

BASICS OF THE METHODOLOGY FOR ANALYZING THE CURRENT ASSETS OF AN ECONOMIC ENTITY

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Abstract. This article is devoted to the consideration of the existing methods of asset analysis and approaches to the analysis of current assets. In addition, it presents the shortcomings of the existing methodology, suggests the author's methodology for analyzing current assets, summarizing the existing methods, adding new coefficients and clarifying the main areas of analysis of current assets of economic entities. Moreover, the article considers analysis of such elements of current assets as accounts receivable and cash. This article proposes the method of analyzing certain elements of current assets and the structure of current assets as well as justifies their influence on the final financial result.

Key words: current assets, efficiency of using current assets, stages of current assets' analysis, current assets structure, liquidity in fund raising, dynamic analysis of current assets, turnover ratio of all current assets, current assets profitability, analysis of accounts receivable, cash analysis.

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Introduction. Conditions and efficiency of using current assets to a large extent determine the financial position of the business entity. Analysis of current assets can be done in two directions: first we analyze the size and structure of current assets on a certain date, and then identify their changes over a certain period. This enables to disclose the reasons for the changes in the total value, as well as individual elements of current assets.

The first stage of the analysis is to assess the structure of assets in order to obtain general information on the financial condition of the business entity. Thus, some experts propose to calculate the ratio of the correlation of current and long-term assets. The causes of the sharp changes in the ratio are studied in the course of the analysis. So the dynamics of the absolute value and the weight of long-term and current assets are determined for this purpose. In addition to the above-stated factor, a more specific analysis of the dynamics of current assets is needed so then it is recommended to evaluate the items that made the largest contribution to the increase in the total value of current assets. Assessment of positive or negative changes in the dynamics of stocks, accounts receivable, cash should be compared with the dynamics of financial results.

Due to the difference in the efficiency of the use of current assets by business entities, in some cases, the growth of stocks may indicate an increase in the volume of activity, while in others cases may occur as a result from a decrease in business activity and a corresponding increase of current assets turnover.

The analysis of current assets is carried out not only to assess changes in the economic position of an economic entity, but also to assess its liquidity. Liquidity acts as an external indicator of financial stability, the essence of which is the provision of current assets with long-term sources of formation.

The next direction of the analysis is assessment of the turnover and profitability of current assets, as well as an analysis of their individual elements.

Indicators' turnover and its average terms characterize the business activity of the economic entity. The lower the turnover of current assets is, the greater the need to attract additional

sources of financing we have. Thus, the current assets turnover indicators are closely related to solvency and liquidity.

In the practice of the analysis, a variety of turnover ratios which can be determined both for all current assets of the economic entity as well as for their individual elements are used.

Literature review. A.D. Sheremet and Ye.V. Negashev¹ and others propose to calculate:

- *the ratio of all current assets turnover*. It characterizes the number of turnover for the period committed by each monetary unit invested in current assets and is determined by the ratio of proceeds from sales to the average value of current assets.

In our opinion, the calculation of this ratio should be clarified by introducing the indicator of the amount of income from short-term investments in the numerator. This position enables to more accurately characterize the turnover of funds, since current assets serve not only the operating, but also the investment activity of the economic entities.

Growth of turnover is estimated positively under the condition of profitable activity. If the activity is unprofitable, then the growth in the turnover of current assets leads to the acceleration in obtaining losses.

When determining revenue from sales to calculate this indicator, there is the problem of selecting the option between the amount of payment for shipped products and revenue reflected in the income statements. In the opinion of O.V. Yefimova², the key indicator is namely the volume of sales, while the amount of cash and other means of payment can be determined as the required value which is calculated taking into account the expected shipment of products.

Dynamic analysis of current assets involves not only assessment of turnover indicators, but also analysis of the profitability of using current assets.

¹ Sheremet A.D., Negashev Ye. V. Technique for financial analysis of the commercial organizations, Infra-M, 2003

² Yefimova O.V. Financial analysis: modern tools for economic decision-making: text-book, Omega-L, 2014, -351p.

The profitability of current assets is a generalized characteristic of the efficiency of their use. Profitability is a relative indicator that measures the effect obtained with the costs or resources used to achieve this effect and reflects the ratio of the economic effect value to the amount of resources and expenses. In this way one of the main key indicators is determined according to the Regulation on the criteria for assessing the performance of joint-stock companies and other economic entities with the government share Cost-Income Ratio (CIR - Cost Income Ratio)³. With regard to the analysis of the efficiency of the using current assets, the effect is correlated with the amount of funds invested in these assets.

A positive result of the activity is an increase in the values of these indicators. At the same time, the smaller the amount of funds used is, the higher their effectiveness becomes. In order to detail the analysis, it is proposed to compare the dynamics of the profitability of current assets with the same indicator calculated for all assets. Such a comparison should be based on a comprehensive analysis of the reasons for the change in the share of current assets in all assets of the economic entity. We fully agree with this approach, but in order to further detail the analysis, in our opinion, it is advisable to estimate the private profitability of individual elements of current assets in order to determine their impact on the overall profitability.

