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METHODOLOGICAL ASPECTS OF FINANCIAL ANALYSIS OF BUSINESS ENTITIES IN FOREIGN COUNTRIES

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ABSTRACT

In the conditions of a modern market economy, which implies a high degree of financial and economic independence of business entities, intense competition in the commodity and financial markets, the need to make strategic and operational management decisions in the presence of uncertainty and risk, effective management of the financial activities of enterprises is of great importance. In the world and domestic practice of financial analysis and management, various methods and models have been developed to assess and adjust the efficiency of enterprises.

Keywords: Financial condition of an enterprise, Financial analysis of an economic entity, domestic and foreign approaches to analysis, indicators of financial analysis of an enterprise.

INTRODUCTION

In the conditions of the modern market, any enterprise seeks to take a leading position in generating profits, trying to reasonably use the financial assets available in the organization and create a positive reputation.

The main condition for ensuring the continuity of the functioning of economic entities is the availability of high-quality and effective management, which combines a complex of interrelated, step-by-step various processes and functions. The emergence of multiple risks leading to the emergence of crisis conditions at enterprises is largely due to the lack of sufficient attention of the management of economic entities to aspects of analytical work, which is a reliable comprehensive protection against crisis moments in the field of financial condition at enterprises.

In order to obtain a timely qualitative analysis and evaluate the activities of an enterprise, management has recently become increasingly aware of the importance of analytical calculations and actively applies aspects of financial analysis in its activities, the implementation of which provides important information in the field of studying the adequacy of the organization's solvency, the correlation of own funds and borrowed obligations, the possibility of accelerating capital turnover, as well as the basics of financing ongoing activities, etc. In this regard, the availability of a qualitative methodology for analyzing the financial condition of an enterprise is important at the present time, since its imperfection entails negative consequences.

The financial condition of an enterprise is the most important indicator of its successful operation and performance, which is an essential element in making managerial decisions by the heads of enterprises, as well as for contractors when making decisions on cooperation.

LITERATURE REVIEW

The degree of study of the problems of the topic of this work can be recognized as deep, but at present there is no single approach to the interpretation of the concept of "financial condition of the enterprise" and its components. For example, understanding financial stability in a broad sense includes such components of financial condition as financial independence, solvency and liquidity. There is no single methodology for conducting financial analysis, so the user has the right to choose the one that best meets the goals of the analysis and contains those indicators, the information content of which will make it possible to draw reliable conclusions about one or another component of the study of the financial condition.

Thus, the variety of methods for conducting financial analysis is due to the many purposes for which it is carried out, as well as the possibility of using various indicators of financial condition, on the basis of which conclusions are drawn.

It should be noted that when performing the stages of analyzing the financial condition of an enterprise, various methods are used, the qualitative characteristics of which (completeness and scope) are determined by the list of required tasks, and for different cases this list has a different composition. But this does not indicate that there should not be a single comprehensive methodology for analyzing the financial condition of organizations. Obtaining a complete and exhaustive conclusion on the financial condition of the enterprise under study, in our opinion, requires the development and approval of a unified analysis methodology.[9]

The financial analysis of the enterprise is carried out through the use of indicators, the initial data for the calculation of which are contained in the financial statements. Their calculation gives an idea of the current financial position of the enterprise and the results of financial activities for a certain time interval to meet the needs of beneficiaries, while analyzing specific economic datasets on the activities of the enterprise.[8]

ANALYSIS AND RESULTS

Financial analysis is intended to simplify the data contained in the financial statements published by companies and institutions in order to determine the current or future status of the company. It is also used to determine the best available investment opportunities that investors are looking for in a company. Financial analysis guides the decisions made by senior management regarding improvements to be made and influences the decisions of other parties that deal with the company, including suppliers and creditors.[7]

