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Assessment of the Financial Condition of a Food Company in 2017-2021

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Abstract:

Purpose: *The purpose of this article is to present the concept of financial and ratio analysis and to present the financial situation of a food company for 2017-2021, taking into account the impact of the COVID-19 pandemic on the company. Within the scope of the main objective, a preliminary and ratio analysis of the financial statements of the company was conducted.*
Design/Methodology/Approach: *The article was written using the following methods: literature criticism, data analysis, including financial analysis, and conclusion. Particular attention was paid to the level of financial liquidity, profitability and debt of the examined company.*
Findings: *Based on the analyses carried out, it was found that the level of financial liquidity of the analysed company was below the safe range of 1.5 to 2.0 (Nowak, 2002, Bień, 2018). The immediate liquidity ratio was at a satisfactory level, proving that there were no problems with the timely payment of liabilities. In addition, it was shown that the company's overall financial situation was stable, as its financial ratios in the analysed years were profitable and with a growing trend.*
Practical implications: *The presented analysis shows that despite the consequences of the COVID-19 pandemic, the researched company was operating very well and the level of liquidity depends to a large extent on future sales.*
Originality/value: *This article presents an analysis of a company in the food industry. The conducted analyses showed that the financial situation of the company is very good, and thus further, dynamic development of the company is possible.*

Keywords: *Financial analysis, financial liquidity, profitability, financial statements, debt.*

JEL classification: *G31, G32.*

Paper Type: *Research article.*

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1. Introduction

A company that wants to remain on the market should focus not only on selling the services or products offered but also on its financial condition. The success of the business is evidenced not only by the number of goods and services sold but also by the distribution of funds derived from the sales. Thanks to this, it is possible to strengthen its competitive position and prepare for more difficult periods in the market economy.

In order to know whether the condition of the enterprise is at the right level, it is necessary to conduct appropriate analyses. This is done on the basis of an indicator analysis, which should be preceded by a preliminary analysis. Analytical activities should be a standard in every company, regardless of the size of the business. To some extent, this type of solution can be seen in the categories of tools used not only for checking but above all for warning against emerging problems in the initial phase of their appearance.

This potential of financial analysis is most visible when the analysis is conducted regularly. Thanks to it, one can gain a lot of information and find areas that need to be improved so that the financial condition of the company improves.

2. Theoretical Aspects of Financial Condition and Assessment

The financial results achieved by the company indicate a general assessment of its financial condition. Needless to say, every executive desires the financial condition of the company to be as good as possible. In practice, it manifests itself in the conduct of business by the company in such a way that it can generate financial surpluses. At the same time, it should be emphasized that not in every case generating a financial surplus, e.g., at the level of PLN 100,000 will mean that the financial condition of the company is plausible.

This depends on many factors, including the size of the business (Zaleska, 2012). It is assumed that the larger the company's business, which translates into employing more people, the more developed capital is needed to achieve good financial condition. The theory of finance includes only two ways to assess the financial condition of a company.

Good and bad financial situations are taken into account, but the assessment does not always have to be based on measurable values, as it may also contain elements of subjective assessment. If the financial condition of the company has been defined as good, it means that the entity not only generates financial surpluses but also implements key strategic assumptions, at least. In addition, there are no threats that could materialize in the near future in the company and its environment. In technical terms, good financial condition means that the liquidity and profitability ratios fall within the ranges provided in the literature.

It is true that an entity, even with a good financial condition, may even have some debt, but it is at such a level that thanks to the generated revenue it can be repaid on time (Cymerman, 2017). Only on the basis of the study of the initial financial assessment of the company, it can be seen that, to a greater or lesser extent, its revenues exceed the costs.

The financial condition of the company is also the final effect of managing the supervising staff. If they fulfill the tasks entrusted to them and do it in the right way, this will translate into proper financial condition. There is also human capital involved in it. Always along with a good financial condition, the entity has no problems with maintaining the same level of employment, and may even lead to its slight increase (Sobieraj, 2013).

