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ASSESSMENT OF THE FINANCIAL STATUS OF ENTREPRENEURIAL SUBJECTS

Abstract

The sustainable financial condition of enterprises can be expressed by a unified system of economic indicators, which will comprehensively reflect the structure of the enterprise's balance sheet. However, the abundance of these indicators sometimes complicates the objective assessment of the financial condition of business activities. Therefore, it is advisable to give preference to only some of the indicators and additionally introduce such coefficients as: debt, debt repayment obligation, provision with own working capital and financial stability coefficients. For a comprehensive assessment of the financial condition of an agricultural enterprise, it is necessary to use an integral coefficient of financial condition, which will give us a clearer idea of the complex assessment of the efficiency of the functioning of the enterprise (firm).

Keywords: Financial condition analysis, efficiency indicators, debt ratio, leverage, efficiency.

Introduction

The theory of economic growth provides for the calculation of such efficiency indicators as financial efficiency, production and financial leverage. In the indicators of enterprise and financial leverage evaluation, we consider integral leverage to be a recommended indicator, which will fully reveal the overall economic growth capabilities of the enterprise.

The solvency ratio does not allow us to fully assess the financial condition of an agribusiness, since it more expresses the enterprise's obligation to produce competitive products.

Key Financial Ratios

The sustainable financial condition of an enterprise can be determined by a unified system of economic indicators, which will reflect the following structure of the enterprise's balance sheet:[1]

1. Autonomy ratio – own funds in relation to the enterprise's property (total balance sheet assets). Recommended is 0.5;
2. Financial instability ratio – the ratio of borrowed capital to own funds. An acceptable indicator is 0.25-1.00;
3. The ratio of mobile and non-mobile funds – this is the ratio of savings, expenses, cash funds to other non-current assets;
4. The ratio of production-purpose funds – the ratio of the value of fixed assets, production inventories, work in progress to the assets of the enterprise (total balance sheet assets). Acceptable is 0.5;
5. The ratio of the value of fixed assets – the ratio of the residual value of fixed assets to the assets of the enterprise (total balance sheet assets).
6. Accounts payable ratio – the ratio of long-term and short-term liabilities to the value of finished products, accounts receivable and other current assets. Acceptable value ≤ 0.2;
7. Debt coverage ratio – (the inverse of the ratio of borrowed and own funds). Acceptable value > 4.0;
8. Bankruptcy ratio – the ratio of the amount of lease liabilities, long-term and short-term liabilities to

[1] Izolda Chiladze "Financial Analysis" Tbilisi 2011.

the founders, to the amount of long-term, current assets. Acceptable value < 0.5;

9. Autonomy ratio – the ratio of the amount of own funds to the amount of long-term and current assets. Acceptable value 0.5;
10. Financial stress ratio – the difference between the unit and the autonomy ratio. Acceptable value < 0.5;
11. Current assets ratio – the ratio of the source of own funds minus long-term assets and the ratio of current assets. The acceptable value is 0.5-0.6;
12. Fixed assets renewal ratio – the ratio of depreciation to the initial cost of long-term assets;
13. Financial stability ratio – the ratio of the profit margin minus the proceeds from sales, to the proceeds from sales;
14. Debt service ratio – the ratio of profit (before taxes) to the amount of interest paid during the year. The acceptable value is 3.0;

Many such indicators complicate the assessment of the financial condition of the business. That is why sometimes economists use only part of the above indicators.

Analysis of the presented indicators shows that most of them are derived from the ratio of borrowed and own funds. The exceptions are the coefficients that express the values of property, depreciation, debt repayment and financial stability.

In this regard, agricultural businessmen can use the following indicators to improve the financial assessment of their enterprises[1]:

1. Debt ratio – K

$$K = \frac{\text{Short-term and long-term liabilities.}}{\text{Assets}};$$

$$K = \frac{\text{Short-term and long-term liabilities}}{\text{Source of own funds}}$$

2. Debt service ratio – K

$$K = \frac{\text{Operating profit before repayment of payments}}{\text{Amount of interest}}$$

3. Own working capital coverage ratio – K

$$K = \frac{\text{Source of own funds – Long-term and other non-current Assets}}{\text{Current inventories and expenses}}$$

4. Financial stability ratio – K

$$K = \frac{\text{Sales proceeds}}{\text{Profitability margin}}$$

The debt ratio shows the entrepreneur how effectively his assets are financed by creditors. The value of the ratio should not exceed 0.5. When calculating it, short-term liabilities can be excluded, while the indicated indicator will be equal to the ratio of long-term liabilities to constant (variable) capital.

