

## SYSTEMATIC ANALYSIS OF THE FINANCIAL CONDITION OF THE COMPANY: METHODS AND AREAS OF IMPROVEMENT

**Statement of the problem.** *Business enterprise is due* to organized, high-quality, timely and effective management, which is a set of interrelated functions implemented consistently. In a market economy the validity and effectiveness of operational management decisions largely depends on the quality of financial and analytical calculations. Evaluation of enterprises is a key element in the management and study of economic decisions. It is of interest to investors, creditors, suppliers of inputs and state governments. Analysis of the financial situation of the company, on the one hand, the result of the enterprise, and the other – identifies the preconditions for its development

**The purpose of the article:** the study of essence, objectives and the need for a systematic analysis of the financial condition of enterprises in the early detection and correction of defects and search provisions in its financial activities, research issues that affect the financial stability of the enterprise at present, and the consideration of factors that hinder the analysis of financial condition of the company.

**Analysis of recent research and publications.** In the works of local and foreign economists examined a range of issues related to the analysis of the financial condition of the company, its assessment and management. Methodical bases of quantitative measurement and evaluation of the financial condition of the company and the interpretation of its nature fixed in the regulations relevant ministries. Among scholars have paid considerable attention to the study of the financial situation of enterprises, should provide such as I. T. Balabanov, L. A. Bernstein, E. Brigham, E. Helfert, M. Abryutina, V. Kovalev, A. P. Kovalev, M. N. Krenina, T. Ben, A. M. Podyyerohin, S. B. Dovbnya, V. A. Zaharchenko, M. L. Kotlyar, V. T. Savchuk, A. Stoyanov, A. Hadzevich, T. R. Carlin and others.

**The main material.** Analysis of the financial situation of the company is an essential starting point for understanding the changes and rendering possible options to improve the efficiency of enterprise. Therefore, we must first understand what is the financial position of the enterprise in all its versatility and explore approaches to its analysis and evaluation. After all, the results of its analysis and decision-making will be based on the improvement of the efficiency of the company.

Under the financial condition of the company to understand the degree of enterprise financial resources necessary for effective business operations, as well as the timely holding of cash payments on its obligations. It was reflected in financial shape overall results of the company to manage financial resources. Thus, it should be noted that the financial condition is the result of all forms of its activity as an entity on the one hand and as a result of this activity produces a key influence in the future changing manifestations of the company that creates it "further the current state."

Financial condition determines the competitiveness of an enterprise, its potential for business cooperation, assess the extent to which guaranteed the economic interests of the Company and its partners in the financial and other relations. The analysis of the indicators is to

highlight its status to external customers, which can be divided into three groups:

- a) persons who are directly attributable to the business, ie managers and staff management;
- b) persons who do not work directly for the company, but they have a direct financial interest - shareholders, investors, buyers and sellers of goods (services), various lenders, banks in dealing with the question of whether or unreasonableness of his loan, but with a positive decision this issue - at what percentage and for how long;
- c) persons who have an indirect financial interest - tax services, various financial institutions (stock exchanges, associations, etc.), government statistics, and others.

It should be noted that the task of analyzing the financial condition of the company vary depending on the interest of different groups of users analytical material. All members draw conclusions on the direction of the activity and feasibility of cooperation now, based on the financial statements.

Most financial condition defined elements of its economic activity: profitability (profitability) of the company; optimality of profit distribution, the disposal of the company after payment of taxes and mandatory contributions, the presence of own funds (fixed and current assets) is below the minimum required level for the production process and the process of production; rational deployment of fixed and working capital (debt and equity), liquidity of current assets. The signal indicator, which shows the financial position of the enterprise is the ability to pay, ie, its ability to timely meet the payment requirements of suppliers of raw materials, equipment according to commercial contracts, bank loans repay hold payroll staff to make payments to the budget.

