УО «Алматы Менеджмент Университет»

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УПРАВЛЯТЬ СОБОЙ – УПРАВЛЯТЬ БИЗНЕСОМ – УПРАВЛЯТЬ ВРЕМЕНЕМ

Сборник статей магистрантов
Магистранттарының мақалаларының жинағы
Collection of articles by Master Program students

Выпуск 6

Алматы, 2016

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Laura Kopbayeva
Master's Programme, 2 course,
«Finance»

Research supervisor:
Karshalova A.D., senior lecturer

Almaty
Management
University

ANALYSIS AND EVALUATION OF THE FINANCIAL POSITION OF AN ECONOMIC ENTITY

The essence of the diagnosis in the organization is establishment and study of signs, the definition of the basic characteristics that fully reflect the state of the organization (technical, economic, financial) in order to predict the probable deviations from standard values and to avoid violations of the full functioning of the economic entity.

The subjects of diagnosis financial activity are: analysis of financial condition, production and financial results, social development results, the use of labor resources and analysis of the use of fixed assets, the cost of production and sales of products (works, services), as well as performance evaluation.

Determination of the quality of financial condition, the study of the reasons for his improvement and deterioration over the period, making recommendations to improve the financial stability and solvency of the company are fundamental for the financial analysis. However, the analysis of the financial condition of any company should be carried out in combination with the economic analysis. Detailed procedural hand techniques of financial analysis depend on the goals, as well as various factors of information, time, methodological and technical support.

Financial condition is a major characteristic of the economic activity of the enterprise in the environment. It determines the competitiveness of the enterprise, its potential in business cooperation, assess the extent to which guaranteed the economic interests of the enterprise and its partners on financial and other relationships. Because of its importance, the financial condition of the enterprise must always be stable. It must be constantly monitored to detect deviations from the norm. This is the main task of diagnosis. Diagnosis - is not a one-time act, but a process that is carried out in time and space. This is the main task of diagnosis. Diagnosis - is not a one-time act but a process that is carried out in time and space.

The object of the diagnosis can be a complex, highly organized dynamic system (whole economy, private industry, a particular company or organization of any form of ownership), and any element of these systems (the internal environment of the organization, the specific types of resources, production functions, organizational structure, cost and etc.). After goal realization on the basis of the diagnosis, it will be possible to develop a correct and proper economic (political, social) policies, strategies and tactics. The objectives are to determine diagnosis of measures aimed at streamlining of the work of all the constituent elements of the system, and methods for their implementation. It is impossible to manage any economic and managerial level, without having a clear idea about his condition. Diagnostic tasks are closely intertwined with the other two objectives - forecast and analysis of origins. For the diagnosis of the organization uses a variety of methods of financial analysis, allowing to fully consider and evaluate various aspects of its activities.

