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BALANCE SHEET ANALYSIS WHILE INSTRUCTING ON FINANCIAL STATEMENTS IN ENGLISH

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Abstract. This article discusses the significance and prospects of using the results of the balance sheet analysis in instructing on financial statements in English. The balance sheet is the most important form of financial reporting of companies. The balance sheet describes the financial position of the company on the reporting date in monetary terms. According to the balance sheet, we can determine the status of inventories, calculations, availability of cash, investments. The balance sheet information is necessary for owners to control the invested capital, the management of the company - in the analysis and planning, for banks and other creditors - to assess financial stability. Therefore, the balance sheet analysis allows us to make a variety of important conclusions necessary both for the analysis of the current activities of the company and for making management decisions for the future. Practice shows that relative indicators play the key role in the analysis of the financial statement as they have a number of advantages over the absolute ones. Based on the indicators it is possible to carry out spatial comparisons between companies with different types of financial and economic activities. Thus, being relative indicators of solvency and financial stability financial ratios are widely used as a tool in the practice of financial analysis of the company. The actual values of the coefficients are compared with their recommended standards, which results in an opinion on the degree of solvency or financial stability of the company. All of the above financial ratios should be analyzed in the process of development.

Keywords: balance sheet, financial condition, liquidity, solvency, financial stability, ratio analysis, financial statements, financial ratios, normal limits, financial independence, liquid assets, cash, inventories, current liabilities, investments, working capital.

АНАЛИЗ БУХГАЛТЕРСКОГО БАЛАНСА ПРИ ОБУЧЕНИИ ФИНАНСОВОЙ ОТЧЕТНОСТИ НА АНГЛИЙСКОМ ЯЗЫКЕ

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Аннотация. В данной статье рассмотрены значение и перспективы использования результатов анализа бухгалтерского баланса при обучении финансовой отчетности на английском языке. Бухгалтерский баланс является важнейшей из всех форм финансовой отчетности организаций. Бухгалтерский баланс характеризует в денежной оценке финансовое положение организации по состоянию на отчетную дату. По балансу можно определить состояние материальных запасов, расчетов, наличие денежных средств, инвестиций. Данные баланса необходимы собственникам для контроля над вложенным капиталом, руководству организации – при анализе и планировании, банкам и другим кредиторам – для оценки финансовой устойчивости. Поэтому анализ бухгалтерского баланса позволяет сделать ряд важных выводов, необходимых как для анализа текущей деятельности организации, так и для принятия управленческих решений на перспективу. Практика показывает, что наибольшее значение в процессе анализа финансового состояния организации имеют относительные показатели. Они обладают рядом преимуществ перед абсолютными. На их основе возможно проводить пространственные сопоставления между организациями с различными видами финансово-хозяйственной деятельности. В практике финансового анализа в качестве инструментария широко используются финансовые коэффициенты, которые представляют собой относительные показатели платежеспособности и финансовой устойчивости организации. Фактические значения коэффициентов сравнивают с их рекомендуемыми нормативами, в результате чего формируют мнение о степени платежеспособности организации или ее финансовой устойчивости. Все перечисленные выше финансовые коэффициенты целесообразно анализировать в динамике.

Ключевые слова: бухгалтерский баланс, финансовое состояние, ликвидность, платежеспособность, финансовая устойчивость, коэффициентный анализ, финансовая отчетность, финансовые коэффициенты, нормальное ограничение, финансовая независимость, ликвидные активы, денежные средства, материальные запасы, текущие обязательства, инвестиции, рабочий капитал.

The balance sheet is one of the three fundamental financial statements and is key to both financial modeling and accounting. The balance sheet displays the company's total assets, and how these assets are financed, through either debt or equity. It is a statement of financial position of each company. The balance sheet is based on the fundamental equation:

$$Assets = Liabilities + Equity \quad (1)$$

The balance sheet is divided into two sides (or sections). The left side of the balance sheet outlines all of a company's assets. On the right side, the balance sheet outlines the companies' liabilities and shareholders' equity. On either side, the main line items are generally classified by liquidity. More liquid accounts such as inventory, cash, and trades payables are placed before illiquid accounts such as plant, property, and equipment (PP&E) and long-term debt. The assets and liabilities are also separated into two categories: current assets/liabilities and non-current (term) assets/liabilities.

The most liquid of all assets, cash, appears on the first line of the balance sheet. Cash equivalents are also lumped under this line item. They include assets that have short-term maturities under three months or assets that the company can liquidate on short notice, such as marketable securities. Companies will generally disclose what equivalents it includes in the footnotes to the balance sheet.

Accounts receivable includes the balance of all sales revenue still on credit, net of any allowances for doubtful accounts (which generates a bad debt expense). As companies recover accounts receivables, this account decreases and cash increases by the same amount.

