

Financial Analysis of Haier Zhijia's Cash Flow Statement

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Abstract: Cash flow statement is a kind of accounting statement, which is used to express the cash inflow and outflow of a company in an accounting period. It is one of the main tools for financial managers to analyze the financial situation of a company. The cash flow statement can not only reflect the cash inflow and outflow of the company's projects in the current year and the amount of the company's net cash flow in subsequent years, but also reflect the company's ability to repay debts and pay the investment income of the enterprise's investors. Through the research and investigation of the financial data listed in the statement, we can roughly grasp the current financial situation of the company, and the top management of the company can also clearly understand the actual situation of the company, and reasonably plan the future development of the company.

Keywords: Cash Flow Statement; Ability to Obtain Cash; Enterprise Financial Status

1. Basic theory of cash flow statement analysis

1.1 Basic Overview of Cash Flow Statement

The cash flow statement reflects the movement of cash in and out of a given company during a specific accounting period. It is a dynamic financial report. It is also an accounting report on the operating business, investment business and financing business of this company. The income statement is often used as an important criterion when evaluating the financial position of a company. However, unlike the income statement, the cash flow statement provides more objective, accurate and representative financial information when evaluating a company's profits, financial position and financial management.

As the correlation between cash flow and business operations grows stronger, the information contained in cash flow becomes more and more important to a company. It has been proven that the most important thing when managing a business is the control of cash flow. Cash flow is cash-based and reflects the company's use of cash and its ability to operate cash.

1.2 Significance of cash flow analysis

The evaluation of a company's business performance is usually based on the analysis of cash flows as the main criterion. This is because it provides financial information that more truly reflects the actual profitability of the company. For a company, it is important to see how much cash is coming in, not just how much profit is being made on the books. However, in order to have a clearer and more thorough understanding of the relationship between a company's cash flow and its profit, I believe it is important to study the cash flow statement in more depth. Only then can we more accurately and truly assess the quality of the profits earned by the company.

2. The basic background of Haier Smart Home

In 1989, Haier Smart Home (formerly Qingdao Haier Co., Ltd.) was officially established, and in 1993, the company was listed on the Shanghai Stock Exchange. In 2018, the company led the world in sales of large home appliances for the tenth consecutive year. And the company has been named to the Fortune 500 several times. The company's strategic goals include high-end, global and smart. Since 2006, the company has been planning to produce Casarte, a high-quality brand, and has been producing products for more than

10 years now. Its main products contain 9 categories, 39 series and more than 380 models. Today, Casarte is ranked number one in the industry, its revenues have reached tens of billions of dollars and some of the top brands are at the forefront of the industry.

3. Financial analysis of Haier Jijiya cash flow statement

3.1 Cash flow trend analysis

Cash flow trend analysis generally uses a comprehensive analysis of the indicators in the cash flow statement for several consecutive accounting periods to observe the changes. This is because, if we look at only one period of financial statements, we cannot effectively predict the future cash flow situation of the company. Therefore, only in this way can we grasp the overall development direction of the company and thus make the right choices and decisions. By comparing and analyzing the financial data of the cash flow statement of HAIERZI for the years 2019 to 2021, the following information can be obtained.

From 2019 to 2021, the company's net cash flow generated from operating activities increases from \$15,083 million to \$23,130 million, showing a gradual upward trend. By comparing the in and out of operating activities by year, it can be seen that the cash inflow growth rate is 1.60% from 2019 to 2020 and 25.07% from 2020 to 2021, which shows that the cash inflow is increasing year by year. Regarding cash expenses, the increase is relatively small compared to the increase in cash inflows, where the amount of cash paid for the company's employees and the various taxes and fees paid account for a large percentage and a relatively large increase. In addition, the analysts should further identify the specific reasons that caused the excessive climb of cash paid to other operating-related businesses in 2021 and make reasonable improvement measures. If there is no significant correlation with operating businesses, then we should try to reduce these non-essential expenses in future operations, so as to reduce the burden of corporate funds.

