

## Analysis of Financial Statements of Listed Company

### -- Take the Financial Statements of S Corporation as an Example

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#### Abstract

The financial statements comprehensively reveal the financial position, operating results and cash flow of an enterprise for a certain period of time, which is not only beneficial for the management staff to understand the financial situation of the unit, improve the management level and enhance the economic efficiency, but also for the investors to grasp the financial situation of the enterprise and provide decision basis for the investment and loan behavior of the statement users. The financial information of S Corporation is interpreted by analyzing the asset structure, operating capacity, profitability, solvency and cash flow of S Corporation.

#### Keywords

Financial Statement Analysis; S Corporation; Listed Company.

### 1. S Corporation Introduction

S Corporation is one of the oldest large beauty and daily chemical companies in China, which was established more than 100 years ago. After a century of development, S Corporation has developed into a large beauty and daily chemical group with annual sales of more than 7.6 billion RMB, covering beauty, personal care, home care, mother and baby and other fields, with many famous Chinese brands, which was listed on the Shanghai Stock Exchange in 2001.

### 2. Asset and Liability Analysis

#### 2.1. Assets

##### 2.1.1. Current Assets

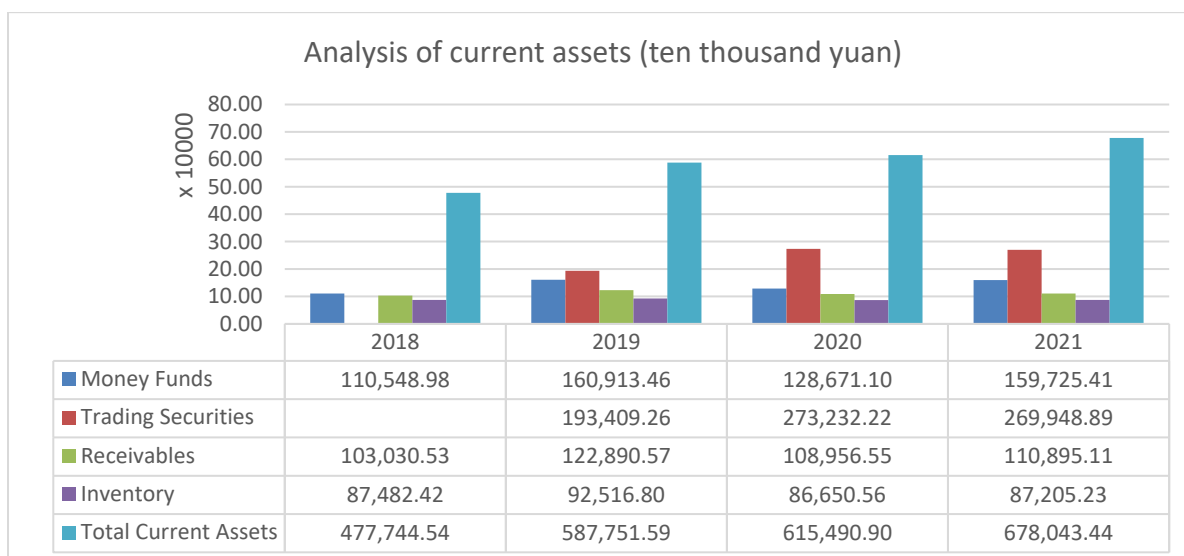
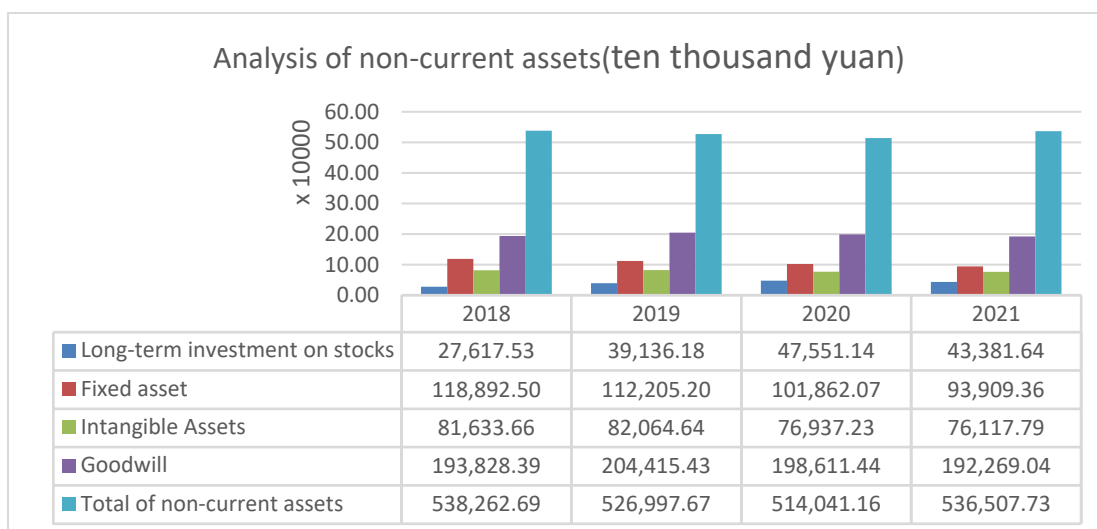


