

FINANCIAL STATE OF ENTERPRISES AND FACTORS AFFECTING IT FINANCIAL STATE ANALYSIS

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ABSTRACT

The global financial crises have escalated bankruptcy cases in numerous countries, prompting a new research direction aimed at predicting this phenomenon not only at the national level but also on a global scale, focusing on common characteristics among affected companies. Despite this, limited studies have concentrated on global bankruptcy predictions. This paper's objective is to review the literature on corporate bankruptcy prediction models based on international academic literature in the relevant field. It aims to provide an extensive review of the literature concerning corporate bankruptcy prediction, enterprise financial condition analysis, and the influencing factors. Additionally, it references the principal models and methods used and explored by scholars in this field.

KEYWORDS: *Bankruptcy, Financial Situation, Economic Insolvency.*

INTRODUCTION

The current methodology for assessing the solvency of an economic entity, established in the regulatory documents of the Republic of Uzbekistan, is based on the calculation of liquidity indicators, i.e. absolute and current liquidity indicators, cash liquidity ratio, solvency indicator for current liabilities. Also, the assessment of the solvency of the economic entity is carried out by applying the methodology of the Audit expert to compare the structured assets in order of decreasing liquidity with the structured liabilities in the order of payment. Adherence to the required ratio allows to estimate the accounting liquidity and, as a result, the solvency margin of the economic entity. The problem of assessing solvency when using the audit expert's methodology lies in the uncertainty of the equity capital and the different structures of the company's liabilities. As a rule, own funds, which are considered as a "margin of safety" in the assessment of solvency, consist of the authorized capital invested by the owners of the economic entity and the profit received during the entire activity of the enterprise. But capital also includes other things, such as additional or reserve capital that cannot be used to pay liabilities. Therefore, without a detailed analysis of the capital structure, it is not appropriate to compare its total amount with the company's liabilities. For this reason, in order to correctly choose the analysis methodology and thereby ensure the accuracy and reliability of the analysis results, we analyze the financial results and status of enterprises operating in Uzbekistan based on the universal methodology based on generally accepted ratios.

LITERATURE REVIEW

In this, first of all, it is necessary to study the indicators most often used in research and to select the necessary ratios based on this. The chart below summarizes the indicators used to assess the financial results and status of enterprises. When interpreting financial statements, it is important to identify the users of the financial statements and the information they need. External users select some of the information about the financial result and status of the enterprise as key indicators and analyze them in depth. In particular:

- **Investors** and potential investors are more interested in the potential profitability of the enterprise and the security of their investments. In determining future profitability, it can be estimated based on the past performance of the enterprise using the information shown in the profit or loss statement. The security of their investments is determined by the financial stability and solvency of the enterprise based on the information shown in the financial statement (accounting balance sheet).

- **Lenders** are mostly concerned about the timely return of their funds. This will depend on the solvency of the enterprise, which should be identified in the statement of financial position. Long-term loans can also be backed by "security" issued by the business over certain assets. The value of these assets is shown in the statement of financial position.

- **Suppliers** are more concerned about whether the company will make timely payments for the delivered goods or not. New suppliers may therefore also require assurances about the financial health of the business before agreeing to supply goods.

- **Customers** are more interested in the company's ability to regularly supply them with goods in the future. This is especially true if the customer is dependent on the business for specialized supplies.

- And state bodies

- In Order to plan financial and industrial policy, state bodies need to know how the economy works. Tax authorities also use financial statements as a basis for assessing the amount of tax payable by a business. When analyzing the indicators shown in Figure 1, it is important to identify and analyze the following for each indicator: 1. What does an indicator literally mean? 2. What does the change in the indicator mean? 3. What is the generally accepted norm? We will consider the calculation formula and definition of indicators below. The indicators shown in the above diagram are mainly useful for external users to make appropriate decisions about the enterprise. Among the main external users who are interested in the financial results and status of the enterprise, the following can be included.

Financial performance ratios (Financial Performance ratios)

Gross profit margin

This indicator reflects the profit obtained from the sale of one soum of goods, and the gross margin is the difference between the selling price per unit and the direct costs per unit. Margin is calculated as the average value of all sales per year.

$$\frac{\text{Gross profit}}{\text{Net income}} \times 100\%$$

This is the margin that the company makes on its sales and it is expected to remain constant.