From 2020 to 2021, the company's net cash flow from investment operations, shows a more significant downward trend, decreasing by 52.96%. By comparing the cash receipts and disbursements for each year, it can be seen that the cash inflows also show a more significant decline of 20.33% in the current year, so the cash inflows cannot support the cash outflows. Among them, the funds in investment decreased by 12.54% compared to last year, and analysts should carefully investigate the specifics of these cash expenditures and study the specific reasons for these huge expenditures.

From 2020 to 2021, the company's net cash flow from financing operations soars, dropping by 1,424.62%. This indicates that the company is in a growth period or is experiencing an economic crisis. By comparing the cash inflow and outflow in each year, it can be seen that in years 20-21, the cash inflow shows a sharp decline of -59.79% because the company is borrowing less from others and is not issuing bonds. And in the years 2020-2021, the cash outflow shows a decreasing trend, indicating that, the company is already taking measures.

The net increase in cash and cash equivalents shows a downward trend of -106.41% from 2020 to 2021, which is a significant deterioration. Based on the analysis of the above three main components, the company's net cash flows from financing activities and investing activities are in a precarious state. On the contrary, the net cash generated from operating activities is gradually increasing. Considering these, the company should carefully investigate the destination of each of these important cash items, find out the specific causes of this phenomenon, make timely changes and optimization, prevent facing financial risks, and enable the company to develop better.

3.2 Solvency Analysis

A company's ability to repay its debts depends primarily on the liquidity of its assets, that is, how quickly they can be converted into cash. Among assets, cash has the fastest realization rate and the greatest liquidity. Therefore, it is more robust and accurate to use cash flow to measure and assess a company's solvency.

The cash flow to current liabilities ratio is the ratio of cash flow generated from a company's operations to its current liabilities. It reflects the company's ability to pay off its short term debt. It is used to evaluate the creditworthiness of the company. Usually, the larger the ratio, the more sufficient the cash inflow to pay off short term debts and the more liquid the assets are. Its calculation formula is.

Cash Current Liability Ratio = Net Cash Flow from Operations / Average Balance of Current Liabilities * 100%.

The total cash-to-debt ratio, also known as the debt coverage ratio, is the ratio of cash flow generated from operating operations to all liabilities. It reflects the ability of a business to repay all its debts. Usually, the larger the amount of the ratio, the stronger the repayment capacity of the company. Its calculation formula is.

Total cash to debt ratio = Net cash flow from operations / Average debt balance * 100%.

Table 1 Haier Smart Home solvency calculation analysis table

Unit: billion yuan

Project \ Time	2021	2020	2019
Net cash flow from operating activities	231.30	176.10	150.83
Total current liabilities	1248.77	1094.10	956.10
Total liabilities	1364.57	1353.66	1224.64
Cash current liabilities ratio (%)	18.52%	16.10%	15.76%
Ratio of total cash liabilities (%)	16.95%	13.01%	12.32%

After calculation, the following information was obtained.

The cash flow debt ratio is on an increasing trend from 2019-2021 and is all greater than 1. A ratio greater than 1 can indicate that the company's ability to repay its debts as they fall due is still very high, indicating that the company is able to generate cash in the course of its operations to meet its current debt repayment requirements.

In summary, the total cash-to-debt ratio shows an increasing trend from 12.32% in 2019 to 16.95% in 2021, and all ratios are greater than 1. This indicates that the company generates enough cash from its daily operations to pay back all of its currently incurred debt.

3.3 Analysis of the ability to obtain cash

You can't run and grow a company without cash flow. Without cash, it is difficult for a company to survive. In reality, many companies are unable to return borrowings that are about to mature due to lack of cash, thus making the company unviable and having to declare bankruptcy. The analysis of cash accessibility is the ratio of cash flow generated from operating business to total operating revenue. We also refer to it as the operating cash ratio. Its calculation formula is.