Contrary to a good financial situation, a bad condition is always associated with larger or smaller issues in the field of business. Those, in fact, do not have to be permanent, but only temporary, because the financial condition is a flexible variable. When the financial results are not in line with expectations, there occur problems with making timely payments. Due to its financial shortages, the company is forced to seek savings and reduce the scale of its operations, which may further worsen its market situation

Similarly to good financial condition, preliminary results of the other can be obtained from financial statements. However, the true scale of the existing problems can be learned by conducting, among others, an indicator analysis as one of the analysis methods. It cannot be ruled out that the company's inadequate financial condition will be the main reason for declaring bankruptcy, and thus the need to withdraw from the market. This will be due to the lack of financial liquidity and the deterioration of results in the area of most indicators, which should be analysed periodically.

One of the solutions to a bad financial condition may be the use of foreign capital. Thanks to it, it is possible to improve current operations, but it should be remembered that the funds must be returned in due time. If the actions taken are not effective, the financial condition of the company will further worsen.

However, it should be noted that a bad situation that is not addressed early enough can turn into a dramatic one. If a company responds to its problems not by seeking savings, but by incurring further liabilities, it may very quickly turn out that such an entity will lose its competitiveness very quickly. The most serious situation occurs when the entity is forced to sell part of its assets, which is associated with the phenomenon of negative equity. In such a variant, the company has little chance to settle even its current liabilities based on equity (Skowronek and Piechowicz, 2012).

Theoretical considerations confirmed that it is worth conducting a periodical ratio analysis that will protect the company from experiencing serious financial problems.

In principle, such an analysis shows in which areas action should be taken in the first place to improve the financial situation of the entity. The worse the company's financial situation, the weaker its ability to confront competition.

In order to take care of the good financial condition of the company, it is basically sufficient to focus on two areas. First of all, it is taking active steps to increase revenues from the core business. In this respect, there may be a need to withdraw a product from the offer or introduce something newer from time to time in order to more effectively respond to the needs of consumers (Gad, 2015).

The second, no less significant, area influencing the improvement of the company's financial situation is increasing the level of savings. Although cash may be worth less over time, but its surplus is necessary for the entity to pay its liabilities on time. Most often, in order to be able to determine the financial situation of a company, appropriate related indices should be used. Such tools are respected by all environments, as they are reliable and based on data from financial statements.

In order to analyse the financial condition of the company, it is recommended to monitor four complementary groups of financial ratios - profitability, liquidity, turnover and debt level. The latter area is particularly important, because excessive indebtedness of the entity will most often end in financial dire straits (Patterson, 2011).

The above theoretical discussions confirm that the good financial condition of a company is the result of the well-managed operation of its many areas. This applies to the following scope: management, sales and use of foreign capital.

At the end of each reporting period, companies are required to prepare financial statements. The financial statement should present historical data on the company's business at the end of the period (balance sheet) or for a certain period. The report includes: profit and loss account, cash flow statement, statement of changes in equity, additional information and explanations (Rutkowski, 2016). The rules for producing financial statements are regulated by legal regulations - the Accounting Act (Act on Accounting of 29 September, 1994).

The annual financial analysis typically consists of two parts:

1. descriptive analysis
2. financial statements.

The descriptive analysis presents the general achievements of the company for the past year and indicates the preliminary conditions that will determine the conditions of its operation in the future. The second part of the analysis, i.e., financial statements, consists of several financial statements, in particular:

- Profit and Loss account (results)
- Company's Balance Sheet,
- Cash flow statement (Czekaj and Dresler, 2020).

When analysing the economic efficiency of a company, various methods are used, but the leading method is the indices method (Bień, 2018). In financial analysis, the tool of ratio analysis is used. Thanks to it, there can be determined or learned the financial condition of the company, which in turn allows for decision-making based on this data.

The following groups of indices exist:

- liquidity,
- efficiency (turnover rate, activity)
- debt (debt, capital structure, financial support),
- profitability,
- capital market.

Liquidity ratios/indices - measure the company's ability to repay current (short-term) financial liabilities - determine the company's short-term financial security. Efficiency indices (turnover rate, activity) – they are used to measure the efficiency of using company resources. This measure shows how quickly the company turns over individual assets and how quickly it repays its liabilities. Debt ratios (debt, capital structure, financial support) - show the degree of the company's commitment to other groups of assets or capital (funds).