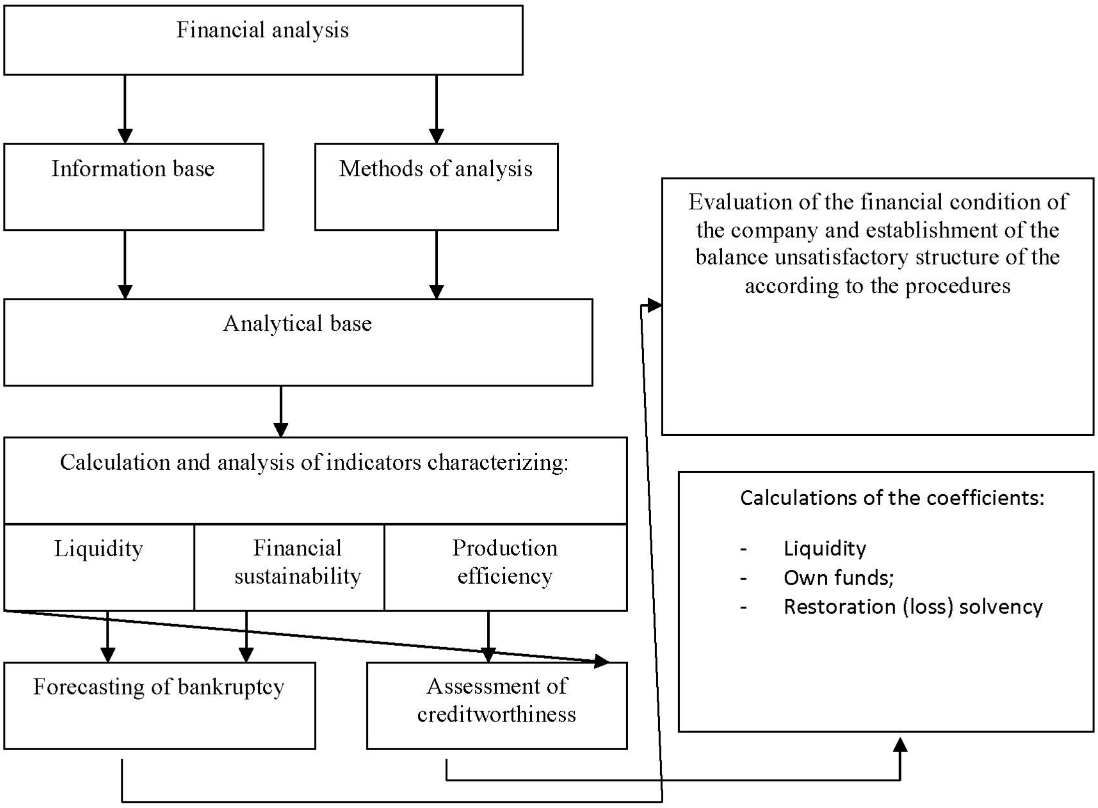
In practice uses multiple methods and techniques for diagnosis (details, comparisons, aggregation, etc.) together with which it is important to apply the elements of creativity. In any case, it is advisable to proceed from the specific situation and the professional level of specialists, carrying out diagnosis. For the analysis uses financial indicators calculated on the basis of the main forms of financial statements. For more in-depth, detailed analysis of the activities subject to special forms of examination based on production and management accounting.

In order to assess the economic situation and the effectiveness of financial and administrative policy of the company is necessary to make a financial analysis based on financial statements, including the determination of the dynamics of the major indicators of economic activity, such as profitability, financial stability, liquidity, solvency, etc. The purpose of depth analysis is a detailed description of the property and financial situation of the company, the assessment of its current financial performance and outlook for the future. The level of detail depends on the skills and the desire of the analyst. The analysis of financial condition is seen in Figure 1.

Figure 1. – Analysis of the financial condition

Analysts offer a method of analysis based on a common and detailed analysis of the financial condition of the enterprise:

- express analysis;
- detailed analysis. [1]



The goal of the express analysis is to evaluate the financial health and the dynamics of the economic entity. The analysis is offered to calculate various indicators and supplement their methods based on the experience and skills. According to analysts, express analysis is expedient to carry out in three phases: preparatory phase, a preliminary review of financial reporting, economic analysis and reading the statements.

All the above-mentioned analysis and diagnostic approaches characterize classical approaches to the analysis of the company described in many literatures and publications. Currently, during the unstable economic situation, analysts and executives use different modern models and approaches inherent in the analysis of a particular sector of the economy.

Diagnosis of financial and economic activities of any company and organization is the most important characteristic of its economic well-being, it characterizes the result of the current, investment and financial development. Furthermore, it is the basic characteristics of the company include the necessary information for the investor, but also reflect the company's ability to meet its debts and liabilities, to increase its economic potential for the benefit of shareholders.

Financial and economic activity is the base on which to build the development of financial policy and strategy. At the same time one of the most important elements of managerial work in the company is a financial analysis. However, current conditions necessitated fundamental changes in the methodology and methods of evaluation of financial and economic activity of the enterprise, as commercial organizations operating in conditions of uncertainty and risk.

