Exercise 17-6 (30 minutes)

COMPARATIVE ANALYSIS REPORT

Clay's profit margins are higher than Roak's. However, Roak has significantly higher total asset turnover ratios. As a result, Roak generates a substantially higher return on total assets.

The trends of both companies include evidence of growth in sales, total asset turnover, and return on total assets. However, Clay's rates of improvement are better than Roak's. These differences may result from the fact that Clay is only three years old, while Roak is a somewhat more established company. Clay's operations are considerably smaller than Roak's, but that will not persist many more years if both companies continue to grow at their current rates.

To some extent, Roak's higher total asset turnover ratios may result from the fact that its assets may have been purchased years earlier. If the turnover calculations had been based on current values, the differences might be less striking. The relative ages of the assets also may explain some of the difference in profit margins. Assuming Clay's assets are newer, they may require smaller maintenance expenses.

Finally, Roak successfully employed financial leverage in 2015. Its return on total assets is 9.0% compared to the 7% interest rate it paid to obtain financing from creditors. In contrast, Clay's return is only 5.9% as compared to the 7% interest rate paid to creditors.