The higher the level of this ratio, the greater the financial risk associated with business activity. Profitability ratios - measure the ability of the company, as a whole or its individual assets, capital to generate profit. These ratios inform about the possibilities of increasing the owner's assets and the attractiveness of the conducted business activity. Capital market ratios – measure relationships important to investors, which are formed by their decisions or directly affect the attractiveness of investment deposits (e.g. profit on shares, dividends on shares) (Rutkowski, 2016).

The initial assessment of the report analysis, i.e. reading the reports, consists in performing a horizontal (comparative) and vertical (percentage, structural) analysis.

Vertical analysis – in the general version, it is based on the percentage determination of the share of individual balance sheet items in the balance sheet total, and in the profit and loss account in the amount of sales revenue. The general version can be used when all information about the company's business activities is needed - i.e., comprehensive analysis. However, in the detailed version, the group item is a different item than sales revenue in the case of the profit and loss account.

The detailed version is used when:

- a given balance sheet item is analysed, e.g., a short-term liability, while other items are omitted,
- a given item has a very small value, difficult to interpret clearly,
- it depends on the analysis of the structure of selected items.

Horizontal analysis - is an effective tool for assessing the effects of changes (in terms of value and percentage) of given report items in the current time in relation to their state in the previous time. In a given analysis, their variability over time is assessed. This is used by counting the rate of change (increase or decrease) or the dynamics of financial data. They are most often expressed as a percentage.

The rate of change (percentage change) is defined as the ratio of the difference between the values of the analysed item in a given period and its value in the base period to the value in the base period. On the other hand, dynamics is the relationship between the value of a specific item in the current period and the value of this item in the base period (Gołębiowski *et al.*, 2020).

3. Financial Analysis of a Food Company

One of the Polish entities in the food industry was analysed. The nature of the company referring to dynamic development is also confirmed in the data from the financial statements. The financial statements for the 5-year period of operation - 2017-2021 were analysed. In 2017, the company had assets at the level of 2,251.6 million PLN, while in 2021 it exceeded 6,564.4 million PLN.

The increase in the value of tangible fixed assets, which in 2021 amounted to over 3,637.9 million PLN of all assets, contributed to such a dynamic development to the greatest extent. The nature of the business requires the possession of inventories, which in 2021 were estimated at 1,344.3 million PLN (Table 1).

Table 1. *Value of the company's assets in 2017-2021 (million PLN)*

Detailed description	**Year**				
	2017	**2018**	**2019**	**2020**	**2021**
Total assets	**2 251,6**	**2 979,8**	**3 918,2**	**4 987,8**	**6 564,4**
Fixed assets	1 540,5	2 031,0	2 660,4	3 424,9	4 480,0
Intangible assets	10,3	22,8	26,0	24,6	21,5
Tangible fixed assets	773,7	1 256,9	1 848,3	2 597,9	3 637,9
Long-term investments	738,8	727,4	755,8	755,8	755,8
Long-term prepayments	17,6	23,7	30,2	46,5	64,8
Non-fixed assets	711,1	948,8	1 257,9	1 562,9	2 084,4
Inventory	358,6	428,6	601,2	847,6	1 344,3

Short-term receivables	62,8	79,7	100,4	142,5	199,2
Short-term investments	257,1	438,1	554,3	569,6	535,1
Short-term prepayments	32,7	2,4	2,0	3,2	5,7

Source: *Own work based on financial statements.*

The value of assets continued to grow from year to year. Fixed assets are dominated by tangible fixed assets, which in 2021 compared to the base year (2017) increased by 2,864.2 million PLN. In non-fixed assets, a significant and equally growing position was occupied by inventories.

The results of the preliminary financial analysis prove that the financial situation of the company in the analysed period was good. It consists of two components, which are vertical analysis showing structure and horizontal analysis focusing on dynamics. When it comes to the results of this first analysis focused on assets, it can be seen that despite a significant increase in fixed assets in the total assets, their share was still around 68% in the analysed period. Much greater changes occurred in the field of tangible fixed assets, the share of which increased from 34.36% in 2017 to as much as 55.42% in 2021.

The vertical analysis showed that most of the items included in the assets grew in value significantly. The exception was short-term accruals (Table 2).