In fact, agricultural enterprises are in a difficult financial situation. Therefore, a businessman needs to

[1] Izolda Chiladze, Marina Maisuradze, Nana Sreseli, Nadezhda Kvatashidze, Levan Sabauri, Merab Jikia, Mariam Variashvili – "International Financial Reporting Standards" Tbilisi 2024.

know the working capital provision, which is expressed by the corresponding coefficient, it can be equal to 0.6-0.8, which allows the businessman to make a decision to rhythmically perform the technological processes of agricultural production.

To assess the sustainable financial condition of the enterprise, it is necessary to calculate the degree of interest coverage, the value of which should exceed 3. In this case, the businessman is insured against bankruptcy.[1]

All of the above indicators express one of the aspects of financial stability. In practice, however, a complex assessment of an agricultural enterprise is necessary. For this, we can use the integral coefficient of financial condition – K

K = 3√ Kdebt × Kactual. Liquidity × Kdebt coverage ratio

In this case, the debt ratio should not exceed 0.5, and the current liquidity ratio should not be more than 3. Therefore, in our case, the debt ratio should form the ratio of securing borrowed funds with own funds (K)

$$K = \frac{\text{assets.}}{\text{short-term and long-term liabilities}}$$

The value of the ratio of securing a loan with own funds should not exceed 0.5. Then the integral ratio of the optimal financial condition will be equal to 1.45.

For example: we will assess the financial condition of the enterprise according to the following indicators:

- debt ratio, i.e. securing borrowed funds with own funds;
- debt coverage ratio;
- working capital ratio;
- Financial stability ratio.

Let's assume that at the end of the year the amount of long-term and short-term liabilities of the enterprise is 480.0 thousand GEL; and the amount of all assets is 650.0 thousand GEL; annual balance sheet profit is 78.0 thousand GEL; interest payments during the year are 24.0 thousand GEL; according to all sources, the enterprise's own funds are 680.0 thousand GEL, and the amount of long-term and other current assets is 240.0 thousand GEL; during the current year, the enterprise sold 600.0 thousand GEL; and the profitability margin was 60.0 thousand GEL; the total amount of current inventories and expenses was 610.0 thousand GEL.

Solution:

- The ratio of securing borrowed funds with own funds is calculated by dividing
the total assets of the enterprise by long-term and short-term liabilities. 650.0 :
480.0 = 1.40;
- The debt service ratio is calculated by dividing the annual balance sheet profit by the amount paid for interest during the year. 78.0 : 24.0 = 3.25;
- The ratio of providing with own working capital is obtained by subtracting own
assets from long-term and other non-current assets and divided by the sum of current inventories and expenses. (680.0 – 240.0) : 610.0 = 0.72;
- The financial stability ratio is obtained by subtracting the profit margin from the income received by the enterprise from the sale of products and divided by the income received from the sale of products. (600.0 – 60.0) : 600.0 = 0.90.

Thus, for a comprehensive assessment of the financial condition of an agricultural enterprise, it is necessary to use the integral coefficient of financial condition (the third root of the coefficients of current

1 Izolda Chiladze "Financial Analysis" Tbilisi 2011.

liabilities, current liquidation and liability coverage).

A necessary condition for the development of agribusiness is a comprehensive assessment of the effectiveness of the functioning of the enterprise (firm). It takes into account the analysis of the joint economic effect. There are many methods for this:

Most economists prefer the following criteria for a comprehensive assessment of agricultural production:

Intensity; Productivity; Resource return; Financial desirability; Profitability; Income, etc.