Figure 1. Analysis of current assets of S Corporation

In 2018, the Company's total current assets amounted to RMB4,777 million, representing a year-on-year increase of 9.32%, which was mainly due to the increase in other current assets, which was due to the year-on-year increase in the Company's bank wealth management in the current period. 2019, the Company's total current assets amounted to RMB5,878 million, representing a year-on-year increase of 23.03%, which was mainly due to the significant growth in financial assets held for trading. The growth of the Company's trading financial assets in the current period was mainly due to the reclassification of the Company's bank finance by the new financial instruments standard. In addition, the Company's other current assets decreased very significantly in 2019. 2020 The Company's total current assets amounted to RMB6,155 million, representing an increase of 4.72% year on year. The overall increase was not significant, and the item with a large change was trading financial assets, mainly due to the combination of the increase in the amount of the Company's investment in wealth management products in 2020 compared with the beginning of the year and the reclassification of the Company's available-for-sale financial assets to trading financial assets. total current assets in the third quarter of 2021 were \$6,547 million, an increase of 2.10% year-on-year, mainly due to the existence of a large number of prepayments for goods that have not yet been received.

**2.1.2. Non-current Assets**

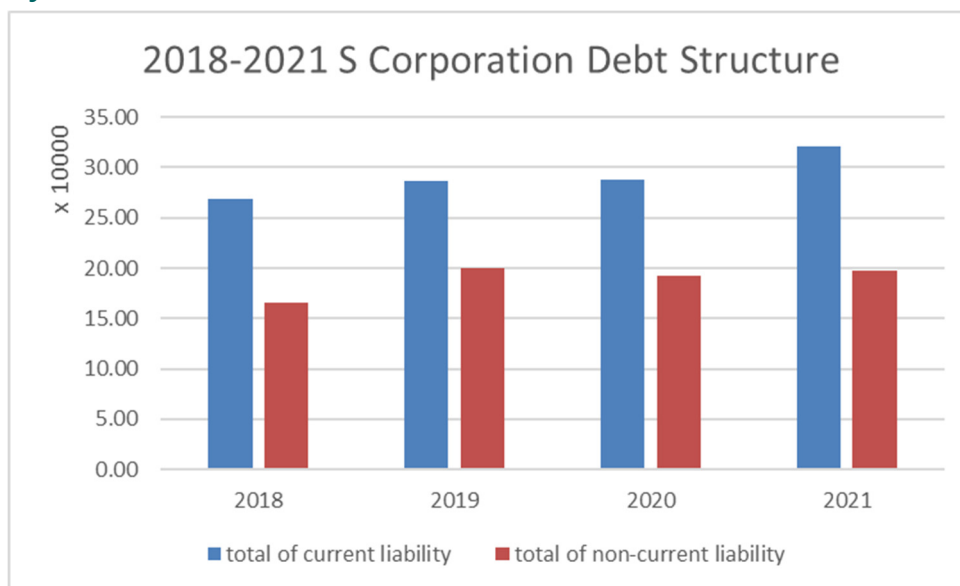


**Figure 2.** Analysis of non-current assets of S Corporation

S's total non-current assets were \$5,383 million in 2018, an increase of 2.84% compared to 2017, driven mainly by the increase in available-for-sale financial assets. The increase in available-for-sale financial assets was mainly due to the year-over-year increase in the cost and fair value of its holding company's investments. In addition, the significant increase in the Company's fixed assets in 2018 was mainly due to the completion of the Company's construction in progress carry over, so the overall impact on total non-current assets was not significant (offset by the increase in fixed assets and the decrease in construction in progress). 2019 S Company's total non-current assets amounted to RMB5,270 million, a decrease of 2.09% year-over-year, of which the items with significant changes were available-for-sale financial assets, long-term equity investments, and other non-current financial assets and other non-current assets. The Company's available-for-sale financial assets were zero in 2019, mainly due to the reclassification of the Company's available-for-sale financial assets to trading financial assets 2019. The increase in long-term equity investments was due to the increase in earnings. The increase in other non-current financial assets was due to the reclassification of the Company's funds and equities in 2019 by the new financial instruments standard. The decrease in other non-current assets was due to the decrease in the Company's bank time deposits of