Table 2. *Vertical analysis of the company's assets in 2017-2021 (%)*

Detailed description	**Year**				
	2017	**2018**	**2019**	**2020**	**2021**
Total assets	**100,00**	**100,00**	**100,00**	**100,00**	**100,00**
Fixed assets	68,42	68,16	67,90	68,67	68,25
I. Intangible assets	0,46	0,77	0,66	0,49	0,33
II. Tangible fixed assets	34,36	42,18	47,17	52,09	55,42
III. Long-term investments	32,81	24,41	19,29	15,15	11,51
IV. Long-term prepayments	0,78	0,80	0,77	0,93	0,99
Non-fixed assets	31,58	31,84	32,10	31,33	31,75
I. Inventories	15,93	14,38	15,34	16,99	20,48
II. Short-term receivables	2,79	2,67	2,56	2,86	3,03
III. Short-term investments	11,42	14,70	14,15	11,42	8,15
IV. Short-term prepayments	1,45	0,08	0,05	0,06	0,09

Source: *Own work based on financial statements.*

On the other hand, the horizontal analysis showed that most of the items included in the assets grew in value significantly. The exception was short-term accruals. In the last two years included in the analysis, a slight adjustment of the value occurred in the area of intangible assets, where the decrease amounted to 5.38% and 12.60%, respectively.

Fixed assets showed a stable growth of around 30%. Very similar increases of similar value were recorded in the area of non-fixed assets. The smallest changes were recorded in the field of long-term investments, where the value did not change since 2020 (Table 3).

Table 3. *Horizontal analysis of the company's assets in 2017-2021 (%)*

Detailed description	**Year**			
	2017-18	**2018-19**	**2019-20**	**2020-21**
Total assets	**32,34**	**31,49**	**27,30**	**31,61**
Fixed assets	31,84	30,99	28,74	30,81
I. Intangible assets	121,36	14,04	-5,38	-12,60
II. Tangible fixed assets				
III. Long-term investments	62,45	47,05	40,56	40,03
IV. Long-term prepayments	-1,54	3,90	0,00	0,00
	34,66	27,43	53,97	39,35
Non-fixed assets	33,43	32,58	24,25	33,37
I. Inventories	19,52	40,27	40,98	58,60
II. Short-term receivables	26,91	25,97	41,93	39,79
III. Short-term investments				
IV. Short-term prepayments	70,40	26,52	2,76	-6,06
	-92,66	-16,67	60,00	78,13

Source: *Own work based on financial statements.*

The vertical and horizontal analyses show that the assets of the examined entity remained at a stable level. The dynamics of inventories and receivables is particularly noticeable, which is constantly growing compared to previous years.

Equally important for the efficiency of the company's operations are liabilities, which naturally equate with assets in the case of the given company. In their scope, short-term liabilities had particularly high values, which in the analysed period tripled to over 3.2 billion PLN in 2021. A large increase was recorded in the value of equity, which increased from 658.1 million PLN in 2017 to 2.3 billion PLN in 2021 (Table 4).

Table 4. *The value of the company's equity in 2017-2021 (million PLN)*

Detailed description	**Year**				
	2017	**2018**	**2019**	**2020**	**2021**
Total liabilities	**2 251,6**	**2 979,8**	**3 918,2**	**4 987,8**	**6 564,4**
Own capital	658,1	929,7	1 248,2	1 716,2	2 307,4
Share capital	9,8	9,8	9,8	9,8	9,8
Reserve capital	548,3	681,3	889,8	1 208,0	1 676,0
Liabilities and provisions for liabilities	1 593,5	2 049,9	2 670,1	3 271,6	4 257,0

I. Provisions for liabilities	18,2	29,7	39,6	51,7	67,6
II. Long-term liabilities	492,0	600,8	681,9	1 013,8	923,6
III. Current liabilities	1 064,0	1 397,5	1 922,2	2 166,9	3 210,8
IV. Accruals	19,3	21,8	26,4	39,2	54,8

Source: *Own work based on financial statements.*

The data in Table 4 shows that the value of both external and own capitals maintain a one-way trend, namely a growing one. Among equity capital, reserve capital dominates, while among foreign capital, short-term and long-term liabilities stand out. This can be clearly seen from the results of the vertical analysis, included in Table 5.