The main importance of assessing the financial situation of the company in the system of crisis management is the development and implementation of measures aimed at rapidly restoring solvency restoration of sufficient financial viability, establishing the possibility Company to continue its business activities, further development, ensuring profitability and growth of productive capacity and decision-making.

The financial position of the enterprise - the ability, the ability of the enterprise to finance their activities. It is determined by the specific composition of elements (fig. 1) and characterized by financial resources that are necessary for the normal operation of the business feasibility of their deployment and efficiency, financial relationship with other legal and natural persons, solvency and financial stability.

The financial position of the company should be systematically and comprehensively evaluate using various methods and techniques of analysis. This will allow a critical evaluation of the financial performance of the company as static for a certain period and the dynamics - the number of periods will help to identify "hot spots" in financial activities and how effective use of financial resources and their efficient allocation. Inefficient use of financial resources leads to low solvency and, consequently, the potential disruption in supply,

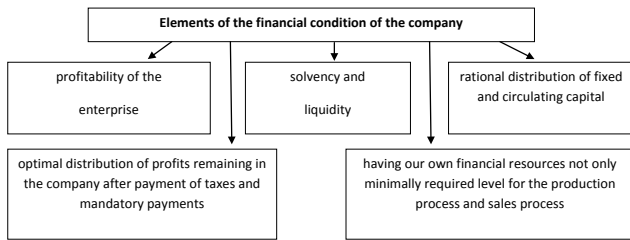


Figure 1. Elements of the financial condition of the company

production and sales, to the failure to plan for profits, reducing the profitability of the enterprise, the threat of economic sanctions. The main tasks of analyzing the financial condition of the company are shown in fig. 2.

To stage a comprehensive assessment of the company include:

- Formation of system of evaluation indicators;
- Evaluation of individual performance ;
- Synthesis of individual estimates for obtaining a final and comprehensive evaluation of its activities.

There are two fundamentally different approaches to the evaluation of the company.

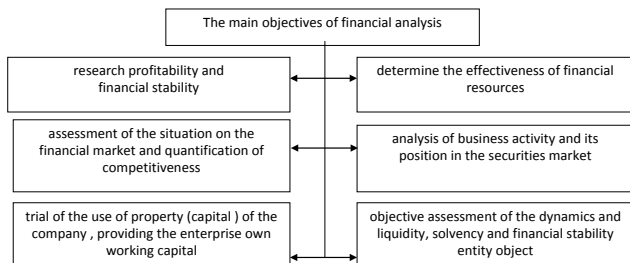


Figure 2. Objective analysis of the financial condition of the company

In the first approach valuation of the company based on a synthetic indicator, maximization or minimization of which provides the optimal decision making. As these indicators proposed use: sales, profits, cost of production, and others. However, the use of these indicators has several shortcomings due to the influence of these factors on the market - conjuncture character.

Coefficient method is based on the calculation of the coefficients that indicate the status of various aspects of the company and provide an opportunity to identify weaknesses in its activities at an early stage. Its main disadvantages are the lack of or insufficient justification for limiting values of most indicators, inadequate interpretation of terminology and indicators adopted by foreign firms to the specifics of Ukrainian enterprises performance review only certain aspects of the company.

The second approach to assessing the performance of companies grouped on a system of indicators that comprehensively reflect the state and development of the entity. Multicriteria approach based on a comprehensive assessment of the company allows obtaining not only summary information about the level of his work, but also generating directions to increase efficiency and strategic development.

Strong financial position of the Company depends primarily on the improvement of quality indicators: productivity, profitability, capital productivity and the plan for profit. Rational allocation of enterprises facilitates operational activities to accelerate the circulation of money, the proper organization of logistics production. Therefore, analysis of financial condition is the final stage of the financial-economic activity. At the

same time, the financial difficulties of the enterprise, for lack of timely payments can affect the stability of supply and disrupt the rhythm of logistics. And in this regard, analysis of the financial condition of the company and the analysis of other aspects of its operations should mutually complement each other.

