Financial Analysis

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DOI: 10.29322/IJSRP.11.04.2021.p11226
http://dx.doi.org/10.29322/IJSRP.11.04.2021.p11226

Abstract- Well-organized accounting provides a systematic and chronological record of business transactions and other events, but also a complete picture of the effects of business transactions in the form of an annual report. The annual report is a legal and regulatory obligation for companies, and thus a potential subject of economic and financial analysis.

By analyzing the financial statements, we get a picture of the (credit) creditworthiness of the company. The creditworthiness of a company is a quantitative and qualitative expression of the company's business ability and the security of its business. Creditworthiness assessment is often equated with creditworthiness and liquidity assessment, and as such is reduced to a narrower concept of creditworthiness. On the other hand, solvency in a broader sense implies a synthesized assessment of financial stability, liquidity, solvency, capital adequacy and structure, financial situation, profitability, risk of financial results, profitability and organization of the observed company.

Index Terms- financial analysis, financial policy, permanent ability, permanent financing capacity

I. Introduction

The analysis of the company's business observes: the funds engaged, the business result and the basic functions of the reproduction process. Financial analysis deals with the analysis of the financial condition of the company and the possibilities for directing changes in the desired direction. The dominant part of financial analysis is performed by comparing the value of the balance sheet and income statement. Financial analysis is a way of collecting and using financial information in order to assess the current financial condition of the company and assess the potential speed of development, as well as to forecast future financial condition, identify available sources of funds and the possibility of their mobilization, as well as to forecasts the future position of the company on the capital market.

The concept of financial analysis

The term "analysis" comes from the Greek word analysis, which means decomposition, breaking down the whole into its parts. It also means a term opposite to the term synthesis. This term is used in both social and natural sciences and means breaking down a whole into its component parts in order to get to know its structure or composition. Analysis implies the process of scientific research and explanation of reality by breaking down a certain whole into constituent parts and considering each part for itself and in relation to other parts of a given whole. Analysis has a descriptive and exploratory character. Descriptive implies the presentation of quantitative and qualitative characteristics of the subject of analysis, while research implies the research of relationships, correlations and causal relationships, laws and tendencies of individual research objects. Relationships can be right or wrong, normal or abnormal. The information obtained on the basis of the analysis is the basis for making rational decisions. For more complex more complex functions, more complex mathematical methods are used.

Financial analysis is an important tool used in making decisions related to a company's business. It precedes the management process, ie it precedes the planning process which is an integral part of the company's management. There are different types of analysis. What they have in common is the application of various analytical tools and techniques by which the data from the financial statements are converted into usable information relevant to management.

The information resulting from this analysis is not comprehensive and does not provide a consideration of the entire business of the company. The analysis provides only financial information. The beginnings of the use of financial analysis techniques are related to the thirties of the XX century, ie the period of the Great Economic Crisis in the period from 1929 to 1933. Namely, the problems related to the need to maintain liquidity and capital, which were reflected in the mass bankruptcies of companies, were a direct reason for attempts at a deeper analytical view of the activities of companies. The idea was to identify and correct possible weaknesses and inconsistencies in the current business on the basis of analytical interpretation of information on the achieved activities and results of the company, and to consider all circumstances that can ensure that the company avoids potential financial problems in business. Since the mentioned period, the techniques of financial analysis have been constantly improved. In modern business conditions, financial analysis techniques are an indispensable instrument of financial management.

In fact, the analysis of past business events is "calculated to evaluate previous business management decisions and to obtain all information relevant to the design of business decisions aimed at maintaining and developing the company in the future."[1]

"Financial analysis, in today's sense of the word, through the evaluation of financial performance in the past and / or present, as a basis for assessing the prospects of the company, is a

[1] Ranković J.: "Financial Management of Enterprises", IV edition, Center Belgrade, (1989), p. 174

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combination of past and present. Financial analysis has no autonomous goals, but they are determined by the interests of analysts and users of its results. Accordingly, financial analysis can be classified according to various criteria: users, subject of analysis, observation time, method of data preparation, analysis instruments, etc. "[2]

Company financing can be assessed from a short-term and short-term perspective. Liquidity of a certain asset, ie source of funds, means its ability to be transformed into cash. Solvency is the ability to meet due obligations in a timely manner and in full. The task of financial analysis is to assess the assets and sources of its financing and additional financing, to assess the size and structure of resources needed to maintain the achieved economic potential of the company and to confirm its activities.
Financial analysis is conducted in two basic phases:

Phase I - Preparation

The preparation phase begins with acquaintance with the audit conclusion and the goal is to make a decision on the appropriateness of the analysis. A standard audit report is a short document that contains a positive assessment of the auditor or audit firm on the reliability of certain information in the report and their compliance with applicable regulations. The non-standard is more extensive and contains additional information.