Table 5. *Vertical analysis of the company's liabilities in 2017-2021 (%)*

Detailed description	**Year**				
	2017	**2018**	**2019**	**2020**	**2021**
Total liabilities	**100,00**	**100,00**	**100,00**	**100,00**	**100,00**
Equity own capital	29,23	31,21	31,85	34,41	35,15
I. Share capital	0,44	0,33	0,25	0,20	0,15
II. Reserve capital	24,35	22,86	22,71	24,22	25,53
Liabilities and provisions for liabilities	70,77	68,79	68,15	65,59	64,85
I. Provisions for liabilities	0,81	1,00	1,04	63,19	1,03
II. Long-term liabilities	21,85	20,16	20,33	22,1	14,07
III. Short-term (current) liabilities	47,26	46,90	43,44	31,34	48,91
IV. Accruals	0,86	0,73	0,79	12,95	0,83

Source: *Own work based on financial statements.*

Using the potential of the horizontal analysis, it can be seen that the share capital showed great stability, in the scope of which there were no changes. In turn, the reserve capital increased from 24.26% in 2018 to 38.74% in 2021. Even greater changes in 2021 occurred in the area of short-term liabilities (48.17%) and accruals (39.80%) (Table 6).

Table 6. *Horizontal analysis of the company's liabilities in 2017-2021 (%)*

Detailed description	**Year**			
	2017-18	**2018-19**	**2019-20**	**2020-21**
Total liabilities	**32,34**	**31,49**	**27,30**	**31,61**
Own capital /	41,27	34,26	37,49	34,45
I. Share capital	0,00	0,00	0,00	0,00
II. Reserve capital	24,26	30,60	35,76	38,74
Liabilities and provisions for liabilities	28,64	30,26	22,53	30,12
I. Provisions for liabilities	63,19	33,33	30,56	30,75

II. Long-term liabilities				
III. Short-term liabilities	22,11	13,50	48,67	-8,90
IV. Accruals	31,34	37,55	12,73	48,17
	12,95	21,10	48,48	39,80

Source: *Own work based on financial statements.*

The analysis showed that the company relied heavily on foreign capital, where the importance of this type of resource was systematically reduced to 65.59% in 2020.

Another analysis was conducted on the basis of data from the profit and loss account in the form of revenues. Due to the nature of the business, most of the revenue comes from sales, which in 2021 reached over 13.3 million PLN (Table 7).

Table 7. *The value of the company's revenues in 2017-2021 (million PLN)*

Detailed description	**Year**				
	2017	**2018**	**2019**	**2020**	**2021**
Net revenues from sales	4 501,3	5 832,2	7 624,4	10 115,8	13 339,3
Other operating income	2,8	4,7	6,3	6,4	12,7
Financial income	5,9	5,2	7,2	8,8	5,7
Total revenue	4 510,0	5 842,1	7 637,9	10 131,0	13 357,7

Source: *Own work based on financial statements.*

The value of total revenues increased significantly. In 2020, this increase amounted to 5,621 million PLN compared to 2017. In the following year, the company raised another 3 million PLN in capital in the form of sales revenue. This creates a positive phenomenon, proving a properly adopted company management strategy.

The growing value of revenues confirms that the company is developing dynamically, generating more and more net profits. The importance of sales revenues can be seen from the vertical analysis, where the level of 99% was always exceeded (Table 8).

Table 8. *Vertical analysis of the company's revenues in 2017-2021 (%)*

Detailed description	**Year**				
	2017	**2018**	**2019**	**2020**	**2021**
Net revenues from sales	99,81	99,83	99,82	99,85	99,86
Other operating income	0,06	0,08	0,08	0,06	0,10
Financial income	0,13	0,09	0,09	0,09	0,04
Total revenue	100,00	100,00	100,00	100,00	100,00

Source: *Own work based on financial statements.*

The horizontal analysis showed that each year the most significant group of revenues increased by about 30% on average. Financial revenues showed high volatility, which in 2019 increased by 38.46%, to decrease by 35.23% in 2021 (Table 9).

