



## Accounting analysis of Tianruncompany

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### I. INTRODUCTION

Xinjiang Tianrun biotechnology company, founded in 2002, is currently the only joint-stock enterprise in Xinjiang and even the northwest that specializes in the production of dairy biological products and colostrum series products, integrating scientific research, production and sales.

Company not only has domestic advanced GMP health food production base, but also has the world's advanced Denmark's company bovine colostrum low-temperature drying production line, and the United States international paper company evergreen CTL - 30 roof type liquid milk filling line, its production scale has reached of cow dairy products at the beginning of 30 tons, 500 tons of acid milk drinks. The company was successively identified by Urumqi people's government as "AAA credit" enterprise from 2003 to 2005 and "little giant" enterprise in Urumqi from 2004 to 2006.

The company follows the development strategy of "Tianrun" brand as the core, biotechnology as the backing, colostrum products as the carrier, and featured sales as the leader. The company's sales in Xinjiang market has taken shape, and at the same time, it has expanded markets in Nanjing, Wuhan, Shenzhen, Liaoning, Sichuan and other provinces, and formed a strong sales and service network.

The company has also formed a quality assurance system based on ISO9001:2000 international quality management system, GMP (health food standard enterprise), QS (quality safety) and other three certifications, which has laid a solid foundation for the development of the enterprise.

Company has "Tianrun" brand of bovine colostrum powder, dairy colostrum capsules, bovine colostrum nutrition powder, dairy colostrum calcium tablet, such as lactic acid milk cow early nearly more than 20 varieties of five series products, which have been approved by the ministry of health of health food of bovine colostrum capsules, with its unique health care function, immune regulation by regional science and technology department identified as "high-tech products". Tianrun bovine colostrum is the only health food recommended by Xinjiang nutrition society.

Adhering to the enterprise philosophy of "professionalism, quality and health", the company will make continuous technological innovation, create its own brand, establish the strategic alliance of Tianrun, and make contributions to the healthy development of China's health care products.

Target market: mainly yogurt products, targeted at all the people in Xinjiang and relatively young consumer groups.

Industry status: Tianrun dairy has 63 food businesses, and Tianrun dairy ranks 24th in terms of main business income and 5th in terms of return on equity.

#### 1. Operating income and net profit

In 2012-2017, Tianrun emulsion basic showed a trend of rising operating income and net profit, but in 2012 operating income is higher than in 2013, 2012 net profit in the negative, while a larger net profit of 2013 degree rise, at the same time, in 2014 under the revenue massive rise in net profit from negative growth in 2013. Why in 2013 operating income decline, the rise in net profit can also appear larger degree and substantial increase in operating income appear in 2014 cases, net income and the trend of decline, according to the operating profit = advocate business income - main business costs - costs, this article will further analysis is relatively low because of the costs and expenses during the period of making a profit growth in 2013 and 2014 under the influence of expenses and costs during a drop in profits.

## **2. Operating income and operating cost analysis**

In 2012 and 2013 annual operating cost is higher than the operating income, shows that in 2013 and 2012 Tianrun dairy operating profits are negative, Tianrun dairy achieved until 2014 operating profit is positive, at the same time during the period of 2012-2017, revenues and operating cost of basic match growth, however, in the 2012-2013 in revenue, operating costs and operating the phenomenon of a decrease in the total cost, in such a case, the net profit of 2013 still appeared positive and much higher than in 2014 net profit. The reason is that this study will further analyze the non-operating items in the profit statement of 2013.

## **3. Non-operating income and expenditure**

There is a non-operating income of explosive growth in 2013, at the same time non-business expenses projects is well below the non-operating income, this makes the final Tianrun net income has the positive situation, make up for the cost before because during the operating profit caused by negative situation, this study will further analyze why the non-operating income in 2013 Tianrun mass ascent.

This study discovered from the details of non-operating income in 2013 that the profit from the reorganization of major assets in 2013 increased the non-operating income of Tianrun by more than 60 million yuan, and the government subsidy income in 2013 increased by more than 3 million yuan compared with 2012. And according to the annual report provided by Tianrun in 2013, the main government subsidy income in 2013 came from the subsidies of the 12th agricultural division of the corps for its dairy products and research and development, which led to a large-scale increase in the government subsidy income this year.

