International Journal of Social Science Research and Review

http://ijssrr.com
editor@ijssrr.com
Volume 6, Issue 7
July, 2023
Pages: 422-427

The Methodology for Assessing the Financial Capabilities of Enterprises

Jafar Mukhiddinovich Babakhonov

Independent Researcher, Scientific Research Center “Scientific Bases and Problems of the Development of the Economy of Uzbekistan” under the Tashkent State University of Economics, Uzbekistan

E-mail: jafar_babakhonov@hotmail.com

http://dx.doi.org/10.47814/ijssrr.v6i7.1503

Abstract

This article discusses such issues as the main tools for assessing the financial situation of enterprises, the main sources of information for analyzing the financial potential of enterprises, and also analyzes the main indicators of an effective assessment of the financial potential of an enterprise.

Keywords: *Methodology; Financial Capabilities; Enterprises; Effective Assessment; Financial Analysis; Horizontal Analysis of Reporting; Vertical Analysis of Reporting; Financial Results*

Introduction

In modern economic conditions, the activity of each economic entity is the subject of attention of a wide range of participants in market relations (organizations and individuals) interested in the results of its functioning. Based on the reporting and accounting information available to them, they seek to assess the financial position of the enterprise. The main tool for this is financial analysis, with which you can objectively assess the internal and external relations of the analyzed object, and then, based on its results, make informed decisions.

In the modern world of integration transformations, the issue of establishing business relations between economic entities of different countries remains an urgent problem. The conclusion of business contracts is associated with the emergence of various kinds of risks, including the risk of non–payment. To reduce this type of risk, according to the author, within the framework of integration processes, attention should be paid to the analysis and calculation of the financial potential of the enterprise.

Financial analysis is a process based on the study of data on the financial condition and performance of the enterprise in the past in order to assess the prospects for its development. Thus, the main task of financial analysis is to reduce the inevitable uncertainty associated with making future–oriented economic decisions.

The results of financial analysis make it possible to identify vulnerabilities that require special attention. It often turns out to be sufficient to find these places in order to develop measures for their elimination.

Analysis of the financial potential involves the preliminary preparation of information: end–to–end verification of the data contained in the reporting period by linking the same indicators in various forms; bringing the reporting data to a comparable form.

Main Part

The financial system, like any other system, has fundamental characteristics. It is a certain set of interrelated elements (for example, subsystems for the formation and distribution of income, expenses, net profit, a system for mobilizing funds from the capital market, etc.) that form a stable unity and integrity of a system that has integral properties and patterns. In accordance with this, the financial system is characterized and described by such general concepts from systems theory as state, behavior, equilibrium, stability, development, movement of the system, etc. An important characteristic of the financial system, from the point of view of this study, is that any system has energy potential. It is the presence of this potential that ensures stability, self–preservation and self–development of the financial system. This is confirmed by the rather familiar and frequently used terms "development of the economy by inertia", "development of the financial system by inertia", "inertia of the economic system".

The energy potential of the financial system can be measured by the difference between the amount of financial resources potentially available to an enterprise and the amount actually created. The presence of this difference is explained by the very nature of the existence of dynamic, self–developing systems, which is the financial system of an enterprise. The potential energy of the financial system is primarily the result of the creative activity of top managers, whose energy costs form the energy potential of the financial system, or the financial potential of the enterprise. In other words, the source of formation of the financial potential of an enterprise is that part of the creative energy of managers, which is accumulated by the financial system in the process of making and implementing managerial decisions, but has not been used at a given point in time. However, it is potentially possible to use, both in the present and in the future. Consequently, the financial potential of an enterprise is an energy characteristic of the financial system of an enterprise, which determines its potential energy.

The potential energy of the financial system is the ability of an enterprise to perform financial work on the accumulation (return, expenditure) of financial resources due to its position (financial, economic, territorial, etc.) relative to other enterprises, as well as any other properties of the financial system itself, built by the enterprise. Summarizing the definitions of the concepts and characteristics of the financial potential of an enterprise from the standpoint of the theory of organization systems, social sciences and the theory of finance, we can dwell on the following definitions of the concept of the financial potential of an enterprise. In the most general sense, the financial potential of an enterprise is the energy potential of the financial system, which ensures its self–development, self–preservation, and self–sustainability.

A detailed definition of the concept of financial potential, from the standpoint of its economic essence, will be as follows: the financial potential of an enterprise is the ability of an enterprise to perform financial work on the accumulation, return, expenditure of financial resources due to its position (financial, economic, territorial, etc.) relative to other enterprises, as well as due to any other properties of the financial system of a particular enterprise.

The financial potential of an enterprise, created in the process of forming financial resources at the expense of the enterprise's income, can be measured by a well–known indicator–a margin of financial strength, but with some refinement of its economic interpretation. The margin of financial strength can be expressed both in absolute terms and relative to the volume of revenue, as well as to total financial resources.