It should be noted that in a market economy has become an urgent problem of the efficiency of enterprises and enhance their questions about financial results. In addition, important in the enterprise is the development of an integrated model and the identification of socio-economic factors that increase the effectiveness of the organizations in modern Kazakhstan. The problem of determining the efficiency of the company are always worried about their leaders. In modern conditions it has become increasingly popular approach in which performance is evaluated a whole set of criteria. The main reason for this is that the financial performance of the underlying performance at a ratio of income and expenses, reflect only the current status of the company.

One indicator is impossible to evaluate the effectiveness of the company in the long term. In recent years, the quality of the analysis of the financial condition of the company has increased markedly, which is dictated by the current situation on the market at the macro and micro level.

Financial and economic activities of the company comprehensively characterized by well-trained analytical conclusions setting out the main problems of the organization and possible ways to eliminate these problems. This financial analysis can not only assess the financial condition of the company, but also to predict its further development. However, a wrong choice of indicators to be used to assess the company may lead to the fact that labor-intensive financial analysis of the company will not bring any benefit, so managers need to pay careful attention to the definition of indicators.

Financial analysis is used as the organization itself, and external stakeholders in the implementation of various market transactions or to provide information about the financial condition of the company to third parties. As a general rule, the financial analysis is conducted in the following cases:

- in the allocation of structural units into separate business units. In this case it is necessary to evaluate such factors as the size of receivables and payables, margin, inventory turnover, productivity, etc.;
- in assessing the value of the business. The fair price of the transaction to determine a reasonable estimate of the financial status, as well as an instrument of change in the amount of the transaction;
- in obtaining credit or attract investors. This is due to the fact that the main indicator for a bank or an investor in deciding whether to grant a loan are the results of the financial analysis of the company;
- when entering the stock market (bonds and shares). According to the requirements of Russian and Western stock exchanges the company is obliged to calculate a specific set of factors that reflect its financial condition, and publish these factors in reports on its activities [2].

In assessing the financial and economic activities using internal financial analysis that identifies trends in the development of the enterprise. There are also external financial analysis, which is based on data from only the accounting financial statements. This type of analysis is performed outside the enterprise of its stakeholders - contractors, lending institutions owned enterprises or state financial bodies. The main content of external financial analysis are:

- analysis of financial condition, market stability, balance sheet liquidity, solvency;
- analysis of the efficiency of the use of fixed and working capital as well as equity and debt;
- analysis of absolute indicators of company profits and assessment of the dynamics of the relative profitability;
- economic diagnosis of the financial condition of the company and financial evaluation of issuers' rating.

Additionally, there are following two types of financial analysis:

- "outside" financial analysis, which is based on standard forms of accounting, without transcripts and comments;
- "inside" financial analysis, when the appraiser has the opportunity to request and obtain its interesting additional information on the organization, on which to carry out the most accurate assessment of the company.

There are also the so-called integral methods for assessing the financial and economic activity of the enterprise, which reveal inefficiencies and dysfunctional activity of the enterprises. These methods can be used with a single score calculation, and the calculation of the complex figures. The main purpose of these methods is to identify the company close to bankruptcy, as well as the strategy for the use of funds. There are the following methods integrated within the financial analysis of the company:

1. The method of assessing the liquidity of the balance sheet. This method consists of comparing the assets of the asset, grouped according to their degree of liquidity and arranged in order of liquidity, with commitments in liabilities, grouped by their maturity and arranged in ascending order.
2. Altman model. These models are based on data from the relevant indicators allow companies to share in the potential bankrupt and nebankrotov. It is a function of parameters characterizing the economic potential of the company and the results of its work in the past period.

The simplest of these models - two-factor based on the results of only two main indicators that determine the probability of bankruptcy. These indicators are the coverage ratio (liquidity position) and the leverage ratio (characterizes the financial stability).

