Pro Forma Financial Statements

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Introduction

Amazon Company is one of the leading online retail companies in the world. Amazon has proven to be a leading online platform for customers to purchase products at very fair prices. Among the products available are electronics, kitchenware, clothing, and motor vehicles. Amazon started from humble beginnings in 1994 with Jeff Bezos as the CEO. It provided a platform where various independent individuals could list their products and sell them at a discounted price (Greenspan, 2017).

Amazon aims to increase its revenues and market share as a long-term measure and also to make sure that shareholders are paid dividends. Amazon also focuses on maintaining competitive cost prices, profit margins, and dividends paid to shareholders. This research paper will aim to analyze Amazon's financial statements, discuss its decision-making based on its finances, and draw conclusions about the company's potential to continue as a going concern and maintain its market position.

Pro Forma financial statements

The two statements under the Pro Forma statements are the balance sheet and the income statement. For Amazon, the income statement and balance sheet were generated using the percentage of sales criteria. It was assumed that the total dividends were 60% of the total income, sales grew proportionally with the accounts payable, there was a 10% increase in the cost of goods

sold (COGS) and sales, and Amazon was fully operational and that there was proportional growth in all of its assets. It is estimated that the company's revenue will increase to $121 billion and $131 billion for the years 2016 and 2017 respectively. The sources of financing for the two financial years are common stock and long-term debt, which both share an equal percentage of 50%.

Financial statement analysis

The company's financial statements and analysis for the year ending 31st December 2015 are somewhat satisfactory. The current ratio of 1.076 of Amazon implies that the company is able to pay off its current liabilities because it possesses reasonable current assets. Amazon slightly underperformed compared to the industry average of 1.26. In addition, the quick ratio of 0.77 implies a negative inference for the company because it has to counter short-term financial obligations by using liquid assets. The industry average is 0.82, which the company has failed to beat.

Based on the Return on Equity (ROE) and Return On Assets (ROA), the company's profits are much better. ROE and ROA recorded 0.96 and 4.95, respectively, which means that the growth of the shareholders increased by double digits. Moreover, Amazon's assets increased in value by 49.4% as one dollar worth of assets generated 0.494 cents.

During the analysis of the company's asset management, it was discovered that the methods used were relatively efficient. The industry average benchmark for inventory turnover is 25.22. Amazon recorded an inventory turnover of 17.78 during the end of the financial year, 31st December 2015. The low inventory turnover implies that Amazon has a moderately high turnover. One of the benefits of the low inventory turnover is the chance of a possible gain in sales in the coming future. Amazon had a total turnover ratio of 1.73 compared to the industry's average of 1.12. The positive turnover implies that the company is at its best in asset management. Amazon recorded a Price Per Index (PPI) ratio of about 7.56. This means that every investor needed to pay a total of 7.56% per share for every amount that the company earned. Overall, the company slightly underperformed. It recorded a 23.64 overall performance compared to the overall industry performance of 28.78.

Cash Flows

Cash flows are essential in financial statement analysis because they hold key accounting information, such as cash receipts and expenditures, among others. Since 2012, the company's cash flows have increased significantly, and in 2015, Amazon increased cash flow by $6842 million. The total net operating income is largely influenced by the company's net income. Investment activities have continuously shown negative cash expenditures for Amazon as it continues to expand and grow the company. In 2014, the net cash flow for investment activities showed an outflow of $5065 million, and the outflow increased in 2015 to $6450 million and $9876 million in 2016. According to Amazon's 2016 annual report, investing activities vary according to the decision made to buy or lease property

and equipment. “Cash outflows from financing activities result from principal repayments on obligations related to capital leases and finance leases and repayments of long-term debt and other” (Amazon Annual Report, 2016).

Decision making

As mentioned earlier, Amazon is among the most successful e-commerce companies in the world. The company has been able to outshine its competitors, such as eBay. Jeff Bezos, the CEO, explained how it was easy to achieve this, and one of the things he did was to be good at decision-making. According to the letter to shareholders, Jeff Bezos insists that not all decisions made have the same priority. Some decisions are less prioritized than others. Decision-making highly depends on the company’s balance sheet, income statement, and cash flows. The finance manager at Amazon Inc. needs to make three types of financial decisions. These are investment decisions, financing decisions, and dividend decisions (Parmentier & Cuypers, 2015).

1. Investment decisions– This refers to the total number of assets possessed by the firm and the business risk seen by the investors. This is the best decision that Amazon should take into consideration. All costs are limited; therefore, the good utilization of these will result in wealth maximization. Investment can be categorized into two major broad groups, namely, long-term investment decisions and short-term investment decisions.
2. *Financing decisions- once Amazon has committed to new investments, the finance manager needs to choose wisely how to fund the projects.* The optimum capital structure will be determined by how the manager chooses the source of the funds. The most vital thing here in decision-making is the fraction of the sources in the capital mix of the firm. Amazon’s profitability can be achieved by ensuring that the debt-equity ratio is fixed. The finance manager needs to find a pivot point for the various sources of funds so that the overall profits for the company improve.
3. *Dividend decisions*– dividend distribution to the investors is also a major financial decision for Amazon. A number of decisions have to be made, for example, whether all the profits need to be distributed to the investors, retained, or split and distributed partially to the investors. An increase in dividend allocation will result in an increase in the market price for shares and, therefore, maximize the wealth of the shareholders or the investors (Samonas, 2015). Amazon needs to keep dividend stability, bonus shares, and cash dividends in mind.

Conclusion

Amazon Company has covered milestones to get to where it is now. It is evident that the company’s growth is not going to diminish soon, and it will continue to provide e-commerce services to its customers. By making appropriate decisions, Amazon will continue to be a giant online business company in the world.

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