Important in the study of financial position as an analysis of the enterprise. Structure property value shows the proportion of each element in the assets and the ratio of debt and equity businesses in liabilities. Within the property value is displayed specific activities. But only evaluates the structure of the state assets and the availability of funds to meet obligations and does not answer the question how profitable for the investor to invest in the business. To learn more about effective use of the property are the following indicators: the index of permanent asset depreciation rate, the rate of real property value, turnover ratio, coefficient of consolidation working return of capital, capital intensity. These factors will make it possible to learn about: the share of fixed assets and intangible assets own sources of funds, funding of fixed assets due to depreciation, the level of productive capacity of the enterprise, the provision of means of production processes, the use of fixed assets and other assets.

With the analysis of factors can identify the strengths and weaknesses position of the company. Important also is the fact that the ratio analysis allows a better understanding of the relationship between balance sheet and income statement.

Analysis of the financial situation of the company has some tricks of its implementation (Table 1).

Table 1

Basic techniques of financial analysis company

Methods	Signs
Horizontal (time) analysis	Comparison of each position statements from the previous period
Vertical (structural) analysis	Determining the structure of financial indicators to assess the impact of various factors on the outcome
Trend analysis	Comparison of each position with a number of statements of previous periods and definitions trend, the main trends in performance, purified from the influence of individual characteristics of different periods (using trend extrapolation is the most important financial indicators for the future period, a promising forecast financial analysis)
Analysis of ratios	Calculation of the ratios between the individual positions report or positions of different forms of reporting, the definition of the relationship parameters
Comparative Analysis	Interfarm analysis of pooled accounts for some indicators of the Company and its subsidiaries (branches), and the Inter-Farm analysis of the firm compared with those of competitors or of the medium and the industry averages
Factor Analysis	Determining the impact of individual factors (causes) for deterministic output indicators (separated in time) or stochastic (without particular order) methods of investigation. This factor analysis can be both direct (own analysis) when the resulting figure divided into separate components, and inverse (synthesis) where it connects the individual elements in the overall output indicators



At present there is no universal method of evaluating the financial condition of the company, which takes into account the purpose of financial analysis is constantly changing composition of multiple estimates of parameters, which varies according to the conditions of internal and external economic environment, as well as dimension, specific companies and specific industry conditions, which it operates. Therefore, to address a number of challenges need to use modern technology to make it possible to increase the efficiency of financial analysis using a unified approach to the assessment on the basis of the automated processing of economic information.

In practice these methods should be used for assessing the financial condition of the company:

1. Comprehensive evaluation method analyzes and indicators grouped in three areas: sustainable financial position and poor. With this method it is possible to separate the problem areas in the enterprise and identify the causes. The method is rather time-consuming, on this basis it is difficult to draw conclusions about the financial condition of the company, because it conveys all the flaws and coefficient method.

2. The integral method considers the assessment of the financial condition of the company on the basis of the calculation of the integral index, which is formed in the synthesis rate in directions levels of solvency, financial independence and quality of assets.

3. Cost recovery method involves the calculation of the operating lever and assessment of the financial condition of company stock indicator of financial stability, but it does not give a complete assessment of the company.

4. The equilibrium method is based on achieving a balance between the liquid flows in the business and investment and financial activity.

In world practice, using integrated assessment of the financial situation of enterprises. This well-known comprehensive indexes, the Altman's index, Sprynheit's model, Lis's model. But these models are not suitable for domestic economic conditions, because they are developed using the sample of companies in other countries, and therefore considered parameters differ from ours.