more than one year in the year. 2020 S Company's total non-current assets were NT\$5,140 million, a further decline of 2.46% compared to 2019, mainly due to the year-over-year decline in all items except long-term equity investments and other non-current assets. year-over-year growth of 16%, mainly due to the exponential increase in other non-current assets.

**2.2. Liability**



**Figure 3.** S Corporation's liability structure 2018-2021

**Table 1.** Total current and non-current liabilities of S Corporation

Items	2018	2019	2020	2021
Total current liabilities	269,143.64	286,501.55	287,571.73	320,975.27
Total non-current liabilities	165,557.46	199,672.70	192,037.93	197,248.16
Total liabilities	434,701.10	486,174.25	479,609.66	518,223.43

**Table 2.** Growth rate of current liabilities and non-current liabilities of S Corporation

Items	2018	2019	2020	2021
Growth rate of current liabilities	7.31%	6.45%	0.37%	12.50%
Growth rate of non-current liabilities	-3.71%	20.61%	-3.82%	5.24%

From the data in the graph, S Corporation has been increasing current liabilities from 18-21 years, but the increase rate shows a trend of decreasing and then increasing, especially the growth rate changes by 12.13% from 20-21 years. While the growth rate of non-current liabilities changes fluctuating, with a maximum value of 20.61% in 2019 and a negative growth rate in 2018 and 2020.

**2.2.1. Current Liabilities**

The Company's total current liabilities were \$2,691 million in 2018, an increase of 7.31% compared to 2017, mainly due to the increase in the Company's accounts payable (goods). In addition, the Company's other receivables also increased in 2017 relative to 2016. The Company's total current liabilities were RMB2,865 million in 2019, representing an increase of 6.45% year-on-year, which was mainly caused by the increase in taxes payable and other

payables. The increase in tax payable is mainly due to the increase in corporate income tax as a result of the increase in the Company's profit for the period. 2020, the Company's total current liabilities are \$2,876 million, an increase of 0.37% compared to 2019, with little overall change. 2020, the Company's items with significant changes are other current liabilities, non-current liabilities due within one year, contract liabilities, prepayments, accounts payable, and tax payable. Taxes and fees payable. The increase in contract liabilities and the decrease in advance receipts are due to the reclassification of advance receipts to contract liabilities under the new revenue guidelines; the decrease in accounts payable is mainly due to the year-over-year decrease in material and processing payables; the increase in other current liabilities is mainly due to the increase in returns payable; the non-current liabilities due within one year are mainly due to the reclassification of long-term loans to this item as they are approaching their repayment terms, and taxes payable. The decrease in taxes payable was due to the decrease in value-added tax and corporate income tax. current liabilities in the third quarter of 2021 totaled \$3,540 million, an increase of 12.50% year-over-year, mainly due to the existence of a large number of non-current liabilities due within one year before the end of the year.

