

# Meeting the Benchmark

## Directions:

Use the information provided below to analyze the financial ratios for these three companies: Electric Inc., Computer Company and PC Plus. Compare each company's performance to the industry benchmarks listed for each ratio. After comparing each company's ratio to the industry benchmark, please explain your analysis of the ratio and the company's performance, including suggestions for improvement

Ratio or Other Measurements	<i><b>Electric Inc.</b></i>	<i><b>Computer Company</b></i>	<i><b>PC Plus</b></i>	<b>Industry Benchmark</b>
Current Ratio	1.1481	0.981	1.241	<b>1.99</b>
Quick Ratio	0.831	0.701	0.991	<b>1.98</b>
Debt Ratio	59%	83%	70%	<b>64%</b>
Inventory Turnover	5.98 times	6.97 times	6.41 times	<b>7.5 times</b>
Accounts Receivable Turnover	4.935 times	5.70 times	6.30 times	<b>6.5 times</b>
Return on Assets	3.3%	2%	4%	<b>5.57%</b>

1. Which company is operating closest to the industry benchmark for each ratio?

- Current Ratio: **PC Plus**
- Quick Ratio: **PC Plus**
- Debt Ratio: **Electric Inc.**
- Inventory Turnover Ratio: **Computer Company**
- Accounts Receivable Turnover: **PC Plus**
- Return on Assets: **PC Plus**

2. Which two companies need to move inventory at a faster rate to catch up with the industry benchmark for inventory turnover?

**Electric Inc. and PC Plus**

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3. List each company's successes and points for improvements.

- Electric Inc.  
**Electric Inc. is closest to the industry benchmark for the current ratio, but the company could improve its debt ratio, inventory turnover, accounts receivable turnover and return on assets.**
- Computer Company  
**Computer Company is closest to the industry benchmark for the debt ratio, but the company could improve its return on assets, quick ratio and current ratio.**
- PC Plus  
**PC Plus is closest to the industry benchmark for the current ratio and accounts receivable turnover ratio, but the company could improve its quick ratio.**

4. How can Electric Inc. improve on its accounts receivable turnover ratio?

**Electric Inc. will need to collect on its credit sales at a faster rate in order to improve the accounts receivable turnover ratio.**