FPT UNIVERSITY

Group Assignment Report

Principles of Accounting – ACC101

MKT1907	
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Case Study	Analyse the 2019 to 2021 financial statements of Amazon

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I. Overview

1. Amazon and its historical

Amazon.com,Inc. is a leading technology and retail company in the world, headquartered in Seattle, Washington, United States. innovated by Jeff Bezos on July 5, 1994. They've main business areas similar ase-commerce, pall computing, artificial intelligence and digital media services. Amazon is one of the largest technology companies in the world with millions of guests worldwide, operating in numerous countries and furnishing numerous important products and services.

Since its establishment, they've always developed and changed to strengthen their commanding position in their business areas and we can see through important mileposts similar as. Amazon Web Services(AWS) launched in 2006 AWS provides a range of pall computing services, from storehouse, computing, to databases and artificial intelligence. The service is designed to serve startups, small and medium- sized businesses, as well as large pots. Amazon Prime was launched in 2005 as a class subscription service, originally offering free two - day shipping on orders in the US. The service has since expanded to include other benefits similar as access to Prime Video, Prime Music, Prime Reading, and special offers on Amazon.

The company has always set out development pretensions and strategies that can help the company grow similar as enhancing the client experience, invention and technology development, and transnational development.

2. Strengths and weaknesses

2.1: Strengths

- Wide range of products and services Amazon offers a wide range of products from books, electronics, apparel, and pall computing services
- Excellent client service Amazon always puts guests first with easy return programs and 24/7 client service.
- Innovation and Creativity Amazon has always been a colonist in espousing new technology and perfecting business processes, from robots in storages to artificial intelligence.

2.2: Weaknesses

- Dependence on the US request Although Amazon has expanded to numerous countries, the maturity of their profit still comes from the US request.
- Competitive pressure Amazon faces fierce competition from major rivals similar as Walmart, Alibaba, and Google.
- Unpredictable operating costs Amazon's operating and logistics costs can change greatly, especially during peak shopping seasons

II. Quantitative and qualitative analysis of the Amazon company

1. Quantitative Analysis

1.1: Revenue and Profit Growth: Amazon's net income increased significantly from $11.6 billion in 2019 to $33.4 billion in 2021, indicating robust growth and operational efficiency.

1.2: Stock Performance: Amazon's stock value increased from $100 to $482 between 2015 and 2020, outperforming major indices and reflecting strong investor confidence.

1.3: Cash Flow and Investments: Amazon's cash and cash equivalents grew from $32.2 billion in 2019 to $42.4 billion in 2021, providing financial flexibility. Investments are primarily in AAA-rated and investment-grade securities.

1.4: Foreign Exchange Risk: A 10% adverse change in foreign exchange rates could impact the fair value of foreign-denominated assets by $2.3 billion, indicating exposure to currency fluctuations.

2. Qualitative Analysis

2.1: Market Position and Competitive Advantage: Amazon's market dominance, extensive logistics network, and innovation in technology (e.g., AWS) provide a significant competitive edge.

2.2: Management and Governance: Strategic vision focused on long-term growth, alignment of employee and shareholder interests, and prudent corporate governance practices.

2.3: Risk Management: Robust risk management practices, including monitoring foreign exchange risks and conservative investments, reflecting a careful approach to global operations.

2.4: Social and Environmental Responsibility: Commitment to sustainability, such as achieving net-zero carbon emissions by 2040, enhancing its reputation among environmentally conscious stakeholders.

III. Financial ratio of Amazon in 2019, 2020 and 2021

1. Data for analysis

Financial ratios of Amazon in 2019, 2020 and 2021

		2019	2020	2021
ASSETS	Inventories	20.497	23.795	32,640
	Account receivable	20.816	24.542	32.891
	Total current assets	96.334	132.733	161.580
	Total assets	225.248	321.195	420.549
LIABILITIES	Total current liabilities	87.812	126.385	142.266
EQUITY	Net sales	280.522	386.064	469.822
	Net income	11.588	21.331	33.364
	Total equity	62.060	93.404	138.245

(Source: Annual financial report of Amazon in 2019, 2020 and 2021)

2. Analysis of the performance through 3 years (2019-2021)

2.1: Liquidity ratio

- Current ratio: is a liquidity metric that measures a company's ability to meet its short-term obligations (due within one year) using its current assets (cash, inventory, and other assets convertible to cash within a year).

