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System Of Indicators Characterizing Financial Condition Of The Enterprise

Ismailova Maxbuba Mirxalilovna

[1] *Tashkent State University of Economics, Uzbekistan*

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Abstract:

In this article we consider the significance and essence of financial condition analysis, its types, classification of methods and techniques of analysis, as well as a system of indicators that characterize the financial condition of an enterprise. These indicators include: indicators for assessing property status, assessing liquidity and solvency, assessing financial stability and business activity, as well as profitability.

Key words. Liquidity, solvency, business activity, profitability, market activity, financial stability.

Introduction

Conditions of market economy is characterized by an inflationary process, crisis phenomena and strict financial policies pursued by the state. In such conditions, every organization and enterprise is trying to stay afloat, and in this regard, the analysis of the financial condition of the enterprise is becoming increasingly relevant. Every enterprise is interested in a real assessment of the capabilities and needs of its enterprise, and this determines the relevance of this issue. Analysis of the financial condition of an enterprise is a two-way process, on the one hand there is the result of the enterprise's activities, and on the other hand there are prerequisites for its development.

Let's consider indicators characterizing the financial condition of an economic entity. These indicators can be divided into groups. These include liquidity ratios, stability ratios, profitability ratios, and business activity ratios.

Financial condition of an economic entity can be characterized by the placement and use of funds and sources of their formation.

Literature review.

The financial situation of the enterprise with its financial resources indicators that describe the level of security, the level of competitiveness and bankruptcy, the state of financial stability and solvency, the ability to fulfill obligations to the state and other economic entities category and includes a set of process results [1].

The financial condition of the enterprise, its property, financial resources level of security, financial stability and solvency, indicators such as the ability to fulfill obligations to the state and other economic entities, competitiveness and the level of bankruptcy contains the complex [2].

Financial condition is an integral indicator of sustainable development and functioning of an economic entity. This indicator is reflected in the system of financial and non-financial indicators, characterizes the effectiveness of economic relations with other business entities, reflects the current and future provision of all business processes with the necessary resources (material, intangible, financial). [3]

Property status is characterized by the amount composition and condition of assets, primarily long-term ones, owned and managed by the organization to achieve its goals [4]. Property status changes over time due to various factors, the main of which are the financial results achieved over the past period.

This stage of analysis evaluates the size, dynamics and structure capital investment of a business entity into fixed assets, and also identifies the main functional features of the movement of fixed assets of an economic entity. In this regard, a comparison of data for the period under study is carried out for all elements of fixed assets. A fairly detailed description of the property situation in dynamics is carried out in the asset balance sheet.

Purpose of structure analysis property and funds invested in it are determined by the entities implementing it.

Total cost enterprise property equals currency balance. Height currencies balance compared with the previous period as a whole, is considered a positive phenomenon. In this case, you should pay attention to what factors it grew (increase in equity capital, borrowed funds or long-term liabilities, etc.). Decrease currencies balance indicates a slight reduction in the economic activity of the enterprise. Here it is advisable to determine the reasons for the decrease in the amount of assets.

Structure and the sources of formation of the enterprise's property are recommended to be analyzed using a comparative analytical balance.

To obtain it, it is necessary to supplement the initial balance sheet with indicators of the structure, absolute and structural dynamics of investments (assets) and sources of funds (liabilities) of the enterprise for the reporting period.

Comparison of the values of the balance sheet total at the beginning and end of the analyzed period and in dynamics allows us to determine the general direction of the balance sheet movement [5].

Let's consider liquidity and solvency indicators. Solvency means the availability of funds from a business entity and their equivalents sufficient to pay accounts payable [6].

Liquidity assessment is expressed to the extent that the enterprise's liabilities are covered by its assets, the period of transformation of which into money corresponds to the period of repayment of liabilities.

Absolute liquidity ratio, the normative value of which lies in the range from 0.2 to 0.3. It is the ratio of cash and short-term financial investments to short-term liabilities [7].

Urgent coefficient liquidity represents a normative value of at least one. It represents the ratio of accounts receivable, cash and short-term financial investments to short-term liabilities.

Overall coverage ratio with a standard value in the range from one to two. They represent current assets to short-term liabilities.