Changes in this indicator may be associated with:

- Selling prices - increased competition or entry into a new market, usually deliberate, sometimes unavoidable;
- Type of product - often deliberately (due to the fact that the company discontinues some products or introduces a new product);
- Purchase price - at the expense of transportation or discounts;

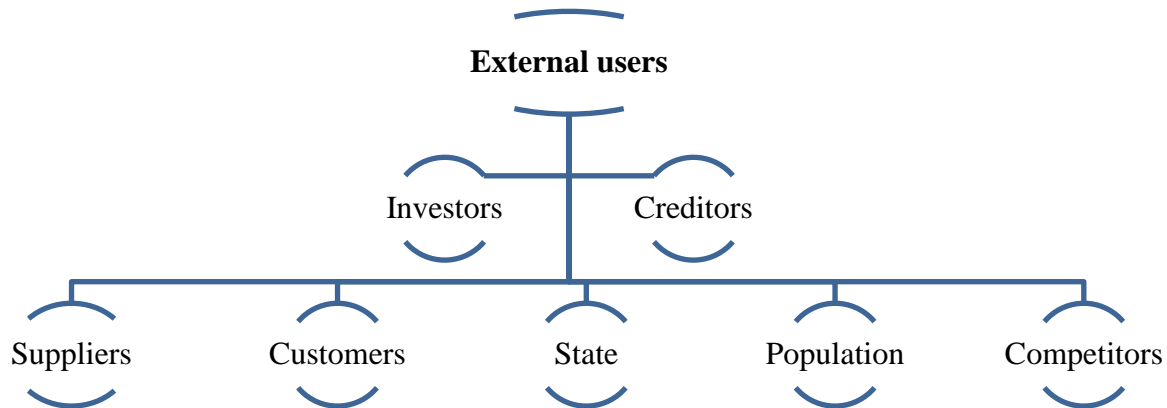


Figure 2. Users of enterprise financial statements

- production cost - can be due to materials, labor or additional costs of production.

□ **Operating Profit Margin**

Operating margin is an extension of gross revenue, after gross profit, but before financial expenses and taxes, including all items such as selling and distribution expenses and administrative expenses.

$$\frac{\text{Operating profit}}{\text{Net income}} \times 100$$

While gross margin is a measure of how efficiently a business can produce and sell its products and services, operating margin reflects how effectively a business manages this process.

Therefore, if the gross margin remains unchanged, but the operating margin has changed, it is necessary to consider the following situations:

- Changes in terms of employment (hiring, dismissal, etc.);
- Amortization change as a result of buying or selling a large amount;
- Writing off a large amount of bad debts;
- Changes in the lease agreement;
- Large investments in advertising;
- May be due to rapidly changing fuel prices.

