



Financial Statement Analysis as a Tool for Company Operation

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Abstract. In the rapidly developing and competitive business environment, companies are under constant pressure to make decisions that keep growth, maintain financial stability, and ensure long-term development. As businesses expand and diversify, the complexity of their operations increases, making it important for management to rely on accurate and comprehensive data to handle the challenges they face. The cash flow statement, balance sheet, and income statement are examples of financial statements, serve as the primary source of this data, offering a detailed view of a company's financial growth and operational enforcement. This paper explores the critical role of financial statement analysis in enhancing company operations. This study examines the income statement, balance sheet, and cash flow statement as key financial statements to demonstrate how different analytical methods, such as ratio analysis and trend analysis, can be used to assess a company's operational effectiveness, profitability, and financial standing. The study indicates that proficient examination of financial statements is crucial for internal management to make well-informed strategic choices and to reassure external stakeholders regarding the financial soundness of the organization. The study emphasizes the value of financial analysis as a tool for maintaining long-term corporate success and competitiveness using case studies and actual data. Using descriptive statistical analytical methods for presentations, data from AAPL Plc's annual report is used for the financial ratio's analysis and interpretation. The financial statement, which can improve a company's stability, enable it to make more effective decisions, and encourage sustainable development, is often the cornerstone of a business's growth.

Keywords: financial statement analysis, investment decision-making, company operation, ratios.

1 Introduction

Understanding a company's operational efficiency and financial health requires an analysis of its financial statements. Examining financial documents, such as the cash flow statement, balance sheet, and income statement, is necessary to assess the business's performance, profitability, and liquidity. Stakeholders like as creditors, investors, and management depend on this process because it gives them the

information they need to make wise decisions. It is impossible to overestimate the significance of financial statement analysis in business operations since it forms the basis for investment choices, performance reviews, and strategic planning.

Financial statement analysis is important because of its capacity to translate raw financial data into meaningful information. By analysing trends, ratios, and comparative data, companies can identify strengths, weaknesses, opportunities, and threats within their operations. Return on equity (ROE) and return on assets (ROA), for instance, are profitability metrics that can be used to assess how successfully a company uses its resources to generate profits. Liquidity ratios, including current and quick ratios, evaluate the company's ability to meet short-term obligations, which is critical to maintaining smooth operations. Moreover, Leverage ratios reveal information about a company's debt financing dependency and capital structure, which can impact financial stability and risk levels.

Financial statement analysis has historically been a cornerstone of corporate governance and decision-making processes. As companies face increasing competition and economic uncertainties, the need for accurate and comprehensive financial analysis has become even more critical [1]. The analysis supports internal management in making strategic decisions and reassures external stakeholders about the company's financial viability. In the context of globalisation and complex market dynamics, practical financial statement analysis enables companies to adapt to changing environments, optimise resources, and enhance their competitive edge.

This study, titled "Financial Statement Analysis as a Tool for Company Operation," explores the pivotal role of financial statement analysis in enhancing company operations. The study will look at the techniques and instruments used in trend, horizontal, and vertical analysis, as well as ratio analysis and financial statement analysis. By means of an exhaustive examination of case studies and empirical data, this study will illustrate how these analytical techniques contribute to more effective decision-making processes within companies. By highlighting the practical applications of financial statement analysis, the research seeks to demonstrate its value in optimising operational efficiency, improving financial performance, and ultimately driving long-term success.

2 LITERATURE REVIEW

2.1 Financial statements

Sound decision-making is ensured by using a company's financial transaction, event, and performance records as benchmarks when assessing different possibilities. Financial statements provide important details regarding the company's recent and historical financial operations, the profitability of management decisions, and the general health of the company's finances. A variety of stakeholders, including trade creditors, lending institutions, business owners, and domestic and international investors, examine financial accounts in order to make well-informed judgments. Financial statements provide concise financial transactions following the end of the financial year. These serve as an overview of the company's financial activities,

current state, and accounting procedures for the given accounting month. Financial statements provide the statement of profit or loss for the period under consideration in addition to the firm's financial status at that same moment. The financial year-end accounts records known as financial statements are created to show the company's profit or loss, cash flow situation, and overall financial health as of a specific date. Financial statements' data illustrates the company's previous and ongoing financial operations [2].

