

Czech University of Life Sciences Prague

Faculty of Economics and Management

Department of Business Administration



Bachelor Thesis

**Assessment of the Financial Position and Performance of
a Chosen Russian Company Operating in Children's Goods
Retail**

Viktoriiia Sharkova

CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

Faculty of Economics and Management

BACHELOR THESIS ASSIGNMENT

Viktoriia Sharkova

Business Administration

Thesis title

Assessment of the Financial Position and Performance of a Chosen Russian Company Operating in Children's Goods Retail

Objectives of thesis

The aim of this bachelor thesis is to assess the financial position and performance of a chosen Russian company operating in the children's goods retail by analyzing the company's financial statements with focus on the representation and changes of the reported assets, liabilities, expenses and revenues for a chosen period and to identify the potential financial problems and the most significant factors influencing the profit from the company and industry point of view.

Methodology

Methodology for the literature overview is based on data collection from the relevant legal framework, specialized publications and other written or online sources. The practical part of the thesis will be based on the information gained from the published annual reports of the chosen company. Vertical and horizontal analysis and ratio analysis of the financial statements will be used to assess the financial position and performance of the company and to prepare the practical part of the thesis. The methods of analysis, synthesis, comparison and deduction will be used to formulate the conclusions of the thesis.

The proposed extent of the thesis

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Keywords

financial statements, financial analysis, financial position, balance sheet, assets, liabilities, equity, financial performance, Income statement, expenses, revenues, profit, children's goods retail

Recommended information sources

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The Bachelor Thesis Supervisor

Ing. Enikő Lőrinczová, Ph.D.

Supervising department

Department of Trade and Finance

Electronic approval: 27. 2. 2022

prof. Ing. Luboš Smutka, Ph.D.

Head of department

Electronic approval: 2. 3. 2022

doc. Ing. Tomáš Šubrt, Ph.D.

Dean

Prague on 12. 03. 2022

Declaration

I declare that I have worked on my bachelor thesis titled "Assessment of the Financial Position and Performance of a Chosen Russian Company Operating in Children's Goods Retail" by myself and I have used only the sources mentioned at the end of the thesis. As the author of the bachelor thesis, I declare that the thesis does not break any copyrights.

In Prague on March 15, 2022 _____

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Assessment of the Financial Position and Performance of a Chosen Russian Company Operating in Children's Goods Retail

Abstract

The purpose of this work is to analyse the “Detsky Mir” company through the annual reports and financial statements. Estimation of the health of the company is based on the assessments of the financial performance, financial position, cash flow statement and financial ratios of the company.

The work contains two main parts – theoretical part and practical part.

In the theory part there is an information describing the main components of the financial statements. It also reflects the description of the company and other literature review.

The practical part based on the horizontal and vertical analysis and ratio analysis of the company's financial statements. Analysis is provided in range of three years. It consists of the tables and their interpretations. The end of the practical part is represented by the conclusion of the bachelor thesis.

Keywords: financial statements, financial analysis, financial position, balance sheet, assets, liabilities, equity, financial performance, Income statement, expenses, revenues, profit, cash-flow, children's goods

Zhodnocení finanční situace a výkonnosti vybrané společnosti v Rusku působící v maloobchodě s dětským zbožím

Abstract

Cílem této práce je analyzovat společnost "Detsky Mir" prostřednictvím prostudování výročních zpráv a finančních výkazů. Odhad finančního zdraví firmy je založen na hodnocení finanční výkonnosti, finanční pozice, výkazu peněžních toků a finančních ukazatelů společnosti.

Práce obsahuje dvě hlavní části – teoretickou část a praktickou část.

V teoretické části jsou uvedeny informace popisující hlavní složky účetní uzávěrky. Obsahuje také popis této společnosti a další literární rešerše.

Praktická část vychází z horizontální a vertikální analýz a poměrové analýzy účetních výkazů této společnosti. Analýza je poskytována v časovém rozpětí tří let. Skládá se z tabulek a jejich interpretace. Konec praktické části tvoří závěr bakalářské práce.

Klíčová slova: účetní uzávěrka, finanční analýza, finanční pozice, rozvaha, aktiva, závazky, vlastní kapitál, finanční výkonnost, výkaz zisků a ztrát, náklady, výnosy, zisk, peněžní toky, dětské zboží

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List of abbreviations

Bn – Billion

EPS – Earnings per share

COGS – Cost of Goods Sold

EBT – Earnings before Tax

FASB – Financial Accounting Standards Board

IASB – International Accounting Standards Board

P/L – Profit or Loss

PJSC – Public Joint-Stock Company

PP&E – Property, Plant and Equipment

ROA – Return on assets (financial ratio)

ROE – Return on equity (financial ratio)

Rosstat – Federal State Statistics Service

RUB – Russian ruble

SEC – Securities and Exchange Commission

1 Introduction

Enterprises face many external and internal factors such as political, financial, commercial, and more other risks. Therefore, managers of a company must evaluate achieve the defined goals in the competitive business condition based on all these factors.

Assessment of a company is an active measure in the decision-making process while controlling and planning a company's activities; assessment of a company is a very important issue in developing and improving its performance (Najmi, 2001). The comprehensive assessment of activity of a company helps to manage process to increase the value of the business and ensure its long-term success.

The practical part of the work covers a company's financial position and analyses by different methods. The company analysed in this work is based on the children's goods selling. There are a lot of small shops with children's clothes and toys in each country. However, almost in each country there is at least one huge company with children apparel.

In Russia, the representative of the largest network of children's apparel stores is "Detsky Mir". As the reason, this work is based on the assessment of financial position and performance of a Russian company "Detsky Mir" or "Children's World" which is the main Russian children's retailer.

"Detsky Mir Group" is a multi-format digital retailer and the leader in the children's goods sector in Russia and Kazakhstan, as well as a significant player in Belarus.

The Company is one of the largest and fastest growing online players in the children's goods market in Russia. "Detsky Mir" is the most identifiable brand among children's goods retail chains in Russia with 73 years of history (Detsky Mir Group, Detsky Mir Today, 2021).

The purpose of the work is to assess the financial situation and results of the company by obtaining the indicators and activity for the last 3 years. To achieve the goal of the work, it is necessary to solve the tasks, such as:

1. Studying the theoretical foundations of assessing the financial condition of an enterprise (For this, methodological approaches to determining the financial condition of an enterprise, as well as a system of indicators and methods of improving the financial condition of an enterprise are disclosed)
2. Conduct an analysis of the financial position of the enterprise PJSC "Detsky Mir" (Show a brief economic description of the activities of the company, analyse the structure of the balance of solvency, liquidity, and financial sustainability)
3. Make a conclusion about the assessment of financial position and performance of the PJSC "Detsky Mir" enterprise.

Research is based on the data from the company's past performance, financial position, balance sheet and all information reflecting the change in profit and the condition of the company.

2 Objectives and Methodology

2.1 Objectives

The aim of this thesis is to assess the financial position and performance of a “Detsky Mir” company in Russia operating in the children’s goods industry, by analysing the financial statements of the company with focus on the representation and changes of the reported assets, liabilities, expenses, revenues, profit, and cash-flow for a chosen period to identify the potential financial problems and the most significant factors influencing the profit from the company and industry point of view.

1. To analyze the company’s performance for the last 3-5 years using financial analysis methods.
2. To assess the financial situation of the company by studying the accounting activities of the company.
3. To analyze the financial stability and solvency of the enterprise on the example of the PJSC “Detsky Mir”.
4. To make a conclusion of the results of the company’s activity and factors affecting it.

2.2 Methodology

Methodology for the literature overview is based on data collection from the relevant legal framework, specialized publications and other written or online sources. The practical part of the thesis will be based on the information gained from the published annual reports of the chosen company. Vertical and horizontal analysis and ratio analysis of the financial statements will be used to assess the financial position and performance of the company and to prepare the practical part of the thesis. The methods of analysis, synthesis, comparison, and deduction will be used to formulate the conclusions of the thesis.