Phase II - Preliminary Review of Accounting Accounts

This is a phase within which the preliminary review of bookkeeping accounts is performed aims to assess the working conditions in the accounting period, to determine the tendencies of basic indicators as well as qualitative changes in property and fin. position of the company. The economic report and calculation analysis is a general assessment of the results of economic activity and the financial condition of the company. The financial analysis distinguishes: economic effect as an absolute indicator that characterizes the result of the activity and economic efficiency as a relevant indicator that compares the effect with the costs or resources used to achieve that effect.

The financial result is the difference between financial income and expenses and they should be analyzed separately. Financial analysis should be preceded by a general system analysis, the method of morphological analysis can be used, which is successful in the presence of a small amount of information about the problem. All subjects are divided into groups and each is subjected to a detailed analysis, which allows the collection of data for later research. Financial analysis requires any information of a financial nature: bookkeeping, reports of financial authorities, etc.

Information analysis can be performed to control and diagnose the situation and forecast the development of the company.

"Financial analysis in the predominant part is a ratio analysis whose essence is to look at balance sheet items in simple mathematical formulas. In this mutual comparison of financial categories, care must be taken that consistent results cannot be obtained from the comparison of financial categories, which represent flows, results achieved in a certain period of time (according to the income statement category) and flows, balance sheet positions on a certain day. Financial analysis solves this problem with more or less success by taking stock positions in several consecutive terms and thus, depending on their number and their systematicity, converts them into at least approximate flows with which positions can be compared, which represent results (flows) accumulated over a period of time. "[3]

Financial analysis, as previously explained, is the study of the main indicators of financial condition and financial results of the organization's activities with the aim of making decisions about management, investment and other decisions. Financial analysis is part of broader concepts, ie analysis of financial and economic activities of the company and economic analysis.

In practice, financial analysis is performed using MS Excel spreadsheets or special programs. During the analysis of financial and economic activities, quantitative calculations of various indicators, ratios are performed, as well as their qualitative assessment and description, comparison with similar indicators of other companies. Financial analysis includes analysis of the organization's assets and liabilities, its solvency, liquidity, financial results and financial stability, analysis of asset turnover (business activities). Financial analysis reveals important aspects of the company's business, such as the possible likelihood of bankruptcy. Financial analysis is an integral part of the activities of experts such as auditors, appraisers and others.

Banks are actively using financial analysis to address the issue of lending to organizations. The basis of financial analysis is the calculation of special indicators, often in the form of coefficients, which characterize one or another aspect of the financial and economic activities of the organization. The most popular financial relationships include:

1) (ratio of capital and total capital (assets) of the company), coefficient of financial dependence - ratio of liabilities and assets).

2) Current ratio (current assets and current liabilities).

3) Rapid liquidity ratio (ratio of liquid assets, including cash, short-term financial investments, short-term receivables and short-term liabilities).

4) return on capital (ratio of net profit to capital)

5) (ratio of profit from sales (gross profit) and income of the company), net profit margin (ratio of net profit and income).

Subject of financial analysis

The subject of financial analysis are, primarily, the company's financial statements, ie:

- balance sheet,
- income statement,
- cash flow statement,
- statement of changes in equity and
- notes to the financial statements.

The subject of financial analysis can be all other segments of the annual report, which are not mandatory for economic entities, but are more important for making the right business and investment decisions such as:

[2] Ranković J.: "Financial Management of Enterprises", IV edition, Center Belgrade, (1989), p. 176.

[3] Vučičević D., "Theoretical aspects and basic settings of financial analysis", School of Business 2/2012, (2012), p. 2.

- letter addressed to shareholders (Letter to shareholder),
- additional discussions and Management
- Management Discussion and Analysis.

For successful management of the financial system in the company, the activity of financial business analysis also appears. Financial analysis is an integral part of a company's complex business analysis. Financial analysis should analyze the complete effect of the company's financial functions:

- general principles (productivity, economy, profitability),
- special principles (liquidity, stability, security),
- actions of internal and external factors,
- financing decisions and other.