The economic essence of this indicator lies in the fact that it reflects the level of price competitiveness of the enterprise in the market of goods (works, services). This indicator reflects the value of that part of the financial potential of the enterprise, which is created through the implementation of the policy of formation, distribution and use of the enterprise's income. In this case, the financial safety margin is considered as: the potentially possible and permissible amount of losses of financial resources (revenue), which will not allow the transition of the financial system from a profitable to a loss–making zone of the enterprise; a potentially possible amount of financial resources that provide a certain potential margin of stability of the financial system.

This part of the financial potential of the enterprise is used by financial managers when making decisions related to maintaining and / or expanding the share of the market for the sale of goods (works, services) owned by the enterprise. The higher the value of this indicator, the higher the financial potential of the enterprise, and the higher its potential to retain and / or expand the market share of goods (works, services).

The main sources of information for analyzing the financial potential of an enterprise are: balance sheet; income and expense statement; explanations to the balance sheet and income statement (statement of changes in equity); cash flow statement; appendix to the balance sheet; explanatory note; order on the accounting policy of the enterprise; normative legislative acts on the formation and use of financial resources of the enterprise.

An analysis of the financial potential allows the founders and shareholders to choose the main directions for revitalizing the enterprise. For other participants in market relations, the analysis of indicators of financial potential allows us to develop the necessary strategy of behavior aimed at minimizing losses and financial risk from investments in this enterprise.

The main goal of the analysis of the financial potential of the enterprise: timely identify and eliminate shortcomings in the financial activities of the enterprise; find reserves to improve the financial condition and solvency of the enterprise.

The tasks of analyzing the financial potential of an enterprise: evaluate the implementation of the plan for the receipt of financial resources and their use; predict possible financial results, economic profitability; consider the possibility of attracting capital in the amount necessary for the implementation of effective investment projects; develop specific measures aimed at more efficient use of financial resources and strengthening the financial condition of the enterprise.

Currently, the technologies by which an enterprise can assess its current state and develop effective and efficient strategies for future development are undergoing significant changes.

In this regard, the question arises sharply about the choice of tools for analyzing and assessing the potential of an enterprise, which will allow you to quickly determine the internal capabilities and weaknesses of a subordinate economic unit, to discover hidden reserves in order to increase the efficiency of its activities.

Materials and Methods

The purpose of this study is to diagnose the financial potential of an enterprise as a dynamically developing subject of a market economy based on correlation and regression analysis.

International Journal of Social Science Research and Review

Volume 6, Issue 7
July, 2023

Results and Discussions

An analysis of publications on the problem of potential assessment reveals its poor elaboration at the level of a particular industry and, especially, at the level of an enterprise. Some publications only state the fact that the issues of analysis and assessment of the potential of individual enterprises have remained outside the attention of researchers.

The stability of the financial position of the enterprise largely depends on the appropriateness and correctness of investing financial resources in assets. Assets are dynamic in nature. In the course of the functioning of the enterprise, both the value of assets and their structure undergo constant changes. The most general idea of the qualitative changes that have taken place in the structure of funds and their sources, as well as the dynamics of these changes, can be obtained using vertical and horizontal analysis of reporting.

Horizontal analysis of reporting consists in building one of several analytical tables in which absolute indicators are supplemented by relative growth (decrease) rates. The degree of aggregation of indicators is determined by the analyst. As a rule, basic growth rates are taken for a number of years (contiguous periods), which makes it possible to analyze not only the change in individual indicators, but also to predict their values.

The value of the results of horizontal analysis is significantly reduced in terms of inflation. Vertical analysis shows the structure of enterprise funds and their sources. There are two main features that make it necessary to conduct a vertical analysis: the transition to relative indicators allows for inter–farm comparisons of the economic potential and performance of enterprises that differ in the amount of resources used and other volumetric indicators; relative indicators, to a certain extent, mitigate the negative impact of inflationary processes, which can significantly distort the absolute indicators of financial statements and thus make it difficult to compare them in dynamics.

The horizontal and vertical analysis are always complementary. Therefore, in practice, analytical tables are often built that characterize both the structure of the reporting accounting form and the dynamics of its individual indicators. Both of these types of analysis are especially valuable in inter–farm comparisons, since they allow you to compare the statements of enterprises that are completely different in terms of type of activity and production volumes.

P.A. Fomin, M.K. Starovoitov a brief description of the levels of the financial potential of the enterprise is given. The activity of an enterprise with a high level of FPP is profitable, has a stable financial position.

The activities of an enterprise with an average level of FPP are profitable, but financial stability largely depends on changes in both the internal and external environment. If an enterprise is financially unstable, it has a low level of financial potential. To determine the level of the financial potential of an enterprise, it is proposed to conduct an express analysis of the main indicators characterizing the liquidity, solvency and financial stability of an enterprise.

