

BALANCE SHEET ANALYSIS WITH THE AIM OF IMPROVING FINANCIAL REPORTING

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Abstract

This paper presents in the form of a case study the process of analysis of the balance sheet and income statement of the company Nectar. The aim of the research is to assess the financial result and financial position of a given company by examining the structure and dynamics of total income and the distribution of total income, profitability and opportunities to improve the financial position.

Keywords: financial analysis, financial reports, balance sheet, profit, performance indicators

INTRODUCTION

Financial analysis deals with the research and quantification of functional relationships that exist between balance sheet items, balance sheets and success, in order to enable a credible assessment of the financial position and activities of the company. It can be said that financial analysis is actually a set of methods, procedures and instruments for disclosing, showing and interpreting information about the condition and success of a company based on its financial statements. Generally speaking, the analysis of financial statements is an assessment of the past achievements of the company and the prediction of future achievements in the function of information support of the decision-making process, which are essentially financial decisions. The purpose of financial reporting is to provide all stakeholders (stakeholders) with information on the profitable, asset and financial position of the company, as well as changes in those positions. In this regard, the financial condition of the company is of interest to all its stakeholders. The balance sheet or financial report is an accounting, business-financial, statistical, economic and social phenomenon. The main financial statements used in the ratio analysis are the balance sheet and income statement.

LITERATURE REVIEW

If we say that the subject of analysis is the balance sheet and income statement, then the goal of any balance sheet analysis is the analysis of financial results - including the structure and

dynamics of total income and distribution of total income, sources of financial results, profitability, risk of financial results and the possibility of leaving the loss zone. as well as an analysis of the financial position, which includes analyzes of long-term and short-term financial balance, reproductive capacity, indebtedness, maintaining the real value of equity and the possibility of improving the financial position. These could be the general objectives of the analysis that financial analysts observe and study. Among the specific goals we will single out: meeting the needs of stakeholders, analyzing future trends, evaluating the performance of companies, using accounting information to make decisions, determining company policy measures, etc.

The objectives of financial analysis also differ according to the type of users of the subject analyzes. Existing and potential investors (owners and potential buyers of shares) are interested in the overall business - financial destiny of the company. Since they are risk capital investors, ie they own all net increases in the company's net assets, as well as they bear all losses of the company during business and in case of liquidation, they also demand the broadest and most comprehensive goals of financial statement analysis. Of course, they are interested, in addition to current and future financial security, also current and future liquidity, but also the profitability of the company. The most important thing for shareholders is, first of all, information about the current earning power, as well as the projection of the future earning power of the company whose shares it owns, ie whose shares it will potentially buy. The interests of creditors are different from the previously described requirements of shareholders. Long-term creditors are bond buyers and long-term lenders. Common for bond buyers and providers of long-term loans is that their receivables are long-term tied in the company, ie that they are under long-term repayment by the company. Having in mind their position, the basic goals of financial analysis that are important to them, unlike the goals of shareholders, are mostly focused on indicators of long-term financial security of companies and forecasts of cash flows. Short-term creditors are short-term creditors of the company, suppliers and other short-term creditors (creditors whose claims are tied to the company for up to one year). The goal of financial analysis, which primarily interests them, is primarily the short-term financial security of the company from which they claim. Previously, short-term creditors expect to collect their receivables with interest within one year. There are of course other external users of financial statement analysis with different requirements from the analysis. The union, for example, is interested in long-term job security, long-term maintenance, growth and development of the company, the level of wages and the like. The government is interested in global information on the company's progress so far, on the company's condition and balance sheets for the day, etc.

METHODOLOGICAL FRAMEWORK OF THE RESEARCH

The subject of this paper is a detailed analysis of the official financial statements of the limited liability company Nectar. The research presented in the paper is based on the analysis of the official set of basic financial reports, as well as other publicly available data on the company. The subject of the research is the analysis of publicly published regular annual reports of the company Nectar. In order for the analysis to be more detailed and precise, we will use the balance sheets in the period from 2015 to 2018. The very subject of this research has gained importance at this time because the quality interpretation of financial statements provides an opportunity to see a broader picture of the financial situation in the Republic of Serbia.

Nectar was chosen as the subject of analysis. as a company that deals with the production process from cooperation with fruit growers and the purchase of fruit to finished products: juices, nectars, alcoholic beverages, jams. This paper can be used for scientific purposes, due to the systematic presentation of the business analysis procedure of the company from the financial statements, as well as for social purposes, having in mind the importance of the company for the economy of the Republic of Serbia. It is especially important that in the Republic of Serbia, as a country with a very large agricultural potential, companies engaged in the processing of fruits and vegetables operate successfully. The aim of the research is to assess the financial result and financial position of a given company by examining the structure and dynamics of total income and the distribution of total income, profitability and opportunities to improve the financial position. The scientific goal of the research is to point out the importance of financial reporting of companies, from the point of view of making decisions on the issue of entering into business and financial relations. The social goal of the research is to calculate and interpret the mentioned indicators and planned balance sheet positions from the company's point of view, in order to support the decision-making process on entering credit and other financial positions in the future.