Table 9. *Horizontal analysis of the company's revenues in 2017-2021 (%)*

Detailed description	**Rok**			
	2017-18	**2018-19**	**2019-20**	**2020-21**
Net revenues from sales	29,57	30,73	32,68	31,87
Other operating income	67,86	34,04	1,59	98,44
Financial income	-11,86	38,46	22,22	-35,23
Total revenue	29,54	30,74	32,64	31,85

Source: *Own work based on financial statements.*

Revenue is never synonymous with profit, as the company has to incur certain costs. For the purpose of this analysis, costs by type are taken into account. Most of the costs relate to operating activities, where in 2021 they exceeded 12.5 million PLN. In turn, in 2017, they reached approximately 4.3 million PLN. Most of the costs result from the sale of goods and materials (Table 10).

Table 10. *Costs by type based on the company's reports in 2017-2021 (million PLN)*

Detailed description	**Rok**				
	2017	**2018**	**2019**	**2020**	**2021**
Operating costs	4 338,8	5 524,8	7 178,9	9 490,5	12 560,5
Depreciation	61,2	84,9	115,4	144,8	183,6
Usage of materials & energy	66,2	84,3	104,1	146,7	179,4
Foreign Service	299,2	320,5	418,1	489,8	625,5
Taxes and fees	15,8	21,5	28,7	38,6	229,4
Salaries	359,7	485,3	632,5	884,8	1 165,4
Employee benefits costs	76,6	106,5	138,0	206,2	276,1
Other costs	16,8	26,1	34,0	41,6	52,9
The value of sold goods and materials	3 443,2	4 395,8	5 708,1	7 537,7	9 847,9
Other operating costs	1,9	2,4	4,2	5,5	11,2
Financial costs	43,7	49,3	62,1	56,5	55,4
Total Costs	**4 384,4**	**5 576,5**	**7 245,2**	**9 552,5**	**12 627,1**

Source: *Own work based on financial statements.*

The cost analysis shows that their value is constantly increasing. The operating costs are dominated by the value of goods and materials sold, external services and salaries. The vertical analysis showed that operating costs in the analysed period accounted for approximately 99% of all costs incurred (Table 11).

Table 11. *Vertical analysis of detailed costs in 2017-2021 (%)*

Detailed description	**Rok**				
	2017	**2018**	**2019**	**2020**	**2021**
Operating costs	98,96	99,07	99,08	99,35	99,47
Depreciation	1,41	1,54	1,61	1,53	1,45
Usage of materials & energy	1,53	1,53	1,45	1,55	1,42
Foreign Service	6,90	5,80	5,82	5,16	4,95
Taxes and fees	0,36	0,39	0,40	0,41	1,82
Salaries	8,29	8,78	8,81	9,32	9,23

Employee benefits costs Other costs The value of sold goods and materials	1,77 0,39 79,36	1,93 0,47 79,56	1,92 0,47 79,51	2,17 0,44 79,42	2,19 0,42 77,99
Other operating costs	0,04	0,04	0,06	0,06	0,09
Financial costs	1,00	0,88	0,86	0,59	0,44
Total Costs	**100,00**	**100,00**	**100,00**	**100,00**	**100,00**

Source: *Own work based on financial statements.*

On the other hand, looking at the results of the horizontal analysis, it is clear that the company incurs increasing costs of salaries and other employee costs. In both cases, the annual average costs increased by at least 30%. The consumption of materials and energy also consumes more and more, where in 2020 the costs only increased by over 40% year on year (Table 12).

Table 12. *Horizontal analysis of detailed costs in 2017-2021 (%)*

Detailed description	**Rok**			
	2017-18	**2018-19**	**2019-20**	**2020-21**
Operating costs	27,33	29,94	32,20	32,35
Depreciation Usage of materials & energy Foreign Service Taxes and fees Salaries Employee benefits costs Other costs The value of sold goods and materials	38,73 27,34 7,12 36,06 34,92 39,03 55,36 27,67	35,92 23,49 30,45 33,49 30,33 29,58 30,27 29,85	25,48 40,92 17,15 34,49 39,89 49,42 22,35 32,05	26,80 22,29 27,71 494,30 31,71 33,90 27,16 30,65
Other operating costs	26,32	75,00	30,95	103,64
Financial costs	12,81	25,96	-9,02	-1,95
Total Costs	**27,19**	**29,92**	**31,85**	**32,19**

Source: *Own work based on financial statements.*

Throughout the analysed period, the company generated more revenues than costs, thanks to which profits were made – more and more significant (Table 13).