Operating cash ratio = net cash flow from operations / operating income * 100%.

Table 2 Calculation and analysis of the ability of Haier Smart Home to obtain cash

Unit: billion yuan

Project \ Time	2021	2020	2019
Net cash flow from operating activities	231.30	176.10	150.83
Operating income	2275.56	2097.23	2007.62
Operating cash ratio %	10.16%	8.40%	7.51%

As a result of the above calculations, the following information can be derived.

As you can see from the table above, the operating cash ratio has been increasing from 2019 to 2021. Overall, Haierzhijia has a strong ability to generate revenue from operations as well as to collect and pay cash, and the management of accounts receivable is also better. Therefore, the risk of bad debt loss is also low.

4. Research results and recommendations

4.1 The financial situation of Haier Smart Home

The above analysis of trends in the company's cash flow statement, its ability to repay borrowings and its ability to obtain cash shows that the company's net cash flow generated from investments and financing fluctuates significantly and is very volatile.

In terms of investment business, it can be known that the company is in the stage of expansion investment, and the money invested is much more than the return on investment, and the company disposes of the subsidiaries it owns in 2020 in order to grow. The money paid for the purchase and construction of various long-term assets increased more, and it can be seen that the company may be reorienting its business and is constantly growing and expanding.

In terms of financing operations, it can be seen that companies receive significantly less investment and borrowing in 2021 and no longer use external sources to meet their funding needs. In addition, the company's other cash related to financing operations decreases sharply, but in 2020 the amount obtained through borrowing of various kinds increases, which is not conducive to the long-term development of the company.

However, on a consolidated basis, the indicators of the closing balance of cash show a slightly decreasing trend, but fully enabling the company to meet its normal production and operational needs. Based on the trend analysis of cash flows, we can see that the company's ability to recover sales has weakened considerably and its sustainability has turned to deterioration.

4.2 The direction of improvement of Haier Smart Home

An analysis of the trends in cash flows generated by the company's operating activities reveals that the company's sales are better and the related cash flows are greater. However, there has been a surge in cash paid for the purchase of goods and services, for distribution to employees, and for its related activities. Therefore, companies should focus on the content and composition of these items as they expand their operations. Analyze the money spent on the purchase and sale of goods or services correspondingly, as it is the material basis of the company. Carefully investigate whether the company includes amounts that should not be classified as part of employees' salaries. Scale up its operations appropriately to avoid facing greater financial pressure.

The analysis of the trend of cash flows generated by the company's investment business shows that the company is facing cash flow constraints in expanding its market and adjusting the company's future strategy. Therefore, the company should focus on cash inflows while meeting the needs of the expanding market and take care to prevent excessive expansions that could lead to capital breakdowns.

After analyzing the trends in cash flows generated by the company's financing activities, it is clear that the company has received substantially less cash through the issuance of stocks and bonds and has relied mostly on debt financing to obtain cash. Therefore, the company should appropriately increase the amount of stocks and bonds issued and appropriately reduce the cash flow obtained through borrowing. This is because the former can improve the company's credit and help it grow in the long run. In contrast, borrowed funds require principal and interest repayments, entail greater financial risk, and require more conditions and a more complicated application process, with certain limits on the amount of funding.

Conclusion

With the growth of the economy and the development of the accounting system, the analysis of the cash flow statement has developed into an extremely important part of the financial statement analysis. Users and managers use the financial data in the statement of cash flows to analyze the factors affecting the company and to gain a clearer understanding of the company so that they can maximize profits and make the most appropriate plans and decisions for the company's development. In addition, the combination of financial information from the cash flow statement, income statement and balance sheet allows for an accurate, objective and comprehensive assessment of the company's sustainability.

In this paper, we have studied the cash flow statement of Haierzhijia for three years and summarized the financial situation of the company and the areas for improvement. However, when we evaluate a company, we should not blindly analyze only the cash flow statement, but should make a reasonable and accurate analysis for each company according to different companies and different environments.

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