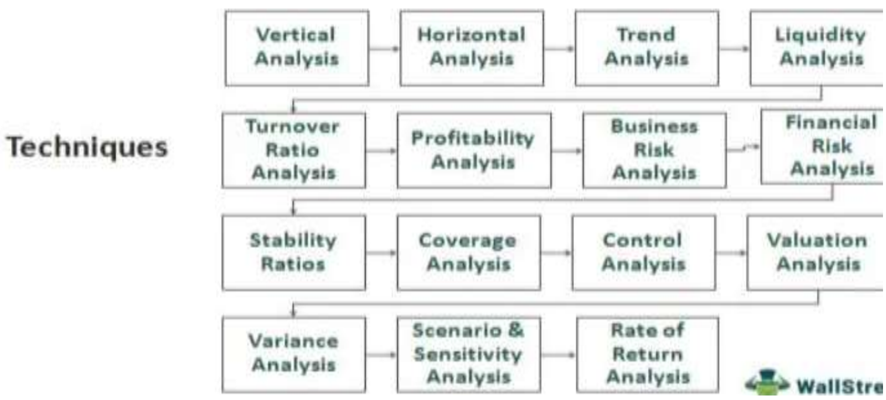

Fig1. Financials Analysis Techniques [13]

The set of financial analysis methods used by financial analysts varies depending on the purpose of the analysis. Appropriate tools exist to determine the extent to which each element contributes to the total amount of the current financial statement, as well as other tools to monitor the performance of current financial statements compared to previous years. There are special tools for detailed determination of coefficients that allow assessing the performance of the enterprise according to the necessary criteria.[6]

The methods of financial analysis in domestic and Iraqi practice include: horizontal analysis, vertical analysis and analysis of financial ratios [5].

Analysis of financial ratios consists of the following indicators [4]:

- solvency and liquidity;
- financial stability;
- turnover;
- profitability.

In Iraq, liquidity is assessed using the following indicators: current ratio and quick ratio.

1. Current liquidity ratio = Total amount of current assets / Total amount of current liabilities.

The result of this ratio is the frequency of attracting debt through current assets after comparison with the specified standard. If the current liquidity ratio is high, then this indicates that the company manages its short-term debts flawlessly and its current assets will allow it to repay them, and in the future this will give it the opportunity to receive more short-term loans from banks.

There is a certain similarity between the quick ratio and the current ratio, although the former is more accurate and rigorous in terms of determining current assets because it does not include inventories along with current assets.

2. Quick liquidity ratio = (Cash + Short-term financial investments + receivables) / Short-term liabilities. [ten]

Liquidity ratios always indicate the ability of an enterprise to repay its short-term obligations, although exceeding a reasonable limit is still not a positive thing, due to the fact that capital will freeze without using it in any activity, which, in turn, will indicate the inefficiency of the enterprise in investing available resources. A decrease in it does not necessarily mean that the organization has a real problem, as it may have an agreement with the bank to receive cash if necessary.[11]

So, liquidity indicators in Russia and Iraq are represented by uniform coefficients. The solvency analysis is also the same for both countries.

In Russia, indicators of financial stability are represented by a large number of calculated indicators.

In Iraqi practice, the analysis of financial stability is represented by the analysis of leverage ratios.

The financial leverage ratio is one of the indicators of financial analysis designed to assess the enterprise and determine the degree of dependence on financing through loans or debts. This coefficient consists of a set of the following indicators.

1. The debt ratio measures a company's dependence on external funding sources in its financial structure or on its own

assets and can be calculated by dividing total debt by total assets. If the debt ratio is 100%, it means that the company has debt equal to its assets, and the lower this ratio, the better. This debt also affects the profit that can be distributed to investors. Thus, investors in most cases look for businesses with low debt levels.

2. The ratio of debt to equity. With the debt-to-equity ratio, the financial analyst focuses on determining the balance between borrowing and equity financing. This can exacerbate the problem if returns on assets are lower than those on loans, in which case investors will suffer losses in contrast to an increase in returns on assets on loans. This percentage is calculated as follows:

Debt / Equity = Amount of Liabilities / Equity.

In Russia, the analysis of financial stability is represented by a similar indicator: Financial leverage = Borrowed funds / Equity capital.[12]

So, Russian and Iraqi practice demonstrates similar indicators of financial activity ratios, which determine the degree of dependence of the organization on the external environment.[1]

3. The percentage of ownership determines the percentage that shareholders will receive in the event of liquidation of the company's assets. It is calculated by the formula:

Percentage of Ownership = Equity in Common Stock / Total Assets.