Taking into account the variety of financial processes, the multiplicity of financial indicators, the difference in the level of their critical assessments, the emerging degree of their deviations from the actual values and the resulting difficulties in assessing the financial stability of the organization, the authors recommend that an integral rating assessment of the FPP be carried out, i.e. ratio analysis.

The analysis carried out with the help of coefficients makes it possible to assess both the current and, to some extent, the prospective property and financial position of the organization, the possible and appropriate rates of its development from the standpoint of their resource provision, identify available sources of funding and determine the possibility of their mobilization, predict the position in the market capital.

The preparatory stage involves the definition of a system of financial indicators, according to which analysis and evaluation will be carried out, as well as the definition of threshold values of indicators in order to attribute them to one or another level of FPP.

The composition of the presented indicators is not exhaustive, since a complete analysis requires the inclusion of a number of additional indicators that expand the characteristics of the financial potential of the enterprise. However, such a comprehensive study is not the task of this work, therefore, only a part of the indicators encountered in the practice of analysis will be considered.

In modern economic conditions, the main tasks of any economic organization include: maximizing profits, ensuring investment attractiveness, optimizing the capital structure and ensuring its financial stability, etc. The optimality of management decisions made for the implementation of these tasks depends on many factors, including on the quality of the analysis. Therefore, the incorrectness of the analysis methods used can lead to undesirable consequences for the organization, since it will become the basis for incorrectly made management decisions.

The study of the literature and regulatory documents on this issue shows the imperfection of the existing system of indicators for analyzing the financial condition of a business, since discrepancies are found in determining the calculation base for most indicators.

In this regard, for an effective assessment of the financial potential of an enterprise, it is proposed to use refined formulas for the main indicators of financial analysis. The coefficient of financial independence (autonomy) shows the share of sources of own funds in the total value of the balance sheet of the organization. This indicator reflects the degree of independence of the organization from borrowed sources and the possibility of using borrowed funds to improve the efficiency of economic activity.

It is believed that the autonomy coefficient should exceed 50%, i.e. that the amount of the organization's own funds be more than half of all the funds that it has. An increase in the autonomy coefficient indicates an increase in financial independence and a decrease in the likelihood of financial difficulties.

The risk of investing in an organization decreases as the autonomy coefficient approaches the normative value, since this reduces the risk of organizations defaulting on their debt obligations. However, without attracting borrowed funds, it is almost impossible to survive in the face of fierce competition and inflation.

Conclusion

A number of conclusions can be made by studying the methodology of assessing the financial potential of the enterprise: the financial potential of an enterprise is the inertia of self–development, self–sustainability and self–preservation of its financial system. The value of the financial potential of an enterprise is the potential amount of accumulation, return, spending of financial resources due to its position (financial, economic, territorial, etc.) relative to other enterprises, as well as due to any other properties of the financial system of the enterprise itself.

The key factors in the management of financial potential are the policy of formation, distribution and use of income, the policy of managing active and passive capital and the dividend policy.

Western practice has shown that an organization, even attracting borrowed sources necessary for the implementation of its projects, maintains a stable financial position if the financial independence ratio lies in the range of 0.5–0.7. Higher values indicate an irrational distribution of equity and borrowed capital.

Assessment of the financial potential of an economic entity by calculating the integral–regulating indicator of the development of the enterprise will determine its further direction of development. The greater the digital value of the direction of further development, the more promising the financial capabilities of the analyzed enterprise, and the probability of paying off the current debt is high. Therefore, by diagnosing the financial potential of an enterprise, it is possible to diagnose the risks of non–repayment of debts and non–payments, which is a fairly relevant and common phenomenon in the context of integration transformations.

References

Anishchenko Yu.A. Management of the financial potential of the enterprise [Electronic resource] / Yu.A. Anischenko.

Bancheva, A. Management of the financial potential of the organization // Marketing. No.4., 2007. p. 24–34.

Bykov, V.G. Evaluation and planning of the financial and economic potential of enterprises of national importance: author. dis. … cand. economy Sciences / V. G. Bykov. M., 2006. p. 20.

Bykov, V.G. Financial and economic potential of national enterprises–assessment and management / V.G. Bykov, Yu. M. Ryasnyansky // Finance of Ukraine. No.6. p. 56–61.

Kovalev, V.V., Volkova, O.N. Analysis of the economic activity of the enterprise. – M.: PBOYuL, 2001. p. 424.

Kuvshinov, D.A. Financial state of the enterprise // Finance. – No.6., 2007. – p. 80–86.

Merzlov, I.Yu. Management of the financial potential of the enterprise [Electronic resource] / I.Yu. Merzlov.

Fomin, P.A., Starovoitov, M.K. Features of assessing the production and financial potential of an industrial enterprise // Secondary vocational education. No.11., 2012. p. 24–37.

Copyrights