Analysis is the breaking down of facts and concepts into smaller parts and elements, which means that the subject to be analyzed needs to be complex. From the above, it can be seen that the analysis uses a deductive method, ie it starts from the general and the analysis leads to the special. The inductive method is sometimes used in the analysis, with the aim of shortening the analysis time. In this paper, we will base ourselves on the deductive method, in order to avoid the danger of error. The phases of the research are:

1. problem definition - determining the purpose, goal and task of the analysis,
2. data collection,
3. analysis of results,
4. compiling alternative solutions.

The paper starts from the general hypothesis that the company Nectar operates stably in the observed period. Special hypotheses were added to the general hypothesis:

- The amount of total revenues recorded a slight increase in the observed period.
- There is room for increasing business in foreign markets.
- Nectar is one of the socially responsible companies.

RESULTS AND DISCUSSION

The company's assets are visible in the balance sheet. It shows what the company owns, as opposed to liabilities showing where the funds come from. The assets of an enterprise constitute its assets, and the assets in the analysis of the financial statements are included in the analysis of assets. The analysis of the structure of total assets divides the assets into: unpaid subscribed capital, invested capital, operating assets and loss above the amount of capital, ie in one word business assets. Operating assets are further divided into fixed assets and current assets. Tables 1 also show the balance sheet items (assets and liabilities) for the period 2015-2018. year according to the data from the site of the Agency for Business Registers of the Republic of Serbia

Table 1: Assets of the balance sheet of the company Nectar for the period 2015- 2018. years

POSITION	STRUCTURE (%)				INDEX		
	2018	2017	2016	2015	2018	2017	2016
FIXED ASSETS	51,31	51,78	51,92	51,62	1,11	1,05	1,02
Intangible assets	0,13	0,03	0,09	0,008	17,9	4,4	1,23
Property, plant and equipment	16,22	15,08	13,92	13,12	1,38	1,21	1,08
Long term investments	34,91	36,63	37,87	38,45	1,01	1,004	0,99
Long-term receivables	0,05	0,04	0,04	0,04	1,38	0,89	0,93
CURRENT ASSETS	48,69	48,22	48,08	48,38	1,12	1,05	1,01
Supplies	28,39	30,45	30,14	29,07	1,09	1,1	1,05
Short-term receivables	11,82	12,46	10,51	10,88	1,21	1,21	0,98
Short-term financial investments	0,04	0,01	0,01	0,07	0,6	0,23	0,19

Cash equivalents and cash	7,7	4,21	6,21	7,67	1,12	0,58	0,82
Value added tax	0,02	0,23	0,54	0,25	0,1	0,99	2,17
Active accruals	0,71	0,86	0,67	0,44	1,78	2,03	1,52
TOTAL ASSETS	100	100	100	100	1,11	1,05	1,01

CONCLUSIONS

The results of the research indicate that the value of intangible investments in the observed economic entity has increased, the value of long-term financial investments has decreased, as well as the capital has increased over time. Operating revenues show moderate stagnation, but with a positive trend, which is a consequence of the positive financial result from regular operations.

By analyzing the balance sheet, we could conclude the following:

- There was a decrease in the value of long-term financial placements, while in short-term receivables there was an increase in balance sheet items.
- Capital increases in the observed period, to a greater extent in the period 2015-2016. years, than in the next observed period, but the trend is certainly positive. This may be a consequence of the increase in the value of the item "retained earnings" and positive business in the observed period.
- The amounts from the received advances tell us that the customers have confidence in working with the company Nectar.

By analyzing the income statement, we could conclude the following:

- Operating revenues show moderate stagnation in the observed period, but we can say that the trend is stable. Analyzing the structure of revenues, we concluded that Nectar generated most of its revenues from operating revenues. As a typical company should operate, these percentages are around 90%, in 2015 operating revenues accounted for 93.4%, in 2016 they accounted for 92.3%, in 2017 the share of operating revenues was 89.7% and In 2018, the share of business revenues is 91.99%. Analyzing the income statements, one can see the negative trend of financial income, but also the growth of other income. On the expenditure side, the situation is similar, with Nectar recording positive results in each of the observed years, with the highest net profit in 2017, when total revenues are the highest.
- Revenues from sales in the country are about 30% higher than revenues from sales abroad, but we should not say that the export of manufactured goods is not a statistically significant item in total revenues. One of therecommendations of this research could be that there is a space for the improvement of foreign business, which supports the second post- hypothesis.
- An increase in the amount of gross wages in the observed period may be an indicator of more stable operations and investment of the company in the income of workers, provided that there were no major deviations in the increase in the number of workers. This factor analysis could be the beginning of some new, future research.
- High difference in the burden of operating income on variable material costs in enterprises and competition can be caused by: higher physical consumption of materials, fuels,

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energy and production services per performance in enterprises than in competition, poorer structure of production performance in enterprises than in competition and poorer global parity sales and purchase prices with the company than with the competition.

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