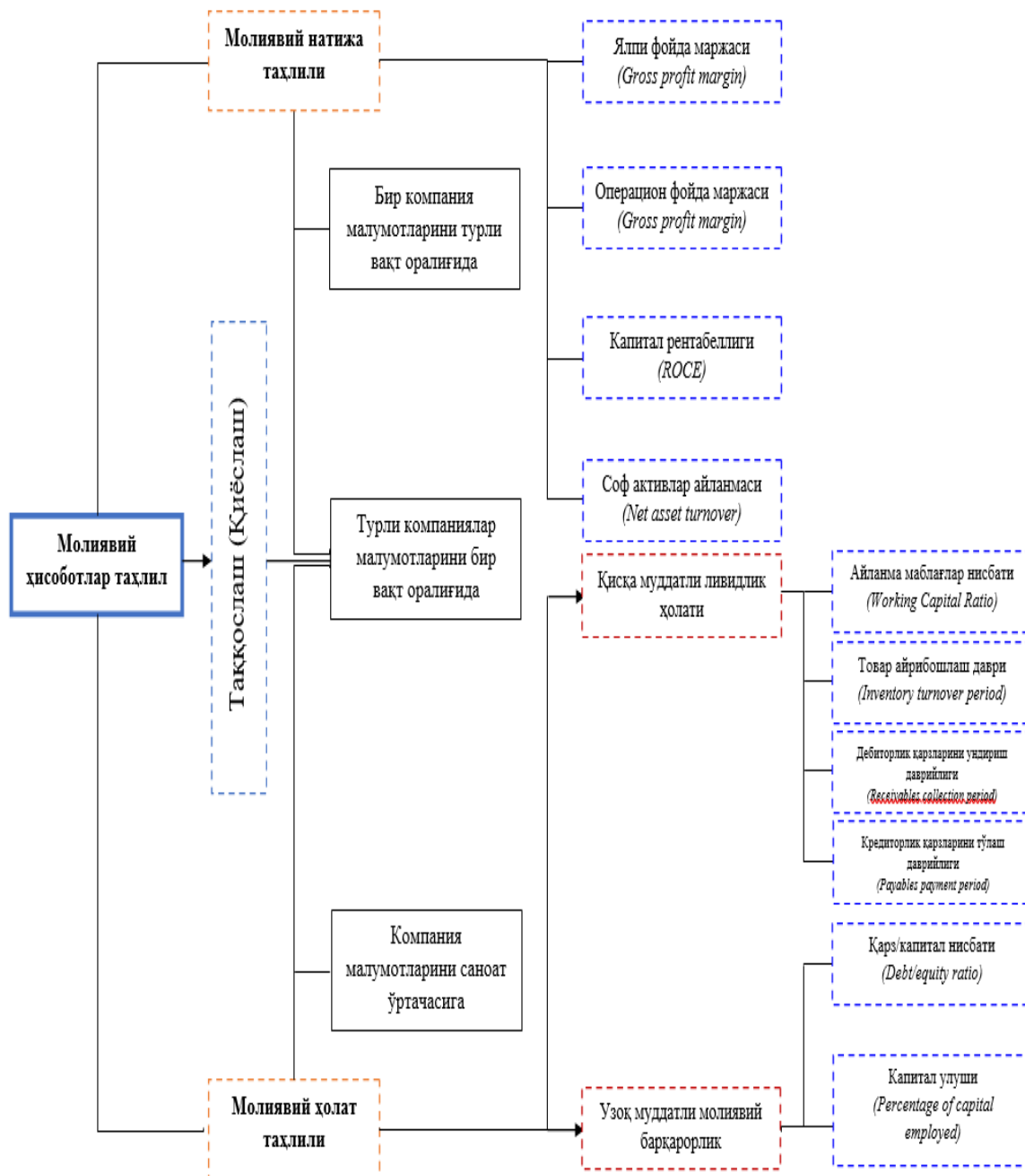


Figure 1. Indicators of evaluating the financial result and state of the enterprise

METHODOLOGY

Return on Capital Employed (ROCE)

It is an important analysis tool because it allows users to estimate how much a business is returning from the capital invested in it. Because of the different sizes and business structures, it is not necessary to compare the profit margins of different businesses. There can be one enterprise that brings a large profit, but is based on large investments. Shareholders may decide that they can earn similar returns in different businesses without requiring such a high initial investment. Simply put, ROCE measures how much operating profit is generated for every dollar of capital invested in the business.

$$\frac{\text{Operating profit}}{\text{Capital in use}} \times 100\%$$

This shows the ability of the enterprise to turn long-term financing into profit.

- Profit is measured as follows:

operating (trading) profit or profit before interest and tax (PBIT), i.e. profit before taking into account any income paid to long-term finance providers.

- Capital employed is measured as follows:

equity and interest-bearing finance, i.e. long-term finance that supports a business. This generally includes ALL lease liabilities, whether they are listed as current or non-current, or total assets excluding current liabilities.

□ Net asset turnover

This indicator measures the effectiveness of the management in obtaining income from the net assets at its disposal. It is similar to ROCE, but in this case we measure the amount of sales revenue generated for each dollar of capital invested in the business. In general, the higher the ratio, the more efficient the business.

$$\frac{\text{Net income}}{\text{Capital in use}} = \text{times}$$

Financial performance ratios

Short-term liquidity indicators

Two indicators are used to measure total working capital:

- current ratio (Current ratio)

- quick ratio (Quick ratio)

Current Or Working Capital Ratio

This ratio measures whether there are enough current assets to pay current (short-term) liabilities when they fall due.

$$\frac{\text{Current assets}}{\text{Current liabilities}} : 1$$

- ❖ A high or rising reading may appear safe, but should be viewed with skepticism, as it may be due to:
- ❖ - High inventory and receivables;
- ❖ - A higher level of cash that can be put to better use (for example, by investing in long-term assets).
- ❖ Traditionally, a current ratio of 2:1 or higher is considered adequate to maintain creditworthiness for most businesses. However, recently the 1.5:1 ratio is accepted as the norm.

Periodicity of stock turnover

$$\frac{\text{Commodity stocks}}{\text{Cost expenses}} \times 365$$

An increase in the number of days (or a decrease several times) means that the inventory is turning less quickly, which is considered a bad situation, because it can indicate the following:

- Lack of demand for goods;
- Poor inventory control;
- Increase in costs (storage, wear and tear, insurance, damage).

