**FORD AND MICROSOFT**

MICROSOFT

1. **Liquidity ratios**

Two liquidity ratios were computed for this firm; current and quick its obligations as they fall due. These are mainly short-term financial obligations involving working capital ratios. According the ratios calculated with the current ratio of 2.5 and 1.88 for quick ratio, Microsoft is in a position to meet its short term financial requirements. The standard recommended ratios for current and quick ratios are 1:2 and 1:1 respectively but also depending which the organization and the nature of the business. However the calculated ratios for Microsoft show that it is healthy financially.

1. **Activity ratios**

The following Activity ratios were computed with the following results; Inventory Turnover 11.69, Receivables Turnover, Days Sales Outstanding, 29.87 Fixed Asset Turnover and 7.55 for Total Asset Turnover. Microsoft has low fixed assets as most of its assets are intangible. This ratio is concerned with the efficiency of operations where it calculates how it uses its assets and other balance sheet items to generate revenue. It shows how quickly inventory is turned over, the rate of debt collection, usage of assets etc. Low activity ratios are not good because like for inventory, low ratio may mean obsolescence or deficiency in production etc. The activity ratios show that Microsoft is efficient in using its resources.

1. **Profitability ratio**

These are very important ratios which show the performance of organization. The ratio is of interest to lenders, investors and borrowers because they can use the ratio to make important decisions like investment and credit decisions. Profitability ratios include; return on equity, return on equity, profit margin etc. Organizations use ratios to monitor their performances which they can use to compare with different periods as well as the market ratios. The profitability ratios computed for rate at which Microsoft are good as compared to any ratios that are considered good. The gross margin is as high as 0.69 while the operating margin is 0.32 which shows the high profitability level of Microsoft.

1. **Leverage Ratios**

This ratio is used to evaluate the level of debt in a company. It is a ratio which shows the financial stability of organizations especially. The leverage ratios show that Microsoft is a stable company with debt to equity ratio of 0.92 while total debt: total asset ratio is 0.457 while the company has no long term liability and does not pay interest.

1. **Times-Interest Earned**

This ratio measures how many times a company can honor its obligation to pay its interest obligations when they fall due. Microsoft has no debt and thus has no interest obligation thus is healthy.

**FORD**

1. **Liquidity ratio**

The current ratio of Ford is good as it is over 2 which is better than the minimum recommended ratio of 2. However the quick ratio is not good because it is less than 0.5 which is below the recommended ratio of 1. Ford may have a challenge meeting some its short term obligations.

1. **Activity ratio**

Ford has a good inventor turnover of more than 15 which shows that it is efficient and is better than Microsoft with 11 turnover ratio. Ford also has a better ratio than Microsoft in fixed assets turnover which has 0.5 as compared to 10.63 for Ford. This is because Microsoft’s bulk of assets is composed of intangible assets as compared to Ford.

1. **Profitability Ratios**

Ford is not as profitable as Microsoft which has high performance ratios. The profit ratios of Ford are less than 2% in nearly all the ratios used to compute its performance.

1. **Leverage ratio**

The leverage ratio for Ford is equally shows that it is not as healthy as Microsoft which has leverage ratios. However the leverage ratios of Ford are also not too high because they are less than 10%.

1. **Coverage Ratio**

Ford has a coverage ratio of 4.3 as compared to Microsoft which has no long-term loan and thus does not pay interest.