Current ratios = Current assets / Current liabilities

CURRENT RATIO			
	2019	2020	2021
Current assets	96.334	132.733	161.580
Current liabilities	87.812	126.385	142.266
Current ratio	1.10	1.05	1.14

The table presents Amazon's current ratio from 2019 to 2021.

The current ratio is a liquidity metric that measures a company's ability to meet its short-term obligations (due within one year) using its current assets (cash, inventory, and other assets convertible to cash within a year). In many cases, a company with a current ratio of less than 1.0 does not have the capital on hand to meet its short-term obligations if they were all due at once, while a current ratio greater than 1.0 indicates that the company has the financial resources to remain solvent in the short term.

Current assets, which include cash and cash equivalents, marketable securities, inventories, account receivables, net and other increased from $96.334 million in 2019 to $161,580 million in 2021. Current liabilities, such as accounts payable, unearned revenue, accrued expenses and other, also grew, but at a slower rate, rising from $87.812 million to $142,266 million during the period. The increase in current assets relative to current liabilities suggests that Amazon was better positioned to meet its short-term obligations in 2021 compared to 2019 and 2020.

In 2021, Amazon's current ratio increased to 1.14, compared to 1.10 in 2019. An increase in the current ratio indicates an improvement in Amazon's short-term liquidity, shows that the company has a greater ability to cover its current liabilities with its current assets.

- Quick Ratio: also known as the Acid-test ratio, measures the ability of a business to pay its short-term liabilities by having assets that are readily convertible into cash. These assets are, namely, cash, marketable securities, and accounts receivable. These assets are known as “quick” assets since they can quickly be converted into cash without needing to sell its inventory or obtain additional financing.

  Acid-test ratio (Quick ratio) = (Current assets - Inventory) / Current liabilities

Quick Ratio			
	2019	2020	2021
Current Assets	96.334	132.733	161.580
Current Liabilities	87.812	126.385	142.266

Inventory	20.497	23.795	32,640
Quick ratio	2.33	2.35	2.96

The provided table shows Amazon's quick ratio from 2019 to 2021.

The provided table shows Amazon's quick ratio for 2020 and 2021. The quick ratio measures a company's ability to pay off short-term liabilities using its most liquid assets, such as cash and marketable securities.

Amazon's quick ratio slightly improved from 2.33 in 2019 to 2.35 in 2021 and reached 2.96 at the end of the period. This indicates a positive trend, meaning the company became better equipped to cover its short-term debts using its assets after excluding inventory.

However, it's important to note that inventory level also increased significantly from $20.497 million in 2019 to $32.640 million in 2021. While a higher quick ratio is positive, the rising inventory level could potentially signal inefficiencies in inventory management or changes in customer buying habits.

2.2: Efficiency ratio

The efficiency ratio is typically used to analyse how well a company uses its assets and liabilities internally. An efficiency ratio can calculate the turnover of receivables, the repayment of liabilities, the quantity and usage of equity, and the general use of inventory and machinery.

Days' sales outstanding (DSO) = 365 / account receivable turnover

Account receivable turnover = net sales / account receivable

DAYS' SALE OUTSTANDING			
	2019	2020	2021
Net sales	280.522	386.064	469.822
Account receivable	20.816	24.542	32.891
Account receivable turnover	13.48	15.73	14.28
DSO	27.08	23.2	25.56

The provided table shows Amazon's DSO from 2019 to 2021.

Declining inventory collection period is the average number of days required to collect accounts payable after a sale is made. The collection of these receivables needs to be done very well, because it is the deciding factor for the prosperity of the business, to know whether the business can survive in the long run or not.

Based on the data calculated here, we can understand that: the time for Amazon to collect payments in 2019, 2020 and 2021 is 27.08 days, 23.2 days and 25.56 days respectively. The average capital recovery time of businesses that we can rely on for comparison is about 45 days. Based on this, we can see that in all 3 years Amazon was able to collect payment accounts in a fairly short period of time. This shows that this business sells existing products quite well and quickly. However, looking at this data table, we can easily see that the DSO ratio of the enterprise has an unusual change: from 27.08 in 2019 to 23.02 in 2020. and increased slightly to 25.56 in 2021. Period 2019 and 2020 were the time when the COVID19 epidemic broke out violently, leaving severe consequences all over the world. That's why 2019's DSO was quite good then it suddenly dropped in 2020. Even so, it's still a good indicator. Then, in 2021, this index increased and nearly reached the DSO level of 2019 - before COVID spread widely. It can be seen that COVID has caused many businesses to go bankrupt and collapse, but Amazon was able to quickly restore its status, which further proves the strength and trust of this business with businesses. partners and customers.