3 Literature Review

3.1 Accounting Legislation in Russia

Accounting is the “language of business”. Accounting is a measurement and communication procedure used to report on the actions of profit-seeking businesses. Accounting, as a corporate measurement and communication process, provides data that allows users of the data to make informed judgements and decisions.

Accounting standards are rules and guidelines set up by governing bodies, like FASB and IASB, to keep accounting practices consistent and understandable across all companies and industries. The FASB is an organization created to establish and improve financial accounting standards in the private sector.

Consolidated financial statements shall be prepared in compliance with IFRS.

Consolidated financial statements of an entity shall be prepared in addition to its financial statements that shall be prepared in accordance with the Federal Law of December 6, 2011, No. 402-FZ “On Accounting”. (Law, Federal Law of December 6, 2011, № 402-FZ “On Accounting”, 2020)

IFRS and IFRS Interpretations issued by the International Financial Reporting Standards Foundation and endorsed in accordance with the procedure set forth within the requirements of legislation of the Russian Federation by the Government of the Russian Federation in coordination with the Central Bank of the Russian Federation shall be applied in the territory of the Russian Federation.

The reporting period for annual consolidated financial statements (the reporting year) is a calendar year starting from 1 January and ending on 31 December inclusive. (Law, Federal Law of July 27, 2010, № 208-FZ «On Consolidated Financial Statements», 2020)

3.1.1 Relations governed by the Accounting Federal Law

This Federal Law defines general requirements for the preparation, presentation, and revelation of consolidated financial statements by a legal entity incorporated in accordance with the legislation of the Russian Federation.

Consolidated financial statements by the Federal Law are a systemized data reflecting financial position, financial performance, and changes in financial position of a substance which with other substance and (or) foreign substances is characterized as a group in compliance with the IFRS.

3.1.2 Scope of this Federal Law

This Federal Law should apply to:

Credit institutions

insurance companies (except for medical insurance companies, whose single activity is statutory medical insurance)

non-state pension funds

management companies of investment funds, investment unit trusts and non-state pension funds

clearing institutions

federal state unitary enterprises, the list of which shall be approved by the Government of the Russian Federation

joint-stock companies, whose shares are held by the Russian Federation and the list of which shall be approved by the Government of the Russian Federation

Another entity, whose securities are listed, except for special purpose vehicles and mortgage agents. (Federation, 2010)

3.1.3 Presentation of consolidated financial statements

Annual consolidated financial statements shall be presented to the entity's participants (shareholders, founders) or entity's property owners as well as to the Central Bank of the Russian Federation. Interim consolidated financial statements shall be presented to the entity's participants (shareholders, founders) or entity's property owners, in case such presentation provided by the entity's charter documents. (Federation, 2010)

3.1.4 Audit of consolidated financial statements

The statutory audit is performed on the annual consolidated financial statements.

Consolidated financial statements for the first half-year period of the reporting period, which must be disclosed in accordance with this Federal Law or other federal legislation, are subject to audit or review by an audit firm, which must be specified and controlled in line with auditing standards. Together with these consolidated financial statements, the audit report on consolidated financial statements or other report generated on the results of the review of interim consolidated financial statements in compliance with the auditing standards shall be presented and disclosed.

The Central Bank of the Russian Federation oversees supervision over the presentation and publication of consolidated financial statements by enterprises (KPMG, 2021).

3.1.5 Disclosure of the consolidated financial statements

The Consolidated financial statements disclosed by publication in the public information systems shall be accessible for interested parties within three years from the date of publication, along with the audit report or other documents prepared based on the results of audit of the interim consolidated financial statements in accordance with the auditing standards.

Consolidated financial statements shall be disclosed by an entity within 30 days after expiration of the period for its presentation if other federal laws are not provided other terms for disclosure of consolidated financial statements.

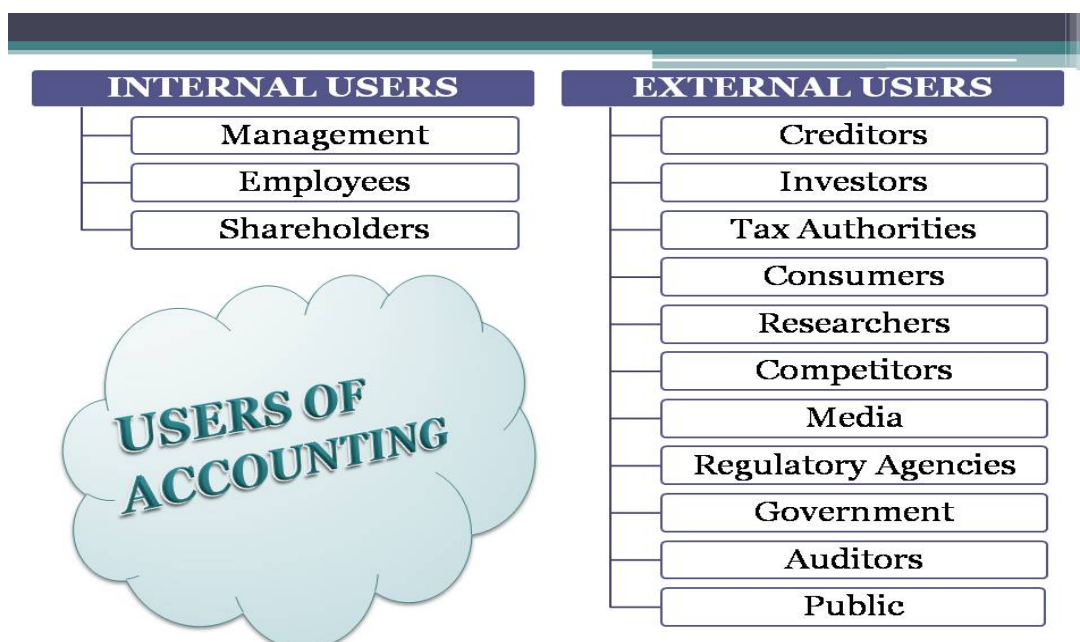
The Central Bank of the Russian Federation has a right to set reduced deadlines for disclosure of consolidated financial statements of some entities where entity's consolidated financial statements containing state secret information and (or) information specified by the Government of the Russian Federation shall be disclosed in the part that does not contain such information. In case, when it is impossible to exclude state secret information and (or) information specified by the Government of the Russian Federation from consolidated financial statements, such information shall not be disclosed. (Federation, 2010)

The purpose of the analysis of financial statements is to obtain parameters which give objective and more detailed assessment of the financial condition and financial performance of the enterprise.

3.1.6 Internal and External Users

There are two groups of accounting, internal and external, See Picture -1.

Picture 1: Users of accounting



Source: <https://commerceiets.com/users-of-accounting/> - gsc.tab=0

First group represents by people within a business organization who use accounting information. They include managers, owners/shareholders, and other employees, who can use accounting information for different purposes which are listed below:

- Managers

These are the most active users of the accounting information. Managers need the accounting information for:

Controlling, acquisition and maintenance of investors, cash receipts and payments;

Planning and budgeting for the future

For checking the profit earning capacity of the business

To ensure the fair return on the equities invested by the shareholders

For managing the finances properly

- Owners/ Shareholders

These people have invested their money in the business. They are interested in knowing the accounting information for purposes:

To ensure the return on their funds invested

To ensure the optimum utilization of the funds

To determine the exposure of risk to the funds invested by them

To determine the profit earning capacity of the business

- Employees

They are the persons who work in the organization in consideration of salaries and wages, and they need the accounting information for the following reasons

To demand the bonus in case company is earning huge profit

To ensure job security

To know more about the company's financial position.

Second group which use accounting information are users outside the business entity. These people are investors, government, auditors, creditors, tax authorities, consumers, researchers, competitors, media, regulatory agencies, public. They use accounting information to make decisions or to evaluate an entity's performance. They may need the accounting information for different purposes.