Inventory includes amounts for raw materials, work-in-progress goods, and finished goods. The company uses this account when it reports sales of goods, generally under cost of goods sold in the income statement.

Non-current assets: property, plant, and equipment (also known as PP&E) capture the company's tangible fixed assets. This line item is noted net of depreciation. Some companies will class out their PP&E by the different types of assets, such as land, building, and various types of equipment. All PP&E is depreciable except for land.

Intangible assets includes all of the company's intangible fixed assets, which may or may not be identifiable. Identifiable intangible assets include patents, licenses, and secret formulas. Unidentifiable intangible assets include brand and goodwill.

Accounts payables, or AP, is the amount a company owes suppliers for items or services purchased on credit. As the company pays off their AP, it decreases along with an equal amount decrease to the cash account.

Current debt includes non-AP obligations that are due within one year's time or within one operating cycle for the company (whichever is longest). Notes payable may also have a long-term version, which includes notes with a maturity of more than one year.

Current portion of long-term debt can or cannot be lumped together with the above account, Current Debt. While they may seem similar, the current portion of long-term debt is specifically the portion due within this year of a piece of debt that has a maturity of more than one year. For example, if a company gets a loan from a bank, to be paid back in 5-years, this account will include the portion of that loan due in the next year.

Non-current liabilities consist of bonds payable and long-term debt. Non-current liabilities includes the amortized amount of any bonds the company has issued. Long-term debt includes the total amount of long-term debt (excluding the current portion, if that account is present under current liabilities). This account is derived from the debt schedule, which outlines all of the company's outstanding debt, the interest expense, and the principal repayment for every period.

Shareholders' equity consists of share capital and retained earnings. The share capital is the value of funds that shareholders have invested in the company. When a company is first formed, shareholders will typically put in cash.

Retained earnings are the total amount of net income the company decides to keep. Every period, a company may pay out dividends from its net income. Any amount remaining (or exceeding) is added to (deducted from) retained earnings.

The balance sheet is the most important form of financial reporting of companies. This statement is a great way to analyze a company's financial position. An analyst can generally use the balance sheet to calculate a lot of financial ratios that help determine how well a company is performing, how liquid or solvent a company is, and how efficient it is.

Changes in balance sheet accounts are also used to calculate cash flow in the cash flow statement. For example, a positive change in plant, property, and equipment is equal to capital expenditure minus depreciation expense. If depreciation expense is known, capital expenditure can be calculated and included as a cash outflow under cash flow from investing in the cash flow statement.

Comparing a company's current assets to its current liabilities provides a picture of liquidity. Current assets should be greater than current liabilities so the company can cover its short-term obligations. The current ratio and the quick ratio are examples of liquidity financial metrics.

Coefficient analysis is the main component of financial analysis. Basically, the coefficient analysis acts as a system of extended initial analysis of financial statements. The purpose of this analysis is to provide information on various financial transactions, the functioning of the organization and, above all, its financial condition.

This information is widely used in the management of both external and internal users of information: creditors, contractors, investors, auditors, etc.

The methodology of the coefficient analysis of the financial condition of the organization has its own characteristics. Basically, the coefficient analysis is carried out in stages for each block of financial ratios.

The method of coefficient analysis is a quantitative study and is based mainly on the relationship between different indicators of financial statements. Currently, there is a fairly extensive set of financial indicators that can be calculated and evaluated based on their actual values for different companies.

Coefficient analysis is one of the most common and frequently used methods of analysis. It allows you to trace the relationship between indicators and highlight trends. In practice, the analyst usually does not calculate the entire number of indicators contained in a group, but chooses the most significant ones and combines them with other analysis tools. However, if you calculate an excessive number of indicators of the coefficient analysis, in the end it may be ineffective and confuse the financial analysis. Therefore, in practice, a limited set of more effective indicators is usually used, on the basis of which the various aspects of the financial activities of the organization are assessed.

The coefficient analysis should take into account the possibility of non-comparability of the obtained values due to either changes in macroeconomic conditions in the economy or differences in the construction of individual indicators. The name of the areas of analysis of indicators used in the literature in which analytical indicators are classified is not uniform.

According to Ustinova O.E., "…taking into account that the listed indicators have their advantages and disadvantages, company managers are interested in using the best methods for evaluating capital, including intellectual assets, in order to minimize risks when making management decisions" [1].

Table 1 presents the relative solvency indicators, their normative values as well as the calculation of these indicators.

