

Financial Analysis When Evaluating the Business Activity of an Enterprise

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Abstract: *Financial analysis plays a key role in assessing the business activity of an enterprise, providing comprehensive information about its financial condition, dynamics and development prospects. The main purpose of financial analysis is to identify the strengths and weaknesses of an enterprise, assess the efficiency of using resources and the ability to generate profit. Analysis of financial indicators, such as liquidity, profitability, asset and equity turnover, helps not only to objectively assess the current position of the enterprise, but also to predict its future development. Financial analysis is an important tool for making strategic decisions, ensuring business sustainability and minimizing risks.*

Key words: *financial condition, business activity, asset turnover, cash flow, pricing policy, capital, management mechanism, credit.*

Managing the business activity and cash flows of an organization is an important aspect of ensuring the efficiency of its functioning, since the creation of a positive cash flow underlies the formation of the profitability of the enterprise.

The organization's cash flow management mechanism must be built in such a way as to, on the one hand, minimize the amount of cash outflow, and on the other hand, create conditions for maximizing the cash inflow at the enterprise. From a methodological point of view, liquidity in its simplest form is the rate at which assets are converted into their most liquid form, that is, into money. How quickly the organization can pay off its debts depends on how high the level of liquidity of the organization's assets is, that is, liquidity determines the speed of the enterprise's solvency. Liquidity indicators characterize the financial condition of the organization. If an organization has high liquidity indicators, then it has priority over other organizations that are engaged in the same activities in obtaining loans, in selecting suppliers, and so on. The organization pays wages to workers on time, pays taxes to the budget, and repays loans on time.

The stable financial position of an enterprise in a market economy is largely determined by its business activity. The business activity of an organization depends on many internal and external factors, which include:

- demand factors;
- price factor;
- production, scientific, technical and macroeconomic factors (monetary, pricing, depreciation policies and other government regulation measures).

The decline in business activity in various sectors of the economy, in particular in manufacturing, indicates the crisis state of a significant part of enterprises and the need to overcome crisis phenomena. Various methods and technologies are used to bring organizations out of crisis. In the practice of crisis management in accordance with the Law "On Insolvency (Bankruptcy)" the following procedures are applied:

- 1) observation;
- 2) financial recovery external management;
- 3) bankruptcy proceedings and settlement agreement.

In most cases, these procedures (1,2,3) do not lead to the restoration of the solvency of enterprises, but, as a rule, end in bankruptcy proceedings and their liquidation. Thus, during the “external management” procedure in 2020, the solvency of enterprises was restored only for 2.4% of enterprises out of the total number of cases for which this procedure was carried out. This indicates the ineffectiveness of the measures and technologies used in the process of bankruptcy procedures.

Anti-crisis management is an action plan aimed at increasing the efficiency of a business and implementing its development strategy in a difficult competitive and financial situation, including one aimed at overcoming the bankruptcy of an enterprise. During crisis management, the organization's business activity should increase, ensuring its financial stability.

The main goal of the anti-crisis program is the financial stabilization of the company, it is necessary to assess the degree of the company's crisis situation. A crisis situation can be characterized as insufficiently effective management of assets, receivables and payables, which causes an outflow of funds from owners and can ultimately lead to incomplete satisfaction of creditors' claims.

To stabilize the financial condition of an enterprise, economists identify two stages of possible stabilization:

- elimination of insolvency (reducing the size of the organization's current external and internal financial obligations in the short term; an increase in the amount of funds ensuring the repayment of overdue and fulfillment of urgent obligations by transferring part of the liquid current assets and part of the non-current assets into cash);
- restoring the financial stability of the organization (reducing the consumption of financial resources, increasing its own financial resources); ensuring financial balance in the long term (introduction of new types of profitable products, improving product quality, improving its consumer properties; reducing lead times for product sales; cost reduction through the use of new effective technologies; acceleration of turnover of current assets; etc.). In turn, strengthening the financial stability of an organization is possible only as a result of increasing its business activity. Assessing business activity allows you to determine how effectively an enterprise uses its funds. Indicators characterizing business activity include indicators of dynamics (profit, revenue and assets), turnover ratio and profitability.

The assessment of business activity involves an analysis of the results and effectiveness of current core production activities; however, it must also be used in assessing the continuity of the organization's activities.

Crisis symptoms observed in manufacturing enterprises, for example, low level of capacity utilization, unprofitable operations or low profitability for a long time, a sharp deterioration in financial condition, can call into question the continuity of the organization's activities. The continuity assessment methodology includes, as its constituent elements, an analysis of financial characteristics, an analysis of production characteristics, and an analysis of market characteristics. This methodology contains the indicators of business activity discussed above.

“The assessment and management of continuity must be linked to the bankruptcy diagnosis; built into the organization's risk management system.

In our opinion, it is necessary to diagnose the signs of bankruptcy. From the point of view of scientist A.P. Garnova [1], “Diagnosis of an organization's bankruptcy always begins with identifying early signs

of financial insolvency. These signs include: a sharp decrease in funds in the organization's accounts; significant increase in accounts receivable and accounts payable; a significant reduction in accounts receivable while simultaneously increasing balances of finished products (overstocking); imbalance of accounts receivable and accounts payable; simultaneous reduction of receivables and payables; presence and growth of losses; reduction in sales revenue; lack of own working capital. "During express diagnostics, in addition to identifying early signs, it is also necessary to determine the structure of the enterprise's balance sheet (satisfactory or unsatisfactory). To assess the likelihood of bankruptcy of an organization, two criteria are used: - current liquidity ratio; - coefficient of provision with own working capital.

The main role in the analysis of the bankruptcy of an enterprise is played by financial analysis, during which, for arbitration managers, coefficients are calculated that characterize: the solvency of the debtor, the financial stability and business activity of the debtor.

Thus, assessing business activity indicators and predicting the likelihood of bankruptcy are an integral part and contribute to the construction of a unified system of anti-crisis management of the activities of commercial organizations.

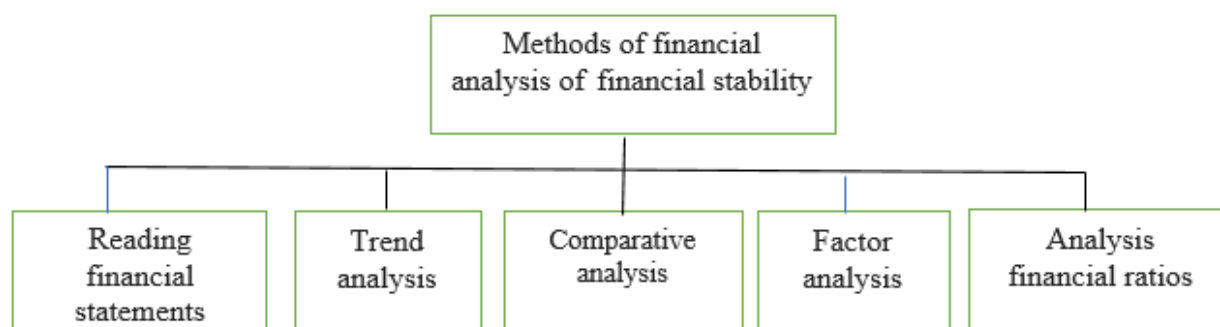


Figure 1. Methodology of financial analysis.

The primary goal of financial analysis of financial stability and business activity is to determine the highest priority indicators that represent the most complete and objective picture of the financial condition of the organization.

Such indicators may be fluctuations in the structure of assets and liabilities, the value of the financial result, the value of return on equity, assets, sales, changes in the turnover ratio of assets and equity, as well as settlements with creditors and debtors.

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