

ISSUES OF DEVELOPMENT OF THE ANALYSIS OF BUSINESS ACTIVITY IN JOINT-STOCK COMPANIES OF UZBEKISTAN

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DOI: 10.5958/2249-7137.2021.02539.8

ABSTRACT

This article describes the concepts of business activity, operational cycle, financial cycle as one of the most comprehensive methods of assessing the effectiveness of companies used in international practice. The content of the analysis of business activity and the ratios determined during the analysis are indicated. The data of the analysis of the business activity in the presented information system are up-to-date, and the article develops ratios in the analysis of business activity, which is determined based on the speed and period of turnover of working capital. The content of these ratios is described, a calculation mechanism is developed based on the existing annual financial reporting forms, and the procedure for calculating the operating and financial cycle based on business activity ratios is indicated. During the analysis, the factors influencing the coefficients representing business activity were classified.

KEYWORDS: *Business Activity, Turnover Rate, Turnover Period, Ratios Of Business Activity, Working Capital Turnover, Operating Cycle, Financial Cycle.*

INTRODUCTION

Today, in the economic practices of all countries of the world, the expansion of international relations, the processes of economic globalization, the development of transnational corporations and a number of other important reasons have begun to require speaking a single financial language and developing common financial rules. And these requirements ultimately served to shape and develop international financial reporting standards. International Financial Reporting Standards (hereinafter IFRS) is a system of international requirements for accounting and preparation of financial statements. The introduction of new indicators in the analysis of financial statements based on international standards, and the need to develop a mechanism for recalculating existing indicators with the elements of financial statements presented on the basis of IFRS. One of such indicators identified during the analysis is the indicators of business activity.

So, what are business activity indicators and how are they calculated? The concept of business activity first appeared in the practice of Russian (former USSR) companies in 1990-1992. It was

during these years that positive shifts in the foreign economic activity of economic entities began. Entering the international market required a quantitative and qualitative study of the effectiveness of companies, as well as an assessment of their position in the international market. Accordingly, the assessment of business activity in the early nineties of the last century was applied only to companies whose products have the access to the international markets, and its need stems from the presence of interests, desires and requirements of foreign buyers in the activities of companies. Due to the nature of that period, business activity was interpreted differently by the authors as a new economic term. In particular, according to the author Y. Brigham [1], an enterprise's business activity index is assessed by quality factors in asset management. The author focuses on comparing the determinants with the industry average. J. K. Van Horn [2] sees business activity as a methodology for evaluating entrepreneurial activity in decision-making in external financing. In his work, V.V. Kovalev [3] argues that the indicators of business activity of a commercial enterprise are reflected in the dynamics of its development. The authors A.D. Sheremet [4] and G.V. Savitskaya [5], in their works, defines business activity through liability and asset turnover. According to L.V. Dontsova [6], the business activity of a company is the efficiency of production and commercial activities of the enterprise and the speed of turnover.

Method

The analysis of financial statements is a very large set of works, and the application of the coefficient method in the analysis process can increase the quality of analytical work, the level of understanding and, most importantly, save time. In general, although there are many types of coefficients in the economic literature, most of them give the same result in terms of content, and the fact that these coefficients are not studied on the basis of a certain structure can create some confusion for users. In this context, we recommend that analytical entities classify and interpret the coefficients that need to be identified and studied based on the purpose, objectives, and results of the analysis, and the goals of the users.

In accordance with the Resolution of the President of the Republic of Uzbekistan dated February 24, 2020 No PP-4611 "On additional measures for the transition to international financial reporting standards" From the end of 2021, it is planned to prepare financial statements on the basis of international financial reporting standards (hereinafter - IFRS). As a participant in the process of global economic integration, the transition of the country's accounting and economic analysis system to IFRS was not only economically necessary, but also the creation of its legal framework to accelerate the process of preparation and submission of IFRS financial statements by our national companies. allows.

In national and international practice, coefficient analysis is recognized as an important factor in drawing quick conclusions and making optimal decisions as an effective method in the analysis of financial statements prepared on the basis of IFRS. There are 4 main types of financial ratios studied in our foreign and national literature:

1. Financial stability ratios;
2. Solvency ratios;
3. Profitability ratios;

4. Ratios of business activity

Results

From the ideas in the introductory part of our article, it is clear that the representatives of the analytical school have different interpretations of business activity. In our opinion, based on the definitions given by the authors that A.D. Sheremet, G.V. Savitskaya and L.V. Dontsova, it is expedient to give the following definition of business activity. **The business activity** is the determination of the efficiency of business entities by assessing the state of turnover of working capital, based on the speed and period of turnover. It is well known that the application of the coefficient method in the process of economic analysis can increase the quality of analytical work, the level of understanding and, most importantly, save time. Accordingly, in assessing business activity, we recommend the organization of analytical work on the basis of the following coefficients based on the turnover rate and period of working capital (Figure 1).

