Analyzing the financial condition of companies

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Abstract

In our article, information is provided about the methods of analyzing the financial condition of companies and its importance. Information is also given about the possible outcomes of this analysis for financial management and administration. The implementation of financial analysis based on accounting reports, the utilization of this analysis for various purposes, and the evaluation of information are discussed.

Key words

High-level condition, Internal analysis, Financial managers, Financial analysis, Financial management, asset management, Budget report, market economy, External analysis, External economic environment, classification, Debtor, report, growth, currency movement, analysis, Accounting balance.

1 INTRODUCTION

The financial condition of enterprises is an economic indicator, and its importance is very significant, especially in the conditions of market economy, knowing the theoretical foundations of enterprises' independent activities at a time when their activities are growing gains special importance.

The financial situation of companies is changing very quickly. This in turn increases the importance of analyzing the financial situation of companies.

The financial condition of enterprises can be assessed by expressing the method of evaluating in traditional terms, and this also enables forecasting the financial condition of enterprises according to the accounting report. This financial analysis is carried out.

Financial analysis is usually divided into two types - internal and external. Internal analysis is carried out by financial managers of companies. External analysis, on the other hand, is conducted by individuals who come from outside, such as auditors.

The analysis of the financial situation of companies serves several purposes, including:[1]

Determine the financial situation;

Determining the change in financial condition at a certain time;

Identifying the main factors causing changes in the economic situation;

Analyze the economic situation using economic-mathematical methods and modern computer programs;

The purpose of financial analysis, along with cooperation, should not only be limited to determining the financial condition of companies, but also to constantly improve their financial situation as much as possible.

Financial analysis helps to identify weaknesses and provide opportunities to eliminate those weaknesses. Therefore, financial analysis is a management tool in modern conditions.

Financial analysis is considered the main role of financial management. Financial management is the art of managing the financial conditions of companies. This management art is used in the effective utilization of financial strategies. It plays its role in internal and external diagnosis.

The identification of internal factors is used to improve the management of assets, i.e. it is used in the use of valuable papers.

- Study the price dynamics of goods.

-tax office (tax collection agency) and bank credit deposits, securities issuance:

- Activities of competitors in the financial and commodity markets and the like:

Financial analysis conducted provides alternative solutions and the possibility of monitoring them.

Internal users (employees and managers) assess their financial performance and identify its growth trends based on the accounting report. The accounting report is the main database that determines the company's investment and financial status.

It is possible to make the following decisions with the help of financial analysis:

1. Short-term financial management of companies (filling out balance sheets).

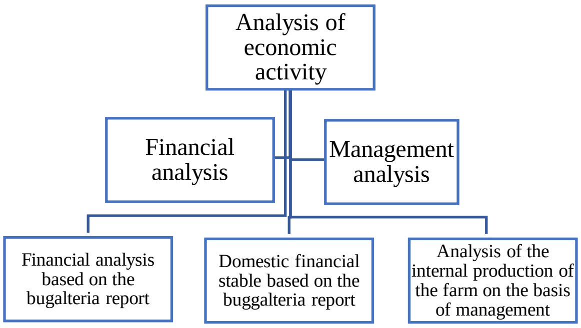
2. Long-term financial

management (capital investment, profitable investment securities, and issuance of valuable papers).

Paying dividends to shareholders.

3. Mobilizing economic growth opportunities (increasing sales and profit growth).

4. Financial analysis shows the correlation between the implementation of accounting information and the financial solution accepted by company leaders.



1.1. Heading. The source of information for financial analysis based on accounting reports. Providing users with complete and accurate information about the financial condition of companies is the fundamental basis of international standards on the issue of financial reporting, and it establishes the concept of modern financial reporting development.

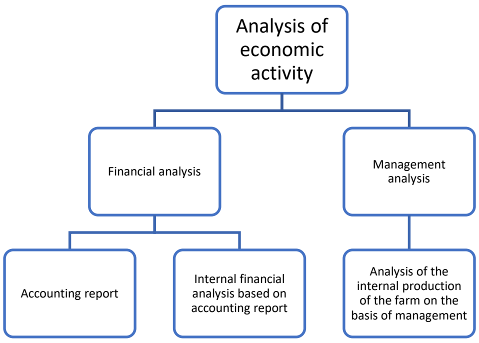
Therefore, users can evaluate the company's capabilities, shape their profits, and accept the established management solution by constantly analyzing information at any given time.

