Analysis **of eToys**

case Student

Name:

Solution-1

The ratios are in critical condition from the year 1999 to 2000. The debt ratio of the company had decreased by the 73%. Therefore, the company overall financial risk in the year 1999 was very low in comparison of 2000. Moreover, the company inventory turnover decreased by the 58% that shows that the company inventory management was more efficient and effective in 1999. The profitability of the company was more in the year 1999 because the Negative return on assets decreased more than half. But the analysis states that the company is not profitable in the year 1999 because they are doing expenditure of $2.27 for every $1 in sales revenue.

For long-term sustainability into the business, the company must reduce their expenditures. Moreover, the company must build the good relations with the supplier for lower cost of raw material with good quality. Also, the company must make an effective distribution network for lowering the distribution costs. The company also offers some more shares for increasing their cash limit. With this company has the following benefit:

- Risk related to default will decreased.
- Higher cash was tied up with more inventories.
- Increasing the overall sales.

Solution-2

The buying of baby center majorly impacts the two parts of financial statement in the year 2000, which are as follows:

- The increase in the Goodwill from the year 1999 to the year 2000 by 220 percent.
- From the acquisition of Baby center, the net cash increased by the $2,571.

Solution-3

For raising the operating capital, the company issues long-term note. If the company does not issue the long-term note in that case they are not able to survive the business for next year.

Solution-4a

With the audit decision of E&Y, we do not agree because the E&Y had majorly responsible for the evaluation whether there is doubt on the efficiency of the eToys to continue as the going concern within the year or more than the year (End of audit). The auditors realize that the expense of the company is more in comparison of revenue generation. Moreover, the company cash flow and mostly financial ratios also decrease from the year 1999 to 2000. Therefore, the auditors of the E&Y will not give the unqualified opinion.

Solution-4b

The company initial share price was $10 per share, but share price reached a high of $76.5 during the first day of trading in the stock market. The highest price of the share at the end of fiscal year 03/2000 was on 10/1999 at $86. During the last month of the year 2000 the stock sold at the lower price of $8.50. But the price of share change drastically in the year 2001, the higher price of the share is $9.6 in the first month of

2001. But by March 2001 the price of the stock is very low at a penny per share. Moreover, the auditors must ensure that the financial statement of the company must be free from any material misstatements. The price of the share one of the essential factors for the business and that helps in knowing the business condition. Therefore, for the auditors, it is essential to consider stock trends as the part of their analysis.

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