By calculating the coefficient we can draw conclusions the company's ability to meet its liabilities, and one can also judge the availability or deficit of free cash.

Let's consider indicators of financial stability. The reflection of a stable excess of income over expenses of an economic entity ensuring the free circulation of its cash flows represents the financial stability of the enterprise [8].

The financial stability ratios of a business entity provide insight into about long-term development prospects, reflect the degree of protection of the interests of creditors and investors with long-term investments in the company.

Research methodology.

At performing an analysis of the financial condition, the following techniques and methods such as coefficient analysis, comparative analysis, scientific abstraction method, induction and deduction method, analytical and logical methods of analysis on improving the financial condition of the enterprise were used in this research work.

Analysis and results.

Financial stability is often considered from the point of view of the likelihood of possible bankruptcy.

Today there are two main approaches to predicting bankruptcy - this is qualitative and quantitative.

Quantitative approach is based on financial data and includes operating with some coefficients, for example, Altman (USA), Taffler (UK).

The qualitative approach comes from data from bankrupt companies and compare them with the corresponding data from the company under study.

Let's look at some models assessing the likelihood of bankruptcy.

1. E. Altman's model is based on the Z-score, which is calculated by Formula [8]:

$$Z = 1.2Z_1 + 1.4Z_2 + \dots + Z_3 + \dots + Z_4 + \dots \quad (1)$$

Where Z1– the share of working capital in the total value of assets;

Z2– return on assets;

Z3– the ratio of earnings before interest and taxes to assets;

Z4– revenue from sales / total assets;

Z5– resource productivity of assets.

The probability of bankruptcy of an organization can be judged by the range of spread of Z-score values:

Z<1.8- very high; 1.8<Z<2.7 high (medium)

2.7 <Z<2.9 – possible, but under certain circumstances;

Z>2.9 – very low (small).

2. To assess the likelihood of bankruptcy, you can use the model of the famous financial analyst W. Beaver, who proposed his own system of indicators for assessing the financial condition of an enterprise in order to determine the likelihood of bankruptcy, a five-factor model containing the following indicators, table 3.

Algorithm for calculating the W. Beaver bankruptcy forecasting model

Table 3

Indicators	Calculation	Bankruptcy probability values		
		in a year	through 5 years	absent
Beaver coefficient	(Net profit+ Depreciation)/ Borrowed capital	from-0.15 to 0	from 0 to 0.17	> 0.17
Financial leverage	Borrowed capital/ Assets (TB)	From 80 to 50	from 50 to 37	< 37
Return on assets	Net profit/Assets	from-22 to 0	from 0 to 4	> 4
Availability ratio from own sources	Own sources/Current assets	<0.06	from 0.06 to 0.3	> 0.3
Coverage ratio	Current assets/ Current liabilities	< 1	from 1 to 2	> 2

Weighting coefficients for indicators in W. Beaver's model are not provided and the final bankruptcy probability coefficient is not calculated. The obtained values of these indicators are compared with their standard values for the three states of the company, calculated by U. Beaver for successful companies, for companies that have gone bankrupt throughout the year, and for firms that become bankrupt within five years.

3. Forecasting the probability of bankruptcy based on the G. Springate model. This method allows you to use multiplicative analysis to select four of the 19 best-known financial indicators that differ most among successful enterprises.

G. Springate's model is calculated by the formula:

$$Z = 1.03A + 3.07B + 0.66C + 0.4D, \quad (2)$$

Where A = (Own working capital) / (Total assets)

B = (Profit from sales) / (Total assets);

C = (Profit from sales) / (Current liabilities);

D = (Net income) / Total Assets

Critical value of Z for this model is 0.862.

4. Consider the Taffler discriminant factor model. Calculated using the following formula:

$$Z=0.53x_1+0.13X_2+0.18x_3+0.16X_4, \quad (3)$$

Where x1= profit from sales / short-term liabilities;

X2= current assets / amount of liabilities;

X3= current liabilities / total assets;

X4= net income / total assets.

If the value Z is greater than 0.3, this indicates that the company has good long-term prospects.

If Z<0.2, then this indicates about the high probability of bankruptcy.