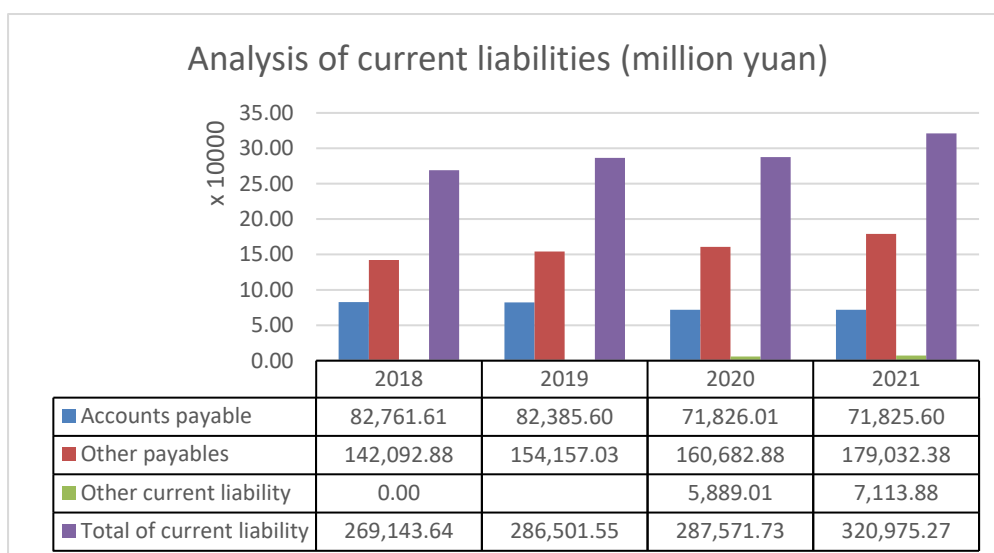


Figure 4. Analysis of current liabilities of S Corporation

2.2.2. Non-current Liabilities

In 2018, the Company's total non-current liabilities amounted to RMB1.656 billion, representing a year-on-year decrease of 3.71%, mainly due to the decline in the Company's current deferred revenue, while the decline in government grants among the deferred revenue was more serious. 2019, the Company's total non-current liabilities amounted to RMB1.997 billion, representing a year-on-year increase of 20.61%, mainly driven by deferred revenue, long-term borrowings, and long-term employee compensation payable. The increase in deferred revenue is mainly due to the year-over-year increase in compensation for demolition and relocation received by the Company in the current period; the increase in long-term borrowings is mainly due to the Company borrowing loans from banks again at the end of the year; the increase in long-term employee compensation payable is due to the implementation of the management incentive plan, thus increasing long-term compensation expenses. 2020, the Company's total non-current liabilities will be NT\$1,920 million, a decrease of 3.82% year-over-year, mainly due to the decrease in deferred revenue and long-term borrowings. The decrease in deferred revenue and long-term borrowings was mainly due to the decrease in deferred revenue. The decrease in deferred revenue is mainly due to the decrease in government grants. The decrease in long-term borrowings was due to the reclassification of some of the borrowings to "non-current liabilities due within one year" as they had less than

one year remaining. non-current liabilities for the third quarter of 2021 totaled \$1,994 million, an increase of 5.24% year-over-year, mainly due to the addition of large lease liabilities.