Foreign economists use the fundamental provisions of the market equilibrium concept when assessing the efficiency of agricultural production, but when applying it to agribusiness, the market conditions of the enterprise's functioning should be taken into account, which affect the behavior of entrepreneurs (farmers):

- Entrepreneurs (farmers) cannot fully use all the advantages. It is difficult for those living in villages to find alternative options for economic activity;

- The sharp influence of natural factors on the results of agribusiness limits their achievements;

- The practice of state regulation complicates the application of the market equilibrium concept;

- The existence of the practice of land accounting, the absence of market valuation of land do not allow economically justifying the efficiency of agribusiness;

- The assessment of agricultural business from the perspective of businessmen, managers, creditors, and others requires additional mechanisms. If the manager is interested in profit in the balance sheet, With the growth of the ratio, the turnover of resources, the effective use of labor resources, at this time creditors are interested in liquidity, etc.

- The theory of distribution analysis does not confirm the possibility of using all options in management decisions.

In our opinion, businessmen, along with the growth of their income, should be oriented towards the constant growth of capital. Such an approach should be expressed through the assessment of profitability; profitability of sales; return on investments; return on assets; return on equity; stability (viability); level of income (labor compensation); sales volume (market return); asset turnover ratio; their liquidity.

The agribusiness valuation model combines profitability, stability, and liquidity, which can be represented in the following formula:

$$E.E.C = \frac{\text{Profit} + \% \times (1 - \text{tax}) + \text{depreciation}}{\text{Investment capital}} \times \frac{\text{Net profit} + \text{depreciation}}{\text{Real proceeds}} \frac{\text{Current assets}}{\text{Short-term liabilities}}$$

$$\times \frac{\text{Proceeds from sales}}{\text{Assets}} \times \frac{\text{Net profit} + \text{depreciation}}{\text{Compensation} + \text{additional income}} \times \frac{\text{Proceeds from sales}}{\text{Equity}} \frac{}{\text{Inventories} + \text{expenses}}$$

This formula allows a businessman to assess the level of efficiency of the firm. However, it is difficult to calculate, it is not always economically justified, there is no export. Therefore, in everyday agribusiness practice, we can use the abbreviated version of the model of the efficiency of the enterprise's functioning:

E.E.K = 4√ Ksales profitability K-t × Kequity growth K-t × Ksales volume growth K-t × Kexport growth K-t.

A businessman should be able to assess the economic growth potential of his enterprise in the future. This follows from his main goal – to have positive dynamics of his business.

The theory of economic growth provides for the calculation of such efficiency indicators as: financial efficiency, production and financial leverage.

- Financial efficiency allows us to assess the return on investment, own and borrowed capital. It is the

difference between own income and investment capital, after paying taxes. This effect also shows how much the income from own capital increases due to the attraction of borrowed funds and the turnover of the enterprise. It arises when the rate of income from investment capital is higher than the interest rate on the loan.

For example: the return on invested capital after paying taxes is 10.0%, and the interest rate on the loan is 6.0%. We can increase the financial leverage side (the share of borrowed capital).

– Production leverage is determined by the ratio of the incremental profit rates before paying taxes and interest in natural units to the incremental sales volume rates. It expresses the impact of potential opportunities on the profit of the enterprise through changes in the cost structure of products and the volume of profits.

Financial leverage expresses the relationship between profit and own and borrowed capital. The increase in financial leverage is achieved through sustainable economic growth. Thus, after considering the indicators of enterprise leverage and financial leverage, we can consider integral leverage (И.L.) as a recommended indicator:

И.L. = 2√ Lindustrial × Lfinancial

It expresses the overall potential for economic growth in the enterprise, which takes into account the increase in agricultural production, optimization of the cost structure and borrowed capital.

Conclusion

When calculating the last three coefficients, it is necessary to take into account:

– short-term credit interest is included in the cost and its calculation must be adjusted;

– agriculture is exempt from profit tax;

– part of the assets of fixed assets is formed mainly with the help of leasing. Leasing costs are included in the cost. It is necessary to adjust its calculation.

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1. Izolda Chiladze, Marina Maisuradze, Nana Sreseli, Nadezhda Kvatashidze, Levan Sabauri, Merab Jikia, Mariam Variashvili – “International Financial Reporting Standards” Tbilisi 2024.
2. Accounting, Reporting and Audit Supervision Service – “International Auditing Standard 570” Tbilisi 2018.
3. Izolda Chiladze “Financial Analysis” Tbilisi 2011.