At the same time according to the process of enterprise restructuring, great changes have taken place, whose main business is the survey of its main business from the paper industry and rental shops near to the animal husbandry and dairy industry, points to see the profits of the business income mainly comes from dairy products (UHT, yogurt, milk powder and dairy colostrum series), so we can be a reasonable guess, because after Tianrun's the material assets reorganization makes changes, whose main business change into the main dairy industry, at the same time because of its main controlling shareholders as the corps, 12 division, and then based on the national policy support for the development of the dairy industry. As a result, it had a large non-operating income in 2013, so as to make up for the negative effect of its operating profit and increase its net profit in 2013.

However the gains of the material assets reorganization and government subsidies income does not represent an enterprise long-term development of a positive signal, this is the sustainability of earnings, so we further observed after 2013 enterprises advocate business income and advocate business cost, available Tianrun during 2014-2017, the main business income and the trend of the main business costs are rising fast, but the net profit growth is relatively slow, and in the meantime, main business cost and the total cost of the open gap widening, said tomorrow during the leap in profits at the same time a large number of overhead cost.

## **4. Main business cost analysis**

Tianrun in 2013, after the material assets reorganization of enterprises the cost of sales in sharply rising trend, the management fees decline during 2013-2014, after 2014 years has maintained steady growth, and Tianrun financial expenses has maintained at a certain level range fluctuations, that most of the cost is derived from the sales cost of investment, the cost of sales at the same time matching and operating income growth, and we can have a reasonable guess, Tianrun is to promote sales of dairy products and transport a large number of costs of inputs, thus to a certain extent led to the growth of its operating income. However, in 2014, the management expense of Tianrun decreased significantly. This study will further analyze the composition of the management expense in 2014.

Tianrun through 2014 annual report, the management fees decline is mainly due to the shutdown losses in 2013, has recorded the increase of the amount of management fees happen a lot, but in 2014 in management fees of depreciation, amortization of intangible assets and engage intermediary institutions management fees rising up dramatically, making management total costs rose to a certain extent, reducing the management cost because there is no shutdown losses by a wide range of decline.

Because 2013 Tianrun enterprise appeared the situation of the material assets reorganization, thus in the depreciation and amortization of intangible assets have declined to a certain extent, this leads to the particularity of 2013, to compare the management expenses 2014 depreciation and amortization of intangible assets and engage intermediary institutions management fees from 2013 the rationality of the sharp rise in us further understand the composition of management expenses in 2015 and 2014, the following results are obtained.

We can see from Tianrun's report, in 2015 and 2014 years of depreciation expense is quietly, but in travel, vehicles, transport, sales promotion and sales commission, a substantial rise in 2014, 2015. According to the main business revenue growth comparison, we can draw the cost management of growth to a certain extent, is in order to increase the promotion and sales of new products, so it is reasonable.

### **5. Net profit and operating cash flow**

By looking at Tianrun group's operating income, net profit and operating activities cash flow line from 2012 to 2017, it can be concluded that the trend of growth trend of present roughly in the same way, but in 2013 net profit increase, and the sales income and cash flow, the phenomenon of the decline of activity, after the previous analysis, because in 2013 Tianrun through the material assets reorganization, confirmed the non-operating income, but it did not provide the business activities of cash inflows, at the same time because the government a lot of subsidies income makes its net profit in 2013 appeared abnormal growth. But its growth is not long and sustainable.

This study will further analyze the growth of cash flow of operating activities after 2014, because after 2014, the cash flow of operating activities of Tianrun is higher than its net profit, but the growth rate is slower than that of operating income. This study will further analyze the part of cash flow of operating activities of Tianrun.

According to the consolidated cash flow of 2014 Tianrun annual report, the cash flow generated by operating activities in 2014 mainly comes from the cash received from selling goods and providing labor services, which is mainly due to the cash inflow brought by normal operating activities after the backdoor listing of Tianrun emulsion in 2013. Therefore, we will further compare the accounts receivable and operating cash inflow to see whether it is consistent with the growth of operating income and thus observe the status quo of its continuous operation after the listing.

