

FINANCIAL STABILITY OF THE ENTERPRISE AS THE BASIS OF ITS VIABILITY

Golubeva G.A. – second-year Master’s Degree student, supervisor: Kovalenko E.V. – Candidate of Economic Sciences, associate professor, Demidova S.Y. - a senior teacher

Federal State Budget Educational Institution of Higher Professional Education «Omsk State Agrarian University named after P.A.Stolypin», (644008, Omsk region, Omsk, Fizkulturnaya St. 8e), e-mail: galinagolubeva1@yandex.ru, elenachebot@mail.ru

Fair assessment of financial stability of the enterprise as the basis of its viability represents a very important information source to motivate and make an optimum administrative decision regarding the subject of managing. Financial stability means financial independence and the correspondence of assets and liabilities of the enterprise to the targets of its financial and managing activities. Absolute and comparative indicators of financial stability are widely used in record and analytical operation. It is the stage of the analysis that has a great significance to manage financial stability of the enterprise. The analysis of absolute and comparative indicators of financial stability was made with the help of investigated publications. It was carried out on the base of agricultural production cooperative society APC «Pushkinsky» in Omsk district of Omsk region. APC «Pushkinsky» specializes in milk production and potato growing. Finally it was revealed that financial state of this enterprise was appreciated as stable. This enterprise possesses sufficient amount of its own means but loans and credits account for the least part of its total capital.

Key words: financial stability, absolute and comparative indicators, analysis.

Fair assessment of financial stability of the enterprise as the basis of its viability represents a very important information source to motivate and make an optimum administrative decision regarding the subject of managing with the help of participants in marketing: suppliers, buyers, creditors, insurers, state, owners of enterprises, employees and managers [8].

Financial stability of the enterprise is a stable financial state of the enterprise which is ensured by high share of its own capital in the total amount of utilized finances [2, p.92].

Steady production and good sale, increased profit compared with expenses and effective use of finance – the guarantee of financial stability of the enterprise.

According to Y.P.Markin, financial stability of the enterprise means its financial independence and the correspondence of assets and liabilities to the targets of its financial and managing activities [4, p.419].

S.V.Nedosekin and M.A.Ivanov find financial stability of the enterprise as the capacity of management to function and develop, to maintain the balance of assets and liabilities in unstable internal and external surroundings which guarantees steady paying capacity and interest in investment at a permissible to risk level [5].

In D.V.Kurochkin opinion, financial stability is a part of total stability of the enterprise, the balance of financial flows, the availability of means that allow the enterprise to maintain its activity in unstable conditions of internal and external surroundings but handling credits and producing goods at minimum for owners risk level as well [3].

Absolute indicators of financial stability characterize the reserve availability and expenses of the enterprise by means of sources of forming. There are three indicators to characterize the sources of forming reserves and expenses [6].

1. The availability of own circulating capital (OCC). This indicator characterizes net circulating capital. Compared with previous period its increase shows the prosperity of the enterprise.

2. The availability of own and long-term loans as the sources of forming reserves and expenses (permanent, functional capital – FC).

3. The total size of means to form reserves and expenses (TSM).

We can assess the other aspect of financial stability. For this case it is important to find out how well the enterprise is provided with the sources to form reserves. The next indicators enable to do this [7, p.47].

1. Surplus (+) or shortage (-) of own circulating capital (Δ OCC).

2. Surplus (+) or shortage (-) of own and long-term sources of forming reserves (FC).

3. Surplus (+) or shortage (-) of the total size of basic sources to form reserves (Δ TSM).

Calculating three indications of reserve provision with the sources of their forming enables to distinguish types of financial stability. Three-dimensional indicator is used in this case:

$$S = \{S(\Delta\text{OCC}), S(\Delta\text{FC}), S(\Delta\text{TSM})\},$$

$$\text{where the function is determined by: } S(x) = \begin{cases} 1, & \text{if } x \geq 0, \\ 0, & \text{if } x \leq 0. \end{cases}$$

There are four types of financial stability:

1. Absolute stability, where three-dimensional indicator looks like $S = (1; 1; 1)$. Reserves and expenses of financial stability are completely covered by circulating capital (minimum size of reserves). The enterprise doesn't depend on loans. Such situation refers to the extreme type of financial stability and happens rather rarely. But it's not ideal because the enterprise does not utilize external financial sources in its economic activity.