However, management is not necessarily considered bad if:

- Purchase inventory in larger quantities to take advantage of trade discounts or
- Increase the level of inventory to prevent the loss of stocks.

❖ ***Receivables collection period***

$$\frac{\text{Accounts receivable}}{\text{Proceeds from sale on credit}} \times 365$$

- ❖ If no credit sales figure is available, net proceeds can be used. The collection period should be compared with:
- ❖ - established credit policy;
- ❖ - indicators of the previous period.
- ❖ Increasing delinquency is usually a bad sign and indicates a lack of proper credit control, which can lead to bad debts. However, this may be due to:
- ❖ - for the policy of attracting more sales, or
- ❖ - to attract new customers.
- ❖ A decrease in days receivable is usually a good sign, but it can also indicate that the company is suffering from a cash crunch.

❖ ***Payables payment period***

It refers to the period of credit received by the company from suppliers.

This ratio is always compared to previous years:

- A long loan term can be good because it represents a free source of finance.
- A long credit period may indicate that the company is unable to pay sooner due to liquidity problems.

However, if the loan term is long:

- The company may have a bad reputation as a slow payer and may not be able to find new suppliers;
- Existing suppliers may decide to stop supplying;
- The company may be deprived of useful prompt payment discounts.

$$\frac{\text{Accounts payable}}{\text{Credit TMZ}} \times 365$$

Indicators of long-term financial stability.

The financial stability ratio indicates:

- The level of risk associated with the company and
- Sensitivity of income and dividends to changes in profitability and activity level.

The following two methods are generally used to represent financial stability.

Debt/Equity Ratio:

$$\frac{\text{Debts} + \text{preferential shares}}{\text{Ordinary Shares} + \text{Reserves}} \times 100\%$$

Share of capital represented by borrowed funds:

$$\frac{\text{Debts} + \text{preferential shares}}{\text{Common shares} + \text{Reserves} + \text{Debts} + \text{preference shares}} \times 100\%$$

Preference share capital is usually included as part of debt rather than equity because it is entitled to a fixed dividend rate that must be paid before ordinary shareholders are entitled to dividends.

When assessing financial stability, all interest-bearing debt is taken into account and shown as a share of equity or as a share of total long-term financing (capital and interest-bearing debt). In enterprises with a high level of stability:

- A large part of the main income capital is used
- Greater risk of insolvency
- If there is a profit, the income to the shareholders will grow proportionally.

In enterprises with a low level of stability:

- The possibility to ensure the possibility of increasing debts when there are potentially profitable projects;
- Will usually be able to borrow more easily.

In addition, various econometric models are widely used in research to determine the factors affecting the financial results and status of the enterprise.

ANALYSIS

The financial situation of enterprises and the factors affecting it are analyzed

In the following report, the financial status of the GOLDSTAR enterprise is analyzed based on the financial statement data prepared according to the International Financial Reporting Standards (IFRS) for the period from 01.01.2018 to 31.12.2021.

According to the table above, GOLDSTAR's share of current assets was about a quarter (23.6%) at the end of the period, while long-term assets accounted for three-quarters of all assets. Over the entire period under review, assets increased by 297,747,052 soums or 83% (up to 658,557,446 soums). The company's assets have grown in parallel with its equity (+38.5% over the last 3 years). Growth of capital value is a factor that positively characterizes the dynamics of GOLDSTAR's financial position. The total increase in the value of GOLDSTAR's assets was mainly due to the increase in the item "Other long-term financial assets" by 331,695,629 soums, which made up 92.8% of all positively changed assets. The most significant growth of financial sources ("Capital and liabilities") is observed according to the following indicators (percentages of changes in total capital and liabilities are shown in parentheses):

- Other current financial obligations – 235,841,341 soums, (71.2%)
- Undistributed profit – 92,723,023 soums, (28%)