The advantage of this model is that it is easy to use, and its use is possible in a limited amount of information about the enterprise. Lack of Altman's model is that it does not take into account the effect on the financial condition of the company of other important indicators such as profitability, return of assets, business activity, and therefore does not provide a prediction accuracy of bankruptcy.

3. Factor financing low liquid assets. The data in this index characterizes the degree of asset financing equity and debt. At the same time the borrowed funds are divided into short-term loans and long-term involvement. The level of the threat of bankruptcy is estimated on a specific scale, presented in Table 1[3].

Table 1: Calculation of the financing of liquid assets

The coefficient of low liquid assets funding	The probability of bankruptcy
WnA + Z < OC	Very low
WnA + Z < OC + LD	Probable
WnA + Z < OC + LD + SD	High
WnA + Z > OC + LD + SD	Very high

where WnA — the average cost of fixed assets;
Z — the average amount of current stocks of material assets (without stocks of seasonal storage);
OC — the average amount of equity;
LD — the average amount of long-term bank loans;
SD — the average amount of short-term bank loans.

This method reflects the policy now used to fund assets: conservative, moderate, aggressive and super aggressive. Moreover, the choice of super-aggressive kind of policy there is a very high probability of bankruptcy. This is due to the fact that the total amount of monetary assets, short-term investments and receivables of the enterprise does not allow to repay its obligations on current accounts payable on commodity transactions and internal calculations.

Of course, an important condition for the effective functioning of any business is to identify the characteristics and the main directions of its development in the planning period. This condition is carried out by studying the influence of factors external and internal environment on the operations of the company, which is the basis of strategic financial analysis.

The result of this analysis is the so-called model of strategic financial position of the company, which enables comprehensive and fully describe the conditions and possibilities of its development. This analysis, as forecast, to evaluate the state of the financial potential of the company in the future under the influence of possible changes in certain factors and conditions. At the same time to identify trends in the development of the enterprise in the long term, the following special methods of strategic financial analysis:

1. SWOT - analysis involves the study of strengths and weaknesses of the financial activity. In addition, this method allows to study the positive or negative impact of external factors on the individual conditions of the enterprise activity in the period ahead.

2. PEST - analysis - is based on a study of the company, depending on the political, legal, economic, socio-cultural and technological environment in which the enterprise operates. The system-specific factors studied by this method, the analyst is chosen independently taking into account features of financial activity.

3. SNW - analysis is only the study of the internal environment of the enterprise and allows in these circumstances, to reflect its position, which may be strong, neutral and weak.

4. Portfolio analysis involves the use of "portfolio theory" based on the analysis and selection of the securities portfolio. In accordance with this theory can be achieved by appropriate selection of the securities to reduce the level of risk. However, this method in strategic financial analysis used as auxiliary.

5. Scenario analysis determines the impact of the major factors in the predicted value of a particular financial measure under different scenarios of possible changes in the financial environment. Under this approach, the probability of each of the scenarios under consideration, all the factors investigated with regard to their relationship.

6. Comparative financial analysis determines the magnitude of absolute and relative variances when comparing specific indicators. As a rule, the following financial indicators are compared:

- the enterprise and medium-sized enterprises in the industry, allowing you to assess the competitiveness and identify opportunities to increase the efficiency of operations;
- the enterprise and competing firms that helps to identify weaknesses in financial activities, and subsequently defined the main directions for strengthening the competitiveness of the enterprise;
- reporting and planning (statutory) indicators on the basis of which revealed the degree of deviation from planned performance reporting. In addition, the analysis also identifies the causes of these abnormalities with the purpose of making changes in key areas of financial activity of the enterprise.

7. Analysis of financial ratios (R-analysis) determines the ratio of different absolute financial performance. Most often, there are five groups of indicators in the following areas of financial analysis and assessment of the financial condition of the enterprise: solvency (liquidity) of the enterprise; financial stability; capital turnover; asset turnover; profitability.