Table 1 - Financial ratios of the organization's solvency

The name of the coefficient	Conven-tion	Calculation formula	Normal limit
1. The General solvency ratio	L_1	$\frac{A1+0{,}5A2+0{,}3A3}{P1+0{,}5P2+0{,}3P3}$	≥ 1,0
2.Absolute liquidity ratio	L_2	$\frac{A1}{P1+P2}$	≥0,2-0,7
3.Intermediate coating ratio	L_3	$\frac{A1+A2}{P1+P2}$	0,7-1,2; Preferably ≈ 1,0
4.Current liquidity ratio	L_4	$\frac{A1+A2+A3}{P1+P2}$	Valid value 1,2:1,7 High 2,0 – 3,5
5.The flexibility ratio operating capital	L_5	$\frac{A3}{(A1+A2+A3)-(П1+П2)}$	Decrease in dynamics – positive factor
6.Share of working capital in assets	L_6	$\frac{A1+A2+A3}{\text{Balance sheet total}}$	≥ 0,5
7.Self-sufficiency ratio	L_7	$\frac{P4-A4}{A1+A2+A3}$	≥ 0,05:0,5 (the higher the better)

While doing the coefficient financial analysis it is recommended to use indicators listed in table 1, namely, in its solvency part. These indicators are of interest not only to the management of the organization but to external parties as well. The absolute liquidity ratio is important to suppliers, the quick liquidity ratio - bankers, and the current liquidity ratio - investors.

The overall solvency of an organization is defined as the ability to cover all of the organization's liabilities (short-term and long-term) with all of its assets. For a comprehensive assessment of the solvency of the organization it is recommended to use the General solvency indicator (L1). This indicator shows the ratio of the amount of all liquid assets of the organization to the amount of all payment obligations (short-term, long-term, medium-term). It is provided that the various groups of liquid assets and payment obligations are included in these amounts with certain weighting factors, taking into account their importance in terms of the timing of receipt of funds and repayment of obligations. The value of this coefficient must be higher than or equal to 1.

According to the Russian economists L.V. Dontsova and N.A. Nikiforova, it is necessary to calculate and evaluate the following factors of financial stability for conducting a comprehensive analysis of financial stability [2]:

Table 2 - Financial stability Indicators

Name of indicator	Method of calculation (according to the Balance sheet)	Normal limit
1. Capitalization ratio (shoulder of financial leverage)	$U_1 = \frac{\text{Debt capital}}{\text{Equity}}$	Not more than 1.5
2. Factor of availability of own sources of financing	$U_2 = \frac{\text{Equity} - \text{Non-current assets}}{\text{Current assets}}$	Lower limit 0,1; optimal value $U_2 \geq 0.5$
3. Financial independence ratio (autonomy)	$U_3 = \frac{\text{Equity}}{\text{Total Balance}}$	$U_3 \geq 0{,}4\text{-}0{,}6$
4. Funding ratio	$U_4 = \frac{\text{Equity}}{\text{Debt capital}}$	$U_4 \geq 0{,}7$; optimal value ≈ 1.5
5. The ratio of financial stability	$U_5 = \frac{\text{Equity+long term liabilities}}{\text{Total Balance}}$	$U_5 \geq 0{,}6$

The capitalization ratio (U1) shows how many borrowed funds the organization raised per 1 ruble invested in the assets of its own funds. The smaller the value of capitalization, the more stable the financial position of the organization is.

The coefficient of security of own funds (U2) characterizes the security of all current assets of the organization's own working capital. The formula for the calculation is similar to the formula (L7). Growth in dynamics is considered a positive sign.

The coefficient of autonomy (U3) characterizes independence from borrowed sources. The growth of this coefficient in the dynamics indicates an increase in financial independence, reducing the risk of financial difficulties.

The financial stability factor (U5) shows how much of the asset is financed from sustainable sources.

Thus, in our opinion, in assessing the financial stability of the organization coefficient method should be considered as rather convenient and practical because it calculates and evaluates the financial structure of the capital. Analysis and assessment of financial stability should play a key role in a comprehensive analysis of the financial condition of the organization.

In modern conditions, financial analysis becomes one of the most important tools for managing a company, which is based on evaluating the effectiveness of managing its resources by calculating various indicators, parameters, coefficients and multipliers. Financial analysis is used by the company itself, as well as by external users or market participants in various transactions.

The economy of our country is going through a difficult period, which is aggravated by endless sanctions and difficult economic conditions in the world, which in turn affects the level of sustainable development of Russian economic entities. The primary problem of instability in terms of sustainable development of Russian companies is determined by the inability of economic entities to respond effectively to changes in the internal and external environment. In this regard, there is a need to establish an effective mechanism for managing sustainable development. [3].

In the current activities of organizations, financial analysis is used to assess the financial condition of an enterprise, establish restrictions in the formation of its plans and budgets, evaluate projected and achieved results, etc. However, many owners and top managers still underestimate the importance of financial literacy in this area. Some of them continue to believe that the main thing in their activities is to ensure the company's operational activities, which is the basis of financial success. However, such an approach in the context of increasing competition in the market can lead to loss of business management, financial flows, and underutilization of market opportunities. In this regard, there is a need to develop a financial culture not only for senior managers of companies, but also for professional managers.

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