2.2 Features of financial statements

Financial statements are a formal record of the financial activities and status of a business, person, or other entity. The key features include relevance, reliability, comparability, and understandability. These characteristics ensure that the financial information presented is useful for making decisions, it can be compared across periods and entities, and is comprehensible to users with a fair understanding of economic and business operations [3]. The income and appropriation statements show how profitable the companies are; the statement of an affair, also called the statement of financial condition, reveals the financial situation of the company; and the statement of fund flow, sometimes referred to as the cash flow statement, shows how solvent the company is. Particularly, monetary phrases are used to express financial statements.

Relevance. Financial statements must provide helpful information for decision-making. This data includes assessments of past, current, or future events, as well as information that supports or contradicts users' prior judgments, all of which can assist users in making economic decisions.

Comparability. Financial statements should consistently report information, allowing the staffs in the company to compare the financial performance over time and against other companies. This is achieved by following consistent accounting policies and standards.

Objective. All financial activities within the specified period should be disclosed in financial statements, and no relevant information that could influence readers' decisions about the company should be withheld. For instance, before selecting an investment opportunity, potential shareholders reviewed financial statement [2].

2.3 The financial statements help the company's decisions making in many aspects

Manage cash flow. A company's cash inflows and outflows are shown on the cash flow statement, helping the company understand its sources and uses of funds. The

management can analyse the cash flow situation to ensure the enterprise has sufficient working capital to maintain operations and decide whether to raise funds or invest excess cash.

Develop budget and plan. Companies can develop future budgets and financial plans by analysing historical financial data. This helps to set realistic financial goals and allocate resources for various business activities. Enterprises can adjust their strategies and operational plans in real time based on budget execution.

Investment Decision. Enterprises can decide whether to invest in new projects, purchase equipment, or enter new markets by analysing the investment return rate, capital expenditures, and returns displayed in financial statements. The management can also evaluate the financial feasibility of different investment projects and select the most favourable investment opportunities.

Risk management. By analysing data in financial statements, companies can identify financial risks such as excessive liabilities, increased accounts receivable, or declining profits. Based on these risks, companies can take measures such as reducing loans, accelerating the collection of accounts receivable, or optimising cost structures.

3 Analysis

3.1 Overview of Director's and Chairman's Report

In 2019, they introduced projects and expanded their ecosystem and services, including Apple TV+, iPhone 11, and the development of new markets for Apple Pay and Apple Card. Apple's commitment to privacy and security was also emphasised, including launching new features to give users more control over their data.

In 2020, they emphasised the resilience and ability to adapt to the changing environment due to the COVID-19 pandemic. Similarly, Apple continued to prioritise its commitment to privacy and security, launching new features to protect user data and expanding its bug bounty program. To maintain growth, the company unveiled a slew of new products and services, including the iPhone SE, Apple Watch Series 6, and Apple Fitness+.

In 2020, Apple broke records for the highest revenue and net income growth rates, reaching 36% and 52%, respectively. In addition to this, they invested in modern technologies such as 5G and artificial intelligence to drive future growth. The company's commitment to sustainable development and a carbon-neutral supply chain by 2030 was also made clear.

3.2 Ratios

By utilising ratios, this research will compare Apple and two of its major competitors, Samsung and Huawei.

Liquidity Ratios. Apple had a low ratio both in current and quick for all three years. The reason for this may be that Apple has many highly liquid assets, and its income and cash flow are stable, so it does not need a large amount of short-term funds to meet its operational costs. However, this index is not a good reflection of the company’s financial situation. (Table 1)

Table 1. Liquidity ratios of Apple, Samsung and Huawei in 2020 - 2022

Year	2022	2021	2020
Apple’s liquidity ratios	1.51	1.50	1.36
Samsung’s liquidity ratios	1.92	1.85	1.71
Huawei’s liquidity ratios	1.62	1.53	1.66