- Investors/ Potential investors need to know the accounting information for the following reasons:

To judge the prospects of earning on investment

To decide whether to invest more in the business or not

To make the decision regarding holding the existing investment or to sell it.

- Government use the accounting information to protect the interest of various stakeholders who rely on such information in forming their decisions.
- Auditors:
External auditors examine the financial statements and the underlying accounting record of businesses in order to form an audit opinion. Investors and other stakeholders rely on the independent opinion of external auditors on the accuracy of financial statements.
- Creditors need accounting information for reasons:
To know the credit worthiness of the business
To ensure the repayment of the credit provided
To assess the risk associated with the credit provided
To know the existing debt service capability of the firm
To know the existing loan amount raised by the company from other sources.
- Tax authorities include the Income Tax authorities, Goods and Service Tax authorities, Custom duty Authorities, Corporate Tax Authorities etc. These authorities require the accounting information:
To assess the tax liability of the business
To audit the records and imposing the penalties if any default is there
Other external users are interested in accounting information for any of the same reasons as the users from above.

3.2 Characteristics of the financial statements

Financial statements are reports prepared by a company's management to present the financial performance and position at a point in time and to give investors and creditors additional information about the company's performance and financial standings. (Shaun, 2021) There are three basic financial statements: balance sheet, income statements, statement of cash flows. It is better to read and use these statements together for the sake of completeness of the company. This is because reports are published to the public as a set of statements and intended to be used together.

3.2.1 Balance sheet- Statement of the financial position

Balance sheet is a statement of financial position. Balance- presenting assets and sources of financing these assets (equity and liabilities).

- The total of both sides must be equal. The balance sheet must follow the formula: $\text{Assets} = \text{Liabilities} + \text{Equity}$ the "balance" part in balance sheet comes from the equation above. Assets must be equal to the sum of liabilities and equity.

- Balance sheet is always prepared on a particular date. It shows the situation of a company's resources, debts, and ownership on a given day. When annual income statements analyze the performance of the company over the 12 months, the balance sheet focuses on the financial position of one day.
- Some describe the balance sheet as a “snapshot” of the company's financial position at a point (a moment) in time (Alexander, 2018)
- It shows the financial position of the business. Because it is prepared on a certain date, it allows someone to see what a company owns and what the company owes to other parties as for the date in a heading. This information is important for banker who need to know whether the company can be allowed for additional credit or loans.

Balance sheet can be represented by two formats- horizontal or vertical form. - Horizontal form reports information within two columns, where assets are on the left side of the balance sheet and on the right side are liabilities and equity. - Vertical form has only one column consisting of all components of the balance sheet. Assets are written first on the top of this balance sheet and liabilities and equity are listed on the bottom of the balance sheet.

The rule is the same for both variants of the balance sheet- total amount of assets must be equal to the sum of total liabilities and equity.

Nowadays, the vertical format of the balance sheet is much more popular and used.

Picture 2: Balance Sheet

TEDDY FAB INC.		BALANCE SHEET	
		December 31, 2100	
ASSETS		LIABILITIES AND SHAREHOLDERS' EQUITY	
Current assets		Current liabilities	
Cash and cash equivalents	\$ 100,000	Accounts payable	\$ 30,000
Accounts receivable	20,000	Notes payable	10,000
Inventory	15,000	Accrued expenses	5,000
Prepaid expense	4,000	Deferred revenue	2,000
Investments	10,000	<u>Total current liabilities</u>	<u>47,000</u>
<u>Total current assets</u>	<u>149,000</u>	Long-term debt	200,000
Property and equipment		Total liabilities	<u>247,000</u>
Land	24,300	Shareholders' Equity	
Buildings and improvements	250,000	Common stock	10,000
Equipment	50,000	Additional paid-in capital	20,000
Less accumulated depreciation	(5,000)	Retained earnings	197,100
Other assets		Treasury stock	(2,000)
Intangible assets	4,000	Total liabilities and shareholders' equity	<u>\$ 472,100</u>
Less accumulated amortization	(200)		
Total assets	<u>\$ 472,100</u>		

Source: Central Africa Tax Guide (2022)

Picture 3: Example of the vertical form of the balance sheet

Balance sheet for XYZ business on the 31 st of December 2010		
	\$	\$
ASSETS		
<u>Non-current assets</u>		2,150,000
Land and buildings	2,000,000	
Furniture	12,000	
Machinery	18,000	
Investments	<u>120,000</u>	
<u>Current assets</u>		10,000
Inventory	1,000	
Debtors / receivables	3,200	
Bank and cash	<u>5,800</u>	
TOTAL ASSETS		<u>2,160,000</u>
EQUITY AND LIABILITIES		
<u>Owner's equity</u>		1,700,000
Capital	<u>1,700,000</u>	
<u>Non-current liabilities</u>		440,000
10% Loan	<u>440,000</u>	
<u>Current liabilities</u>		20,000
Creditors / payables	<u>20,000</u>	
TOTAL EQUITY AND LIABILITIES		<u>2,160,000</u>

Source: Central Africa Tax Guide (2022)

Components of the Balance Sheet:

Components of the balance sheet are divided into three groups: Assets; Liabilities and Owner's (Stockholder's) Equity. Assets are also sub-divided into non-current (long-term assets) and current (short-term assets).

- **Assets** - are components of the balance sheet which are always reported first. These are things which the company owns. Each asset has its individual economic value. Proper identification and classification of assets is substantial for the company's activity, especially for its solvency and related risks. Assets also include costs paid in advance which are not expired. It may be prepaid insurance, rent, etc. The IASB defined assets as: "A resource controlled by the entity due to past events and from which future economic benefits are expected to flow to the entity (IASB, 2022) Assets can be classified in three variants:

By Convertibility Assets are divided by two groups based on the possibility of converting into cash. Distinguish between long-term assets (fixed or non-current) and short-term assets (current).

- Long - term assets are assets, which cannot be transformed to cash or cash equivalents in a short period of time. These assets include land, buildings, machinery, equipment, patents, trademarks, long-term investments etc.
- Short - term assets differ from the previous group due to the possibility of converting to cash in short time (usually no more than a year). These assets are cash, cash equivalents, short-term deposits, accounts receivables, inventory, marketable securities, office supplies etc.

By Physical existence where assets classified on this basis are divided into tangible and intangible assets.

- Tangible assets have physical existence, they can be touched, felt, seen. Assets from this group are land, building, machinery, equipment, cash, office supplies, inventory, marketable securities.
- Intangible assets, on the contrary, do not have physical existence and are represented by goodwill, patents, brand, copyrights, trademarks, trade secrets, licenses and permits, corporate intellectual property. Kimmel (2002)

By Usage This classification of assets is based on the purpose of using the asset. They are divided into Operating assets and non-Operating assets.

- Operating assets are important in the daily work of the company. They are used for making revenue from the main activity of the company. Examples of operating assets are cash, accounts receivable, inventory, buildings, machinery, equipment, patents, copyrights, goodwill.
- Non-Operating assets are not used in everyday business activity of the enterprise but can still generate income in other ways. These assets are short-term investments, marketable securities, vacant land, interest income from a fixed deposit (Alexander, 2018).

Classification of assets has a big impact on business. Understanding the division of assets into current and non-current is important for knowing the net working capital of a company. Understanding the difference between tangible and intangible assets helps to evaluate a company's solvency and related risks. Specifying assets as operating or non-operating helps to understand the amount of a company's revenue which comes from the main business activity.

- **Liabilities** - are second but not less important part of the balance sheet. Liabilities are obligations of the company towards another party. It may be liability to pay salary, to deliver goods, to render services etc. Usually, liabilities are divided into two groups- Current liabilities and long-term liabilities.