2.3: Profitability ratio

- Profit Margin Ratio = Net Income / Net Sales:

PROFIT MARGIN RATIO			
	2019	2020	2021
Net Income	11,588	21,331	33,364
Net Sales	280,522	386,064	469,822
Profit Margin Ratio	0.041	0,055	0,071

The provided table shows Amazon's profit margin ratio from 2019 to 2021.

Amazon's profit margin ratio improved from 0.041 in 2019 to 0.071 in 2021, indicating enhanced profitability. The increase in net income from $11,588 million in 2019 to $33,364 million in 2021 highlights successful revenue strategies and cost management. Amazon's net sales grew from $280,522 million in 2019 to $469,822 million in 2021, reflecting strong market demand and business expansion. The overall improvements in net income, net sales, and profit margin ratio demonstrate Amazon's robust business model and financial health.

- Gross Profit Margin Ratio =Gross Profit / Net Sales:

GROSS PROFIT MARGIN RATIO			
	2019	2020	2021
Gross Profit	122,459	152,757	197,478

GROSS PROFIT MARGIN RATIO			
Net Sales	280,522	386,064	469,822
Profit Margin Ratio	0.437	0,396	0,420

The provided table shows Amazon's gross profit margin ratio from 2019 to 2021.

Amazon's gross profit margin ratio showed variability, with a decrease from 0.437 in 2019 to 0.396 in 2020, followed by a rise to 0.420 in 2021. The increase in gross profit from $122,459 million in 2019 to $197,478 million in 2021 indicates effective revenue generation and cost control strategies. Despite the slight dip in 2020, the recovery of the gross profit margin ratio in 2021 suggests Amazon's resilience and adaptability in managing its costs relative to sales. The strong gross profit figures and improving gross profit margin ratio demonstrate Amazon's capacity to maintain healthy profitability while expanding its sales.

- Return On Assets (ROA) = Net Income / Total Assets:

RETURN ON ASSETS (ROA) RATIO			
	2019	2020	2021
Net Income	11,588	21,331	33,364
Total Assets	225,248	321,195	421,849
Return On Assets	0,051	0,066	0,079

The provided table shows Amazon's ROA ratio from 2019 to 2021.

Amazon's Return on Assets (ROA) ratio has shown consistent growth, increasing from 0.051 in 2019 to 0.079 in 2021. This upward trend in ROA indicates that Amazon is becoming more efficient at generating profit from its total assets over time. The rise in net income from $11,588 million in 2019 to $33,364 million in 2021, alongside the increase in total assets, reflects Amazon's effective asset utilization and strategic investments. The continuous improvement in ROA demonstrates Amazon's strengthening financial performance and its ability to leverage its asset base to drive profitability.

- Return On Equity (ROE) = Net Income / Total Equity:

RETURN ON EQUITY (ROE) RATIO			
	2019	2020	2021

RETURN ON EQUITY (ROE) RATIO			
Net Income	11,588	21,331	33,364
Total Equity	62,706	93,404	138,245
Return On Equity	0.185	0,228	0,241

The provided table shows Amazon's ROE ratio from 2019 to 2021.

Amazon's Return on Equity (ROE) ratio has shown a positive trend, increasing from 0.185 in 2019 to 0.241 in 2021. This rise in ROE indicates that Amazon is effectively using its shareholders' equity to generate profits, reflecting a strong financial performance. The significant growth in net income from $11,588 million in 2019 to $33,364 million in 2021 highlights Amazon's ability to enhance its profitability and return value to its shareholders. The improvement in ROE demonstrates Amazon's robust management and strategic efficiency in utilizing equity capital to drive growth and profitability.

IV. RECOMMENDATION FOR CORPORATE

- Through the current ratio, Amazon Group should continue to manage short-term assets and short-term liabilities effectively to maintain high liquidity.
- Relying on the quick ratio, Amazon Corporation should try to improve the Quick ratio by reducing inventory or increasing current assets excluding inventory.
- Based on DSO, this group should maintain, maintain its performance or further improve this index if possible to enhance cash flow and reduce the risk of receivables.
- Through ROA and ROE, Amazon should continue to invest in highly profitable projects. At the same time, continue growth strategies and invest in highly profitable areas to maintain or improve ROE.

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