Your Name

Instructor Name

Course Number

Date

Title: Starbuck’s Accounting Report

A risk can be defined as the threat or probability of damage resulting from any vulnerabilities, whether internal or external. In some instances, it can be controlled through preemptive action. The annual report of Starbucks Company of the year 2018, also highlights some risk factors that can directly or indirectly impact its financial performance. One of these uncertainties highlighted pertains to the economic conditions of the U.S. and the international markets where the company operates (*2018-Annual-Report.Pdf*). It is an easily understandable fact that the poor economic conditions result in less disposable income, and as a result, people reduce their spending. Therefore, the company pinpoints that the poor economic conditions in the U.S. and international markets can result in the negative impacts on sales and financial performance.

The long-term poor economic conditions will reduce the sales and eventually the revenues of the company. The decrease in sales and revenue will highly impact liquid assets of the company, which eventually impact the company’s ability to repay its short-term liabilities using its short-term assets. Sales revenues are pivotal to supply the cash to a business, which is needed to meet the working capital requirements. Working capital determines the company’s ability to pay its operational expenses. The negative impact of poor sales and revenues is also visible in the form of reduced earnings per share, reduced retained earnings, and high liabilities. In this way, any factor that will impact sales and revenues of the company will also consequently impact the liquid asset section of the balance sheet. The account payable of Starbucks is also negatively impacted due to its inability to repay the debts. The impact of sales and revenues in the balance sheet of Starbucks is visible in the asset account and corresponding equity account.

The cash flow statement of a company reflects cash inflow and outflow. The cash flow statement is also impacted by the reduced sales arising from any reason. If a company is able to generate more cash through its sales, then it is able to buy back its stock, increase its dividends, reduce its liabilities, and also become able to acquire some other company. Cash is needed by the business to perform numerous operations, and risks can impact the cash position of a company negatively. The cash debt ratio is the measure of a company's ability to pay its current liabilities from the cash obtained through operating activities. The intense competition Starbucks is facing in all of its channels and markets can impact its business performance and financial results. The tough competition resulting from the innovation, price, and product quality can definitely reduce the traffic in the outlets of Starbucks. Continuous competition from rivals can hinder growth and cash flow into the company.

Intense competition reduces sales in some outlets, and overall business performance is reduced. Owing to the reduced cash flow, the current liabilities of the company will be higher, all these liabilities that are due within one fiscal year. The operational cash flow ratio will indicate this situation from the cash flow statement of the company (Ainsworth and Deines). This ratio indicates the company’s capability to pay off its current debts, with the cash inflow in the same fiscal year. The liquidity of the company is also reduced due to the reduced cash inflow. There is also a tendency of buying from small coffee stalls and an increase in these stalls results in reduced cash sales in the outlets of Starbucks. Thus, high risk of competition will unfavorably impact the cash inflow of the company. The outflows will be higher than inflows, consequently impacting the Cash Flow Margin Ratio, Viability, Solvency, and Cash Flow Coverage Ratio.

**Works Cited**

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