Current liabilities are liabilities which must be paid back in the interval of one year. This type of liabilities include:

- Accounts payable (payments owe to suppliers)
- Income taxes payable
- Unearned revenue
- Salaries and wages
- Payroll taxes

Long-term liabilities or non-current liabilities are any obligations, loans and other liabilities which can be paid in more than one year. Common examples of them are:

- Bonds, debentures, and long-term loans
- Pension obligations
- Deferred tax liabilities
- Mortgage payable
- Loans payable
- **Equity** - the third component of the balance sheet. Equity is a “book value of the company”. Equity is also as liabilities can be defined as a source of assets. Equity is a value which company shareholders would get back if liquidated all assets and pay off all debts of the company.

Equity includes accounts:

- Capital
- Capital funds
- Reserves
- Retained earnings
- Profit or loss of the current accounting period/from previous years
- Revaluation of assets

3.2.2 Income Statement – Statement of the financial performance

Murphy (2018) describes an income statement is statement of the financial performance, also called the profit and loss statement. It is one of the most important financial statements of the company. Each public company which is on the stock exchange has to post the income statement together with the other statements such as balance sheet, statement of cash flow, statement of change in equity and notes to the financial statements under law and regulations in the country of the company’s operating. The income statement shows the revenue, expenses, and P/L as a result of the company’s activity over a certain period of time. This information helps users to evaluate the health of the business and to decide whether or not to invest in the company. To understand if the company had profit or loss on any period, all expenses subtracting from all incomes. This calculation helps creditors and investors to determine whether the company is profitable and how the company is taken profits from total incomes. In contradistinction to the balance sheet, the income statement uses some time period, not only one day, for calculations. To have clearer picture of the company’s activity, it is helpful to calculate gross profit and operating P/L.

Rules for declaration of items of the income statement are different in each country. Some countries are very strict and require the business to disclose a lot of information in the income statement. The content and format of income statements for public companies, which include commercial and industrial companies, insurance and bank holding companies, are regulated by the Securities and Exchange Commission.

Formats of the income statement

Income statement can be present in one of two existing formats: Single-step format and multi-step format. These formats use different methods of recording the expenses, but the P/L amount is the same in both methods because values of all expenses are the same in both variants when using for a concrete company, only the way of presenting the operating expenses is different in each method.

Single-step format

This format uses the income statement by nature method and presents expenses by their nature according to categories. It can be energy consumption, depreciation, wages, material consumption, changes in own inventory etc. This limited information does not allow to calculate some ratios which shows the profitability of the company and other features important for users, as well as gross profit and operating income of the company.

Multi-step format

Multi-step format uses the method of the income statement by function. By using this method, expenses present according to their different functions (for what purpose or in which department the expenses are spent), it includes administration expenses, distribution expenses, COGS etc. This separation allows to calculate gross profit and operating income. It is more comfortable for large companies to use this method to be able to calculate more ratios and to evaluate the performance of the company based on these calculations.

The most common items of the income statement

There are three basic components of the income statement- revenues, expenses, and net income.

Revenue

Also called sales, it is a revenue from sales of goods and services sold by the company to its customers. Revenues are presented before expenses in the top of the income statement. The

revenue represents the amount of money which the company made by the way of selling its product or service. It does not contain any tax benefits, credits, or depreciation. Revenue also shows the sales for which the cash or payment has not yet received.

Expenses

Expenses presents the money spent and the costs involved in running a business and contribute to the revenue-generating activities. In other words, expenses are the cost of doing business. In the income statement expenses are listed after the revenue.

Distinguish some common types of expenses:

COGS

This type of expense represents the cost of acquiring raw materials transferred into finished products. It does not contain administrative and selling costs of the company as well as extraordinary interest expense or losses.

Operating expenses

These expenses are referred to selling goods or services provided by the company and involve wages and salaries, advertising, rent etc.

Financial expenses

These are costs which arose as a result of borrowing from creditors. These expenses are outside the company's activity. It can involve such expenses as interest paid, sold securities, exchange rate loses etc.

Net income/P/L

It is also called as net profit of the company. It is the final component of the income statement, which is calculated as a difference between revenue and expenses and listed at the bottom of the document. This part of the income statement represents the financial performance of the company and provides the real view of the company's health. If the company's revenue is less than total expenses, it means that the company has net loss instead of the net profit.

Net income is an important intermediate value which is used by the investors for evaluating other indicators to determine the performance of the company and its profitability.

Picture 4: Components of the income statement



Source: Corporate Finance Institute (2022).

3.2.3 Cash Flow Statement

Cash flow statement is a financial statement published by the company to help users to determine the performance of the company and make cash forecast to a short-term planning. This document involves information about the sources of cash and allow to track incoming and outgoing money during a specific accounting period. The company's liquid assets are increasing when the cash flow is positive and opposite, when the cash flow is negative, the liquid assets of the company are decreasing (Wohlner, 2018). Cash sufficiency allows company to pay back loans, invest to get returns, buy goods etc. If the company does not have enough cash, it can not to pay back loans, this company becomes a bankrupt. Cash flow statement helps to monitor company's cash and keep it under control. It may prevent risks and save company from bankruptcy.

There are some more advantages of the cash flow statement, such as:

- Giving details about spending

The statement of cash flow specifies the nature of company's payments to creditors and presents transactions which are recorded in cash and not included in the other financial statements.

- Helps to keep cash balance in an optimum

The statement of cash flow reflects the amount of cash on hand. Based on this information, the company can determine whether there is an excess or shortage of funds. It allows company to invest money somewhere, if there is an excess cash, or to search sources for borrowing funds to maintain the business activity, if there is a shortage.

- Focusing on generating cash

Of course, profit is the main source of generating cash, but cash can be also obtained by other processes, such as collecting receivables from company's customers faster than usual or when the company is able to find a way to pay less for any service or rent or anything else, in this case company also generates cash (Smirnov, 2018).

Cash flow statement consists of three categories: operating cash flow, investing cash flow and financing cash flow.

- Operating cash flow

This category associated with everyday activity and shows abilities of the company to generate enough cash for supporting its operations.

- Investing cash flow

This part records the gains or losses from investments in the financial market or investments into equipment, plant, and other assets.

- Financial cash flow

This section presents the cash flow generated by issuing cash dividends or stock. It records the cash flow between the company and its creditors and owners.

3.2.4 Financial Analysis Methods

There are a lot of methods of analyzing the financial statements. Each method differs from the other in calculations and factors used for analysis. These methods help analysts, financial institutions, creditors and other to do analysis to evaluate the health of the company. These methods help to see clear picture of the performance of the company by comparing analysis for some years between each other. A primary source of data analyzed is a company's annual report consisting of the financial statements and notes to the financial statements (Wohler, 2018)

- Horizontal analysis

In this method of analyzing the financial statement, compare the data of one period with the previous years. Each line item compares with the same element in another period. The goal of this method is to determine any significant change in any line item.

- Vertical analysis

This method based on the rule of proportion. Every line item in the financial statement represents as a percentage of a fixed value. In this case, the percentage of all the factors helps to determine the direction for developing the business.

- Financial ratios

Ratio analysis is the most widespread method of analyzing the financial statements. Financial ratios represent mathematical comparisons of components of financial statements. These comparisons help users of the financial statements to determine whether the company is performing well, and which parts of the business need to be improved. Financial ratios are used to compare company's performance in different accounting periods as well as in comparison of the performance of different companies. Ratios analyses are divided into main groups under its specification: liquidity, solvency, efficiency, profitability, market prospect. Division of the ratios can distinguish in different sources and can be represented by various number of categories, depended on the method of division. Each group is subdivided into more ratios. Each ratio differs from the other by its analytical function, the method used in the analysis and the values used in analysis for calculations.

Financial ratios which will be used in this work are current ratio; ROA; ROE.

