УО «Алматы Менеджмент Университет»

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УПРАВЛЯТЬ СОБОЙ – УПРАВЛЯТЬ БИЗНЕСОМ – УПРАВЛЯТЬ ВРЕМЕНЕМ

Сборник статей магистрантов
Магистранттардың мақалалар жинағы
Collection of articles by Master Program students

Выпуск 7

Алматы, 2016

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FINANCIAL STABILITY OF ENTERPRISE: ASSESSMENT AND DECISION MAKING

Overcoming the crisis in the Republic of Kazakhstan, the market economy and new forms of management are responsible for the solution of new problems, one of which is to ensure economic stability development. To ensure the “survival” of the enterprise in market conditions, management personnel required to assess possible and reasonable pace of its development from a position of financial security, identify available funding sources, thereby contributing to sustainable development of situation and businesses. Determination of the commercial relationship of stability is necessary not only for organizations themselves, but also for their partners, who rightly wish to have information about the stability and financial well-being and security of their customer or client. Therefore, more and more contractors start getting involved in research and evaluation of the stability of a particular organization [1].

Financial sustainability is one of the characteristics of the matching funding structures in the asset structure. In contrast to the ability to pay, which assesses the current assets and current liabilities of the enterprise, financial stability is determined based on the ratio of different types of funding sources and its compliance with the composition of assets [2].

In the current economic conditions of every enterprise is the subject of attention of the vast range of participants of market relations, interested in the results of its operations. To ensure the survival of the enterprise in modern conditions, the organization is necessary to be able to assess the financial condition as of the enterprise and the corresponding potential competitors.

The financial condition is the most important characteristic of the economic activity of enterprise and financial stability is a key to survival and the basis for the stability of financial situation. They define competitiveness, potential for business cooperation, assess the extent to which guaranteed the economic interests of the company and its partners in the financial and industrial relations.

The financial condition of company is estimated as its financial stability and solvency. Security reserves the sources of their formation expresses the essence of financial stability, while the solvency of the acts of its external manifestation. Solvency reflects company ability to pay its debts and liabilities at a given period of time.

It is obvious that the solvency of company at any given time is a necessary condition, but not sufficient. Sufficiency condition is met when company solvency at the time, i.e. it has a strong solvency to meet its debts at any time [3].

Can it be said that the company is financially stable? It is possible to pay off old debts and due to new debt, such as loans, and not finding a financial point of balance between equity and debt. It is possible to actively use the financial leverage effect, although company will be even insolvent, and unsatisfactory balance sheet structure.

Consequently, financial sustainability is a condition of its financial resources, which ensures the development of company mainly due to own resources while maintaining the solvency and creditworthiness with minimal business risk, i.e. compliance with the financial conditions of equilibrium between their own and borrowed funds.

Financial balance is a ratio of debt to equity of enterprise in which their own funds fully redeemed, both old and new debts. In this case, if there is no source to repay new debt in the future, certain boundary conditions are set on the use of existing own resources in the present.

Financial stability is characterized by system of absolute relative performance. Generalizing absolute indicator of the financial stability of a surplus or shortage of sources, means, formation of reserves and costs, resulting from the difference between the value of stocks and costs. This refers to the availability of stocks and cost sources such as working capital, long-term loans are short term loans, payable only in the part of the debt to suppliers, returned to the bank for lending [4].

The progress of company can be measured from its profitability. The figures of gross profit and net profit are not very significant unless expressed as a percentage of sales. The relation between gross and net profit can be used to determine how effectively company management is controlling its operating costs. Moreover, return on capital employed determines the efficiency and effectiveness of management in using its available resources. Return on capital employed is helps analyze better when used for comparing company with industry averages instead of the analysis of company over a period. Liquidity ratios assess the cash flow position of company. For this purpose current ratio and acid test ratio is used. Current ratio tells how many current assets company has to deal with its current liabilities and explains how liquid a company is. A higher current or acid test ratio is favorable for company as the higher the ratio the more funds are available with company to deal with its debts. However, sometimes a very high ratio may be an indicator of the fact that most of company assets are kept liquid, therefore company is not able to earn the best possible returns.

All the current and prospective company stakeholders are interested in its financial position. The debt equity ratio shows the relationship between the debts and the equity of company. The interest cover ratio shows how much more interest company pays with the available profit.

The lower interest covers ratio the higher risk of default by company. Company may have to face severe consequences if the interest and principal payments are not made on timely basis. The company earnings per share show how much profit company has earned during the accounting period in relation to the number of shares issued to the ordinary shareholders. The movement in earnings per share over time is used to analyze the potential investment of company shares.

The most important indicators characterizing the financial stability of enterprise are:

1. Coefficient of autonomy (minimum 0.5) - the ratio of the total amount of own sources of financing to the total balance sheet total.
2. The ratio of own and borrowed funds (the normal value - less than 0.5).
3. The coefficient of maneuverability - the ratio of working capital to company the sum of equity and long-term borrowings (0.5).
4. The coefficient of mobility of all enterprise resources - the ratio of the value of current assets to the value of the entire property.

5. Ratio of coverage and cost their own sources of funds for their formation (more than 0.6-0.8) - the ratio of equity and long-term loans to the value of inventories and costs.

6. The ratio of tangible current assets - the ratio of the value of inventories and costs to the total balance.

7. Ratio of long-term borrowings.

8. The ratio of short-term debt.

9. Ratio of accounts payable.

The financial condition of enterprise is a complex concept, which depends on many factors and characterized by the composition and deployment of resources, the structure of their sources (provision of financial resources necessary for the normal functioning of enterprise), the capital turnover rate, company ability to repay its obligations on time and in full (financial relations with other legal entities and individuals), as well as other factors. Consequently, the financial condition refers to company ability to finance its activities. This essential characteristic of its business activity and reliability.

The financial condition of company, its strength and stability depend on the results of its operational, investment and financial activities. If the production and financial plans successfully carried out, it has a positive effect on the financial position of company. Conversely, as a result of underperformance plan for the production and sale of products is an increase in its cost, reducing the amount of revenue and profits, and as a result of deterioration in the financial condition of company and of its solvency.

Consequently, stable financial condition is not a fluke, but the result of competent, skillful management of the whole complex of factors determining the results of operations of enterprise. The financial position of the business entity depends on the optimal ratio of debt to equity.

The financial situation of companies can be stable, unstable and crisis. The ability of companies to meet their internal and external obligations to fund the activities of enterprise on an extended basis, and to maintain its solvency in all circumstances, evidence of its stable financial position.

If the current capacity to pay is the outward manifestation of the financial condition of company, the financial strength is its inner side, which provides a stable solvency in the long term, which is based on the balance of assets and liabilities, income and expenses, positive and negative cash flows [4].

Thus, the main purpose of the analysis is to identify and eliminate weaknesses in financial activities and find the reserves to improve the financial condition of the organization and its ability to pay. The transition of enterprises to market conditions of work has risen a question of the stability of its financial situation and finding ways of its improvement and strengthening. In the practice, many well-operating companies inadequately accommodate and irrationally use the available financial resources. Therefore, the financial condition of enterprise should be aimed at ensuring a systematic income and effective use of financial resources, compliance and settlement of credit discipline, to achieve a rational ratio of equity and debt, financial stability for the effective functioning of the enterprise. Consequently, the financial stability of enterprise is the result of the interaction not only the aggregate production and economic factors, but also all the elements of its financial relations.

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