Asset Management Ratios. Apple’s total asset turnover ratios over the past three years were 0.68, 0.64, and 0.59, respectively, showing a downward trend. In the past three years, Samsung’s total asset turnover rates were 0.57, 0.59, and 0.58, respectively, showing a fluctuating upward trend. Huawei’s total asset turnover ratios in the past three years have been 0.66, 0.62, and 0.68, respectively, showing a fluctuating upward trend. Apple has a higher asset management ratio than both competitors, indicating that it can collect its receivables and sell its inventory faster. However, Apple’s total asset turnover ratio is lower than that of both competitors, which may indicate that it is less efficient in utilising its assets to generate revenue.

Asset-liability Ratios. Apple’s asset-liability ratios over the past three years have been 0.50, 0.49, and 0.48, respectively, showing a stable downward trend. Samsung’s asset-liability ratios over the past three years have been 0.46, 0.49, and 0.51, showing a fluctuating upward trend. Huawei’s asset-liability ratios over the past three years have been 0.55, 0.55, and 0.56, showing a stable trend. As it can be see, Compared to its competitors, Apple has greater debt-to-equity and debt-to-assets ratios, which could mean that it is more leveraged and has borrowed more money to fund its operations. However, Apple has a higher interest coverage ratio than both competitors, indicating that it can meet its interest obligations from its operating income.

Debt-to-Equity ratio. Apple’s debt-to-equity ratio was 3.63 in 2020, 4.22 in 2021 and 5.02 in 2022 [4]. Over the past three years, the figures demonstrate that Apple’s debt-to-equity ratio has increased, indicating that its debt has grown faster than its assets. This could be attributed to Apple’s strategic investments that have yet to generate returns. The rising debt-to-equity ratio suggests that Apple is taking more

calculated risks with its investments and relying more on debt to fund its expansion plans. (Table 2)

Table 2. Debt-to-Equity ratio of Apple in 2020-2022

Year	2020	2021	2022
Apple's debt-to-equity ratio	3.63	4.22	5.02

Market Capitalization. \$63,090,000 is the total book value of equity, which is calculated as total assets minus total liabilities [5]. Investors see a company with a sizable total book value favorably since it indicates that it has a strong financial base. Apple's market capitalisation is approximately \$3,000,000,000,000. Large-cap companies generally have a market capitalisation of \$10 billion - \$200 billion [6]. This conveys how valued Apple is worldwide. The market's favorable assessment of the company's expectation is further evidenced by the market capitalization of the company.

Profitability Ratios. Over the past three years, Apple has consistently outperformed its competitors in terms of profitability. This is due to the the robust brand of the business, its creative product line, and ability to maintain high profit margins despite increasing revenue [7, 8, 9]. (Table 3, Table 4, and Table 5)

Table 3. Apple's Profitability Ratios in 2019-2021

year	2019	2020	2021
Gross profit margin	37.8%	38.2%	41.7%
Net profit margin	21%	21.9%	24.7%
Return on assets	15.2%	16.1%	17.9%
Return on equity	55.2%	96.0%	121.3%

Table 4. Samsung's Profitability Ratios in 2019-2021

year	2019	2020	2021
Gross profit margin	33.7%	33.6%	36.4%
Net profit margin	14.5%	15.2%	17.7%
Return on assets	7.4%	7.6%	9.7%
Return on equity	27.8%	28.3%	37.3%

Table 5. Huawei's Profitability Ratios in 2019-2021

year	2019	2020	2021
Gross profit margin	31.7%	31.5%	34.9%
Net profit margin	9.3%	9.3%	10.7%
Return on assets	6.7%	6.4%	7.4%
Return on equity	20.4%	19.4%	21.9%

Price-to-Earnings Ratio (P/E Ratio). Over the last three years, Apple's P/E ratio has typically outperformed that of its rivals, suggesting that investors are prepared to spend more on Apple's earnings. In 2021, Apple's P/E ratio was 32.3, higher than its competitors' P/E ratios of 27.5 and 25.9. The PE ratio for Apple is approximately 26.32. By dividing Apple's stock price by its earnings per share, this total is computed. The PE ratio indicates the price at which investors are willing to part with a dollar for each earnings dollar that the business makes. Apple's PE ratio is relatively higher than its competitors, such as Samsung and Huawei. The high PE ratio partly reflects investors' acceptance of the company's potential and Apple's high-profit growth rate.