3.2.5 Industry specification of the company

The company chosen to analyze in this work is PJSC "Detsky Mir". In general, this enterprise engaged in the children products retail sector. Nowadays, the children products retail is one of the promising market sectors, even during the background of the crisis in the economy. At the same time, online sales are developing most dynamically. The gradual recovery of fertility rates since 2000 in Russia had a positive impact on the children's toys and games market in the country. In 2021, revenues grew by around ten percent compare to the previous year, despite the pandemic. In the past years the retail trade share of children's games and toys has been increasing. Steady demand is expected to simulate production volume, which according to estimates, will exceed 162 million units manufactured countrywide in 2023. Over the past years, pandemic situation contributed to the growing market share of the online games and toys retail for kids in Russia. By the omnichannel performance points "Detsky Mir" ranked first and reported over a quarter of total sales via internet (Melkadze, 2022). Parents in Russia traditionally try not to retrench on children, and they spend more than a third of their budget on children's goods and services even during the crisis. The children products retail is a very complicated market sector. All goods traded must have a high quality and must to be safe for its consumers, which are children. All products represented in the "Detsky Mir" stores are licensed and tests on the necessary quality control.

4 Practical Part

4.1 Characteristics of “Detsky Mir” company

Detsky Mir Group is a multi-format digital retailer and the leader in the children’s goods sector in Russia and Kazakhstan, as well as a significant player in Belarus. Detsky Mir is the most identifiable brand among children’s goods retail chains in Russia with 73 years of history. The Group comprises the Detsky Mir and the Detmir Pickup retail chains, the detmir.ru online store and marketplace, as well as the Zoozavr pet supplies retail chain. The Company operates a retail chain of 832 Detsky Mir stores located in 331 cities in Russia, Kazakhstan and Belarus, 16 Detmir Pickup stores, as well as 20 Zoozavr stores as of 31 December 2020. The total selling space was approximately 897,000 square meters. Detsky Mir Group is strengthening its leading position in the children’s goods market and has maintained high top-line growth over recent years. Detsky Mir Group’s revenue increased by 11% to RUB 142.9 bn in 2020 comparing to the previous 2019 year. The Company’s online segment remains its fastest-growing sales channel since launching in 2011 – therefore, now children’s products can be ordered via home or office delivery, as well as in-store pickup. The Company’s target audience is medium-income families. The total assortment of Detsky Mir features around 250 thousand SKUs of children’s goods priced in the medium range: toys, apparel and footwear, products for newborns, stationery, art and craft sets, recreational goods, car seats, and furniture. In September 2020, Detsky Mir became the First Russian Company with 100% Free Float. In December 2020, Gulf Investments Limited (Altus Capital) acquired a 25% stake in Detsky Mir. (Detsky Mir Group, Detsky Mir Today, 2021)

4.2 Horizontal Analysis of Balance Sheet

The table below represents information about the comparison of balance sheet items of PJSC “Detsky Mir” for 2018-2020 years. The table was created by using information from annual reports of the company “Detsky Mir”.(All values are given in million of Russian Rubles)

Table 1: Horizontal analysis of the balance sheet of the Detsky Mir for 2018-2020 years (Assets)

Segment	2018	2019	2020	Change 2019 to 2018		Change 2020 to 2019	
				in value	in %	in value	in %
Property, plant and equipment	9226	9755	9274	529	5,73	-481	-4,93
Intangible assets	1255	1464	1524	209	16,65	60	4,10
Right-of-use assets	29606	32988	33726	3382	11,42	738	2,24
Deferred tax assets	1858	2415	2811	557	29,98	396	16,40
Other non-current assets	133	138	124	5	3,76	-14	-10,14
Total non-current assets	42078	46760	47459	4682	11,13	699	1,49
Inventories	35063	38636	42494	3573	10,19	3858	9,99
Trade receivables	4473	4048	3670	-425	-9,50	-378	-9,34
Advances paid and other receivables	2038	1435	1535	-603	-29,59	100	6,97
Prepaid income tax	1	13	10	12	1200,00	-3	-23,08
Cash and cash	3335	1769	1826	-1566	-46,96	57	3,22
Total current assets	44910	45901	49535	991	2,21	3634	7,92
TOTAL ASSETS	86988	92661	96994	5673	6,52	4333	4,68

Source: Own processing based on the Financial Reports of the company.

Table 2: Horizontal Analysis of the balance sheet of the Detsky Mir for 2018-2020 years (Equity and Liabilities)

Segment	2018	2019	2020	Change 2019 to 2018		Change 2020 to 2019	
				in value	in %	in value	in %
Share capital	1	1	1	0	0,00	0	0,00
Treasury shares	-214	-317	-407	-103	-48,13	-90	-28,39
Additional paid-in capital	5793	5793	5793	0	0,00	0	0,00
Accumulated deficit	-6609	-7305	-8145	-696	-10,53	-840	-11,50
Currency translation reserve	87	161	126	74	85,06	-35	-21,74
Total equity/(equity deficit)	-942	-1667	-2632	-725	-76,96	-965	-57,89
Lease liabilities	23706	27635	28619	3929	16,57	984	3,56
Long-term loans and borrowings	8928	8980	12200	52	0,58	3220	35,86
Deferred tax liabilities	152	104	92	-48	-31,58	-12	-11,54
Total non-current liabilities	32786	36719	40911	3933	12,00	4192	11,42
Trade payables	29747	32911	35770	3164	10,64	2859	8,69
Short-term loans and borrowings and current portion of long-term loans and borrowings	12542	10270	7582	-2272	-18,12	-2688	-26,17
Lease liabilities	6840	7145	8227	305	4,46	1082	15,14
Advances received, other payables and accrued expenses	4938	6042	5975	1104	22,36	-67	-1,11
Deferred revenue	720	436	527	-284	-39,44	91	20,87
Income tax payable	357	805	634	448	125,49	-171	-21,24
Total current liabilities	55144	57609	58715	2465	4,47	1106	1,92
Total liabilities	87930	94328	99626	6398	7,28	5298	5,62
TOTAL EQUITY AND LIABILITIES	86988	92661	96994	5673	6,52	4333	4,68

Source: Own processing based on the Financial Reports of the company.

Based on the table – 1 and 2 where are contained the information about the year-to-year changes of the balance sheet items, follows that the total assets as well as the total liabilities and equity increased by 6,52% from 2018 to 2019 years, which is equal to 5673 RUB million, however for the period of 2019 to 2020, there is also an increase in total assets and total liabilities and equity by 4,68 % which is accounted for 4333 RUB million.

Assets: Table – 1 demonstrates that the growth is more caused by the changes in total non-current assets by 11,13% which is 4682 RUB million in 2019 comparing to the 2018 financial year. Overall “Non-current assets” have increased in years 2018 to 2019, especially the right of use which concerns the leases, warehouses and offices contracts, the increase was caused due to an increase in overall expenses such as: Rent and Utilities, Repair and Maintenance and the Index rate could have also impacted the increase of right of use however for the year 2020, the right of use has increase only by 2,24 % which could have caused by the pandemic situation where all the stores have been closing while the ongoing lockdown. Deferred tax assets have also increased in 2019 by 30 %, which is accounted to 557 RUB million, due to accumulative taxation on inventory, lease liabilities and right-of-use assets, consequently, for the year 2020 the increase in deferred tax assets is only 16,4 % which accounted for 396 RUB million, which is quite a noticeable change. The change in cash and cash equivalents item of the current assets in 2019 year is a huge because cash in transit comprises cash collected from the Group’s stores and not yet placed into the company’s bank account at the year-end. This change is negative and equals to 46,96% (1566 RUB million) comparing to the 2018 year. Comparing the year 2019 and 2020, there is a small increase of 3,22 % which accounted for 57 RUB million. The information about these changes was taken from the notes to the financial statement of the company. From the table above can be seen that there is a significant change in inventory item, which is a part of current assets, and it is around 10% and being as a consistent increase for the 2019 and 2020.