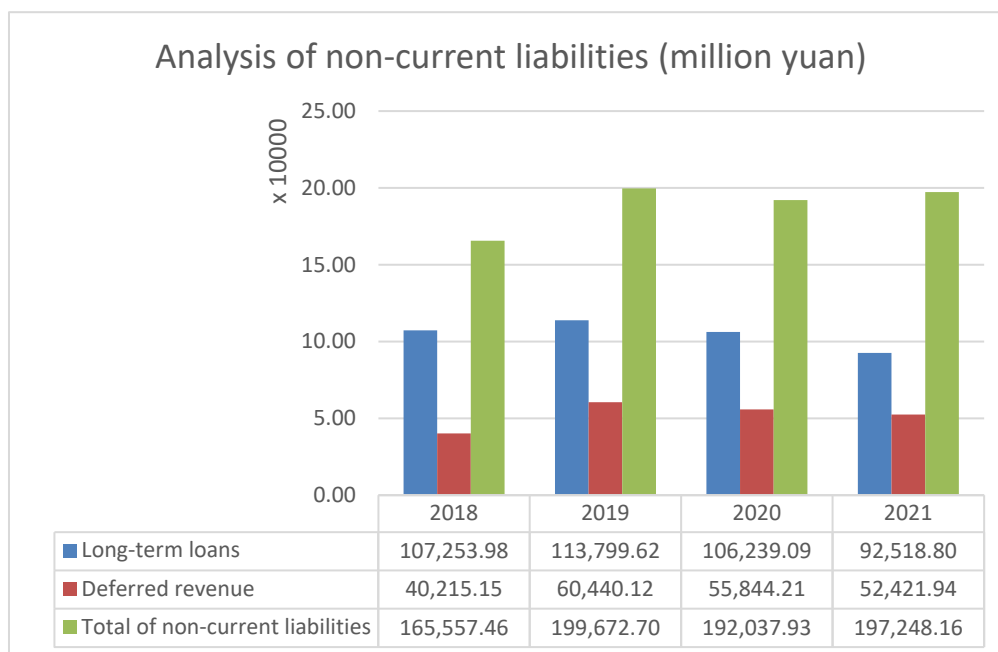


Figure 5. Analysis of non-current liabilities of S Corporation

### 2.3. Owner's Equity

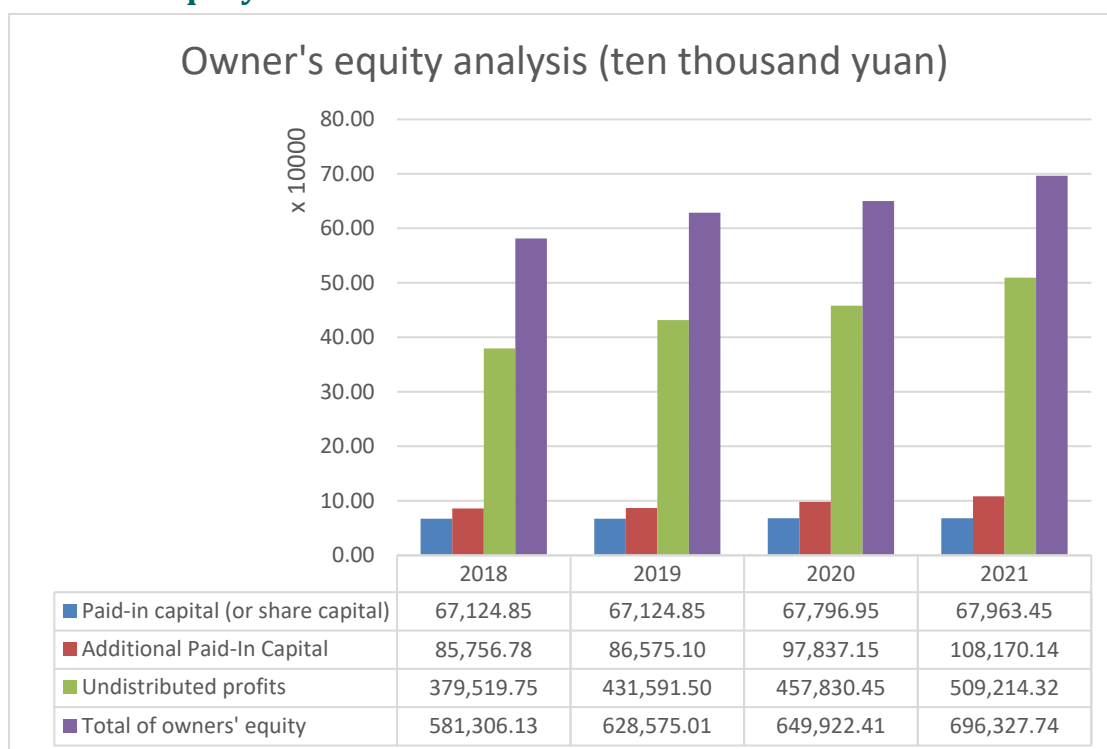


Figure 6. Owner's Equity Analysis of S Corporation

In 2018, the Company's total owners' equity will be \$5.813 billion, up 8.12% year-over-year; in 2019, the Company's total owners' equity will be \$6.286 billion, up 8.13% year-over-year; and in 2020, the Company's total owners' equity will be \$6.499 billion, up 3.40% year-over-year. In

the third quarter of 2021, the total owner's equity was \$6.775 billion, an increase of 6.89% year-on-year, and the company's value is growing steadily.

### 3. Operating Capacity Analysis

**Table 3.** S Corporation operating capacity indicators 2018-2021

Items	2021	2020	2019	2018
Total assets turnover days (days)	546.6	574.4	504.9	498.4
Inventory turnover days (days)	114.1	114.5	111.9	110.1
Accounts receivable turnover days (days)	52.38	59.34	53.56	49.63
Accounts Payable Turnover Days (days)	98.35	98.57	102.65	102.44

Analyzed from the perspective of operating capacity, the overall trend of total asset turnover days of S Corporation from 2018 to 2021 shows an increase, which indicates that the company's asset operating efficiency decreases, and the revenue created for the company per \$1 of assets decreases, so the increase of total asset turnover days also side reflects that the profitability of the company may decrease.

As for inventory turnover days, the change in inventory turnover days from 2018 to 2021 is not significant, and there is an increasing trend in the past two years, which also indicates that the company's inventory sales capacity decreases in 2020 and 2021, and the inventory realization capacity decreases. since 2020, the company's sales have slightly declined due to the impact of the epidemic.