2. Normal stability: $S = (0; 1; 1)$. Normal stability is characterized by optimal use of own and credit resources. Such ratio guarantees paying capacity of the enterprise.

3. Unstable financial state: $S = (0; 0; 1)$. This type is characterized by the infringement of paying capacity. However, there is the opportunity to restore it. The enterprise has to attract additional sources to cover expenses and reserves which are in a sense not «normal», that is well-founded. They may be free current means of reserve capital, funds of savings and consumption, bank loans for temporary replenishment of circulating capital.

Financial instability is considered to be normal (permissible) if the size of short-term loans and credits to form reserves and expenses does not exceed total cost of production reserves and final goods (the most liquid part of reserves and expenses).

4. Crisis financial state: $S = (0; 0; 0)$. This situation means the enterprise is nearly bankrupt as it cannot settle up with lenders, has loans non-paid at required time and overdue debit or credit debts [1, p. 554].

Comparative indicators of the rate of financial independence are financial rates which are calculated by the correlation of the balance between indicators of assets and liabilities. The analysis of ratios is carried out by comparison their significance with standards and by study their dynamics during a number of years.

The rates to characterize financial stability of the enterprise are the follows: the ratio of financial independence (autonomy); the ratio of financial intensity (dependence); the ratio of self-financing (payment of debts with the help of their own capital); the ratio of correlation between borrowed and owned capital (financial leverage); the ratio of provision with circulating capital; the ratio of mobility; the ratio of correlation of mobile and immobilized means; the ratio of assets for productive purpose; the ratio of financial stability; the ratio of bankruptcy forecast.

Absolute and comparative indicators of financial stability are widely used in record and analytical work. It is the stage of analysis that has a great significance to manage the financial stability at the enterprise.

This is the analysis of financial stability on the base of agricultural production cooperative society APC «Pushkinsky» in Omsk district of Omsk region. APC «Pushkinsky» specializes in milk production and potato growing. This enterprise cultivates 8042 hectares of agricultural land where 1500 hectares have a lease on the territory of other settlements. Applying the yearly technology, the cooperative maintains a stable total number of cattle – 920 heads. Annually the cooperative gets high results in agricultural production and holds a leading position in the district and region.

To characterize sources of forming reserves and expenses it is necessary to determine three main indicators (table 1).

Table 1 – Indicators that show the sources to form reserves and expenses at the enterprise APC «Pushkinsky» for the period 2010 – 2012 (thousands of roubles)

Indicators	2010 y.	2011y.	2012 y.	Rate of growth, %	
				2011 y. by 2010	2012 y. by 2011
Availability of circulating capital	109101	106063	105199	97,2	99,2
Availability of own and long-term borrowed sources to form reserves and expenses	120233	114307	113714	95,1	99,5
Total size of main sources to form reserves and expenses	124461	118535	118202	95,2	99,7

This table shows that all calculated indicators have positive significance. This proves the availability of total size of main sources to form reserves and expenses. It also affirms that the enterprise has enough capital to strengthen its financial stability. Exceeding the sum of working capital over lending one tells about the financial stability of this cooperative. Current assets exceed current liabilities. The availability of own and long-term loans as the sources to form reserves and expenses proves this fact. Under these circumstances the importance of the indicators has decreased during the given period of time. It refers to the increase in current liabilities by 43% and the decrease in the amount of circulating capital by 8,4%.

It is necessary to evaluate the other aspect of financial stability and to clarify how well the enterprise is provided with the sources of forming reserves (table 2).

Table 2 – Indicators that show the provision of the enterprise APC «Pushkinsky» with the sources to form reserves during the period 2010 – 2012years (thousands of roubles)

Indicators	2010 y.	2011 y.	2012 y.	Rate of growth, %	
				2011 y. by 2010	2012 y. by 2011
Surplus or shortage of circulating capital	16552	8307	678	50,19	8,2
Surplus or shortage of own and long-term sources of forming reserves	27684	16551	9193	59,79	55,5
Surplus or shortage of the total size of basic sources to form reserves	31912	20779	13681	65,11	65,8

On the whole, the enterprise APC «Pushkinsky» is provided with the sources to form reserves as there is a surplus of circulating capital, long-term sources of forming reserves and basic sources to form reserves. For the given period of time the significance of these indicators has decreased more than twice. It refers to the fact that the size of circulating capital and long-term borrowing sources has decreased but the size of reserves has increased at the same time.