For example, if an enterprise has assets worth $200,000 and at the same time 50% of the capital, this means that shareholders will receive $100,000 if the enterprise is liquidated.[2]

4. Interest coverage ratio = Earnings before interest and taxes / Total interest.

So, the financial analysis of many relative indicators of the financial stability of an enterprise in Russia is similar to the analysis in the practice of Iraq.

Analysis of indicators of profit and profitability is mandatory in the study of the results of the organization.[3]

Profit ratios are one of the important ratios of financial analysis and reflect the extent to which a company uses its resources to make a profit. Profit ratios are important to investors and they contain the following ratios.

The concept of liquidity can be considered from different points of view. So, we can talk about the liquidity of the balance sheet of the enterprise, which is defined as the degree of coverage of the obligations of the enterprise by its assets, the period of transformation of which into cash corresponds to the maturity of the obligations. The liquidity of assets is the reciprocal of the liquidity of the balance sheet by the time the assets are converted into cash: the less time is required for this type of asset to acquire a monetary form, the higher its liquidity.[4]

Analysis of the liquidity of the balance sheet consists in comparing the funds of the asset, grouped by the degree of their liquidity and arranged in descending order of liquidity, with the liabilities of the liability, grouped by their maturity and arranged in ascending order of terms.

Depending on the degree of liquidity, that is, the rate of conversion into cash, the assets of the enterprise are divided into four groups:

- A1 - the most liquid assets: the company's cash and short-term financial investments;
— A2 — quickly realizable assets — receivables and other assets;
- AZ - slow-moving assets: stocks and costs, as well as long-term financial investments;
— A4 — hard-to-sell assets: non-current assets, with the exception of long-term financial investments.

Liabilities of the balance are grouped according to the degree of urgency of their payment:
- P1 - the most urgent obligations: accounts payable and loans not repaid on time;
- P2 - short-term liabilities: short-term credits and loans;
- PZ - long-term liabilities: long-term loans and borrowings;
- P4 - permanent liabilities: the company's own capital.

To determine the liquidity of the balance sheet, a reclassified aggregate balance sheet should be drawn up by regrouping the assets and liabilities of the organization in accordance with the above classification, after which it is necessary to compare the results of the received groups of assets and liabilities in pairs (for example, by subtracting the value of the corresponding group of liabilities from the corresponding group of assets, as a result of which payment surplus or shortfall will be received). You can do it like this:

A\ > 771; A2>Г12\ Л3> 773; A4 < 174.

Fulfillment entails the fulfillment of the fourth inequality, so in practice it is essential to compare the results of the first three groups. The fourth inequality has a deep economic meaning, since its fulfillment indicates the observance of the minimum condition for financial stability - the presence of the enterprise's own working capital.

In the case when one or more inequalities have a sign opposite to that fixed in the optimal variant, the liquidity of the balance sheet differs from absolute. In this case, the most liquid funds and quickly realizable assets (A1 + A2) are compared with the most urgent obligations and short-term liabilities (P1 + P2), which allows you to find out the current liquidity, indicating the solvency or insolvency of the enterprise for the next period of time. Comparison of slow-moving assets with long-term and medium-term liabilities reflects prospective liquidity, which is a forecast of the company's solvency based on a comparison of future receipts and payments.

CONCLUSIONS

Various liquidity indicators not only provide a versatile description of the stability of the financial condition of the enterprise, but also meet the interests of various external users of analytical information. For example, suppliers of an enterprise are interested in whether the enterprise will be able to pay them off in the near future, so they will pay attention primarily to the absolute liquidity ratio. And the bank lending to the enterprise, or the lender, will be more interested in the value of the critical liquidity ratio. The owners of the enterprise - shareholders, if we are talking about a joint-stock company - most often evaluate the financial stability of the enterprise for the long term, and therefore the current liquidity ratio is more important to them.

Average monthly revenue is calculated based on gross revenue, including sales revenue for the reporting period (for payment), VAT, excises and other obligatory payments. It characterizes the volume of income of the organization for the period under review and determines the main financial resource of the organization, which is used to carry out economic activities, including to fulfill obligations to the fiscal system of the state, other organizations, and its employees.

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