In terms of accounts receivable turnover days, S Corporation starts to decline in 2021 after rising from 49.634 days in 2018 to 59.34 days in 2020. It indicates that the bargaining power of S Corporation to downstream distributors/customers has increased between 2018 and 2020, or the company's credit policy is tighter. And starting in 2021, the company's accounts receivable turnover days increase, reflecting that the company's bargaining power downstream may have declined compared to before. The probable reason is that the company's accounts receivable turnover days regained stability in 2021 as the company had to relax its credit policy to stimulate distributors to purchase products and thus boost its revenue due to the downward macroeconomic pressure and the impact of the new crown epidemic during 2020.

In terms of accounts payable turnover, the turnover is faster in 2018 and 2019 and starts to decline in 2020. It indicates that in 2020, in addition to the possible decline in the company's bargaining power downstream, the bargaining power to upstream suppliers also declines compared to 2018 and 2019, and the company's ability to occupy funds provided by suppliers decreases, which means the company needs to pay more cash flow, thus also confirming the previous statement that the decline in the company's cash flow ratio may be due to the decline in bargaining power to upstream and having to pay more cash flow.

Overall, the company's operational performance in 2020 is the worst performance in five years, which may be mainly due to the more severe impact of the new crown epidemic on the company. Therefore, S Corporation can subsequently focus on customer relationship management (CRM), strengthening supply chain management (SCM) as well as channel management and improving performance assessment indicators to enhance the company's operational capacity and risk resistance.

## 4. Profitability Analysis

**Table 4.** S Corporation Profitability Indicators 2018-2021

Items	2021	2020	2019	2018
Return on net assets (weighted) (%)	6.32	6.73	9.21	9.68
Return on Total Assets (Weighted) (%)	3.56	3.83	5.23	5.47
Gross Profit Margin (%)	62.77	59.95	61.88	62.79
Net Profit Margin (%)	7.21	6.12	7.33	7.57

From the perspective of profitability, the trend of return on net assets (ROE) and return on total assets (ROA) of S Corporation is consistent, both gradually declining. 2018 saw the peak of the company's ROE and ROA, indicating that the company's profitability was very strong in that year. 2019 saw a steady decline, and 2020 saw a serious decline, mainly due to the company being more affected by the new crown epidemic resulting in a significant revenue decline. The decline is caused by the significant decline in revenue.

From the perspective of gross margin, the gross profit and sales revenue of S Corporation were basically maintained at around 60%, and decreased to 59.95% in 2020, mainly due to the decrease in the bargaining power of the company to the downstream and the impact of the New Crown epidemic in 2020, which led to the decrease in revenue of the company's entire product line, while the cost of the S Corporation still increased due to the decrease in bargaining power to the upstream, which eventually led to the decrease in gross margin. The rest of the years are stable at over 60%, and the company's profitability is relatively stable.

Net profit margin, in 2018, 2019 S Corporation are in about 7.5%. 2020 by the impact of the epidemic fell to 6.12%, the downward trend and gross margin consistent. 2020, the company's net profit margin open back up to the original level, high gross profit category rapid growth, channel operations optimization and other factors drive net profit margin improved significantly.

## 5. Solvency Analysis

### 5.1. Short-term Solvency Analysis

**Table 5.** Short-term solvency indicators of S Corporation 2018-2021

Items	2021	2020	2019	2018
Current Ratio	1.850	2.140	2.051	1.775
Quick Ratio	1.576	1.839	1.729	1.450
Cash Flow Ratio	0.277	0.224	0.261	0.332

The overall upward trend of S Company's current ratio is mainly due to the fact that its current assets have increased much more than its current liabilities. The significant increase in current assets was mainly in 2019, when the Company's trading financial assets increased by \$1,934 million, mainly due to the reclassification of bank wealth management by S Corporation following the new financial instruments standard in that year. 2020 saw an increase of about \$800 million in the Company's trading financial assets compared with 2019, mainly due to the increase in the amount of investment in wealth management products in the current period compared with the beginning of the year, which ultimately led to an increase in the Company's current ratio. The current ratio decreased slightly in the third quarter of 2021, mainly due to the decrease in total current assets as a result of the significant decrease in other current assets.

As for the quick ratio, the Company also showed a year-on-year growth trend, with the difference between the quick ratio and the current ratio first increasing and then decreasing, with the largest difference from 2018. It indicates that the ratio of inventory to current assets of S Corporation increased year by year from 2016 to 2018, which will affect the company's inventory operating capacity. From 2019 to 2020, the company's inventory ratio decreases, so the difference between current ratio and quick ratio decreases. In the third quarter of 2021, the balance of money capital, accounts receivable and notes receivable all decreased, which led to the decrease of quick assets and the decrease of quick ratio.

