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Working capital: A summary of ratios by industry case

Introduction

"A Summary of Ratios by Industry" case, working capital management and efficiency and firms' liquidity are evaluated by examining its key financial ratios for industries. A profound analysis of the changes is essential to assess how efficiently short-term operational assets and liabilities contribute to achieving strong financial and organizational performance. This is summarized below:

Current Ratio

This test demonstrates the capacity of a given business organization in terms of its efficiency in paying for its current obligations using current assets. A higher ratio provides evidence of better liquidity, on the other hand, very high ratios also suggest poor utilization of assets.

Industry Variations

Our analysis shows that this requirement significantly depends on the industry type. For example, retailing companies usually have relatively high stock turnover and tend to have calculated high inventory turnover, while manufacturing industries mostly take a longer period to operate through their cycle and, therefore, expected to have low liquid ratios.

Conclusion

The "Working Capital: In “A Summary of Ratios by Industry” case one can see that to make a right decision indicators of different industries often have to be compared. Specifically, working capital ratios of a firm may be compared to the industry counterparts and while maintaining the liquidity levels, the enterprises’ assets can be effectively utilized.

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