**Current Assets and Current Liabilities Analysis**

Student's Name

Institution Affiliation

Course Name

Professor's Name

Date

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**Discussion**

Over the past two years, BP has seen a steady increase in profitability, evidenced by its gross profit ratio, operating margin ratio, and net income margin ratio. This is an encouraging sign for investors, and it is helpful to compare these ratios to industry averages to understand the company’s performance better.

The gross profit ratio, calculated by dividing gross profit by total sales, is one of the most critical measures of a company’s profitability (Porter & Norton, 2018). In 2019, BP had a gross profit ratio of 3.85 % (11,706/303,738), lower than the industry average of 7.5%. In 2020, BP’s gross profit ratio reduced to -11.85% (-21,740/183,500), which was lower than the industry average of 7.7%. This indicates that BP has not been more successful than other companies in their industry in producing a higher gross profit.

The operating margin ratio is another essential measure of a company’s profitability. This ratio is calculated by dividing operating income by total revenues (Porter & Norton, 2018). In 2019, BP had an operating margin ratio of 8.48% (25,770/303,738), showing a slightly higher value than the industry average of 8.1%. In 2020, BP’s operating margin ratio reduced to 6.63% (12,162/183,500), which was lower than the industry average of 8.2%. It showed that in 2019, BP was more successful than other companies in the industry in producing higher operating income than in 2020.

The net income margin ratio is the last of the profitability ratios. This ratio is calculated by dividing net income by total revenues (Porter & Norton, 2018). In 2019, BP had a net income margin ratio of 1.38% (4,190 /303,738), which was lower than the industry average of 5.8%. In 2020, BP’s net income margin ratio increased to -11.3% (-20,729 /183,500), which was lower than the industry average of 5.9%. It indicated that BP is not more successful than other companies in the industry in producing higher net income.

Generally, these ratios indicate that BP has not been more profitable than the industry average over the last two years. This is likely due to the company’s ineffective cost management and inefficient initiatives. Additionally, the decreases in these ratios from year-to-year show that the company needs to do more to improve its profitability. For an investor, it is not a positive sign, as it suggests that BP is a company that is not well-positioned to continue to generate profits in the future.

References

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