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Economic analysis of enterprises: methodological aspects

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Abstract

Enterprise analysis plays an important role in enterprise management. The goal of the analysis is, on the one hand, to determine the efficiency of enterprise performance for the reporting period and to set goals, and, on the other hand, to establish the potential areas for enterprise activities for the current period and in the perspective by considering the necessary material, financial and labour resources. Therefore, the targeted analysis has to be carried out in order to find out such opportunities and reserves of an enterprise that would ensure an optimal use of the existing resources. Analysis of enterprise performance is not solely one of the management functions, but also a way of thinking for which a certain database is required. Furthermore, the quality of analysis depends on the overall enterprise level of financial accounting and the quality of reporting, and the extent to which the figures included therein are true and fair.

Keywords: Enterprise financial analysis, economy analysis, economic efficiency, assessment methods, financial analysis indicators, financial condition of the enterprise;

1. Introduction

Economic analysis can be understood as interrelated and interdependent methods of investigation and study of certain economic phenomena, processes, actions, results. In the economy it is used to identify patterns and trends of economic processes, identify and assess the main factors that positively or negatively affect the performance indicators.

Efficiency can be achieved in two ways: by reducing rework of finished parts and reducing the duration of the project.

Reworking is a common industry headache that has become so common in many organizations that it is often laid out in the project plans and budgets. In the general case, the rework means more work on elimination of errors due to incomplete or missing requirements. It can affect the whole process. The need for rework can be reduced if the requirement gathering is thorough, and it is ensured that business and technical project members are involved in these processes at an early stage. [1]

Reduction in the duration of the project presents two potential benefits. The resources released each month, which are reduced by the project, can be used on other projects. This can lead to savings on the current project to earlier starts of new projects (thus increasing revenue potential).

2. Liquidity and solvency as criteria for enterprise financial stability

Using the principles of business analysis for pre-and post-assessments of the effectiveness of innovative-investment projects involves the use of financial criteria and indicators for the balanced satisfaction of the requirements of key stakeholders. [3]

Financial sustainability reflects this state of financial resources, where the organization freely maneuvers monetary resources by the efficient use to ensure a smooth production process and sales of products (works, services). [2]

Factors of financial stability are indicators that demonstrate the stability level of the enterprise in financial terms. These include the following factors:

Liquidity and solvency

Liquidity and solvency refer to the criteria of financial stability. To calculate these indicators three basic methods are used:

1. Analysis of liquidity of assets (property);
2. Analysis of liquidity balance (grouping items of the balance sheet according to their liquidity and the analysis of their relationship in the Asset and Liabilities) (comparative) balance, estimated business activity, etc.

Signs of bankruptcy

According to the Russian legislation (paragraph 2 of article 3, paragraph 2 of article 6 of the Federal law from 26.10.2002 № 127- Federal law "on insolvency (bankruptcy)") the proceedings on bankruptcy of enterprise/citizen can be initiated in the case when:

• the size requirements for the company exceeds 300 thousand rubles (for legal entities) and 500 thousand rubles (for individuals);

• the period of default exceeds three months;

Previously to the Declaration of bankruptcy there was a quite unsatisfactory structure of the balance sheet (now this norm is cancelled).

The coefficients characterizing the solvency

Coefficient of current liquidity characterizes the security of the organization circulating assets for conducting economic activities and timely repayment of liabilities and is defined as the ratio of liquid assets to current liabilities of the debtor.

The ratio of own funds is defined as the ratio of the differencesы between the volumes of the sources of own funds and actual cost of fixed assets and other non-current assets to the actual value of production stocks, unfinished production, finished goods, cash, receivables and other current assets. [5]

An insight in the forthcoming period of an enterprise and its quality depends on the assumptions underlying the preparation of a budget. Therefore, the quality of the assumptions plays a decisive role in preparation of a balanced and real budget. [4]

– market development trends, including the development trends in the customer, competitor, supplier markets;

– forecast regarding the market development, developments in the base of suppliers, activities of the existing competitors, appearance of new competitors, development of financial market and changes in consumption.

3. Conclusion

The cash flow forecast plays a very important role. This has to be projected when the budget is prepared as the amount of turnover that the enterprise plans to achieve. The amount of turnover is necessary for planning of the incoming cash flow. The asset turnover ratios can be of assistance here. As it is well known, cash and turnover is not the same thing. Therefore, when projecting cash inflows, it is highly important to plan the collection of accounts receivable accurately. The policy for collection of debtors' debts in an enterprise is not insignificant here, however, as the enterprise upon planning of cash flows often takes historical data for the previous year into account, the debtor's turnover ratio has to be estimated for an enterprise - this would allow determine the period closing balance figure of accounts receivable.

While planning the outflow of cash all enterprise creditors are split into suppliers directly selling their products, goods necessary for the provision of the enterprise business activities, and suppliers delivering their services required to maintain its business activities. Therefore, it becomes more understandable creditors should be paid by the enterprise in the current or in another month. For example, the situation with the creditors providing services becomes clear - this outflow of cash can be planned based on historical data from the previous year, as the services received each month are the same, and, therefore, an enterprise can expect that it has to pay monthly for rent, electricity, transport, advertisement, loan interest as well as tax, salaries etc. The situation with the suppliers of goods is more complex. If the range of goods sold by an enterprise is very wide and it is not possible to project, who and how will pay, because it depends on how well and which brands of goods will sell better, then the turnover ratios can assist again.

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