Now let's consider the interdependence of financial and management analysis.

Financial analysis is a component of companies' economic activity and is closely related to the following sections:

1. Financial analysis;
2. Production management analysis;

The classification of financial analysis is closely related to accounting (financial) and management accounting in practice. This classification is conditional, and it is possible to interpret internal analysis and external analysis.



1.2. Relationship between financial and management analyses.

The degree and content of financial analysis are largely dependent on the completeness and accuracy of the information obtained, as well as various other factors.

Annual reports allow for a thorough analysis of a company's financial condition beyond its financial performance.

Until January 1, 1997, the following reports formed the basis for financial analysis:

1. Report No. 1 - by form (consistency of companies).
2. Report No. 2 - by form (financial results report).
3. Report No. 1-f - by form (report on main financial indicators of companies).
4. Report No. 2-f - by form (report on composition of company expenses).
5. Report No. 5 - by form (addition to the consistency of companies).

In addition, the use of the following indicators is relevant for analyzing the financial condition of a company:

- investment activity
- movement of debt amounts
- debtor-creditor debts
- composition of non-current assets at the end of the year
- status and movement of main investments
- financial ratios
- currency movements

The above information allows for a comprehensive analysis of the financial condition of bank companies.

Based on the Regulation on Approval of Forms and Volume of Quarterly and Annual Financial Reports of Companies adopted by the Ministry of Finance of the Republic of Uzbekistan on January 15, 1997, the following financial reports have been approved:

1. Annual financial report for the analysis of the financial condition of companies.

No. 1 - Form "Balance Sheet"
No. 2 - Form "Financial Statement"
No. 2 - A - Form "Information on Debts and Credits"
No. 3 - Form "Report on Movement of Main Amounts"
No. 4 - Form "Report on Cash Flow"

2. Semi-annual financial report for the analysis of the financial condition of companies.

No. 1 - Form "Balance Sheet"
No. 2 - Form "Financial Statement"
No. 2 - A - Form "Information on Debts and Credits"
No. 3 - Form "Report on Cash Flow"

3. Quarterly financial report for the analysis of the financial condition of companies.
No. 1 - Form "Balance Sheet"
No. 2 - Form "Financial Statement"
No. 2 - A - Form "Information on Debts and Credits"

In the newly approved form of the financial report, not only has it changed, but its content has been

significantly improved, meaning that the information has been structured. Now the balance sheet consists of two sections, not three.
The information on debts and credits includes both national and foreign information.
Now let's look at the methods of financial analysis. The purpose of financial analysis is to determine the financial condition of companies using specific quantitative indicators. These indicators include:
- Changes in the structure of assets and liabilities.
- Dynamics of changes in debt and credit positions.
The level of profitability of assets (
liabilities).
In practice, the following methods of financial analysis can be indicated:
- Horizontal analysis
- Vertical analysis
- Trend analysis
- Comparative analysis
- Ratio analysis
1) Horizontal analysis based on timely analysis compares the indicators of financial reporting with previous period indicators. The main methods of horizontal analysis are as follows:
- Simple comparison of reports and analysis of their sharp differences;
- Analysis of financial indicators with their trend.
In this case, the main attention is paid to the fact that the change of one indicator does not correspond to the change of the second indicator.
2) Vertical analysis is used to compare certain sections of the balance sheet and is used to compare the final indicator with the results in the next period.
3) Trend analysis is mainly used to determine the relative decline from the base period for the analysis of financial indicators (for quarterly, annual periods).
4) Comparative analysis means comparing certain indicators of enterprises within the industry, as well as comparing industry indicators.
5) Ratio analysis examines the impact of certain factors (ratios) on the performance indicator. This method uses correlation analysis.
As an example of ratio analysis, we can mention DuPont's three-factor model:
'V.V. Bocharov. Financial Analysis

$$SF_{ck} = \frac{SF}{CK} = \frac{SF}{AF} X \frac{AF}{A} X \frac{A}{CK}$$

SF - net profit here
is the net profitability of equity. (in percentage or in one unit)
CK - capital at the end of the reporting period.
AF - profit obtained from the allocation of the product
A - assets at the end of the reporting period
According to the analysis of the accounting report, if the net profit [3] (derived from equity) is lower, then the factor that caused the decrease is determined. These factors are as follows:
1. Decrease in net profit;
2. Inefficient management of assets;
3. Changes in the composition of invested capital;
Example. According to the first stage of the report, net profit is 9 million som, income from allocation is 60 million som, assets are 120 million som, equity is 30 million som. According to the second stage of the report, net profit is 9.9 million som, income from allocation is 63.6 million som, assets are 126 million som, equity is 30 million som.