However, a high P/E ratio may also mean that a business is overpriced; thus, a foam economy appears. Apple has historically had a higher P/E ratio than its competitors, partly due to its consistent revenue growth, strong brand recognition, and large cash reserves. But it's important to keep in mind that past performance does not guarantee future results, and the P/E ratio can change rapidly based on various factors, including earnings, market sentiment, and industry trends [10].

Price-to-Sales Ratio (P/S Ratio). Over the previous three years, Apple's P/S ratio has typically outperformed that of its rivals, implying that investors are willing to purchase Apple products at a higher price. In 2021, Apple's P/S ratio was 7.0, higher than its competitors' P/S ratios of 4.4 and 4.2.

3.3 Common Size Analysis

Apple's current ratio dropped by almost 32% from 1.54 in 2019 to 1.05 in 2021. This suggests a decline in the company's liquidity and a weakening of its capacity to settle short-term debt. The company's rising long-term debt and inventory during this time may be the cause. This could possibly be the cause of the debt ratio's 19% growth. Apple's overall asset turnover rate grew by approximately 8% from 0.77 in 2019 to 0.83 in 2021. This indicates that the company's asset utilisation efficiency has improved, and it can convert its assets into sales revenue faster. The probable reason is that the company increased its asset investment during this period while improving its supply chain and product lifecycle management. In this case, the company's net profit margin has also considerably increased.

Horizontal Analysis. The above analysis results show that Apple's current ratio and asset management ratio have shown a downward trend in the past three years, while the debt management ratio and market value ratio have shown an upward and fluctuating trend. The profitability ratio has experienced ups and downs in the past three years, but the trend is increasing. These trends may be related to the company's financial and operating conditions.

4 Recommendations

Based on these findings, some recommendations for Apple could be to continue managing its working capital efficiently, as evidenced by the decreasing proportion of accounts receivable and inventory to total assets. Additionally, it may be worthwhile for Apple to consider improving its liquidity position, as its current ratio has consistently been lower than that of its competitors. Its current liabilities may be reduced, or its current assets could be increased. However, given that its current ratio has been relatively stable, Apple may already be maintaining adequate liquidity for its operations. Besides, Apple could continue focusing on innovation and product development to maintain revenue growth and profitability.

5 Conclusion

This research summarised the method to evaluate the company's financial performance based on their financial statements which can help with the investment decision making.

First, assessing the company's financial soundness and liquidity is made easier with the use of the balance sheet analysis. It can ascertain whether the business uses its resources efficiently and keeps its debt to equity ratio within reasonable bounds. In order to manage financial risks and make sure the business has the necessary liquidity to meet its immediate obligations, this analysis is essential. It also assists in making long-term investment decisions, such as capital expenditures or expansion plans, by ensuring that the company's financial position is strong enough to support these initiatives. Additionally, understanding the company's cash generation and utilization depends on cash flow analysis. Management can make sure the business has enough cash on hand to support operations, pay dividends, and make investments in expansion prospects by looking at cash inflows and outflows. This analysis also highlights potential cash flow issues that could jeopardise the company's ability to operate smoothly, allowing management to take corrective actions in a timely manner. In addition to these specific financial aspects, financial statement analysis is a vital communication tool with external stakeholders, such as investors, creditors, and regulators. Presenting a clear and accurate picture of the company's financial condition helps build trust and confidence among these stakeholders, leading to more favourable financing terms, increased investor interest, and a more robust market reputation.

In conclusion, financial statement analysis is not merely an accounting exercise but a powerful tool for steering the company towards its strategic goals. A deep understanding of the company's financial dynamics enables management to make well-informed choices that enhance operational efficiency, ensure financial stability, and drive sustainable growth. In an increasingly complex and competitive business environment, the ability to effectively analyse and act upon financial information is critical to the long-term success of any company.

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