The cash flow ratio as a whole shows a decreasing trend followed by an increasing trend, with the highest in 2018. From 2018 to 2020, although S Company's operating cash inflows increase significantly, its outflows increase more, making its net amount decrease, so it eventually leads to a decrease in the cash flow ratio year by year. In addition, the company's decreasing accounts payable turnover days from 2018 to 2020 means that the company may need to pay more for goods, thus also reducing operating cash flow and ultimately leading to a decrease in the cash flow ratio. In addition, the company's inventory week and accounts receivable turn rate has decreased, making the company's cash receipts decrease, which will also lead to a decline in the cash flow ratio. The cash flow ratio indicator for the third quarter of 2021 shows that the company is tightening its credit policy to accelerate the flow of funds.

## 5.2. Long-term Solvency Analysis

**Table 6.** S Company's long-term solvency indicators for 2018-2021

Items	2021	2020	2019	2018
Gearing ratio (%)	44.96	42.46	43.61	42.79
Equity Multiplier	1.817	1.738	1.773	1.748
Equity Ratio	0.817	0.738	0.773	0.748

In terms of capital structure, the company's performance is improving year on year. In 2020, the company's gearing ratio, equity ratio, and equity multiplier all dropped to the lowest value, which improved the company's solvency and reduced the financial risk. In 2021, the company's gearing ratio, equity ratio, and equity multiplier are the highest in five years, indicating that the company is expanding its scale by raising debt, but we cannot ignore the financial risk brought by financial leverage.

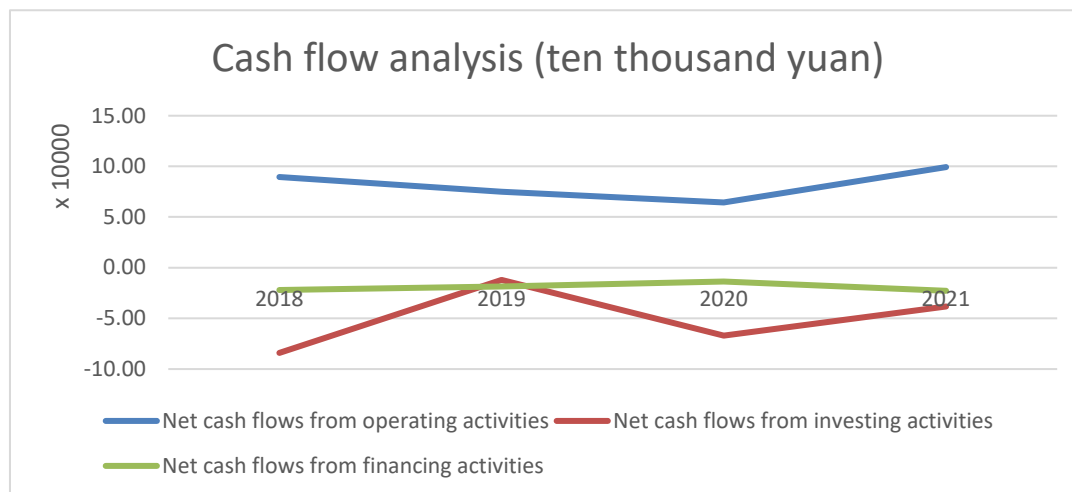
Overall, the company's overall solvency performance is all good in 2020, probably due to the company's fear of the impact of the new crown epidemic and reducing its leverage, which has improved in 2021. However, it should be noted that there may be some problems with operating cash flow. To address the cash flow problem, S Corporation can improve the problem by reducing inventory, improving profitability (cost reduction), enhancing its bargaining power to upstream suppliers, and tightening credit policy (improving collection ability) as the entry point.

## 6. Cash Flow Analysis

In terms of cash flow, from the perspective of operating activities, the overall net cash flow from operating activities shows a trend of the first decrease and then increase. The overall change in 2018 is not significant, and the net cash flow from operating in 2019 decreases by 16.31% compared with 2018, although the cash inflow increases in that year, due to the increase in cash paid for the purchase of goods and services and the outflow of other cash paid related to operating activities, making the overall cash flow decrease. In 2020 S Company's net cash flow from operations decreases again by 14.07% from 2019, mainly due to the decrease in cash flow



received from operating activities probably due to the epidemic. In addition, the company's receipt of relocation payments for production land and office premises and government subsidies in 2020 was also a factor contributing to the decrease in its net cash flow from operating activities year-over-year.