By the above-mentioned can be observed from 2013 to 2017 of Tianrun dairy accounts receivable from the larger degree of decline, since going public in 2013 and after 2014, remained relatively stable, and the business activities of cash inflows remain stable and larger proportion, instructions for Tianrun dairy, have higher income cash recycling ability, ensure the adequate capital chain, we through Tianrun dairy disclosed in 2014 annual report can be concluded that the main operating cash inflows from product sales accounted for 98.56%. At the same time operating activities cash inflow from 2013 in 2014 grew by 280.24794%, business activities net worth grew by 522.3316865% from 2013, but from 2013 to 2014 net profit fell by 63.95397892%, we can analyze the 2013 day run part of the income statement, you can get the 2013 after the material assets reorganization, make this year the non-operating income appear substantial, resulted in higher net income, After 2014, the company's normal operation and sales are dominated by cash inflow, which means that it has sufficient funds to carry out daily corporate purchase and sales activities, and the company enjoys a good status of continuous operation.

### **6. Inventory**

Dairy products for FMCG company, currently in order way sales, orders, sales mode is: only sales activity is driven by customer order, customer needs change affects only product inventory, has no impact on the activities of production, so the production is not affected by the size of the sales change and change, but the size of the inventory in the side reflects the enterprise sales and earnings, so we through the comparison of inventory goods and advocate business income sales and earnings to analyze whether there is any inconsistency.

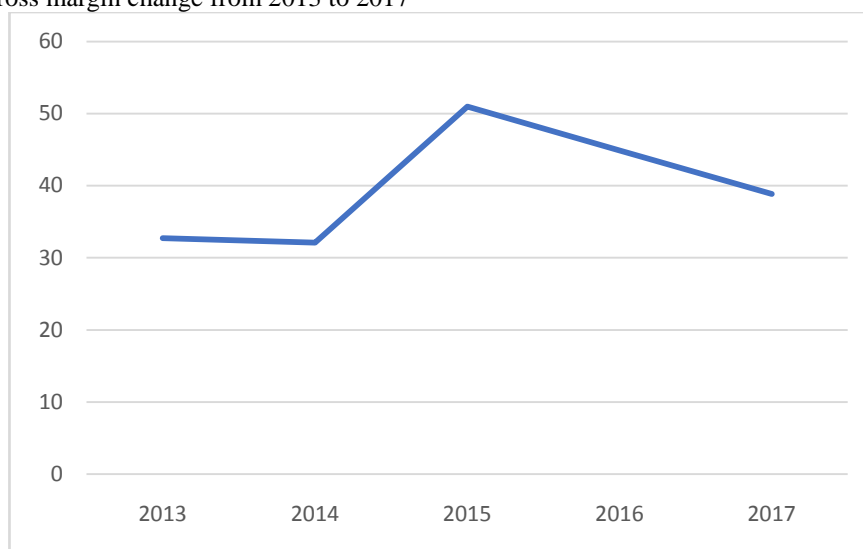
Tianrun dairy's revenue and operating cost from 2012 to 2017 all showed a trend of high speed rising, but changes in the inventory is not big, only in 2014 to 2015, there was a significant rise, and maintain a relatively stable after 2015, because by sales orders is Tianrun mode for the sale of dairy products, if in the case of production unchanged, revenue and costs rise said sales of embellish is tomorrow happen a lot of growth to a certain extent, that there is a lot of customer orders, and the inventories shall be the trend of decline. But in the 2014-2015 in the case of rising sales, inventory rose, we reasonable speculation during the period of 2014-2015, Tianrun increased the production of products, its growth far exceed sales makes the sudden increase in inventory, and in 2015-2017, production and sales year-on-year growth makes stock is relatively stable. Because of raw materials is milk dairy industry at the same time, the yield in each year shall be is obvious fluctuation and variations, but in the 2012-2017, in addition to the tremendous increase of 2014-2015 in stock, the rest of the year are maintain the stability of inventory, a reasonable guess is in 2012-2014 and 2015-2017, changes in the production and sale of change is consistent, another possible reason is that Tianrun use sales to set the number of purchase of raw materials, this will make inventory maintain stability. Is there any possibility of higher costs caused by over-invoicing?

