Analytical Procedures In Conditions Of Increasing Concern For Ensuring The Profitability Of Business Entities

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Abstract: Today we live constantly in dynamics and new circumstances.Every business entity strives for constant adaptation to news, through improving results, optimization of operations, and making correct business decisions.

Hence, we emphasize the essential task of accounting, as well as the recording and presentation of the state and changes of property and the results of business entities. Based on the records, the necessary data and information are provided about the state and dynamics of the assets, liabilities, and capital, as well as about the income and expenses from the operations of the enterprises.

In this way, an insight into the state and changes in the assets and liabilities is possible, that is, an insight into the results achieved during the operation, but also the definition of the goals and tasks of the analysis of the financial statements.

Namely, defining the analytical procedure which, under specific conditions, starts from the needs and goals of the subject for whom the analysis is performed.

There are many interested parties in the financial situation, as well as the observance of the principle of profitability in enterprises.

The analysis of the financial statements in the best way shows the results obtained after its conclusion.

The multidimensional meaning of the objectives of the financial statements offers the users the analysis of the data and indicators, but also different information.

That is, interested groups such as owners, shareholders, creditors, auditors, tax authorities, potential investors, etc. have only one goal: to gain knowledge about the "financial health of the company".

Of course, all data becomes transparent, whether through ~~a~~ publication in print or electronic form.

The usefulness of the analysis is realized through the possibility to make quick and simple decisions based on insight into the financial situation and the comparison of the different financial positions.

Keywords: asset size, financial positions, balance sheets, users of financial statements, analyst.

INTRODUCTION

Financial statement analysis applies general-purpose analytical tools and methods. The assessment of financial statements can be done through the analysis of the same basic instruments in the economic management and planning of business entities.

That is, in the market environment and the free transfer of different types of resources, the indicators of the financial situation, and the growth of the property, it is necessary to observe the principle of profitability.

It is of crucial importance both at the level of business entities and more broadly for the economy and society as a whole.

It has been emphasized by many authors, both in the Macedonian and foreign literature, that financial reports offer users numerous information and data. The analysis of the balance sheets transforms the accounting data into useful information.

Hence, the objectives form the basis of the analysis, or "the analytical objectives of the financial statements refer mainly to managers, creditors, equity investors, auditors, directors, participants in the merger of enterprises, regulatory institutions and the like".[1] All doubts and reliance on premonitions, intuition, etc. are rejected through analysis.

Namely. all users have the same characteristic in the analysis, which is to gain as much insight as possible into the profitability of business entities.

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[1] Markovski, Nedev, Managerial Accounting, pp.595

The purpose of the analysis of the financial reports for these users is to supply them with strategic information to improve the efficiency and effectiveness of the operations of the enterprises.

That means users have the opportunity to see how much their capital has increased from the achieved positive financial result, i.e. the profit.

Namely, external users (shareholders, consumers, suppliers, regulators, lenders, etc.) are not directly involved in the management of enterprises.

They are interested in the analysis of financial statements to make better decisions that will be based on facts in the realization of their goals.

Certain users can receive specially prepared financial reports for their analysis needs.

That is, as an example, management discussions and analyses outside the set of financial statements can be cited. Although, through the basic financial reports, the profit and loss account, the balance sheet, the cash flow report, and the capital change report, as well as the notes from these reports, a sufficiently large volume of information about the success and operation of the enterprise is obtained.

1.USE AND IMPORTANCE OF ANALYTICAL PROCEDURES

When analyzing the financial result, it is necessary to perform the following analytical procedures:

- ✓ To analyze the structural content of the total income,
- ✓ To carry out an analysis of the situation and dynamics of the separate income positions,
- ✓ To analyze the origin of income by positions and their participation in the size of the financial result,
- ✓ To perform an analysis of the distribution of profit and to perceive the effects of the application of accounting policies,
- ✓ To analyze and evaluate profitability as a significant factor for increasing capital,
- ✓ To analyze a certain loss,
- ✓ To analyze the separate positions of expenses, that is, their condition and dynamics,
- ✓ To perform an analysis of the origin of expenses and their participation in the structure of the negative financial result, as well as
- ✓ To bring together analyses for understanding the positions in the balance sheet, as well as the balancing of its active and passive positions.

In doing so, the analyst performs analytical procedures on:

- ✓ Analyzing the structure of assets,
- ✓ Analyzing the situation and changes from a qualitative and quantitative aspect for a certain period,
- ✓ To perform an analysis of cash assets,
- ✓ To perform an analysis of claims according to time, payment deadlines, possible disputes, suspiciousness, etc.,
- ✓ Analysis of the size of the financial resources engaged,
- ✓ Analysis of investments in fixed assets,
- ✓ Analysis of the transformation of funds in the circular movement,
- ✓ Analysis of active time allocations, as a position for monitoring payments made in advance and expenses that should be converted into costs in a future period.

2.ANALYTICAL TOOLS FOR OBTAINING SIGNIFICANT INFORMATION

The management of business entities implies a set of activities during operation to achieve higher production and financial results.

Namely, the examination of the relations between the property and the analysis of the financial structure represent initial steps for the evaluation of the operations of the enterprises.

The three most common tools for analyzing financial statements are:

- *Horizontal analysis – comparison of the company's financial situation and performance over time,*
- *Vertical analysis – comparison of the company's financial situation and performance with some basic value,*
- *Analysis of indicators – a measure of key relationships between items in financial statements.*[2]

2.1.Horizontal analysis

When performing the horizontal analysis, it is necessary to compare the amounts of the financial statements from the last two or more years.

That is, to perform a side-by-side comparison of the financial amounts in each report's columns.

Through this comparison, the changes that occurred in the current period, compared to the previous period, are determined.