Liabilities: Table – 2 shows the main item from the non-current liabilities is Lease Liabilities which has changed from 2018 to 2019 by 16,57 % accounted to 3929 RUB million, lease liabilities include the contracts which has a length of less than 1 year, between 1 and 5 years, and over 5 years. However, the majority is taken by (1 – 5 years lease payments). For year of 2020, the change is minor 3,56 % which is accounted for 984 RUB million. The main changes of current liabilities are represented by trade payables, short – term and long – term loans and borrowings and advances received, other payables and accrued expenses. Trade payables have changed by 10,64 % which accounted for 3164 RUB million in 2019, for the year 2020 the change is 8,69 % which is 2859 RUB million. Short – term and long – term loans and borrowings have negatively changed in between 2018 and 2019 by 18,12 % which accounted for 2272 RUB million and consequent

negative change is seen in 2020 by 26,17 %, which could be explained by the paid-off loans and borrowings on behalf of company. The next item is represented by advances received which have changed by 22,36 % accounted for 1104 RUB million in 2019, for the year 2020 it has a negative change of 1,11 % which accounted for 67 RUB million.

Equity: At the same time there is a big decrease in the item total equity by 76,96% in 2019 year in comparison with the year 2018. This change is equal to 725 RUB million. The change for the year 2020 and 2019 has also decreased by 57,89 % which is accounted for 965 RUB million, which could be explained that company's shares are owned by its owners mostly and official employees which might avoid paying higher taxes. Because the Income tax in Russian Federation is around 20 %, while the dividend taxation is only around 13 %. By this fact they might receive more income by 7 %. However, it is only the author's assumption.

4.3 Vertical Analysis of Balance Sheet

The Table - 3 was created to calculate and define how significant are the items of the balance sheet on the total amounts. Calculations have done separately for assets and for equity and liabilities. The table was created based on the information from annual reports of the company “Detsky Mir” for 2018-2020 years. (All values are given in million of Russian Rubbles).

Table 3: Vertical analysis of the balance sheet of the Detsky Mir for 2018-2020 years (Assets)

Item	2018		2019		2020	
	value	% of the item	value	% of the item	value	% of the item
TOTAL ASSETS	86988	100	92661	100	96994	100
Total non-current assets	42078	48,37	46760	50,46	47459	48,93
Property, plant and equipment	9226	10,61	9755	10,53	9274	9,56
Intangible assets	1255	1,44	1464	1,58	1524	1,57
Right-of-use assets	29606	34,03	32988	35,60	33726	34,77
Deferred tax assets	1858	2,14	2415	2,61	2811	2,90
Other non-current	133	0,15	138	0,15	124	0,13
Total current assets	44910	51,63	45901	49,54	49535	51,07
Inventories	35063	40,31	38636	41,70	42494	43,81
Trade receivables	4473	5,14	4048	4,37	3670	3,78
Advances paid and other receivables	2038	2,34	1435	1,55	1535	1,58
Prepaid income tax	1	0,00	13	0,01	10	0,01
Cash and cash equivalents	3335	3,83	1769	1,91	1826	1,88

Source: Own processing based on the Financial Reports of the company.

Table 4: Vertical Analysis of the Balance Sheet of Detsky Mir for the 2018 - 2020 years (Equity and Liabilities)

Item	2018		2019		2020	
	value	% of the item	value	% of the item	value	% of the item
TOTAL EQUITY AND LIABILITIES	86988	100	92661	100	96994	100
Total liabilities	87930	101,08	94328	101,80	99626	102,71
Total non-current liabilities	32786	37,69	36719	39,63	40911	42,18
Lease liabilities	23706	27,25	27635	29,82	28619	29,51
Long-term loans and borrowings	8928	10,26	8980	9,69	12200	12,58
Deferred tax liabilities	152	0,17	104	0,11	92	0,09
Total current liabilities	55144	63,39	57609	62,17	58715	60,53
Trade payables	29747	34,20	32911	35,52	35770	36,88
Short-term loans and borrowings	12542	14,42	10270	11,08	7582	7,82
Lease liabilities	6840	7,86	7145	7,71	8227	8,48
Advances received, other payables and accrued expenses	4938	5,68	6042	6,52	5975	6,16
Deferred revenue	720	0,83	436	0,47	527	0,54
Income tax payable	357	0,41	805	0,87	634	0,65
Total equity/(equity deficit)	-942	-1,08	-1667	-1,80	-2632	-2,71
Share capital	1	0,00	1	0,00	1	0,00
Treasury shares	-214	-0,25	-317	-0,34	-407	-0,42

Source: Own processing based on the Financial Reports of the company.

Additional paid-in capital	5793	6,66	5793	6,25	5793	5,97
Accumulated deficit	-6609	-7,60	-7305	-7,88	-8145	-8,40
Currency translation reserve	87	0,10	161	0,17	126	0,13

Source: Own processing based on the Financial Reports of the company.

Table – 4 represents the vertical analysis of the balance sheet of the Detsky Mir company. Table contains the information about how significant the items on the total amounts are. It is visible from the table that the total assets amount is divided into almost equal parts between current and non-current assets. It changes from year-to-year, but the range is very small from 48% to 51%. The biggest part of non-current assets is right-of-use assets, its share on the total assets in 2018 is 34,03%, which equals to 29606 RUB million. In 2019 it is 35,60% (32988 RUB million) and 34,77% (33726 RUB million) in 2020. This balance sheet item has such a huge part because it represents the leases retails premises, offices and warehouses. The most significant item from the current assets is an Inventory. Its shares are ranged from 40% to 44% from year-to-year. Inventory has such a large piece on the total assets because it is the main part of the company’s activity, which is represented by materials and merchandise used in outlets and warehouses of the company.

Non-current liabilities have a share of 37,69% in 2018 year on the total amount of equity and liabilities, which is equal to 32786 RUB million, and mainly divides into 27, 25% (23706 RUB million) of Lease liabilities and 10,26% (8928 RUB million) of Long-term loans and borrowings. Non-current liabilities increase from year 2018 to 2020 by around 2%-2,5% each year. The amounts in RUB million are changed proportionally to the changes in percentage as well.

Current liabilities have larger part of shares than non-current liabilities and it decreases in a range of 2% each analyzed year. From the table, shares of current liabilities in 2020-year equals to 60,53%, which is 58715 RUB million. The main part of current liabilities with the 36,88% of shares (35770 RUB million) in 2020 year is trade payables.

4.4 Horizontal Analysis of Income Statement

The table below reflects information about the comparison of income statement items of PJSC “Detsky Mir” for 2018-2020 years. The table was created by using information from annual reports of the company “Detsky Mir”. (All values are given in million of Russian Rubles, except earnings per share).

Table 5:Horizontal analysis of the income statement

Item	2018	2019	2020	Change 2019 to 2018		Change 2020 to 2019	
				in value	in %	in value	in %
Revenue	110874	128764	142882	17890	16,14	14118	10,96
Cost of	-74045	-87232	-98909	-13187	17,81	-11677	13,39
GROSS PROFIT	36829	41532	43973	4703	12,77	2441	5,88
Selling, general and administrative expenses	-25550	-28631	-29490	-3081	12,06	-859	3,00
Other operating expenses,	-47	-8	82	39	-82,98	90	-1125,00
OPERATING PROFIT	11232	12893	14565	1661	14,79	1672	12,97
Finance income	10	11	82	1	10,00	71	645,45
Finance expenses	-4427	-4878	-4496	-451	10,19	382	-7,83
Foreign exchange gain/(loss), net	106	-124	-2093	-230	-216,98	-1969	1587,90
PROFIT BEFORE TAX	6921	7902	8058	981	14,17	156	1,97
Income tax expense	-1227	-1360	-1309	-133	10,84	51	-3,75
PROFIT FOR THE YEAR	5694	6542	6749	848	14,89	207	3,16
Other comprehensive income *	-43	74	-35	117	-272,09	-109	-147,30
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	5651	6616	6714	965	17,08	98	1,48
Earnings per share **	7,72	8,89	9,19	1,17	15,16	0,3	3,37

Source: Own processing based on the Financial Reports of the company.

*Items that may be reclassified subsequently to profit or loss it is an effect of translation to presentation currency or another words, affected by exchange rate.