Consider the day run increase the level of production, first because of Tianrun and processing workshop is to have their own ranch, if the increase of its production, must have its more for the biological assets or increase for manufacturing could increase production processing workshop. Therefore this study will further analysis whether the growth rate of its biological assets and shop and inventory cost and revenue growth.

### **7. Biological assets and projects under construction**

During the period of 2014-2015, the emergence of biological assets rising sharply (1373.400083%), consistent with the growth of the stock (408.78%), and operating income growth rate decline, in 2014-2015, Tianrun to enlarge the scale of production, it is far more than the actual sales, thus makes its inventory appear sharply rising, but if we have a rough estimation, "sales = production - in stock", with revenues and costs to represent the number of sales, with the rise of biological assets on behalf of production increase, ignore the impact of the rising cost of money. Through earnings data can be calculated, from 2014 to 2015, a 273.2373595% increase in operating income and cost, increase 1373.400083% of production, and inventory growth rate of 408.78%, the sharp rise in output but the increase in inventory and sales is far less than the increase of its production, whether there is overvalued production namely overestimate the possibility of a biological asset or by sales to determine the number of cost, no actual production and warehousing. At the same time, in 2015-2017, the inventory remained basically stable, but the output kept rising. The output of biological assets maintained a growth rate of about 20%, while the growth rate of operating income and cost was about 50%. According to this situation, the inventory should at least show a slight decline every year. We calculate the gross margin and get the following results:

Chart: Chart of gross margin change from 2013 to 2017



We can see that from 2014 to 2015, a substantial increase in gross margin, that dramatically increases the revenue in the current year or the operating cost that makes a big drop in the margin of fluctuation, at the same time according to the inventory of a large number of rising, so if the low cost of sales transaction makes the stock rose, so it is reasonable to guess, Tianrun may use reduced operating costs, increase in inventory to make all the margin is increased significantly. We further observe the structure of inventories in 2015. We can observe dramatically increases 2015 inventory of raw materials, by the analysis of the above available because of capacity of expansion makes the rise of its raw material but inventory goods, there is substantial increase, so in certain cases Tianrun may reduce the operating cost in 2015 carried forward so that there is an increase in its inventory to do high gross margin in 2015.

At the same time, we can see the growth rate of projects under construction in 2014-2015 sharp decline, while the 2015-2016 years of explosive growth, according to Tianrun 2016 annual reports provide information appear greatly increased because of projects under construction "during the reporting period the company of building field and technology center", but the investment of projects under construction currently not shown on the increase of the production, we estimate the pasture and technology center is still in the process of building has not yet reached the level of the fixed assets to prepare the way for future production increases. Therefore, we need to know more about the composition of the projects under construction in 2016 and see whether there is a large increase.

It can be observed that the investment of projects under construction in 2016 are mainly networked collaborative manufacturing projects, the corps of dairy technology center and Tianrun beacon tower construction project standardization demonstrative ranch, at the same time in 2016 networked collaborative manufacturing project basic into fixed assets, to a certain extent can help Tianrun enterprises better processing and manufacturing of communication to improve efficiency to expand production, this can explain to some extent in 2017 in operating income growth rate and the amplitude of the small inventory growth rate rose again.

### **8.Summary**

Tianrun to asset restructuring since 2013, its production and operation activities in high speed and stable rise, its net profit in the rising and is mainly dependent on the development of the main business (dairy), so it has a good operating capacity for Tianrun, but in 2014-2015, the gross profit margin is much higher than the previous year and decline after 2015, but in the 2014-2015 in stock a large number of rising, we through the analysis of reasonable doubt Tianrun in 2014-2015, if there is a little account sales cost makes the gross margins rise too high. In addition, through a large number of biological assets and construction projects under construction, Tianrun increased its output, which is beneficial to the development of its future sales.

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