Table 13. *Company profits and their structure in 2017-2021 (million PLN)*

Detailed description	**Year**								
	2017	**2018**	**2019**	**2020**	**2021**	**2017-18**	**2018-19**	**2019-20**	**2020-21**
Profit before tax	125,5	265,6	392,7	578,5	730,6	111,63	47,85	47,31	26,29
Income tax	33,0	57,0	74,5	110,4	139,3	72,73	30,70	48,19	26,18
profit (loss) net	92,5	208,6	318,2	468,0	591,2	125,51	52,54	47,08	26,32

Source: *Own work based on financial statements.*

The growing profit confirms that the company is developing dynamically, which is favours the creation of new chains of stores, employing more employees, and in turn translates into growing salaries and bonuses.

Regarding the ratio analysis, attention is first focused on the results describing the level of profitability. The following profitability ratios were used in the analysis: sales, assets and equity. The last of these ratios had particularly high values, ranging from 14.06% in 2017 to 25.62% in 2021.

This means that in 2021, when allocating funds for the expansion of equity, one could count on an average return on each zloty invested at the level of 0.27 PLN. The first two indices are of several percent, which is also a very good result, taking into account the specificity of the industry. The results at the level of several percent prove that the company is developing, and investors can count on satisfactory returns on their capital (Table 14).

Table 14. *The company's profitability ratios in 2017-2021 (%)*

Detailed description	**Year**				
	2017	**2018**	**2019**	**2020**	**2021**
Sales profitability	2,05	3,58	4,17	4,63	4,43
Assets profitability	4,11	7,00	8,12	9,38	9,01
Return on equity/equity profitability	14,06	22,44	25,49	27,27	25,62

Source: *Own work based on financial statements.*

Liquidity ratios are no less significant. Their complexity boils down to the fact that the results should always be within certain ranges, which proves that the company is developing well. One of the simplest in this regard is the general liquidity ratio, the value of which should be in the range of 1.5-2.0 (Wilczyńska, 2018). It turned out that the examined company developed liquidity at a clearly lower level, where even in the best 2020 it managed to achieve 0.72.

This is not a bad situation, but nevertheless, the entity should work on increasing its non-fixed assets or focus on limiting the expansion of liabilities. This result suggests that at times there may have been some delays in settling liabilities. The other two indices also reached low values, which fell short of the recommended levels. Only the assumptions of the immediate liquidity ratio were met, where a result of 0.1-0.2 is expected and was actually achieved (Szmitka and Dmuchowski, 2017). Thus, it is confirmed that at least the level of financial resources was adequate to the scale of operations. The index showed that the company is solvent, despite the very large scale of its operations (Table 15).

Table 15. *Liquidity ratios in the company*

Detailed description	**Year**				
	2017	**2018**	**2019**	**2020**	**2021**
Current liquidity	0,67	0,68	0,65	0,72	0,65
Quick liquidity	0,29	0,37	0,34	0,33	0,23
Instant liquidity	0,17	0,20	0,20	0,20	0,12

Source: *Own work based on financial statements.*

The next index allows to examine the level of debt. Similarly to the previous solutions, also in this case three complementary tools are used, where the basic asset debt ratio is used. It is recommended that the result be in the narrow range of 55-67%, which has been achieved in principle since 2018. The index shows that despite the multi-million-dollar debt of the company, its level is appropriate.

The balance between engaging own capital and taking risks through the use of foreign capital is at an appropriate level. A much wider range is allowed with a debt to equity ratio (1.0-3.0), which has been met. The last of the analysed ratios seems decent, as the upper limit values have not been exceeded, which confirms optimal debt management (Machała, 2001) (Table 16).

