METHODS FOR FINANCIAL ANALYSIS OF ENTERPRISES

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The financial condition of an enterprise is the most important indicator of its successful operation and performance, which is an essential element in making managerial decisions by the heads of enterprises, as well as for contractors when making decisions on cooperation.

Financial analysis is intended to simplify the data contained in the financial statements published by companies and institutions in order to determine the current or future status of the company. It is also used to determine the best available investment opportunities that investors are looking for in a company. Financial analysis guides the decisions made by senior management regarding improvements to be made and influences the decisions of other parties that deal with the company, including suppliers and creditors.[1]

The set of financial analysis methods used by financial analysts varies depending on the purpose of the analysis. Appropriate tools exist to determine the extent to which each element contributes to the total amount of the current financial statement, as well as other tools to monitor the performance of current financial statements compared to previous years. There are special tools for detailed determination of coefficients that allow assessing the performance of the enterprise according to the necessary criteria.[2]

The methods of financial analysis in domestic and Iraqi practice include: horizontal analysis, vertical analysis and analysis of financial ratios.

Analysis of financial ratios consists of the following indicators [4]:

- solvency and liquidity;
- financial stability;
- turnover;
- profitability.

The financial leverage ratio is one of the indicators of financial analysis designed to assess the enterprise and determine the degree of dependence on financing through loans or debts. This coefficient consists of a set of the following indicators.

Profit ratios are one of the important ratios of financial analysis and reflect the extent to which a company uses its resources to make a profit. Profit ratios are important to investors and they contain the following ratios.

The concept of liquidity can be considered from different points of view. So, we can talk about the liquidity of the balance sheet of the enterprise, which is defined as the degree of coverage of the obligations of the enterprise by its assets, the period of transformation of which into cash corresponds to the maturity of the obligations. The liquidity of assets is the reciprocal of the liquidity of the balance sheet by the time the assets are converted into cash: the less time is required for this type of asset to acquire a monetary form, the higher its liquidity.[3]

Analysis of the liquidity of the balance sheet consists in comparing the funds of the asset, grouped by the degree of their liquidity and arranged in descending order of liquidity, with the liabilities of the liability, grouped by their maturity and arranged in ascending order of terms.

In the case when one or more inequalities have a sign opposite to that fixed in the optimal variant, the liquidity of the balance differs from the absolute one. In this case, the most liquid funds and quickly realizable assets are compared with the most urgent liabilities and short-term liabilities, which allows you to find out the current liquidity, indicating the solvency or insolvency of the enterprise for the next period of time. Comparison of slow-moving assets with long-term and medium-term liabilities reflects prospective liquidity, which is a forecast of the company's solvency based on a comparison of future receipts and payments.[5]

Various liquidity indicators not only provide a versatile description of the stability of the financial condition of the enterprise, but also meet the interests of various external users of analytical information. For example, suppliers of an enterprise are interested in whether the enterprise will be able to pay them off in the near future, so they will pay attention primarily to the absolute liquidity ratio. And the bank lending to the enterprise, or the lender, will be more interested in the value of the critical liquidity ratio. The owners of the enterprise - shareholders, if we are talking about a joint-stock company - most often evaluate the financial stability of the enterprise for the long term, and therefore the current liquidity ratio is more important to them. Average monthly revenue is calculated based on gross revenue, including sales revenue for the reporting period (for payment), VAT, excises and other obligatory payments. It characterizes the volume of income of the organization for the period under review and determines the main financial resource of the organization, which is used to carry out economic activities, including to fulfill obligations to the fiscal system of the state, other organizations, and its employees.

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