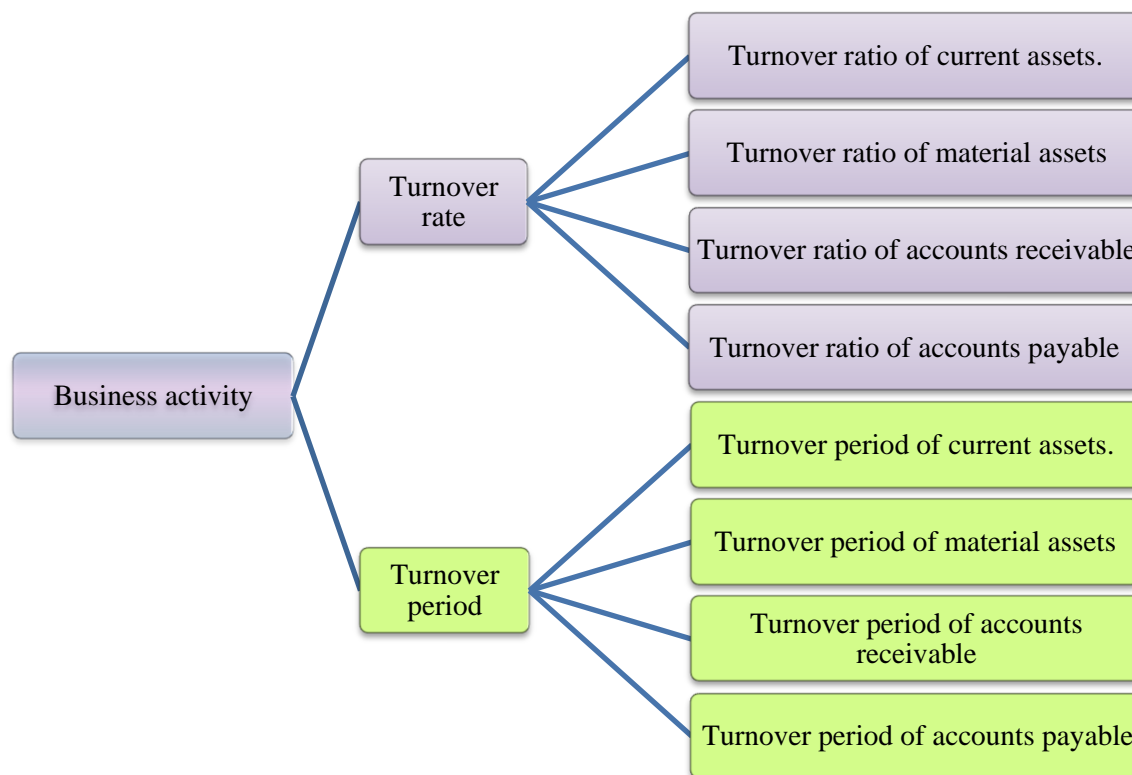


Figure 1. Proposed ratios of business activity

One of the most comprehensive ways to assess the effectiveness of companies operating in our country is the analysis of business activity indicators, including quantitative and qualitative indicators of the company's operational efficiency. In a free market relationship and high level of competition, the importance of assessing an organization's business performance is particularly important in studying its financial condition, forming a strategic plan and development prospects. The relevance and necessity of the analysis of business activity can also be determined based on the information needs of stakeholders directly (Table 1).

TABLE 1: STAKEHOLDERS IN THE ANALYSIS OF BUSINESS ACTIVITY AND THEIR NEED FOR INFORMATION

№	Stakeholders	Needs for Information
1	Investors	Risks, associated with this investment, the amount and period of profit
2	Shareholders	Information that allows a company to assess its ability to pay dividends and determine whether to buy, hold, or sell stock.
3	Customer and purchasers	Information about the business entity's continuing operations, especially if they have a long-term agreement or affiliation with the business entity
4	Banks and credit institutions	Information that allows you to determine the repayment of loans, liabilities and interest on time or with a delay in time
5	Administrative staff and workers	Information on the assessment of the ability of business entities to secure their wages, remuneration and guaranteed employment opportunities in relation to the stability and profitability of their operations
6	State management and control bodies	Information on the distribution of resources and the activities of subjects. Information as a basis for the regulation of the activities of the economic entity, the definition of taxation policy, the identification of national income and other statistical data
7	Foreign investors, international organizations and international rating agencies	The versatility of the activities of economic entities is taken into account. As the financial statements do not provide users with all the information they need to make economic decisions, the administration prepares supplementary financial statements, financial results and financial position information.