5. Model four-factor for predicting bankruptcy risk (Model R), which has the following form:

$$R=8.38K_1+K_2+0.054K_3+0.63K_4, \quad (4)$$

where K1= working capital/asset;

K2= net profit / equity;

K3 = sales revenue / asset;

K4= net profit / cost.

Probability of enterprise bankruptcy in accordance with the value of the model, R is determined as follows, the value with the results is summarized in Table 4.

Explanation of the results obtained

Table 4

Meaning R	Probability of bankruptcy, %
Less 0	Maximum (90-100)
0-0.18	High (60-80)
0.18-0.32	Average (35-50)
0.32-0.42	Low (15-20)
More 0.42	Minimum (to 10)

Let's look at business activity indicators. Business activity assess mentor in other words, turnover indicators make it possible to analyze the following - how effectively an economic entity uses its funds.

Table 5

Current assets turnover ratio	Without standard	Revenue / Average annual value of current assets
Duration of turnover of current assets, days	Without standard	365 / Current assets turnover ratio
Equity turnover ratio	Without standard	Revenue / Average equity capital
Duration of equity capital turnover, days	Without standard	365 / Equity turnover ratio

The emerging growth in the business activity coefficient indicates about improving the organization's activities, increasing its business activity, and as a result, profitability.

The functioning of any economic entity, regardless of the type of its activity and form of

ownership, in market conditions is determined by its ability to receive the required amount of income or profit. In this regard, profit occupies one of the important places in the system of comprehensive analysis of the financial condition of an enterprise, since on its basis the degree of achievement of the final goal of the enterprise's activities is assessed.

Profit is the main source of financing production costs process and social development of the enterprise, the most important source of the formation of the state budget.

The main objectives of analyzing the financial results of an enterprise are:

- studying profit opportunities accordingly the presence of resource potential of the enterprise and market conditions;
- implementation system control over the process profit generation and changes in its dynamics;
- definition influence of external and internal factors on financial results of the enterprise;
- studying directions and profit distribution trends;
- calculation and assessment of profitability indicators;
- development of recommendations aimed at mobilizing identified growth reserves profits and profitability.

Profitability is inherently a relative indicator, which is characterized by the level of profitability of the subject, the value of which shows the ratio of the result to costs.

Profitability is a relative indicator characterizing the level of profitability of an enterprise, the value of which shows the ratio of results to costs [9].

Profitability ratios reveal the ability of an economic entity to generate profit in the course of its activities and determine the overall efficiency of the entity's property and invested capital.

Evaluation of financial results and profitability occurs when calculating the following indicators, table 6.

Profitability indicators Table 6

Indicators	Standard	Formula for calculation
1	2	3
Overall profitability %	Without standard	R total = profit (loss) before tax / revenue x 100%
Profitability(loss) of sales, %	Without standard	R s. = profit (loss) from sales / net income from sales x 100%
Return on assets %	Without standard	R a.= net profit (loss) / capital * 100%
Return on equity,%	Without standard	R e. = Return on equity = Net profit / Equity

Conclusion.

Thus, the article discussed issues that reveal the essence of financial analysis, considered the main indicators, as well as for conducting a financial analysis of an enterprise.

Standard values for indicators of the financial condition of an enterprise are different in different countries. They depend on the state of the economy in which enterprises operate, as well as on the traditions of doing business. To analyze the financial condition of an organization, most often

they use the method of financial ratios, according to which they preliminarily establish groups of basic indicators, namely indicators of liquidity, stability, debt, turnover, profitability, and then compare their values with standard ones, as well as with values for previous periods.

Standard values of indicators are a basis for comparison and can be established at the state level, in particular to assess the possibility of declaring enterprises bankrupt

Comparing the current indicators of an enterprise with the industry average or with the indicators of leading enterprises in the region makes it possible to compare one's own financial condition with the financial condition of competitors. Such a comparison is important if there is high competition in the area in which the enterprise operates.

Comparing indicators for the reporting period with indicators for previous periods allows the financial service to show negative or positive trends that have developed in certain aspects of the enterprise's activities, as well as to reveal the reasons for these trends.

An in-depth analysis makes it possible to assess the actual the financial condition of the business entity as of a certain date, changes in financial position and financial results of operations business entity for the reporting period.

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