**Represents the Earnings per share, basic and diluted of the company in Russian Rubles
 Weighted average number of shares in 2018 year outstanding, basic, and diluted: 737806153
 Weighted average number of shares in 2019 year outstanding, basic and diluted: 735675274
 Weighted average number of shares in 2020 year outstanding, basic and diluted: 734561783

Table – 5 shows the horizontal analysis of the income statement helps to understand the profitability of the company by looking at more important items. Revenue of the company, as seen from the table above, increases each analyzed year. The increase from 2018 to 2019 year is equal to 16,14%, which is 17890 RUB million. Increase from 2019 to 2020 years is less than the previous year’s change, but it is still increase and it is equal to 10,96% (14118 RUB million). Cost of Sales are also increases from year to year because to make more revenue, the company needs to sell more goods, which require more costs.

Increase in total comprehensive income from 2018 to 2019 year is 17,08%, which is 965 RUB million. Increase in total comprehensive income from 2019 to 2020 year is less than in previous period and equals to 1,48% (98 RUB million). One more important part of the income statement, which shows how profitable the company is, are Earnings per share. This item is represented in rubbles. The earning of one share of the Detsky Mir company increases each year. In 2018 it is 7,72 rubbles, in 2019 – 8,89 rubbles, in 2020 – 9,19 rubbles. EPS indicates how much money a company makes for each share of its stock and is a widely used metric for estimating corporate value. As higher a company’s EPS as more profitable the company is. From the table above, it is visible that the company’s EPS increases each analyzed year, and it is simple to conclude that the company becomes more profitable from year to year based on the EPS item.

4.5 Vertical Analysis of the Income Statement

The table - 6 created based on the information from annual reports of the company “Detsky Mir” for 2018-2020 years. The table below helps to define how significant are the items of the income statement on the total amounts. Calculations have done separately for expenses and incomes. (All values are given in million of Russian Robles).

Table 6: Vertical analysis of the income statement of the Detsky Mir for 2018-2020 years (Revenue)

Item	2018		2019		2020	
	value	% of the item	value	% of the item	value	% of the item
Total revenue	110874	100,00	128764	100,00	142882	100,00
Retail	102014	92,01	114158	88,66	107641	75,34
Online	8771	7,91	14489	11,25	35003	24,50
Other	89	0,08	117	0,09	238	0,17

Source: Own processing based on the Financial Reports of the company.

The table – 6, demonstrated an overall revenue of the company for the consequent years of 2018, 2019 and 2020. The retailing share decreased by around 4 % in 2019 and around 13 % from year 2019 to 2020. The percentage share of online sales has increased by around 4 % between 2018 and 2019, the percentage change of 2019 and 2020 is seen by 13,25 %, which could be explained by the pandemic lockdown and higher demand for online shopping. Other sales are minor.

Table 7: Vertical analysis of the income statement of the Detsky Mir for 2018-2020 years (Expenses)

Item	2018		2019		2020	
	value	% of the item	value	% of the item	value	% of the item
Total expenses, including	105253	100,00	122307	100,00	136262	100,00
Cost of sales	74045	70,35	87232	71,32	98909	72,59
Selling, general and administrative expenses	25550	24,27	28631	23,41	29490	21,64
Other operating expenses, net	47	0,04	8	0,01	0	0,00
Finance expenses	4427	4,21	4878	3,99	4496	3,30
Foreign exchange loss, net	0	0,00	124	0,10	2093	1,54
Income tax expense	1227	1,17	1360	1,11	1309	0,96
Other comprehensive income (loss) *	-43	-0,04	74	0,06	-35	-0,03

Source: Own processing based on the Financial Reports of the company.

The Table – 7 represents an overall expense for the company of the company for the years of 2018, 2019 and 2020. The costs of sales for all the years are taken the majority percentage ratio followed by selling, general and administrative expenses and finance expenses. The ratios are distributed in the following way: for the year of 2018 up to 2020 the cost of sales is seen properly constant and equalled to around 70 – 72,5 %. The selling, general and administrative expenses are mainly represented by payroll and another personnel costs and depreciation and amortization, rent and utilities and extra. Between the year of 2018 and 2019 there is a small percentage ratio change of selling and administrative expenses, however the percentage ratio changes between 2019 – 2020 is negative, which could be explained by the shortage of payrolls and other personnel costs. Finance expenses are also seemed to be stable for all mentioned years and equalled around to 3,8 % on average.

4.6 Horizontal analysis of the cash-flow statement

The table shows changes in Cash-flow of the “Detsky Mir” company during the 2018-2020 years in values and in percentages. Information used for constructing the table was taken from the annual reports of the company. (All values are given in million of Russian Rubles).

Table 8: Horizontal analysis of the cash-flow statement of the Detsky Mir for 2018-2020 years

Item	2018	2019	2020	Change 2019 to 2018		Change 2020 to 2019	
				in value	in %	in value	in %
Net Operating Cash-flow	9613	17811	16720	8198	85,2803495	-1091	-6,1254281
Net Investing Cash-flow	-3794	-3467	-2358	327	-8,6188719	1109	-31,987309
Net Financing Cash-flow	-5639	-15910	-13671	-10271	182,142224	2239	-14,07291

Source: Own processing based on the Financial Reports of the company.

Interpretation of the horizontal analysis of the Cash flow statement. Operating cash flow indicates the company’s condition of the core business activities. From the table above, it is visible, that there is an increase in operating cash flow in 2019 year comparing to the 2018 year. This increase equals to 8198 RUB million and it is 85,28%. Certainly, this is a huge change, which reflects the thriving of the company and shows profitability potential of the Detsky Mir. The distinguish between 2019 and 2020 year is in decreasing in operating cash flow by 6,12%, which is 1091 RUB million. This change is not large but in comparison with the previous year, it reflects the decrease in company’s potential profitability. Investing cash flow is a part of cash flow statement in which records how much money has been used in or generated from investments in a certain period. It may be purchases of long-term assets (such as PP&E), investments in stock, bonds, acquisitions of other businesses, etc. Negative investing cash flow can be due to significant amounts of cash, which are invested in long-term health of the company. For example, for research and development. Investing cash flow in 2018-2019 years increased by 8,62%, which is 327 RUB million and then in 2019-2020 years it increased again by 31,99% (1109 RUB million). Increase in investing cash flow in both analyzed periods is affected by the proceeds from sale of PP&E. Financing cash flow is represented by net flows of cash, which is used in funding the company and its capital. Transactions used in financing activities of Detsky Mir are purchase of treasury shares, sale of treasury shares, repayment of loans and borrowings, dividends paid, lease payments, proceeds from loans and borrowings. Financing cash flow in 2019 year decreased by 182,14%,

which is 10271 RUB million comparing to the 2018 year. In 2020-year, financing cash flow increased by 14,07%, which is 2239 RUB million. Decreasing of the financing cash flow may define servicing debt by the company. Otherwise, it can be negative due to retiring debt or paying dividends by the company as well as repurchasing stock, which have a positive effect for investors, when looking at company's financing cash flow.

4.7 Financial Ratio Analysis

Table 9: Financial ratios analysis of the Detsky Mir for 2018-2020 years

Financial	Formula	2018	2019	2020
Current ratio (liquidity ratio)	Current assets/Current liabilities	0,814	0,797	0,844
Return on assets ratio (profitability ratio)	Net income/Total assets	6,496	7,140	6,922
Return on equity ratio (profitability ratio)	Net income/Shareholder's equity	-5,999	-3,969	-2,551
		2018	2019	2020
Current assets		44910	45901	49535
Current liabilities		55144	57609	58715
Net income		5651	6616	6714
Total assets		86988	92661	96994
Shareholder's equity		-942	-1667	-2632

Source: Own processing based on the Financial Reports of the company.

Results from the table above represent financial ratios, which help to analyse the health of the company, its liquidity and profitability. First financial ratio is a current ratio, which classified as a liquidity ratio and reflects an ability of the company to pay off its short-term liabilities with current assets as visible from the formula of the ratio calculation. It is considered that the current ratio is less than 1, the company is hardly repaying its liabilities which might be risky.

