



Development of a Method of Analysis of the Financial Condition of the Enterprise Taking into Account the Life Cycle and Features of Its Functioning

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Abstract

A disadvantage of the traditional methodology for analyzing the financial condition of an enterprise is the lack of theoretical and methodological developments adapted to Russian business conditions that allow differentiating the subject of research depending on industry and regional affiliation, as well as the stage of the life cycle and the scale of functioning of corporate structures. Ignoring the regional and sectoral affiliation, the stage of the life cycle and the scale of the enterprise's activity in a comparative analysis of the actual and normative values of the financial condition indicators does not make it possible to formulate the correct conclusion about the degree of financial stability of the enterprise. It is too early to draw any conclusions regarding the financial condition of the enterprise at an early stage of its life cycle, which is explained by the work of the enterprise not at full capacity. The company, at the stage of its birth, is still unstable, since it has a significant share of borrowed capital, risk indicators are high, and solvency ratios do not reach the recommended values, which contradicts the concept of "sustainability". At the same time, if the idea of implementing the business of this enterprise is successful, then at the next stages the investment will pay off and bring the expected profit. An important factor in the analysis of the financial condition of the enterprise is also its industry and scale. Neglect of these factors leads to a distortion of the assessment of the level of the financial condition of the enterprise.

Keywords: Analysis, Financial condition, Development, Specific features, Enterprise management

1 Introduction

Analysis of the financial condition of the enterprise is carried out using a group of indicators characterizing its solvency and financial stability. Realizing the research potential in this direction, the groups of indicators used by modern analysts to assess the level of solvency and financial stability of the enterprise have been identified. These are indicators: solvency and liquidity; financial stability; business activity and profitability (2, 7, 22).

As is known in relation to some indicators, the practice of constructing forecast balances has made it possible to establish regulatory values and restrictions that satisfy the requirements of solvency and financial stability.

- An absolute liquidity ratio ≥ 0.2 (or 20%) (5);
- Current liquidity ratio from 1 (or 100%) (5);

- Autonomy coefficient > 0.5 (or 50%);
- Coefficient of provision with own circulating assets ≥ 0.1 (or 10%) (6, 17).

The analysis of the presented coefficients when comparing them with the recommended values does not make it possible to formulate the correct conclusion about the level of financial stability of the analyzed enterprise, as a result of ignoring the stage of the life cycle, scale, industry and regional affiliation of the enterprise (8, 9).

Moreover, the principle of forming the assets of the enterprise is ignored, namely financing non-current assets at the expense of equity and long-term liabilities, and circulating at the expense of equity and short-term liabilities, as a result of which the calculated values of the financial condition do not correspond to the recommended ones and give them an incorrect assessment (10, 11, 12, 20, 21).

2 Text of Article

Currently, for all enterprises, regardless of the

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characteristics of their activities, a standard set of normative values characterizing their financial condition is used. However, from the point of view of the authors, each enterprise should independently develop its own standards for assessing the level of financial condition, depending on the characteristics of its financial and economic activities and environmental conditions. When developing a system of normative indicators, it is necessary to take into account the stage of the life cycle, the specifics and scale of the enterprise.

Undoubtedly, the stage of the life cycle plays a significant role in the analysis of the financial condition of an enterprise. At the stage of its inception (formation), the enterprise cannot do without borrowing funds. When analyzing a loan application, financial organizations, including banks, make a decision on its issuance on the basis of the results of the analysis of the creditworthiness of the enterprise, the essence of which is that the actual values of solvency and financial stability are recommended.

However, as a result of ignoring the life cycle stage when developing recommended values for financial indicators, many enterprises have an unsatisfactory assessment of their creditworthiness and are denied credit. As a result of this, many enterprises, having not had time to start their activities, are forced to curtail it. Therefore, the differentiation of the recommended values of the traditionally used indicators of the financial condition of the enterprise relative to the stage of its life cycle seems to be correct. This is determined by the natural changes that occur in the internal environment of the enterprise, namely, in the structure of its assets and liabilities, the condition and efficiency of use of available resources, the level of business activity and competitiveness, etc., starting from the stage of origin (formation), ending it aging and elimination. In this regard, for effective financial management it is necessary to develop individual recommended values for the performance of an enterprise located at a particular stage of the life cycle.

For example, the stage of origin (formation) is characterized by the formation of the enterprise and its gradual introduction into the market, its technical and economic formation and build-up of assets. At this stage, an important condition is tracking and comparing the actual forecast and planned indicators of the enterprise, with particular attention to the dynamics of the structure of assets.