An increase in the rate of turnover of working capital and a decrease in the period of turnover in business entities is a positive situation. These two indicators are logically related to the fact that an increase in rotational speed shortens the rotation period or, conversely, a decrease in rotational speed increases the rotation period.

While net income from sales, inventory value, accounts receivable and accounts payable are the factors that directly affect the business activity ratio, we can classify external and internal factors as indirect factors (Figure 2).

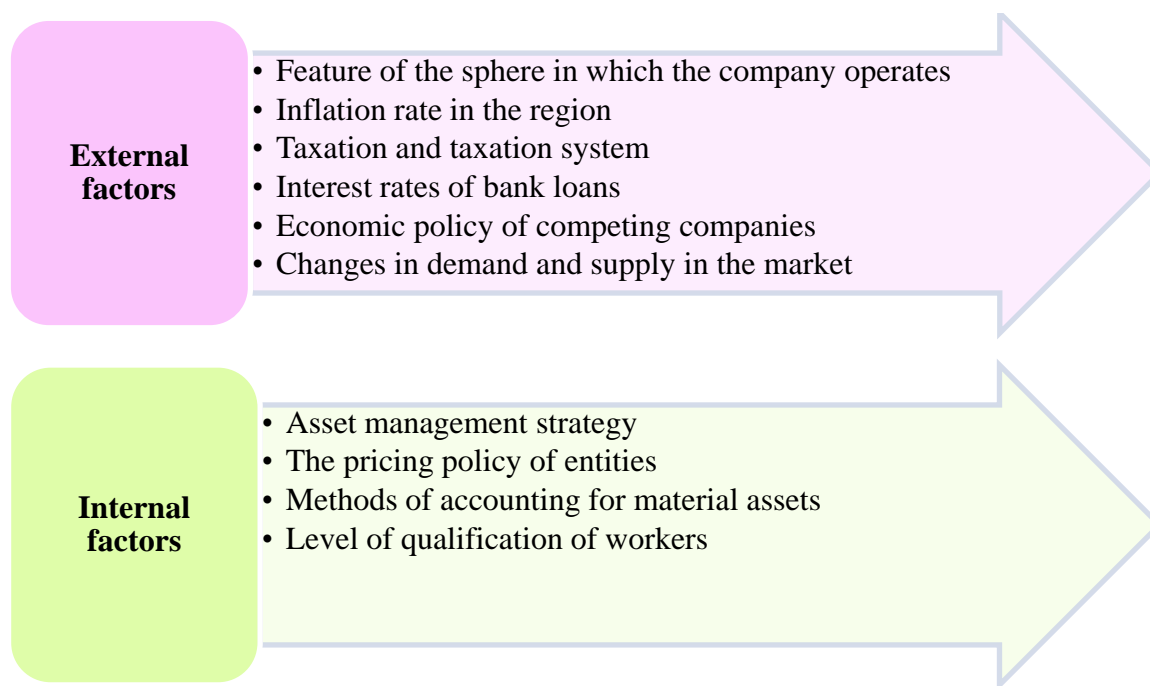


Figure 2. Factors affecting the indicators of business activity.

The need to study the indicators of business activity can be explained by the fact that it is possible to identify the following analytical indicators in addition to the indicators of business activity:

- operating cycle
- Financial cycle.

The operating cycle is the period from the receipt of materials in the production of a product to the conversion of materials into a finished product and the receipt of receivables arising from the sale of the finished product. The operating cycle is calculated as follows:

$$OC_{(\text{on account of the day})} = D_{(MA)} + D_{(\text{accounts receivable})}$$

Here are:

OC – operating cycle;

$D_{(MA)}$ – turnover period of material assets;

$D_{(\text{accounts receivable})}$ – turnover period of accounts receivable.

Financial cycle – the period of full circulation of funds belonging to the enterprise aimed at financing commodity and material reserves.

The financial cycle is calculated as follows:

$$FC_{(\text{on account of the day})} = D_{(MA)} + D_{(\text{accounts receivable})} - D_{(\text{accounts payable})}$$

Here are:

FC – financial cycle;

$D_{(\text{accounts payable})}$ – turnover period of accounts payable.

DISCUSSION

As the analysis of business activity is a relatively new concept in the practice of our country, there is no single methodology for organizing, conducting this analysis and determining the coefficients studied during the analysis. Although in the introductory part of our article the coefficients determined by the mentioned authors on business activity are given, these coefficients cannot be accepted directly due to the national characteristics of the accounting system. In addition, the authors have different views on the definition of business activity and the organization of business activity analysis, which requires an approach based on the characteristics of the national accounting system in the analysis of business activity and determining the coefficients of business activity.