The income statement / balance sheet as the basis of financial policy is a primary factor in the company's financial analysis. In other words, the balance sheet is treated as one of the basic methods and instruments of complex business analysis of the company.

When it comes to types of financial analysis, financial analysis can be classified into:

- analysis of funds and sources of funds,
- liquidity analysis,
- analysis of expenditures and revenues
- analysis of the company's business performance.

The analysis of assets and sources of funds is, in fact, an analysis of the balance sheet, where we can talk about static and dynamic analysis of the balance sheet.

Static balance sheet analysis is an analysis of only one such balance sheet on the basis of which a picture of the balance and structure of assets and their sources is obtained. Dynamic balance sheet analysis refers to the analysis of several such balance sheets and it allows you to see the changes that have occurred in a certain period of time in one company.

For financial analysis to be successful and meaningful, several important steps need to be taken. First of all, it is necessary to prepare financial reports, ie an information basis for analysis. This implies considering the usability of balance sheet data, ie the adequacy of applied balancing procedures, such as the regularity of allocation of expenditures and revenues to accounting periods and the degree of consideration of the impact of monetary fluctuations. It is then necessary to consolidate the income statement and classify the balance sheet data.

In the next step, it is necessary to choose adequate analysis instruments and characteristic financial relations that are analytically significant. Among the various instruments of analysis of financial statements of companies, such as the method of visualization, coverage account, flow analysis, analysis of net working capital, the most commonly used ratio is the analysis of financial statements. The company's financial statements as the subject of financial analysis can be defined as "a set of information about the financial position, performance, changes in capital and cash flows of a company and represent a functional and time-complete set of business processes that occurred in a company and as such, form the basis any rational analysis. "[4]

The goal of financial analysis

"The main goal of the analysis of a company's financial statements can be defined as assessing the company's past achievements and predicting its future achievements in the function of informative support of decision-making activities that are usually the ultimate financial decision. "[5]

The objectives of the analysis can be general and specific. The general objectives relate to the perception of the company's earning capacity and financial position, as well as its cash flows and changes in equity, all in order to provide information to users of the analysis. Specific objectives relate to meeting the information needs of stakeholders, ie users of financial analysis. Also, the specific objectives of the analysis of financial statements can be viewed in a different way, by respecting International Accounting Standards / International Financial Reporting Standards (IAS / IFRS).[6]

The main goal of a company's financial policy is to provide its own financial strength. This implies that the company's management undertakes management activities in order to ensure the following:

- Permanent ability to pay,
- Lasting ability to finance,
- Lasting ability to invest,
- Lasting ability to increase the assets of the company owner
- Lasting ability to satisfy the financial interests of actors inside and outside the company.

Permanent ability to pay means that the company at the time of maturity of any obligation has cash at its disposal at least in the amount of due obligations. In theory and practice, four concepts are known, as integral parts of financial policy, for the payment of liabilities, ie for maintaining the liquidity of the company, as follows:

- Full security,
- Limited risk,
- Full coverage of liabilities,
- Improvised liquidity.

Permanent financing capacity means that the company is able to finance a given volume of business from available sources of financing (capital, long-term and short-term credit liabilities and spontaneous sources of financing) or to replace the reduction of the existing source of financing with another source of financing (repaid long-term liabilities). to compensate them with new borrowing through the issue of long-term bonds and commercial papers).Permanent financing capacity means that the company is able to finance a given volume of business from available sources of financing (capital, long-term and short-term

[4] Knezevic G., Analysis of financial reports, Singidunum University, Belgrade, (2009), p. 9.
[5] Horngren, C., Sundem, G., Introduction to Management Accounting, 7-th Edition, Prentice-Hall Inc., 1987.
[6] Knezevic G., Analysis of financial reports, Singidunum University, Belgrade, (2009), p. 6.

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credit liabilities and spontaneous sources of financing) or to replace the reduction of the existing source of financing with another source of financing (repaid long-term liabilities). to compensate them with new borrowing through the issue of long-term bonds and commercial papers). Lasting ability to increase owner property. The property of the owner of the company invested in the company is the capital of the owner. The book value of capital increases if a premium is realized on the sale of shares and on the distribution the net profit is accumulated for reserves and for retained earnings. Lasting ability to satisfy the financial interests of actors inside and outside the company. The actors in the company are the owners of capital (shareholders or owners of shares of capital), employees and the state. The interests of the actors in the company are most often opposed. Employees want to earn as much as possible, which reduces profits, and that is not in the interest of either the owner or the state.

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