**Figure 7.** S Corporation cash flow analysis 2018-2021

Cash flow from investing activities decreased again by 268.08% in 2018 compared with 2017, mainly due to the year-on-year increase in net cash paid for investment bank wealth management and the Company's maturity recovery of time deposits over 6 months in 2017, plus the Company's payment for investment in Ping An Consumer and Technology Fund in 2018. 85.65% year-on-year increase in the Company's net cash flow from investing activities in 2019, mainly due to: (i) the year-on-year decrease in cash paid by the Company for investment in bank wealth management; (ii) the Company's receipt of relocation payments for production sites and office buildings in 2019; (iii) the Company's payment for investment in Ping An Consumer and Technology Fund in 2018 and partial recovery of investment costs in the current year; and (iv) the year-on-year decrease in payment for the construction of the Qingpu factory leap project. The net amount decreased again.

From a financing perspective, S Corporation's net cash flow from financing activities began to gradually increase from 2018 to 2020, with an increase of 89.52% in 2018 and 15.65% in 2019 year-over-year. Although the company's net cash flow from financing was negative in both years, it was due to its payment of dividends and distributions, etc. The year-on-year increase of 26.72% in 2020 was mainly due to: (i) the company's receipt of equity subscriptions for the 2020 Restricted Stock Incentive Plan; and (ii) the release of restrictions on excess account funds agreed in the company's long-term loan contract for the same period in 2019.

## 7. Conclusions and Recommendations

### 7.1. Capital Flow is Relatively Tight

From the perspective of cash flow, although S Corporation currently has good operating cash flow recovery, it may face the problem of cash flow shortage due to insufficient operating cash flow to support subsequent investment expenditures as the scale of investment expands in the future.

Suggestions: S Corporation can improve its own system. Specific entry points can be: designing an early warning system for cash flow from operating activities, developing a financial

budgeting system more suitable for the company itself (such as participatory budgeting, authoritative budgeting or hybrid budgeting system) and other aspects. From the perspective of cash flow from investing activities, the company has paid more cash for investment in the past five years, and these funds may affect the company's financial risk, so the company can subsequently develop more detailed investment plans and strategies to prevent "ineffective investment". In addition, the overall inflow of cash flow from financing activities in the past five years is low, so S Corporation can consider internal and external financing to obtain certain funds, thus increasing its own financial flexibility.

At the same time, the company can improve the problem by reducing inventory, improving profitability (cost reduction), enhancing its bargaining power to upstream suppliers, and tightening credit policy (improving collection ability).

### **7.2. Insufficient Operating Capacity**

In 2020, the company's operating performance was severely affected by the macroeconomic environment and has significantly improved in 2021, but it is still insufficient. The total asset turnover ratio is around 0.6 in the past two years, and the asset turnover ratio is low, with insufficient asset operating capacity and long turnover period.

Suggestions: S Corporation can subsequently focus on customer relationship management (CRM), strengthen supply chain management (SCM) and channel management, and improve performance assessment indicators to enhance the company's operating capacity and risk resistance.

### **7.3. High Expense Ratio and Lack of Profitability**

From the perspective of profitability, the decline in profitability of the company in 2020 is also mainly due to the impact of the macroeconomic environment. The company's net sales margin in the past two years is basically below 8%, with a low net profit margin and insufficient profitability. The company's period expense ratio in the past five years is above 50%, especially the sales expense ratio, which has been maintained at above 40%, and the company has invested more funds for publicity and promotion expenses, and the large period expense has compressed the profit margin of the company.

Recommendation: Currently, S has been improving its profitability by accelerating the development of its high gross margin business, optimizing its operational channels, continuing to strengthen the enterprise's internal cost control, and developing new business growth points with spare capacity.

### **7.4. Growth Capacity Still Needs to be Improved**

From the perspective of growth capacity, the company's overall growth capacity in 2021 is strong. The company was affected by the macroeconomic environment and channel pressure in 2020, and in 2021 in constantly overcame the negative short-term impact of overseas business, special channel business, etc.

Suggestions: In the future, if the S Corporation wants to continue to maintain stable growth, the company can strengthen the channel management, the development of the company's anti-risk policy regulations, maintain the investment in research and development and technological innovation, the expansion of new business and other aspects of the entry point for the issue of improvement.

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