According to the indicators from the table 2, we try to determine the type of financial stability at the enterprise APC «Pushkinsky» which is expressed in the table 3.

Table 3 – The type definition of the financial stability at the enterprise APC «Pushkinsky» for the period 2010 – 2012 years.

Indicators	2010 y.	2011 y.	2012 y.
Three-dimensional indicator of the type of financial stability (S)	(1, 1, 1)	(1, 1, 1)	(1, 1, 1)
Type of financial stability at the enterprise	Absolute stability	Absolute stability	Absolute stability

So, a three-dimensional indicator of the type of financial stability in dynamics is unchanged. This enterprise belongs to the absolute financial stability and it is situated in a riskless area. In the

main, the enterprise utilizes its own sources of financial resources in the main and covers reserves and expenses completely – that is the main principle of absolute financial stability.

The analysis of comparative indicators expands the idea of financial stability of the enterprise. Initial data and significance of coefficients are presented in the table 4.

Table 4 – Comparative indicators of financial stability at the enterprise APC «Pushkinsky» for the period 2010 – 2012 years.

Indicators	2010 y.	2011 y.	2012 y.	Rate of growth, %	
				2011 y. by 2010 y.	2012 y. by 2011 y.
The ratio of financial independence (autonomy)	0,91	0,93	0,92	102,1	98,9
The ratio of financial intensity (dependence)	0,09	0,07	0,08	77,7	114,2
The ratio of self-financing	10,46	13,19	11,87	126,0	89,9
The ratio of correlation between borrowed and owned capital	0,09	0,07	0,08	77,7	114,2
The ratio of provision with circulating capital	0,84	0,90	0,88	107,1	97,7
The ratio of mobility	0,50	0,41	0,40	82,0	97,5
The ratio of correlation of mobile and immobilized means	1,21	0,74	0,71	61,1	95,9
The ratio of assets for productive purpose	0,84	0,93	0,95	110,7	102,1
The ratio of financial stability	0,96	0,96	0,95	100,0	98,9
The ratio of bankruptcy forecast	0,46	0,38	0,37	82,6	97,3

According to three-year data shown in this table it is possible to come to a conclusion. All ratios of financial stability are better and correspond to standards though there has been growth and decline in some ratios. Such factors as the ratio of financial dependence and the ratio of correlation between borrowed and owned capital decreased in 2011 year but they increased in 2012 year. The importance of the mobility ratio, the ratio of correlation of mobile and immobilized means and the ratio of bankruptcy forecast have decreased. The ratio of financial stability is still at the same level.

The ratio of financial independence is high enough to improve financial stability of the enterprise. This signifies that the enterprise is able to pay off debts selling 90% of its assets formed by means of equity capital. The importance of this ratio has fluctuations and its total growth accounts for 1%.

The ratio of self-financing increased by 26% in 2011 but decreased by 10,1% in 2012 year. The growth of equity capital is lower than the growth of borrowed capital. This is the cause of such decline. The indicator corresponds to standards. In this way it gives the enterprise high paying capacity and the opportunity to get a loan as required.

The ratio of provision with circulating capital has increased by almost 5%. It depends on both the decrease in the size of circulating capital and the decrease in the size of circulating assets. This ratio is within the bounds of norm and affirms a sufficient amount of circulating capital for the APC «Pushkinsky» activities. The growth of this indicator shows the improvement of the financial state of the enterprise.

Coefficient of assets for production purposes has increased by 13 % due to growth in both total balance and fixed assets and reserves. This means that the company uses appropriate long-term borrowings to increase the property.

In general we can give the following assessment of the financial stability of the enterprise APC «Pushkinsky»: the company has sufficient working capital to cover reserves and costs, the financial condition of the company is estimated to be absolutely stable, all comparative indicators are within the recommended values, the company has sufficient own capital but loans and credits form the least share of the total assets of the company.

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