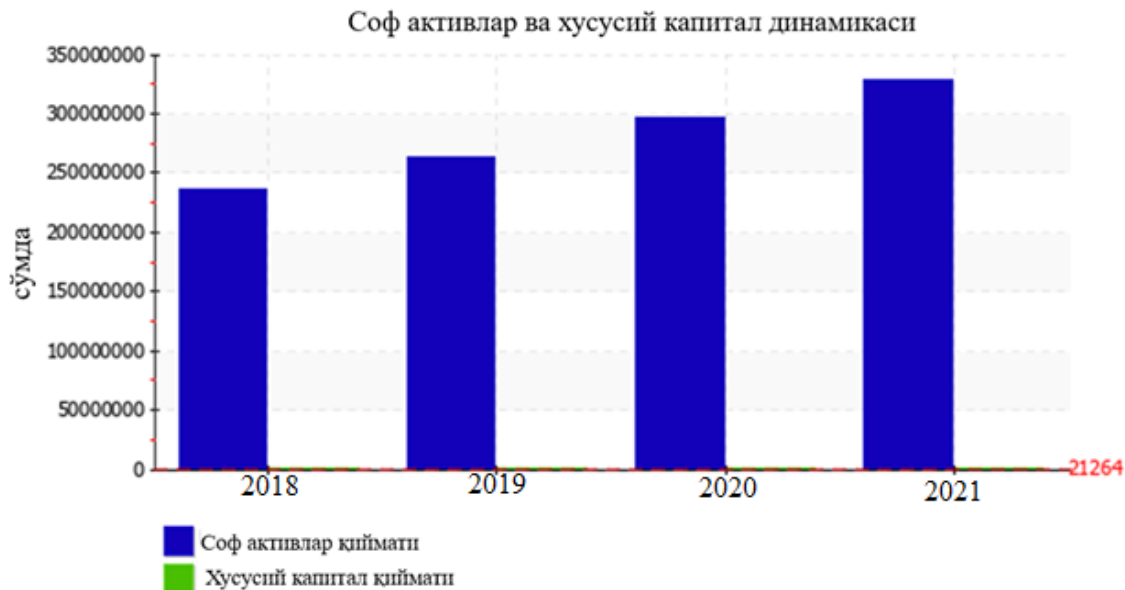
The most significant changes in the balance sheet for the entire period considered are "Trade and other current receivables" in assets and "Trade and other current payables" in financial sources (-38,836,715 soums and -31,194,485 soums, respectively). In the diagram below, you can see how the main groups of company assets are interrelated.

31.12.2021 ҳолатига компания активлари тузилмаси



Figure 3. Company asset structure

Inventories amounted to 55,162 soums on December 31, 2021. The change in inventories for the analyzed period (from December 31, 2018 to December 31, 2021) amounted to -4,715,208 soums. For the considered period (from 31.12.2018 to 31.12.2021) current receivables decreased by 38,836,715 soums or by 30.3%. At the end of the analyzed period, net tangible assets amounted to 328,071,056 soums. During the analyzed period, net tangible assets increased significantly (91,213,269 soums or 38.5%). Intangible assets amounted to 110,365 soums on December 31, 2018. This value represents the difference between the value of net tangible assets and all net values.



At the end of the considered period, the net assets of GOLDSTAR were much higher than the authorized capital (15,433.7 times). This ratio positively describes the company's financial condition. Net asset value is used as one of the tools for estimating the value of a company (used in conjunction with other methods, such as the discounted cash flow method or valuation based on shareholder's share, etc.). But this is the main value when assessing the financial condition of the company. First, it is necessary to pay attention to the debt-to-equity ratio and the debt ratio as coefficients describing the capital structure. Both ratios have a similar meaning and indicate that the capital (capital) is insufficient for the stable operation of the company. The debt-to-equity ratio is calculated as the ratio of borrowed capital (liabilities) to equity, while the debt ratio is calculated as the ratio of liabilities to total capital (ie, the sum of equity and liabilities).

As of 12/31/2021, the debt-to-equity ratio was 1.01. As of December 31, 2021, the debt ratio was equal to 0.5. The growth of debt ratio for 3 years was 0.16, moreover, the rate growth is also confirmed by an average (linear) trend. The debt ratio describes GOLDSTAR's financial position as good as of December 31, 2021, with a debt-to-equity ratio of 50.2%, and a maximum acceptable interest rate of 60%. The debt ratio has maintained a normal value during the analyzed period.

CONCLUSIONS

When analyzing asset turnover ratios, an increase in ratios (that is, turnover rate) and a reduction in turnover days are considered positive dynamics. There is no clear relationship between accounts payable and capital turnover. In any case, the correct conclusion is possible only after considering the reasons that led to these changes. It is appropriate to determine the signs of economic insolvency using Altman's Z-score and Enyi's relative stability model. The level of financial distress and financial crisis predictions of the three largest enterprises in Uzbekistan differ depending on the sector. JSC "Jizzakhdonmahsulot" in Uzbekistan has maintained the financial health of health care with a very low probability of a financial crisis, despite the ongoing crises after the pandemic. By integrating Altman's Z-score and Enyi's relative stability

model results, it is necessary to develop recommendations to stabilize the future activity of the enterprise. In this case, recommendations are given only on indicators that can be manipulated.

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