Today, Ukrainian scientists have developed models such as discriminate integrated assessment of the financial situation of the company (O. Tereshchenko) based on the use of discriminate analysis methodology based on the financial performance of the sample of domestic enterprises and comprehensive assessment of the financial condition of the company through the use of matrix models (O. Hotomlyanskyy, T. Pernata, G. Severina). This valuation method can identify trends in the dynamics of the financial condition of the company. Gaps in methods of assessing the financial condition of the company are not the only problem today. To date, there is also the complexity of financial analysis, due to the instability of the economic crisis, the political uncertainty. With the constant change of information many financial and economic indicators, designed for a certain time, may continue to lose their value for analysis due to the instability of the national currency.

A barrier for the analysis of the financial condition of the company are: different forms of ownership, for example, many indicators of the financial position of the joint-stock companies can not be calculated because of the absence or underdevelopment of the state securities market, where shares of these enterprises turned on and that you can would be judged on the position of issuers; instability legislation. To overcome this problem, given the financial crisis, to develop new methods for evaluating the financial condition and develop methods and ways to improve the financial condition,

increase the solvency and liquidity.

Our main point of achieving financial balance now in crisis is to reduce the consumption of financial resources. Measures to improve the financial situation is individual for each of the companies and depends on the area in which business is conducted, groups of products, market conditions, regional infrastructure, systems management, cost structure of production and management, technical and technological features, and other factors. This leads to the need for continuous, systematic conduct financial analysis of the company and improve the methods of its implementation, the construction of mathematical models and forecasts shaping prospects.

Understanding the financial condition of the company and its timely and qualitative analysis, selecting the desired method of analysis and scorecards that provide comprehensive investigation and presentation of business is fundamental to the decision-making to address the issue of election activities and enterprise development, improving its efficiency, competitiveness and profitability.

In today's every company should have a clear focus on the complex maze of market relations, properly evaluate the production and economic potential strategy for further development, the financial position of the enterprise as well as business partners. That this is due to necessity and practical importance of the assessment of the financial condition of the company, which owns a significant role in ensuring a stable financial condition.

Analyzing the above listed methods used to assess the financial condition of the company, we see that there are many different methods, but none of them adapted to the current economic situation in Ukraine. The problem of improving existing and developing new methods of analysis requires further investigation because of the constant change in conditions of domestic enterprises, they give an opportunity to get real information about the financial situation of the company, the impact of factors surrounding the economic environment will more fully appreciate the nature of resource companies provide internal and external users of the objective and full information to make tactical and strategic decisions. Organize, create regulatory frameworks developed and systematization of existing methodologies to assess the financial situation of enterprises will lead to adopting a highly efficient management decisions on financial performance and strategic development trends of the business.

**Conclusions.** In summary, we can draw the following conclusion that the purpose of assessing the financial situation of the company in the current financial crisis is the development and implementation of measures aimed at rapidly restoring solvency restoration of sufficient financial viability, establishing the possibility Company to continue its business activities, further development of profitability and growth of productive capacity and decision-making. The results make it possible to draw conclusions and proposals that today are most necessary:

- improve the information and guidance of the financial condition of the company ;
- develop a methodical process of forecasting the financial condition of the company;
- to improve the structure analysis of the company, depending on the purpose and content of the work at each stage;
- working on a method of preparation of financial statements that will enhance its analytical capabilities and reality assessment;
- to develop a comprehensive method of scoring the financial condition of the company, which would allow

to analyze the condition of the company at a reasonable set of financial indicators and ratios;

- to improve the theoretical bases of formation and implementation of enterprise information system;

- review and revise regulations that reveal the techniques of financial analysis of the company;

- to improve the forms and methods of financing of activities of the enterprise, ie the search for new effective ways of financing activities;

- to adapt the methods of analysis to modern economic and legal conditions.

Thus, considering the nature of assessing the financial condition of the company can be argued that such an assessment is needed to improve the work of market relations, the ability to acquire self-financing, self-sufficiency, for more effective use of financial resources in the enterprise, as well as the financial stability of the company. Prerequisite normal financial activity is

to store sufficient solvency, liquidity and business activity in the reporting and predictable periods.

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