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Methodological Approaches To Financial Condition Analysis Of Enterprises

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Abstract: This article examines the theoretical aspects of analyzing an enterprise's financial condition as a crucial component of assessing an organization' s reliability and a key management tool for management. The paper examines the essence and methods of financial analysis, the specifics of its implementation, and its impact on the financial and economic activities of an enterprise. It concludes that various methods of financial analysis can predict the future of a company or individual projects, and this helps management make strategic decisions based on the data obtained.

Keywords: Financial condition, profitability, financial and economic activities, reporting, analysis.

Introduction: A strong economic position is achieved continuously throughout the entire operation of the organization and is characterized by the ability of the enterprise to make payments on time and, if necessary, to withstand the onset of unexpected circumstances, which reduces the risk of bankruptcy. An organization generates income through economic activity. Its goal is to maximize profits. This enables the enterprise to self-finance, meaning it has the right to independently decide on sources of funds for the simple and expanded operation of the enterprise, to meet the material and social needs of the owner and employees, and to build reserves. Every organization, without exception, carries out many types of activities during its functioning. The goal of every economic entity is to maximize its profitability.

LITERATURE REVIEW

To achieve this, each organization must be able to find the resources it needs, use them effectively, and implement technological processes, ultimately achieving positive results [3]. An organization's financial activities involve managing its financial and economic activities. The tasks of financial management are planning, control, adjustment, and analysis. In financial and economic activities, the object of control, forecasting and planning are directly all monetary and financial relations expressed in the relevant indicators [2]. The result of this activity is the financial result that has already been achieved or that the organization plans to achieve in the near future, through the transformation of the organization's resources into the final products of its production. Thus, the degree of efficiency of an organization directly depends on the cost of its products and the financial result obtained as a result of their implementation. Therefore, to identify the level of efficiency of financial and economic activities in an organization, a system of such indicators as profitability of activities, cost intensity, and financial stability is used.

Comparing stewardship and valuation objectives often assume that financial reporting systems are only capable of producing one signal to investors. This is unrealistic because investors are presented with multiple measures of financial performance and financial position in the various financial statements companies prepare. The current mixed measurement model for financial reporting produces information across (and within) different financial statements with different properties (such as the level of managerial judgment involved and the degree of verifiability). Furthermore, an assessment of the decision usefulness of financial reporting for different objectives needs to recognize that investors have a range of information sources at their disposal, both within and outside the financial reporting system [4].

RESULTS

Financial condition is the key indicator characterizing the financial and economic activities of organizations. An organization's financial condition implies its ability to finance its operations independently, that is, to be provided with the necessary level of economic resources sufficient for its profitable operation. In order to organize financial management it is necessary:

- navigate the state of affairs in the organization;

- know the main direction of the organization's activities;

- have information about the markets in which it has influence or wishes to have influence,

- know your suppliers and clients, both real and potential;

- have as much information as possible about your competitors;

- constantly monitor the quality of your products;

- see long-term goals and do everything to achieve them.

Depending on the direction of changes in the financial sphere and, accordingly, the decisions made on this basis, they can be divided into management decisions regarding the balance sheet structure, liquidity management, profitability and distribution management, and the preparation of forecast reporting [1]. Thus, the decisions of management personnel should prevent the violation of the balance sheet structure; they should try in every possible way to maintain the necessary proportions of equity and borrowed funds, since an excess of borrowed funds over the organization's own funds will immediately affect the decrease in the organization's liquidity [2]. In today's environment, preparing forecast reports is essential. The importance of forecasting financial statements is as follows [3]:

- the possibility of preliminary assessment of the basic balance indicators set earlier values, assessing the growth of the organization and coordinating key indicators during the analysis and adjustment of data to the current and strategic goals of the organization, and, if necessary, developing a new strategy for the development of the organization;

- obtaining in advance all the necessary information about the amount of income and An organization's expenses, cash flows, and funding sources are analyzed. Thus, it follows from the above that financial analysis is one of the most important tools in the hands of an organization's management, as it is the basis for all decisions related to the organization's finances. The peculiarity and even difficulty of analyzing the performance of companies is that the activities of any business consist of a huge variety of different data – resources, financial results, the influence of both internal and external factors. All these data have complex interrelations, so it is difficult to evaluate them using any one method [1]. According to the Russian methodology, in-depth analysis is based on ratio analysis. A.N. Gavrilova and A.A. Popov note the following advantages of the ratio method for analyzing the effectiveness of a company's performance (Figure 1).

The influence of the size of the enterprice's business on the bottom line is eliminated, making it possible to evaluate not only the size, but also the efficiency of the enterprise's functioning

The influence of inflation and exchange rates is neutralized, since the numerator and denominator are expressed in the same units, making it possible to compare enterprises from different countries.

The optimality of the asset structure, sources of financing, as well as their relationship in different time horizons is assessed

Figure 1. Advantages of the coefficient method

Factors affecting profit and profitability

- Net sales
- Cost of goods sold
- Cost advantage of a year
- Income and expences of operational activity
- Income and expences of financial activity
- Extraordinary profit (loss)
- Income (profit) tax, other taxes and fees on profits

Figure 2. Factors Affecting Profit and Profitability

A relationship between two values is used to show the relationships between various figures in the income statement, balance sheet, cash flow statement, or other accounting records. It is a form of financial statement analysis used to obtain a quick overview of an organization's financial performance in various key areas. Ratio analysis is the process of analyzing information in a financial statement as it relates to other information in the same statement. There are many different types of ratios that can help provide insight into a company's health. They are typically divided into the following broad categories:

1) Profitability ratios. These ratios provide an idea of how profitable a company is.

2) Liquidity Ratios. Liquidity ratios provide an indication of a company's liquidity, which is important for assessing its ability to stay in business. Some important liquidity ratios include the cash coverage ratio, the current ratio, and the liquidity index.

3) Leverage ratios. Leverage ratios provide an idea of the extent to which a company relies on debt to support its operations. Some important leverage ratios include the debt-to-equity ratio, the debt service coverage ratio, and the fixed charge coverage ratio.

4) Activity ratios. Activity ratios provide an idea of how well a company utilizes its resources. The net profit to sales ratio indicates the percentage of net profit. When this ratio is compared to industry standards, we can conclude whether a company's performance is good or bad. Alternatively, if we compare it to the previous year's margin, we can assess whether the company is improving, stable, or declining compared to its past performance. This is how financial analysis enhances the value of financial reporting [1]. Profitability ratios are a method for evaluating an organization. Profit is the primary motivation for every organization, and these ratios help assess how the organization generates profit. There are two types: profit margin and profit margin. Analysis of variance is a study of the deviation of actual results from predicted behavior in finance. Essentially, it examines how the difference between actual and planned behavior impacts business performance. Scenario analysis takes all scenarios into account and then analyzes them to determine the best-case scenario and the worst-case scenario.

CONCLUSION

Thus, financial statement analysis is a useful tool with many advantages. Various financial analysis methods can help predict the future of a company or individual projects, helping management make decisions by examining the recommendations made in the report.

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