The coefficients of assessment of solvency (liquidity) allow to describe and analyze the company's ability to meet its current obligations. The algorithm for calculating these figures is the idea of a comparison of current assets to short-term debt. Liquidity ratios show payment possibilities of enterprise in the calculation of arrears for the current period and represent the estimated solvency of the enterprise.

The coefficients of assessment of financial stability allow us to estimate the sources of financing and the dynamics of the relations between them. In addition, the indicators reveal the level of financial risk and the degree of financial stability of enterprises in the process of further development.

Assessment of capital turnover coefficients - reveals how quickly the capital of the company as a whole and its individual members turn out in the course of economic activity.

Evaluation of asset turnover coefficients - shows how quickly turn existing assets in the course of economic activity of the enterprise.

The coefficients of profitability - evaluate the overall effectiveness of the investment in the enterprise.

Return on equity characterizes in a fraction of the equity is increased by the profits remaining at the disposal of the company after tax, and can be used for the payment of dividends and growth in assets of the organization. This indicator is the quotient of net profit and equity. Return on assets reflects the effectiveness of ongoing activities related to the production and sale of products and the efficiency of the use of aggregate assets, determined by dividing the profit from sales to the amount of assets. Change in working capital must comply with increasing or decreasing the volume of production and sales.

8. Integrated financial analysis model Dupont is an expansion rate of return on assets in the number of private inter-related factors. The model developed by the US corporation DuPont. According to this model, the coefficient of return on assets used by the company is the product of the coefficients of the profitability of sales and asset turnover [4]:

ROE = (Profit margin)*(Asset turnover)*(Equity multiplier) = (Net profit/Sales)*(Sales/Assets)*(Assets/Equity)= (Net Profit/Equity)

Based on this approach, you can identify major strategic opportunities to further enhance the profitability of the assets of the enterprise.

9. Expert analysis applies when companies lack the necessary information to predict trends influence factors of the financial environment. This analysis is based on a survey attracted qualified specialists.

In addition to the presented models, there are models-looking, so-called predicative models. They are used to predict the company's income and its future financial condition. The most common of these are: the calculation of the critical point of sales, building predictors of financial reports, models of dynamic analysis.

There are also regulatory models that allow us to compare the actual results with the expected activities of the enterprises. These models are mainly used in the domestic financial analysis. Their essence is to establish standards for each item of expenditure and the analysis of deviations of actual data from these regulations.

It is worth noting that the process of financial analysis should have its own technology - a series of steps aimed at identifying the causes of the deterioration of the company and leverage its optimization. Of course, often in the financial condition of the enterprise problems and difficulties, which are due to certain reasons, factors and eventually lead to a deterioration in the efficiency of the enterprise.

All this has led to the creation of methods of «Balanced Scorecard». The technique consists in the formation of the enterprise system, which includes both financial and non-financial indicators. In this case all indicators should be organized by certain criteria and define the strategy of the enterprise. The main advantage of this approach is the ability to plan strategies that would cover not only the main directions of development of the enterprise, but also allowed to see the causal relationships between them [5].

The basic element in the creation of a balanced scorecard to provide a system of interrelated objectives, critical success factors and key performance indicators. On the basis of the final determination of the financial analysis carried out by the organization to finance the enterprise. The effectiveness of management decisions depends on how well organized financial analysis. Quality assessment of the financial state depends on the method used, the accuracy of data reporting as well as on the competence of the decision-maker in financial policy.

Thus, the financial analysis is the base on which to build the development of prospective financial policy of the enterprise. It is also clear that a comprehensive and objective study of the efficiency of commercial enterprises need to develop methods of economic research, allowing timely identification of adverse situations folding. There is a need to introduce a fundamentally new approach to business management. This can be achieved by the introduction of marketing services at each facility. Since marketing is a pure market management concept in commercial activities of the enterprise, it will allow more harmoniously combine the market interests of businesses and consumers. Practical Marketing will bring real benefits to the enterprise only if its use will be carried out by qualified personnel with expertise in the field of marketing strategy and tactics.

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