. Net Income: \$945

The company's service revenue is strong, with operating expenses well managed, resulting in a healthy operating income. The net income of \$945 represents a 34.36% profit margin, which is quite good.

2. Product Income Statement Analysis: a. Sales Revenue: \$6,875 b. Cost of Goods Sold: \$4,125 c. Gross Profit: \$2,750 d. Operating Income: \$1,390 e. Net Income: \$945

The product side of the business shows strong sales revenue. The gross profit margin is 40%, which is solid. The company maintains the same operating income and net income as the service side, indicating consistent performance across both segments.

3. Statement of Retained Earnings: Beginning Balance: \$820 Net Income: \$945 Dividends Declared: \$500 Ending Balance: \$1,265

The company has increased its retained earnings by \$445, showing good profitability and a balanced approach to dividend distribution.

4. Balance Sheet Analysis: a. Total Assets: \$13,060 b. Total Liabilities: \$8,895 c. Total Equity: \$4,165

Key Ratios: - Current Ratio: 2.64 (Current Assets / Current Liabilities) - Debt-to-Equity Ratio: 2.14 (Total Liabilities / Total Equity) - Return on Equity (ROE): 22.69% (Net Income / Total Equity)

The company has a strong current ratio, indicating good short-term liquidity. The debt-to-equity ratio is somewhat high, suggesting the company is leveraging debt to finance its operations. The ROE is impressive at 22.69%, showing efficient use of equity to generate profits.

5. Cash Flow Indicators: While a complete cash flow statement is not provided, we can see that the company has a healthy cash balance of \$1,550, which represents about 11.87% of total assets. This suggests good liquidity management.

6. Profitability: The company demonstrates strong profitability in both its service and product segments. With a consistent net income of \$945 across both income statements, it shows a balanced and diversified revenue stream.

7. Asset Utilization: The company has significant investment in equipment (\$12,000 before depreciation), which suggests it's a capital-intensive business. The accumulated depreciation of \$1,300 indicates the equipment is relatively new or well-maintained.

8. Recommendations: a. Monitor and potentially reduce the debt level to improve the debt-to-equity ratio. b. Consider reinvesting more profits into the business for growth, given the strong profitability. c. Evaluate the efficiency of equipment usage, given the large investment in this area. d. Explore opportunities to increase sales revenue while maintaining the strong profit margins.

Overall, Sample Company shows strong financial health with good profitability, liquidity, and a diversified business model across service and product offerings. The main area for potential

improvement is in managing the debt levels.