Analysis and suggestions on financial statements of AD Pharmaceutical Group Limited by Share Ltd

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Abstract: Financial statements are the basis for intuitively reflecting the results of business operations. Through the analysis, comparison, evaluation and interpretation of financial statements, we can judge the financial status of enterprises and provide basis for business decisions[1].AD financial data analysis of Limited by Share Ltd pharmaceutical company in 2016-2019 years shows that the four indicators of solvency, operation ability, profitability and growth ability of the company perform well. However, there are specific problems that need to be improved from three aspects: improving the turnover rate of accounts receivable, inventory turnover and management level.

1. Introduction

In recent years, with the rapid development of China's economy, people's living standards have been continuously improved, and the demand for pharmaceutical products has been increasing, which has promoted the expansion of the scale of the pharmaceutical industry[2], and the competition within the pharmaceutical industry has become increasingly fierce.AD Pharmaceutical Group Co Ltd is a pharmaceutical listed company, is a well-known enterprise in the pharmaceutical industry, mainly engaged in the production of modern Chinese medicine, biochemical drugs and phytochemical products, and take into account the diversification of other industries.The financial situation of the company is related to the survival and long-term development of the enterprise itself[3],the domestic and foreign research on the financial statements of pharmaceutical enterprises is less, and the analysis of the financial statements of specific companies is limited.By analyzing the financial statements of AD company for 2016-2019, this paper explains the financial management level of the company and provides the basis for the business decision of the enterprise.

2. The Meaning and Function of Financial Statement Analysis

2.1. The Meaning of Financial Statement Analysis

A financial statement is a structured statement of the financial position, operating results and cash flow of a company. The financial statements include the following components: balance sheet; profit statement; cash flow statement; changes in owner's equity; annotations. The above components of the financial statements have the same importance. The balance sheet is a financial statement that reflects the financial position of an enterprise on a specific date. The profit statement is a financial statement that reflects the operating results of an enterprise during a certain accounting period[4]. The cash flow statement is a financial statement that reflects the inflow and outflow of cash and cash equivalents in an enterprise during a certain accounting period.The statement of changes in equity is a financial statement that reflects changes in the composition of the owners' rights and interests during the current period. The notes are written descriptions or detailed information on items in the statements of balance sheet, profit statement, cash flow statement and owner's equity change form, and are unable to indicate the items in these statements.

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2.2. The Role of Financial Statement Analysis

The analysis of financial statements is to process, analyze, compare, evaluate and explain the data provided by the financial statements of enterprises. The role of financial statement analysis is to judge the financial status of enterprises and to observe the gains and losses of business management. Through analysis, we can judge whether the financial condition of an enterprise is good. At the same time, we can find out the crux of business management through analysis.A solution to the problem is put forward. Doing a good job in the analysis of financial statements can correctly evaluate the financial status, operating results and cash flow of enterprises, reveal the future remuneration and risk of enterprises, check the completion of enterprise budgets, assess the performance of managers, and provide help for establishing and improving a reasonable incentive mechanism.

3. AD Company Financial Statement Analysis

3.1. Analysis of Debt Paying Ability

Table 1. 2016~2019 AD related solvency index

index	Financial ratios	2016	2017	2018	2019
Short term solvency analysis index	Liquidity ratio	3.03	3.18	4.92	6.19
	Quick ratio	2.53	2.68	4.44	5.66
	Proportion of current liabilities	0.74	0.73	0.35	0.31
Long term solvency analysis index	Asset liability ratio	0.07	0.06	0.14	0.13

From table 1, we can find that from the short-term debt paying ability indicators, the turnover ratio of enterprises has increased year by year, from 3.03 in 2016 to 6.19 in 2019, far higher than the internationally recognized standard 2: 1, indicating that AD's short-term debt paying ability is very strong. The quick ratio of enterprises is the removal of the inventory impact which is not easy to reallocate, and it can reflect the short-term debt paying ability of enterprises more truly. The generally accepted international standard is 1:1 from the form[5], we can see that the proportion of quick movements is also increasing year by year, 2.53,2.68,4.44 and 5.66 respectively, all above 1, indicating that the liquidity of the enterprises is stronger and the short-term debt paying ability is relatively high. From the proportion of current liabilities, the proportion from 2016 to 2019 continued to decline, reflecting the gradual weakening of the company's reliance on short-term creditors and the smaller dependence on short-term funds. The debt paying ability of enterprises is reduced, the stability of enterprise structure is continuously improved, and the financial elasticity of enterprises is better. Then, from the long-term debt repayment index, the asset liability ratio increases year by year, from 0.07 to 0.13, which is a comprehensive index to evaluate the level of corporate liabilities. At the same time, it is also an index to measure the ability of the company to make use of the creditor's funds to carry out business activities. The increase of the index within a reasonable range indicates that the financing ability and investment ability of the enterprise are strengthened, and the external capital is better, and the enterprise develops faster.