Thus, the profitability of current assets is a general indicator of the efficiency of their use. This indicator reflects the overall ability to generate profits, which is what all business structures are striving for in the market economy.

The analysis of individual elements of current assets is conducted with a view to further detailing the above analysis areas. To conduct such kind of analysis, more detailed information on the status of individual elements of current assets is required, therefore, in addition to financial reporting data information on synthetic and analytical accounts of accounting is used.

Analysis. The procedures of the analysis of the main elements of current assets are given below.

³ Regulations on the criteria of assessing efficiency of the activity of joint-stock companies and other economic entities with the share of the state (Confirmed by the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan №207 as of July 28, 2015)

1) In the process of **analyzing production stocks** it is necessary to consider the following factors: suppliers' policy regarding the supply of production stocks; permissible limits, in which the amount of reserves can fluctuate; the possibility and volume of purchases beyond regulatory requirements in anticipation of an increase in prices or a shortage of material assets; danger of depreciation and damage to property.

The most general information on the efficiency of the use of production stocks can be obtained by assessing their turnover. To calculate the turnover of production stocks it is proposed to use the ratio of the prime-cost of production to the average value of production stocks. Changes in the cost of stocks in relation to the prime-cost can occur due either to excess balances of stocks of raw materials, materials and non-completed production, or excessive stocks of finished products and goods. This may imply an increase in production or a decrease in demand for finished products and goods.

Reducing of the sticks' turnover is the basis for a more detailed analysis of production and economic processes, the effectiveness of marketing policy.

It is advisable to determine indicators of current assets' turnover both in terms of the main groups (production stocks, finished products, non-completed production), and in terms of individual types within each group.

When analyzing the size and structure of reserves, a particular attention should be given to assessing the security of an economic entity with normal carry-over stocks of raw materials, materials, finished products, and identifying unnecessary and excessive stocks.

2). The **main aim** of the analysis of **accounts receivable** is the development and justification of the policy of lending to buyers and customers, aimed at accelerating settlements and reducing the risk of non-payments.

One of the directions of such analysis is the evaluation of the age structure of accounts receivable, which makes it possible to get the accurate data on the state of settlements with

customers, identify overdue debts, and evaluate the dynamics of their repayment by separate groups of debtors.

For this purpose it is recommended to rank the accounts receivable by the terms of their occurrence. This grouping enables not only to assess the structure of the debt, but also to assess the probability of its repayment: the longer the period of arrears is, the greater the probability of non-payment happens.

To assess the liquidity of accounts receivable it is required to calculate its turnover ratio, which is determined by the ratio of proceeds from sales to the average value of receivables. There is also another calculation procedure: in the numerator of the indicator it is necessary to use the amount of credit turnover on the debtors' accounts.

3) *The analysis of monetary funds* basically implies the analysis of their flow. The aim of this stage of analysis is to assess the financial stability and profitability of an economic entity. Its starting point is the calculation of cash flows, which is carried out either directly or indirectly. Under the direct method, cash flows are calculated as the difference between cash receipts and expenses associated with their payment. With the indirect method, the starting point is the amount of profit for the analyzed period which is corrected by adding all expenses not related to cash flows (for example, depreciation charges), and subtracting all incomes not related to cash flows

The most comprehensive methodology for analyzing cash flows is proposed by N.V. Volodina⁴. The author proposes the calculation of the percentage coverage indicator which is determined by the ratio of the cash flow to the amount of interest paid. This indicator enables to understand what percentage of the interest can be paid through cash flow and to what extent the cash flow could be reduced without affecting the performance of obligations to counterparties to pay interest.

⁴ Volodina N.V. Analysis of the cash flows. Journal «Accounting», №21, 2000

Having considered the main techniques of analyzing current assets, it is possible to make a concrete conclusion that they operate both as a total sum of current assets and the value of their individual elements. The efficiency and financial stability of an economic entity is influenced not only by the volume of current assets, but also by their structure. In our opinion, the rational allocation of current assets among their components is of great importance for ensuring the continuity of operations, affects the financial performance of the business entity. At the same time, we mean the aggregate of the weights of each of their elements under the structure of current assets.

Conclusion. Having generalized existing techniques of the current assets' analysis it is possible to draw up the following conclusions:

- current assets represent a value advanced in monetary form for the formation of turnover funds that constantly flow from one functional form to another, thus ensuring the continuity of the process of production and sale of products;
- the volume and structure of current assets make an impact on the financial stability and efficiency of the activity, as well as the final financial result of the economic entity;
- existing techniques of current assets of analysis do not consider the influence of their structure on the final performance indicators.

Reference:

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