Table 16. *Debt ratios in the company (%)*

Detailed description	**Year**				
	2017	**2018**	**2019**	**2020**	**2021**
Asset debt	69,11	67,06	66,46	63,77	62,98
Equity debt	236,44	214,94	208,63	185,33	179,18
Long-term debt	74,76	64,62	54,63	59,07	40,03

Source: *Own work based on financial statements.*

The last group of indices, i.e., those describing the turnover allow to determine with accuracy the average day that was required in the analysed period for the renewal of individual resources. The receivables turnover ratio was very low, not exceeding 6 days in any year. This means that the company was able to obtain receivables from the market in less than a week on average.

Significantly higher values were achieved in terms of liabilities turnover, where the company needed about four months to settle them. This value is too high, as it is recommended to maintain it at the level of about 30 days, which would build the credibility of the entity on the market as a solvent counterparty. Such results do not necessarily mean problems, as this may be the result of the arrangements between the parties. In terms of inventory turnover, it can be seen that the value are balanced. The company needed about a month to fully replenish its stocks in the analysed period, which is the most satisfactory result (Table 17).

Table 17. *Turnover ratios and the cash conversion cycle in the company*

Detailed description	**Year**				
	2017	**2018**	**2019**	**2020**	**2021**
Receivables turnover	5,09	4,99	4,81	5,14	5,45
Liabilities turnover	126,17	125,06	124,67	114,77	113,13
Inventory turnover	29,08	26,82	28,78	30,58	36,78
Cash conversion cycle	-92,00	-93,25	-91,08	-79,04	-70,89

Source: *Own work based on financial statements.*

The above analysis showed that the company is developing well and the executives address most issues in a timely manner. Even the use of foreign capital to a large extent does not pose a major threat to the stability of the business.

4. Conclusions

Financial analysis is one of the key elements of business management. Within its scope, it is possible to obtain relevant and accurate information on the business activities of a given entity. A systematic analysis facilitates making rational decisions that are necessary for a given company to function properly on the market. There are a number of methods of financial analysis that allow you to obtain the necessary information about the company, its effectiveness and the extent to which it develops. They are used to study financial phenomena and processes in order to achieve the intended purpose of the analysis.

Thanks to the financial analysis tools used, it was possible to assess the financial situation of the studied company. In terms of the sources of analysis, the main source of information on the entity's finances was the data obtained from financial statements. For the purposes of this article, a preliminary analysis and a classic index analysis were conducted. Particularly important areas in the assessment of the financial condition of companies in general are financial liquidity, profitability of operations, efficiency of management and the level of debt. It is proved that the foundation of the financial analysis is to obtain a reliable picture of the financial situation of the entity.

1) Based on the analyses carried out, the following conclusions were formulated:

1. In the analysed period, the company recorded an increase in both revenues and costs. The costs increased in line with the company's revenues. This is a positive phenomenon that proves the constantly increasing net profit of the entity.
2. In the studied years, a one-way upward trend in the value of assets and liabilities was observed in the company. This resulted from the strengthening of the company's production capacity, the creation of new chain stores and distribution centers. The structure of the assets was significantly dominated by the company's fixed assets, and foreign capital was the main source of capital.
3. In the years 2017-2021, the company was characterized by constantly increasing profitability, which proves the effective management of its resources. The values of the profitability ratios confirm that the entity efficiently managed its assets and capital, while generating high sales revenues.
4. In the examined period, a relatively low level of current and quick financial liquidity of the company was found, mainly due to the low level of short-term receivables. On the other hand, the immediate liquidity remained at an

appropriate level, which means that the company had an adequate stock of the most liquid assets, i.e. cash, to cover its current liabilities.

5. The debt of the examined entity at the turn of 2017-2021 gradually decreased, which should be assessed positively. This proves the increasing financial independence of the company, which generated more and more equity, generating constantly growing profit.
6. In the years 2017-2021, the company showed that year after year it more effectively raised due capital from the market and has it longer, which is confirmed by the results of the receivables and payables turnover ratios. Compared to the turnover of receivables, it took much more time for the company to pay its liabilities. This does not necessarily mean any problems, because it is possible that this is how the agreements between the parties regarding the settlement of liabilities were concluded. On the other hand, the decreasing turnover of inventories proves that the examined entity achieved a compromise between the time of delivery and the costs of maintaining the inventories. Thanks to this, it does not have to find ways for greater optimization.

To conclude, the financial situation of the company is very good, and thus further, dynamic development of the company is possible.

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