3.2. Operational Capability Analysis

Table 2. 2016~2019 AD operating capacity indicators

index	2016	2017	2018	2019
Accounts receivable turnover rate	6.87	5.75	4.99	4.61
Inventory turnover	1.53	1.79	1.82	1.76
Turnover of total assets	0.12	0.14	0.14	0.12

From table 2, we can see that the turnover rate of accounts receivable decreased from 2016 to 2019, which was 6.87, 5.75, 4.99 and 4.61 respectively. This index is used to measure the level of accounts receivable in enterprises. The turnover rate of AD accounts receivable decreased year by year, which indicates that the company's accounts receivable is slower, the average receivables cycle is longer, the amount of bad debts gradually increases, and the asset flow slows down.Capital turnover efficiency is relatively low, from 2016 to 2018, the inventory turnover rate is gradually improving, from 1.53 to 1.82, the inventory turnover rate dropped slightly to 1.76 in 2019, indicating that the sales capacity of enterprises from 2016 to 2018 was stronger, and the amount of working capital occupied in inventory was less[6]. In 2019, the inventory turnover rate decreased, indicating that there may be a backlog of inventory and a weak liquidity in inventory the total assets turnover rate of AD Company increased slightly from 2016 to 2018, and dropped to 0.12 in 2016. It shows that the efficiency of company assets utilization has been slightly improved and tends to be stable.

3.3. Profitability Analysis

Table 3. 2016~2019 AD profitability index

index	2016	2017	2018	2019
Basic earnings per share	1.45	1.6	0.81	1.21
Weighted return on equity	9.43%	9.59%	4.51%	6.50%
Return on assets	0.09	0.06	0.05	0.07
Net sales	0.61	0.62	0.28	0.45

From table 3, we can see that the basic earnings per share between 2016 and 2017 rose from 1.45 to 1.6, and then dropped to 0.81 in 2018, and then increased to 1.21 in 2019. The profit level of common stock was still not stable, and the overall net asset yield was slightly lower than that in 2016 and 2017.On the whole, the return on investment of enterprises is weakened, and the profitability of enterprises began to strengthen in 2019. The index of assets return rate continued to decline from 2016 to 2018, from 0.09 to 0.05 and slightly rebounded to 0.07 in 2019, indicating that the assets utilization efficiency of enterprises in 2016 to 2018 was low and improved in 2019.Good results were achieved in increasing revenue and saving capital[7]. Sales net interest rates increased steadily in 2016 and 2017, and dropped to 0.28 in 2018. The momentum returned to 0.45 in 2019, indicating that the ability to earn profits through sales increased.

3.4. Growth Capacity Analysis

Table 4. 2016~ 2019 AD growth capacity indicators

index	2016	2017	2018	2019
Net profit growth rate	0.06	0.09	0.04	0.06
Operating income growth rate	0.17	0.09	0.12	-0.07

From table 4, we can see that the net profit growth rate of enterprises from 2016 to 2017 has increased from 0.06 to 0.09, dropped to 0.04 in 2018 and has risen to 0.06 in 2019. The profitability of enterprises has rebounded slightly, and the development potential also has a rising trend. The growth rate of operating income in 2016 to 2017 is decreasing, and in 2018, it has rebounded slightly. In 2019, it has fallen to a negative value of -0.07, indicating that the main business income is decreasing and the market share is shrinking. The main business of the company has declined.

4. AD Company Problems and Suggestions

4.1. The Existing Problems

Accounts receivable turnover rate decreased from 6.87 in 2016 to 4.61 in 2019, and the rate of receivables continued to slow down. The cycle of circulating funds also gradually extended, occupying day-to-day operating funds, affecting the profitability of funds, and also indirectly enhancing the capital allocation of daily operations. From table 2, we can see that the inventory turnover rate dropped from 1.82 in 2018 to 1.76 in 2019, and the turnover rate of inventory decreased. There may be some problems such as poor sales, overstock, and poor liquidity in inventory. From table 3, we can see that the weighted net asset yield and net sales rate of the enterprises have picked up slightly, but they are not as strong as those in 2016 and 2017. Table 4 shows that the growth rate of operating income has dropped to -0.07 in 2019, indicating that the development capacity of enterprises has slowed down and the main business revenue has declined.

4.2. Suggestions for Improvement

4.2.1. Increase The Turnover Rate of Accounts Receivable.

Enterprises should appropriately increase the turnover rate of accounts receivable and improve the management level of accounts receivable. Specifically, we can further clarify and implement the accounts receivable management responsibility system, and implement the responsibility of accounts receivable to a specific person and a post; Secondly, enterprises can establish a credit management system for customer files for customers[8], and make in-depth and accurate understanding and investigation of the credit status of the funds. We should make a scientific assessment of the risk of accounts receivable and speed up the liquidity of cash withdrawal.

4.2.2. Increase Inventory Turnover.

The inventory turnover rate of the enterprise has a downward trend, and there may be a problem of product overstocking. The enterprises need to further deepen the reform and optimization of the inventory management system, implement the measures to expand inventory, increase the brand publicity, understand the dynamics of the consumer market demand, produce marketable products, choose the best selling products, expand production and sales, and speed up the turnover of each single product.Sales can be cleaned up by discounted sales to facilitate the accelerated operation of inventory[9].

4.2.3. Improve Management Level

The main business revenue has declined, and the development capability and profitability have begun to decline. Therefore, we should raise the level of management and management, strengthen cost control, carry out a comprehensive evaluation of the implementation of the cost management responsibilities in all aspects of production and operation, make an adaptive adjustment to the cost management budget, and increase sales volume[10], innovate and optimize the brand system with the help of new media network operation channels.Stabilize their core competitiveness and uphold sustainable development.

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