2.2.Trend analysis

Trend analysis should be used to perceive changes in quantifying and measuring the economic and financial performance of enterprises for a longer period (usually 10 years).

This analysis includes percentage trends in a series of financial figures and is a variation in the use of percentage change.

Trend analysis can focus on the enterprise as a whole, but often this analysis is performed on individual segments of the operation, eg. the sale.

When analyzing trends, analysts take into account the various business and geographic segments of the enterprise's activities.

In this way, information is obtained on segmental revenues and profits that reveal that not all segments are equally profitable.

Also, analysis of balance sheet item trends may involve comparing relationships between items from different financial statements.

That is, the analysis of financial statements has a role to answer the questions that are of interest to the company, that is, the management.

The management, by understanding the factors of the analyzed period, can very easily decide on the future of the enterprise.

2.3.Vertical analysis

Vertical analysis is a tool for assessing individual balance sheet items.

First of all, it is necessary to determine a key common figure that will represent our basis, and most often that figure represents the income in the income statement.

Here the balance sheet comparison shows the change in each item over time without expressing the relative importance of each item.

All individual amounts in the reports are redefined in terms of common-size percentages.

[2] Wild, Shaw, Chiappetta, "Fundamental Accounting Principles", pp.682

2.4.Analysis of indicators

Analytical indicators represent an implicit part of the analysis of financial statements. They are one of the most widely used tools of financial analysis.

Only one indicator is not a sufficient basis for a reliable assessment of business entities. A group of indicators that examine non-financial indicators and provide non-financial information is needed.

The former information is useful for financial management, but the latter information is useful for operational management which tracks the day-to-day activities that generate revenues and expenses.

Namely, indicators help us discover conditions and trends that are difficult to detect by examining individual components. Each indicator expresses the mathematical relationship between two values or measures.

Considering the permanent importance of analytical indicators, it is noted that, "everything that started in the field of analytical indicators in the USA has been maintained until today".[3]

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$\text{Net Profit Margin} = \frac{\text{Net Income}}{\text{Net Sales}}$$

$$\text{Total Assets Turnover} = \frac{\text{Net Sales}}{\text{Average Total Assets}}$$

3.ANALYSIS OF THE LOWER BREAK-EVEN POINT

In theory and practice, many authors deal with the profitability chart.

The need arises when we want to answer more questions.

"How will costs and revenues react if more sales are made?

What will happen if costs are reduced by 10%?

What effects will there be on the financial result if the prices are reduced by 5%?"[4]

In each of these questions, multiple answers can be complex. Due to the need for precise and accurate assumptions, managers are obliged to analyze the profitability chart and determine the lower profitability point. The analysis of the so-called break-even point aims to determine the point at which revenues equal expenses.

The break-even point represents the volume of production where the sale ensures that costs are covered through realization, without incurring a loss or profit.

That is, equality is,

TV + TF = RU

TV – total variable costs

[3] Horigan, A Short History of Financial Ratio Analysis, pp.248

[4] Markovski, Nedev, Accounting Of Bussiness Management, pp.61

TF – fixed costs

RU – total realization

The necessary business income to achieve a neutral business result is determined as follows:

Fixed costs x 100

% of margin share

to cover business

revenue for normal volume

of engagement

Namely, the volume of engagement ie. the degree of utilization of the real-normal capacity that provides the neutral business result is leveled as follows:

Fixed costs x 100

Margin to cover the the

normal volume of engagement

The point at which the business income is equal to the sum of the variable expenses contained in them, fixed, almost fixed costs, and net financing costs, represents the lower point that provides a neutral gross financial result, ie. the point where the gross financial result is equal to zero.

That is, the necessary business income to achieve a neutral gross financial result is determined as follows:

Fixed costs + Net financing costs x 100

% of margin participation to cover

business income

Here it can be underlined that the greater the realized income that ensures the neutral financial result, that is, the higher the degree of elasticity of the neutrally realized financial result, the lower the risk of its realization and vice versa.

CONCLUSION

The paper emphasizes the need and importance of analysis and analytical procedures.

Which means, to analyze, means to examine a certain object or phenomenon.

Namely, analyzing enterprises means analyzing and evaluating the work of an enterprise. If the analysis is performed for the needs of management, then it is performed to create a database and information for providing an easier way of decision-making and managing business processes.

Therefore, the examination and evaluation are done on the balance sheets of the business entity, that is, on the financial statements. Financial statements are of crucial importance in designing strategies and managing business entities.

Namely, the availability of data and information from such reports enable an easier way of discovering some deficiencies arising from certain operations.

The paper emphasizes the analytical procedures of balance positions with the aim of greater profitability in the work of enterprises. Because the success of the operation depends on the established productive relations, as well as successful management.

That is, the analysis of financial statements provides data and information about:

- ✓ The condition between separate parts of the asset structure,
- ✓ The condition and relationships of individual subgroups, eg stocks,
- ✓ The condition and relationships of the individual parts of the asset,
- ✓ The condition and relationships between various types of obligations of the business entity, etc.

The purpose of the paper is to emphasize the inevitability of the analysis and the interdependence of the data contained in the income statement, the balance sheet, the report on changes in capital, etc.

The analysis is necessary to assess the prospects of the enterprise.

It is necessary to distinguish between the elements of the current financial statements that show the recurring aspects of the business entity from others that reflect events only at one point in time and the probability that they will not occur in the future.

Such non-recurring items are special items, extraordinary items, discontinued operations, and changes in accounting principles.

Because, if the management achieves rational and objective decision-making and management of enterprises, successful operations with higher profitability will be achieved.

This means that the obtained analyzed data and information need to be used by managers at the right time to achieve improved results.

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