Accordingly, the coefficients of business activity, developed and proposed in the results section of our article, are given in Annexes 1 and 2 to the Order of the Minister of Finance of the Republic of Uzbekistan dated December 27, 2002 No. 140, registered by the Ministry of Justice of the Republic of Uzbekistan on January 24, 2003 No. 1209. We recommend that you define the current financial reporting forms in the following order in accordance with the Balance Sheet (Form 1) and the Statement of Financial Performance (Form 2).

TABLE 2: RATIOS OF BUSINESS ACTIVITY AND THE ORDER OF THEIR CALCULATION

Turnover rate			
№	Ratios	Calculation procedure	On current financial reporting forms
1	Turnover ratio of current assets.	$\frac{\text{Net sales revenue}}{\text{Current assets}}$	$\frac{\text{Form 2. 010-line}}{\text{Form 1. 390-line}}$
2	Turnover ratio of material assets.	$\frac{\text{Net sales revenue}}{\text{Material assets}}$	$\frac{\text{Form 2. 010-line}}{\text{Form 1. 140-line}}$
3	Turnover ratio of accounts receivable	$\frac{\text{Net sales revenue}}{\text{Accounts receivable}}$	$\frac{\text{Form 2. 010-line}}{\text{Form 1. 210-line}}$
4	Turnover ratio of accounts payable.	$\frac{\text{Net sales revenue}}{\text{Accounts payable}}$	$\frac{\text{Form 2. 010-line}}{\text{Form 1. 601-line}}$
Turnover period			
№	Ratios	Calculation procedure	On current financial reporting forms
1	Turnover period of current assets	$\frac{\text{Current assets} * 365}{\text{Net sales revenue}}$	$\frac{\text{Form 1. 390-line} * 365}{\text{Form 2. 010-line}}$
2	Turnover period of material assets	$\frac{\text{Material assets} * 365}{\text{Net sales revenue}}$	$\frac{\text{Form 1. 140-line} * 365}{\text{Form 2. 010-line}}$

3	Turnover period of accounts receivable	$\frac{\text{Accounts receivable} * 365}{\text{Net sales revenue}}$	$\frac{\text{Form 1. 210-line} * 365}{\text{Form 2. 010-line}}$
4	Turnover period of accounts payable	$\frac{\text{Accounts payable} * 365}{\text{Net sales revenue}}$	$\frac{\text{Form 1. 601-line} * 365}{\text{Form 2. 010-line}}$

Appendix 7 to the Order of the Minister of Finance of the Republic of Uzbekistan dated December 27, 2002 No. 140 “On approval of financial reporting forms and rules for their completion” should provide additional information. Accordingly, in order to assess the status of working capital, the level of utilization of own funds and business activity on the basis of the coefficients developed in the article, I recommend to include the following analytical table as an explanation in the financial statements (Table 3).

TABLE 3: THE RESULTS OF THE ASSESSMENT OF BUSINESS ACTIVITY

No	Indicators	Unit of measurement	Beginning of period	End of period	Difference
1	2	3	4	5	6=5-4
1.	Turnover ratio of current assets.	unit of ratio			
2.	Turnover ratio of material assets.	unit of ratio			
3.	Turnover ratio of accounts receivable	unit of ratio			
4.	Turnover ratio of accounts payable.	unit of ratio			
5.	Turnover period of current assets	unit of time			
6.	Turnover period of material assets	unit of time			
7.	Turnover period of accounts receivable	unit of time			
8.	Turnover period of accounts payable	unit of time			
9.	Operating cycle	unit of time			
10.	Financial cycle	unit of time			

The table provides explanations based on the condition and dynamic changes of these ratios. The conclusions are summarized based on the optimal intervals of these ratios or on the average indicators

CONCLUSION

1. In this article, based on the results and experiences of leading foreign think tanks, we have defined the concept of business activity in international practice and in assessing the effectiveness of new companies in our national economy.

2. Entrepreneurial activity is important in accelerating the process of providing transparent and understandable information to foreign investors by our companies engaged in foreign economic activity and potential business entities, and the analysis of business activity based on the needs of stakeholders is revealed.
3. The article develops the content of the analysis of business activity and the coefficients classified according to the rate and period of turnover of working capital during the analysis. The content of these coefficients is described and the order of calculation based on the annual financial reporting forms in force in the Republic is indicated.
4. The procedure for determining the indicators of the operational and financial cycle, based on the recommended indicators of business activity. The content of the operational and financial cycle indicators is highlighted.
5. On the basis of the coefficients developed in the article, an analytical table was developed to assess the status of working capital, the level of utilization of own funds of the enterprise and business activity. It was suggested that this table be included in the annual financial statements as an explanation of the financial statements.
6. The article classifies the internal and external factors influencing the coefficients which are representing business activity based on the characteristics of our national economy.

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