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INDICATORS AND CRITERIA FOR ANALYZING SOLVENCY AND LIQUIDITY OF ENTERPRISES

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Abstract
This article is devoted to the consideration of the methods used in the analysis of financial sustainability and solvency of enterprises, as well as the criteria for their assessment in reliance upon the international experience.

Keywords: monitoring, financial condition, financial sustainability, solvency, reinvestment, economic insolvency.

Introduction

The processes of globalization, which is currently going on throughout the world, the priorities of modernization and renewal of our country, along with all sectors and industries, require improvement of entrepreneurial activity, assessment of its financial condition. Herewith the crucial task is to analyze the solvency of small businesses and private entrepreneurship entities. Solvency of the enterprise is the ability of the economic entity to pay its obligations and payables in due time and to the fullest extent. Solvency is one of the basic indicators of the financial sustainability of the enterprise.

The procedure for performing the analysis of the financial and economic position of the state-owned enterprises in our country is regulated by a government resolution.

The aim of analyzing financial position is to identify the signs of economic risk and economic insolvency and to elaborate the proposal for further financial recovery, sale of the public assets or the application of bankruptcy principle.[2]

Economic entities with and without a state share in the authorized fund (charter capital) may apply the rules specified in the government resolution to perform the analysis of the financial and economic condition of the company by the relevant resolution of the governing bodies [1].

Literature Review

The issues of improving the analysis of the financial and economic situation and solvency of economic entities have been researched by scholars of our country and the Commonwealth of Independent States in relation to specific research objects.[3]

In the economic literary sources, in the opinion of the professor. Sheremet A.D., the total solvency ratio is calculated with the use of the following formula: by dividing all assets of the enterprise (except for the debts of the founders) into liabilities of the enterprise (long-term and short-term) [4; 307].

The scholar-economist professor Pardaev M.K in his research states that "The solvency of economic entities is usually determined by comparing all debts with their assets:

Solvency ratio of the enterprise = the amount of liquid assets of the enterprise : the value of all debts of the enterprise.

The amount of this ratio should be greater than 1. If this is achieved, the enterprise may be able to pay (considered solvent).

Herewith, all the debts of the enterprise include not only current liabilities, but also long-term indebtedness. It is possible to include all current assets and long-term assets in its payable funds" [5].

A well-known scholar-economist Akramov E.A. in his book "Analysis of the financial condition of enterprises" expresses an opinion, that "In the overall assessment of the financial condition of enterprises, the analysis of changes in the dynamics and composition of their funds is of great importance, because the dynamic and structural changes in funds constitute one of the factors determining the financial condition.

In this regard, relevant conclusions have been made and recommendations have been developed in reliance upon the indicators of dynamic and structural changes in the sources of funds of the enterprise, the dynamics and composition of the inventories of the enterprise, i.e. working capital" [6].

Research Methodology

The article presents the research aimed at improving the criteria for monitoring financial and economic condition of enterprises and analyzing their solvency, as well as determines specific objectives. Such research methods as analysis, synthesis, grouping, comparison and coefficient methods have been widely applied in this research.

On the issues of analysis of the financial and economic condition of the enterprise, efficiency and solvency have been reflected in the researches conducted by foreign scholars M.I. Bakanov, A.D. Sheremet, L. Bernstein, N.P. Lyubushin, G.V. Savitskaya,

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etc. Uzbek economists-scholars, such as I.T. Abdukarimov, E.A. Akramov, A. Ibragimov, N. Ishankulov, M.Yu. Rakhimov, M.B. Kalonov, B.I. Isroilov, M.K. Pardaev, J.I. Isroilov, B.A. Khasanov [7], Yarkulova M.A. [8], Akram A. Khashimov [9], Khasanova R.B. [10], B.Akramov [11], Kenjaeva Farangiz [12], A.H.Shoalimov, F.I.Isaev, Y.A.Abdullaev, have investigated some aspects of this issue as well.

Analysis and Results

Solvency (coverage) ratio reflects the ability of the enterprise to settle current liabilities and current assets with suppliers, employees, banks and tax authorities in due time. A decrease in this ratio in compression with the established criteria implies that the solvency of the enterprise has declined.

According to the current statutory acts, this ratio is calculated using the following formula:

$$\mathbf{S_r = \frac{Current\ assets}{Current\ liabilities} = \frac{A_2}{L_2 - L_{lt}}}$$

Here,

A_2 — current assets (production inventories, finished goods, cash, debtors, etc.), part II of assets of the balance sheet, line 390;

L_2 — liabilities, part II of liabilities of the balance sheet, line 770;

L_{lt}— long-term liabilities, part II of liabilities of the balance sheet, line 490.

If the solvency ratio is less than 1.25 at the end of the reporting period, the enterprise is considered insolvent [1].