The utilization of the enterprise's production capacities at this stage is not one hundred percent, as a result of which it is erroneous to formulate conclusions about the level of its financial condition. At the initial stage, the enterprise is characterized by: high risk indicators, a significant share of borrowed funds and unsatisfactory solvency ratios, and if the business is successful and profitable in the future, this will ensure the financial stability of the enterprise.

The next stage (youth) is characterized by the development of production processes in terms of eliminating the discovered shortcomings in design and technological training, which ends with the development of production and the transition to mass production.

The main problem at this stage in the development of the enterprise is the supply of the necessary resources for its current activities while increasing the market share and

improving the quality of products in order to ensure the transition from extensive-intensive to intensive type of production development.

The enterprise growth stage is characterized by the following features: a sharp increase in the rate of sales of products and services, recognition of the enterprise by consumers, suppliers and creditors, improvement of production, cost reduction, stabilization of distribution channels. Production is characterized by intensive modernization; the quality of products is growing. The share of borrowed capital in the sources of formation of the enterprise is noticeably reduced, and the actual values of indicators of financial stability and solvency are stabilizing. Otherwise, we can say that the company lags behind the level of financial and economic stability, which is characteristic of the stages of development in the past. In this regard, it is necessary to revise the loan policy and marketing strategy of the enterprise.

At this stage, an important role is given to indicators of asset turnover and return on sales, the dynamics of the values of which determine the nature and content of adjustments to the enterprise development program. The absolute load of the enterprise's production capacities and the use of available resources (material, labor, financial) indicates the onset of the maturity stage. An enterprise that successfully uses the potential of the external environment, while maintaining the conditions of competition, while the main attention of the enterprise management is focused on environmental factors in the direction of reducing costs and product prices, the incentive system for repeated or repeated purchases of goods and the development of a service. At this stage, maintaining the financial stability of the enterprise is accompanied by control over the dynamics of the value of the efficiency indicators of the use of all resources (profitability of sales, assets, net worth, turnover of resources, production, etc.).

High values of indicators characterizing production and financial risks, outstripping the use of extensive factors in the development of production can lead to deviations of financial indicators from their industry average values. This, in turn, speaks of the financial instability of the enterprise at the maturity stage and necessitates the development and implementation of a crisis management program. The above determines the need to take into account the stage of the life cycle of an enterprise when:

a) The calculation and recommendations of normative values of indicators characterizing the level of the financial condition of the enterprise;

b) Analysis and assessment of the financial condition of the enterprise. The use of the matrix analysis method makes it possible to develop a forecast for the development of the situation and a strategy for the conduct of the enterprise at each stage of its life cycle.

Consideration of these factors and the main condition for the formation of the property of the enterprise, consisting in the fact that financing of non-current assets should be carried out at the expense of own funds and long-term liabilities, and current assets at the expense of own funds and short-term liabilities, makes it possible to calculate and use indicators as recommended values financial condition for enterprises that are at different stages of the life cycle (4, 13) (Table 1).

Table 1: Recommended values of indicators of financial condition, depending on the stage of the life cycle of the enterprise (1)

Stages of enterprise life cycle	Value of absolute liquidity ratio, ALR, %	Value of current liquidity ratio, CLR, %	Value of equity ratio, ER, %	Value of working capital to current assets ratio, WCCAR, %
Start-up (Origin)	≥ 2	≥ 100	≥ 0.2	≥ 10
Youth	≥ 2	≥ 100	≥ 0.2	≥ 10
Development	≥ 2	≥ 10	≥ 0.2	≥ 10
Growth	≥ 10	≥ 10	≥ 30	≥ 20
Maturity	≥ 10	≥ 10	≥ 30	≥ 30

The calculation is carried out according to generally accepted formulas presented in the educational literature on economic analysis (3, 14, 18, 19). Let us explain the values presented in the table.

1. The recommended absolute liquidity ratio (Cal), which corresponds to the normal financial condition, is 2% and is explained by the fact that enterprises located at the stages of origin, youth and development are not able to have free cash in their accounts, as a result of large investments in preparation and development production. At the stages of growth and maturity, there is the possibility of forming a free cash balance in accounts, at the same time, the share of borrowed funds in the liabilities of the enterprise is noticeably reduced, which makes it possible to set the recommended value at $\geq 10\%$.