Second ratio chosen for this work is a return on assets ratio, which belongs to the profitability ratios group. It indicates whether the company efficiently uses its assets to generate profit. To find this coefficient, net income should be divided by the total assets amount. From calculations, it can be seen the positive change from 2018 to 2019 year. ROA ratio in 2018 is 6,5%, in 2019 is 7,1% and in 2020 is 6,9%. The result of more than 5% is considered good. As higher the ROA coefficient, as more efficient the company is in generating profits, hence more investors are interested in investing into such a company with the higher ROA ratio.

One more profitability ratio is return on equity (ROE). It is similar to the previous described ratio and shows how efficiently a company uses its equity to generate profit. It calculates as a division of net income by shareholder's equity. The ROE indicates the company's ability to pay-off its dividends to the shareholders and investors. Based on the financial report of all the mentioned years, the owners of the company own most of its shares and hence they receive dividends based on the financial profitability of the company. As it has been described, the owner might get their money through dividends to pay less taxes by 7 %, as a regular Income Tax in Russian Federation is accounted for around 20 % and the dividend taxation is around 13 %. As it is seen in table – 9, ROE as a ratio is being negative for all years, however in 2020, the ratio becomes more profitable.

5 Results and Discussion

All assessment chapter are based on the company's financial report such as: Balance Sheet, Income Statement and Cash Flow Statement.

5.1 Assessment of financial position of the “Detsky Mir” company

The most significant changes in assets during the years are in items right-of-use assets, which is part of non-current assets, and inventory – current assets. Right-of-use assets increased by 11,42% (3382 Rub million) at the end of 2019 year comparing to 2018 year and increased by 2,24% (738 RUB million) in 2020 year in a comparison with the previous year (See Table – 1). As mentioned in the notes to the financial statements, these increase in right-of-use item is since the Group is the lessee and have some of the property leases, which contain variable lease payment terms. These payment terms are used to link rental payments to store cash flows and reduce fixed costs.

Inventories is the most significant item in current assets affected the total change. It increased by 10,19% in 2019 year and then increased by 9,99% in 2020 year. This item indicates materials used in outlets and warehouses, (See Table – 1.)

The most significant parts from non-current liabilities affected the whole change are lease liabilities (16,57% increase, which is 3929 RUB million) in 2019 year and long-term loans and borrowings (35,86% increase, which equals to 3220 RUB million) in 2020 year. (See Table – 2). In the end of 2019, the Group entered several lease arrangements which had not commenced by the year-end and as a result, a lease liability and right-of-use assets has not been recognized as on 31 December 2019. The Group does not face a significant liquidity risk regarding its lease liabilities. Lease liabilities are monitored within the Group's treasury function.

5.2 Assessment of financial performance of the Detsky Mir company

The amount of the consolidated audited revenue of the Group in 2020 increased by 11 % which accounted for 142.9 RUB billion compared to 128.7 RUB billion in 2019. The key figure is an online segment, where sales have doubled comparing to 2019. Especially in Kazakhstan, online segment was booming for the whole year of 2020, the reason was mentioned a couple of times in analysis of Balance Sheet Statement and Income Statements. At the end of 2020, 71 new stores 12 of the Detsky Mir chain were opened, as well as 12 stores of the PVZ Detmir chain and 10 stores of the Zoozavr chains. Share of selling, general and administrative expenses in percent ratio to revenue decreased from 20.8% to 18.9% due to improved operating efficiency. The key focus of the whole group was on the reselling its merchandise and focus on online-marketing and its sales. The company has invested lots of money to marketing in order to pay-it off. All in all, the

performance has been significantly increasing within the whole year of 2020, mainly due to online shopping.

5.3 Assessment of financial ratios of the Detsky Mir company

The financial ratio analysis could be found in Table – 7, all calculations were made on the base of financial statements. However, the Current ratio demonstrates that the company is not able to pay-off its short term-liabilities and debt obligations. However, based on the fact that, part of its profit comes from the lease agreements and contracts, it is considered to be a descent coverage ratio which is equaled to 0,81 for the year 2018. In 2020, the ratio was a bit higher which indicates that company still hold-up on the same level and generates profits, even its price per share has been increasing relatively on a stable level (See Table – 9).

ROA ratio for the period of three years has been more than 5 %, which indicates that company properly uses its assets to generate profit. The higher the ROA, the better for the company as well as other investors to potentially invest into the company. However, the number of shares is limited. The Equity and Equity in general has been negative for three years consequently, there is a big decrease in the item total equity by 76,96% in 2019 year in comparison with the year 2018. This change is equal to 725 RUB million. The change for the year 2020 and 2019 has also decreased by 57,89 % which is accounted for 965 RUB million, which could be explained that company's shares are owned by its owners mostly and official employees which might avoid paying higher taxes. Because the Income tax in Russian Federation is around 20 %, while the dividend taxation is only around 13 %. By this fact they might receive more income by 7 %.

5.4 The most significant factors influencing the profit

In all the monitored years (2018-2020) the company generated a profit. There are, however, risks that should be considered by all the board management and executives. There economy is strongly dependent on the relations of Foreign Exchange Rate, as all materials equipment and capital in general is gained in relation to an exchange of USD. Hence, the exchange rate is very crucial for the whole company and its operation. There are many internal and external factors that might eventually impact the performance and development of the whole company. Covid-19 was an example for the whole year 2020, however the company allocated its budget and re-structured its sales operations and marketing plans to sell their products online, which eventually has paid-off, especially in the subsidiary company which is in Kazakhstan. Within the Russian Federation the company has also showed a good performance of sales and its revenue's numbers. Even though, its core business is merchandise, it kept reinvesting its money into new building and real estate and merchandise in general, since the second focus of the company are contacts of leases and rents.

Which was not quite profitable for the year 2020, due to lockdown and restricted movement of people. The company still managed to increase its revenues.

6 Conclusion

In this Bachelor Thesis, the author has covered the theoretical background of the financial analysis and its main procedures and standards, according to that, companies should obey and follow the accounting rules. As a case study, the “Detsky Mir” company was chosen for different financial analysis and ratios, including Horizontal and Vertical analysis of Balance Sheet Statement and Income (Profit/Loss) statement and Cash Flow Statement. All the data was retrieved from the official website of “Detsky Mir”. The financial reports were analyzed on the base of three years (2018, 2019 and 2020). In order to be more precise and find-out different operations and activities of the company, the author has also studied its financial reports with the Audited letters, from Deloitte. On the base of retrieved information, the author has performed the above stated procedures. Overall assessment of the whole company and its financial activities could be found in Chapter 4.2 till 4.7, where all the changes in every item of financial statements have been covered and described precisely.

With the help of horizontal analysis of balance sheets, the author managed to describe its main assets and liabilities. Where all the major changes have been considered and sub – items that fall into certain accounting groups have also been described in the Chapter 4.2. The percentile changes were more described in the Vertical analysis, where also, the percentage ratios were analysed due to different situations and recent COVID-19 impacts, where even in the financial reports there are some cut in costs for rents and payrolls, which seemed logical to the author.

An overall company’s net profit has drastically increased in 2020, comparing to 2019, which also was supported by the fact, that most of its sales shifted to different online platforms.

However, when analysing the Financial Ratios, the risky ratio that the author paid attention to, was the Return on Equity Ratio, which is negative for the past 3 years, 2018, 2019 and 2020. Which indicates that the company is not concerned about its investors and shareholders. The opinions are different, and all of them have been described deeply in Chapter 4.2. Author’s conclusion is based on the theory that company’s shares are owned by its owners mostly and official employees which might avoid paying higher taxes. Because the Income tax in Russian Federation is around 20 %, while the dividend taxation is only around 13 %. By this fact they might receive more income by 7 %. However, it is only the author’s assumption.

All in all, all the planned ratios have been calculated and analysed with the help of auditing letters.

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