As examplified by “GLOBAL KOMSCO DAEWOO” Limited Liability we make the following calculations (in thousand UZS) [3]:

The analysis illustrates, that by the beginning of 2020, the solvency indicator of this company was high. This was mainly due to an increase in cash, which is considered the most liquid asset, compared to the beginning of the year.

$$S_r = \frac{A_2}{L_2 - L_{lt}} = \frac{118\ 383\ 936{,}77}{13\ 136\ 354{,}38} = 9{,}01$$

By the end of 2020, we will see that the solvency of the enterprise has decreased compared to the beginning of the year. This is due to the fact that the current liabilities of the company increased almost 3 times. However, in general, the fact that the solvency of this company is higher than the established criterion, i.e. the ratio is greater, than 1.25, indicates its financial sustainability.

$$S_r = \frac{A_2}{L_2 - L_{lt}} = \frac{170\,230\,866{,}51}{34\,089\,449{,}74} = 5{,}0$$

Table 1 Criteria for conducting an analysis and assessment of the financial and economic condition of economic entities

	Indicators	Economic unsustainability
	Primary indicators	
1.	Solvency (coverage) ratio (Sr)	Sr < 1,25
2.	Equity ratio (own funds ratio) (Re)	Re < 0,2
3.	Return on assets and expenses (Ra, Re)	Ra, Re < 0
	Supplementary indicators	
1.	Short-term debt to equity ratio (Res)	Res < 1,25
2.	Production capacity utilization rate actor (Rpc)	Rpc < 0,5
3.	Depreciation rate of fixed assets (Rdep)	Rdep < 0,5

Source. Financial analysis. Textbook/ B.A.Khasanov, M.Y.Rakhimov et al. – T.: “Iqtisodiyot” Publishing house, 2019. – 736 p. [2; 636].

Moreover, practical research shows that the analysis of solvency is an essential factor in the analysis of economic insolvency of enterprises. It uses a system of indicators comprising three groups:

1. Availability of accounts payable with a term of over 3 months and the negative rate of return.
2. Indicators of solvency, circulating capital ratio.
3. Indicators such as return on assets, the ratio of equity and foreign capital, the use of production capacity, depreciation of fixed assets are included.

When an enterprise becomes economically insolvent, not only current assets and liabilities but also long-term assets are attracted as a source of financing. From this point of view, it is possible to distinguish two factors that affect solvency. These are the following:

1. Availability of assets (long-term and current assets) sufficient to cover all liabilities of the enterprise.

2. Liquidity level of total assets on the balance sheet of the enterprise. It is the ability to monetize assets in case of necessity.

It should be noted that in practice, management staff focuses on settling current liabilities during the reporting period, neglecting the accumulation of long-term assets, in particular, investments and financial placements, which are a significant

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source of long-term liabilities. This, in turn, results in the increase in the consumer fund instead of reinvestment in the profit-sharing process. Ultimately, the sustainable and promising development of the enterprise may be jeopardized.
In assessing the cash flow of current assets, which is the basis of the current solvency of the enterprise, it is required to pay particular attention to the value of net assets.
Net assets are the value of long-term and current assets provided by the economic entity with its equity, i.e. the value of property that is exempted from the debt obligations of the enterprise.
The value of net assets is calculated using the following formula:

Net assets (Na) = Assets – Liabilities

At the beginning of the reporting year, the value of net assets of “GLOBAL KOMSCO DAEWOO” LLC, which is the object of our research, is as follows:

$$Na_0 = 176\ 577\ 989{,}74 - 231\ 810\ 234{,}38 = -55\ 232\ 244{,}64$$
$$Na_1 = 243\ 882\ 605{,}25 - 264\ 581\ 689{,}74 = -20\ 699\ 084{,}49$$

The main reason for the issuance of the company’s net assets with “–” sign is that the losses from exchange rate differences in previous years have been accumulating and decreasing from the current year’s profit.
The experience has demonstrated that there may be a mismatch between the liquidity of assets and the maturity of liabilities. When an enterprise has a significant share of long-term assets (low-liquid assets) that are more difficult to sell on the one hand, and short-term liabilities on the other hand, it may face economic insolvency due to inadequate funds to meet its current liabilities.

Conclusion and Proposals

In the process of monitoring financial and economic condition of economic entities and studying the analysis of solvency, the following conclusions have been worked out:

1. Foreign and domestic schloars do not have a single point of view on the solvency ratio calculation. It is obvious, that the criterion (limit) of these ratios is between 1 and 2 range. This, in turn, complicates identification of the economic insolvency of enterprises and introduce the reorganization institution.
2. We consider it expedient to classify the solvency ratio by sectors and industries of the economy, as the value of goods in commercial enterprises has a large share in

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the share of total assets and the low level of liabilities makes it in the range of between 10 and 20. As a result, this ratio loses its profitability value.

3. In assessing the financial condition of enterprises, the generality and specificity between the solvency and liquidity ratios are misinterpreted in many economic literary sources. In our view, liquidity ratios are an integral part of overall solvency. Current, absolute and rapid liquidity ratios constitute the basis and grounds for calculating the solvency of enterprises.
4. We believe that calculating the solvency of enterprises only by the ratio of current assets and current liabilities is not an effective method in terms of the methodology. Taking into account the international and domestic experience, when calculating the solvency, it should be calculated as the ratio of total assets and liabilities of the enterprise, with the deduction of receivables on the assets of the balance sheet from the value of total assets. In terms of the methodology, it would be acceptable to deduct debts that are not yet due, from liabilities.

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