2. In accordance with the theory of economic analysis, the formation of non-current assets should be carried out at the expense of own funds and long-term liabilities, and current assets - at the expense of own funds and short-term liabilities. Compliance with this condition provides for a current liquidity ratio of at least 100%, which will be sufficient for the enterprise at the stage of its formation. If the current liquidity ratio is below 100%, it indicates that part of the short-term liabilities is aimed at the formation of non-current assets.

3. The recommended value of the coefficient of autonomy at the stages of formation (origin), youth and development are proposed based on the results of the evaluation of the balance sheet of enterprises that are at the stage of their formation and amount to 0.2%. A noticeable decrease in the share of borrowed funds of the enterprise in the sources of formation of its property at the stages of its growth and maturity determines the establishment of a standard of $\geq 30\%$.

4. The value of the ratio of own working capital assets, similar to the current liquidity ratio, is calculated solely subject to the conditions for the formation of non-current assets at the expense of own funds and long-term liabilities, and current assets - at the expense of own and short-term borrowed funds (4, 15, 16). The recommended value of 10% is established based on the fact that in the early stages of the life cycle, the functioning of the enterprise occurs to a greater extent at the expense of borrowed funds.

Another significant factor in the analysis of the financial condition of the enterprise should be noted the scale of its activities, which determines the size of the enterprise. The scale of the enterprise is determined by the volume of marketable products in value terms, the value of fixed assets and the number of personnel. The organization of a large-

scale enterprise in the activity of which a large number of expensive fixed assets is used is impossible without borrowing funds. Borrowing capital consisting of borrowed funds from other organizations, funds from extra-budgetary funds, bank loans, funds from the issue and sale of company bonds, budgetary allocations on a repayable basis, etc., is the main condition for ensuring expanded reproduction of the market economy.

The next factor influencing the results of the analysis of the financial condition of the enterprise is the industry. In countries with developed market economies, the recommended normative values of solvency and financial stability ratios are differentiated by industry and sub-sector, in Russia, this factor is not taken into account when analyzing the financial condition of an enterprise, while it is the industry that determines the structure of its assets; production technology; the degree of risk of activity, the social significance of the products, etc. For example, industrial enterprises are characterized by a complex production technology and a high share of non-current assets in the structure of the enterprise's property. To finance their activities, industrial enterprises use both their own and borrowed funds in the context of short-term and long-term obligations. The presence of a high share of the company's equity reduces the risk of its activities.

The activities of agricultural enterprises proceed under specific conditions, which are characterized by a high level of instability, uncertainty and risk, which in turn leads to the insolvency of a significant share of agricultural enterprises. This fact necessitates the development of an anti-crisis program of the enterprise, which ensures the stability of its financial situation.

3 Methods

In the course of the study, the authors applied the following methods:

1) Selective analysis of specialized literature with a high citation index on the topics indicated in the title of the article. In particular, traditional and author's methods of analyzing the financial condition of the enterprise, including models of foreign authors, were studied.

2) An analysis of the applicability of domestic and foreign methods of economic analysis and the reliability of the conclusions obtained by using the system of normative values of economic indicators adopted as the basis was carried out.

4 Results and Discussion

Despite certain achievements in the field of economic analysis, the shortcomings of existing methods for assessing the financial condition of an enterprise are identified, which consist in ignoring the specifics, scale, and stage of the life cycle of an enterprise in the recommended values of financial condition indicators established by economists.

The results of the analysis using traditional methods are not entirely justified, because:

- Firstly, for all enterprises, regardless of the features of their activities, a standard set of standard values is used;
- Secondly, the values are established by theorists based on the following principle of formation of enterprise assets: non-current assets should be financed from equity and long-term liabilities, and current assets should be financed from equity and short-term liabilities.
- Thirdly, foreign authors' models are based on the results of research of their enterprises, without taking into account the characteristics of the Russian economy (Altman, Beaver, Tuffler-Tishou).

In this regard, the effective management of the financial condition of the enterprise requires the development of individual standards.

5 Summary

A study of existing methods and techniques for analyzing the financial condition of the enterprise showed that their application does not allow a real assessment of its solvency and financial stability.

6 Conclusions

The proposed recommended values of solvency and financial stability indicators, taking into account the stage of the enterprise's life cycle, industry and the scale of its activity, will make it possible to give a more objective assessment of the financial condition of the enterprise, therefore, it will improve the quality of managerial decisions.

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