$$SF_{CKI} = \frac{9}{60} X \frac{60}{120} X \frac{120}{30} X100 = 30 = 30\%$$

$$SF_{CKII} = \frac{9.9}{63.6} X \frac{63.6}{126.0} X \frac{126.0}{30.0} X100 = 33\%$$

1) Here, as a result of the increase in net profit, the increase in the return on equity was equal to 1.14% (31.14-30.0).

$$\frac{9.9}{63.6} X \frac{60}{120} X \frac{120}{30} X100 = 31.14\%$$

2) As a result of accelerating asset turnover, the increase in the return on equity was equal to 0.3% (30.3 - 30.0).

$$\frac{9}{120} X \frac{63.6}{126.0} X \frac{120}{30} X100 = 30.3\%$$

3) Taking into account the change in the capital structure, the increase in the return on equity was equal to 1.5% (31.5 - 30.0).

$$\frac{9}{120} X \frac{60}{120} X \frac{126}{30} X100 = 31.5\%$$

4) If we add these three factors together:
1.14 + 0.3 + 1.5 = 2.94%

Or approximately 3%.

The financial coefficient method is used to determine the interdependence of financial indicators.

In the analysis, the following factors need to be taken into account: the efficiency of the applied accounting methods, the accuracy of financial reporting, various calculation methods, and the compatibility of the used coefficients with statistical data.

These three coefficients are widely used in the practice of developed Western corporations (USA, Canada, Great Britain):
ROA, ROE, ROC
Income from total assets.

$$ROA = \frac{\text{net income} + (\text{1-tax rate}) \text{ percentage X 100}}{\text{total assets}}$$

Investment capital, or more specifically long-term capital, represents a long-term contractual agreement. Therefore, it represents long-term financial resources:

Income from investment capital

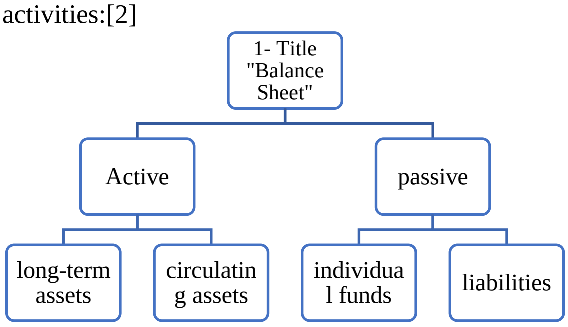
$$(ROC) = \frac{\text{net profit} + (1 - \text{tax rate})\ \text{long in percentage}}{\text{term contract} + \text{faithful capital}}$$

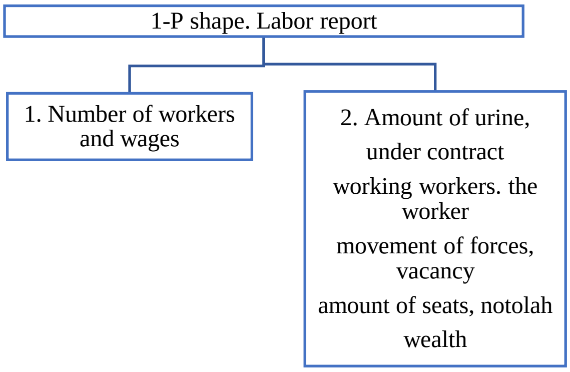
It is known that the identification system, which is necessary for assessing the economic difficulties and ensuring their survival, is an indicator system that is used to identify the ratio of continuous changes or concepts, one of which is the corporate balance sheet.

The balance sheet is a continuous changing event or concept indicator system that represents the ratio of the national economy's development in accordance with its goals and ensures its efficiency. National economic sectors, such as monetary, intersectoral payments, value, labor resources, fuel, energy, profit balances, population income and expenditure balances, and accounting balances, have such balances.

The balance sheet method is when everything that needs to be taken into account is taken into account on both sides, that is, it shows what and how much money has been spent on the item being accounted for. The balance sheet is always presented as a table consisting of two parts. The active (left side) part of the balance sheet includes assets, while the passive (right side) part indicates their acquisition or formation sources. The ratio between assets and liabilities must always be equal.

It is well known that the balance sheet plays a key role in assessing the financial situation of companies. Taking this into account, let's take a detailed look at the composition of the balance sheet. From the perspective of ownership form, the following report forms were recommended by Order No. 5 of the Ministry of Finance of the Republic of Uzbekistan dated January 15, 1997 for quarterly reporting to entities engaged in economic activities:[2]





Composition of the Accounting Balance Sheet.

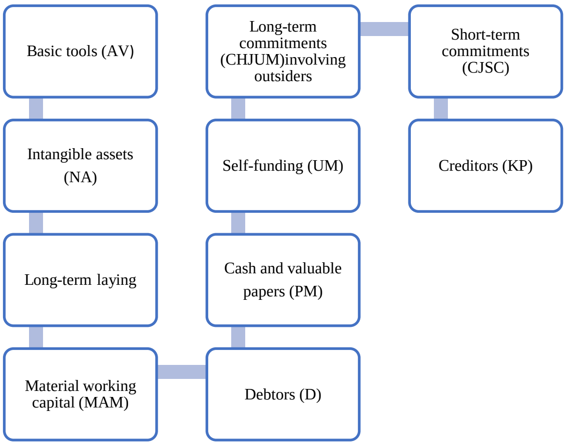
1- Title "Balance Sheet"	
Assets	**Passives**
1. Long-term assets	**1. Sources of own funds**
1.1. Fixed assets (main equipment)	**1.2. Charter fund**
1.2. Current assets	**1.3. Additional capital**
1.3. Capital investments	**1.4. Undistributed profit**
1.4 Long-term investments, subsidiaries, and joint ventures	**2. Liabilities**
2. Current assets	**2.2. Long-term liabilities**
2.1. Monetary assets	**2.3. Short-term liabilities**
2.2 Cash amounts	**2.3.1. Including short-term loans**
2.3 Marketable securities	**2.4. Creditors**
2.4 Accounts receivable	**Including:**
All assets	**2.4.1. Debts for labor remuneration**
	2.4.2. Debts to the budget
	All passives

The symbols used in economic analysis and their meanings

UM.yb - Own funds at the beginning of the year
UM.yo - Own funds at the end of the year
B - Total assets (liabilities) or balance sum
AV - Main assets
MX - Debts for labor remuneration
UMA - Long-term assets
Am - Current liabilities
UMM - Long-term liabilities
ChJM.yb - Borrowed funds at the beginning of the year
ChJM.yo - Borrowed funds at the end of the year
ChJM - Borrowed funds
UMCHJM - Long-term borrowed funds
KMCHJM - Short-term borrowed funds
D - Debtors
KR - Creditors
UZAM - Share of own funds in current liabilities (balances of own funds in current liabilities)
ChJM.am - Balances of borrowed funds in current liabilities
PM - Cash amounts
UMA.yb - Long-term assets at the beginning of the year

UMA.yo - Long-term assets at the end of the year - Total own funds
OA - Current assets
MAM - Monetary current liabilities
ICHZ - Production costs
TICH - Unfinished production
TM - Finished products
OST - Goods for sale
VM - Currency amounts
KPM - Cash in hand[6]

The interrelation of selected indicators for analyzing the company's balance.



It is possible to identify many indicators necessary for analyzing and assessing the financial balance of the accounting through this interdependence.
For example, the sources of revolving funds:
(Mam+D+Pm+) = [(Um+ChJUM) - (AV+NA)] + (ChJKM+KP)
In this case: the value of the revolving funds (AM) is the value of the revolving funds;
[(UM+ChJUM) - (AV+NA)] is the accumulated amount of revolving funds from their own funds (Umap)
(ChJKM+KR) is the accumulated amount of revolving funds from external sources (ChJAM).
Based on these interdependencies, it is possible to analyze the financial balance in a general way.
Therefore, in this section, we have examined the importance of analyzing the financial situation of companies and its methods in detail.
All the methods mentioned above have their own advantages and disadvantages. We will discuss these further in the future.[7]

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