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## *Analysis Methods Procedures for Assessing the Stability of Business Entity*

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**Abstract:** *This article presents a set of indicators characterizing the performance, evaluation and diagnosis of the entity's financial stability. Any entity is regarded as a social - economic system which open's specific particularities. Analysis of the financial stability of any economic agent is the most prominent feature of the work and financial well-being - its economic, development involves the analysis result of its current and future, contains the information required for the investor, while commercial enterprise reflects the ability to cope debts and obligations and sets the size of the necessary resources for long-term development. Analysis of financial condition and solvency entrepreneurial structures with trade is made based on the use of different assessment methods in dynamic business processes. In the process of promoting commercial entities activity analysis using financial ratios are calculated on the basis of the main accounting documents. For a more thorough analysis of business enterprises use special research reports based on data production and administrative records. Evaluation is a component of management science and is one of the most developed and complex market conditions, being part of financial management. Making assessment of commercial enterprises is needed not only when the company is in decay, but also when the company "has a good health", but want to improve their performance. Timely assessment of entrepreneurial structure with trade allows taking timely and appropriate action to bring the company to a level of stable development.*

**Keywords:** *coefficients method, liquidity ratio, insurance with their own quotient, solvency ratio, stability.*

### **Introduction**

Given the profound changes that have suffered entities under the action of strong movements technological innovation, liberalization and globalization that has occurred in recent decades, achieving financial stability is one of the new challenges that face modern economies. Indeed, at the beginning of the third millennium, business entity capital flows instantly and increasingly sophisticated forms markets increasingly integrated world. In the long term, this trend favouring increased efficiency of resources allocation entity, allowing rapid adaptation of methods of financing the needs of the real economy, thanks mainly to the financial industry's innovation capacity; But before that reactivity and increased efficiency, the financial sector is not exempt from tensions and destabilizing movements, generating risks for both Actual actors of the financial system and the economy as a whole.

Analysis of the financial stability of any economic agent is the most prominent feature of the work and financial well-being - its economic, development involves the analysis result of its current and future, contains the information required for the investor, while reflecting the company's capacity to deal with debt and obligations and fixes the size of necessary resources for sustainable development.

The concept of "financial stability" is complex. A possible definition would be a situation in which the various components of the financial system - capital markets, infrastructure payments, settlement of securities transactions, compensation, financial institutions etc. - Operate without shaking and bottlenecks, each showing a high resistance to various potential hazards. However, it is more useful and perhaps more natural, the concept of " financial stability " to be define "in another way" state of the financial system as this do not appear systemic disturbances: the formation of financial bubbles or bubble explosion of such volatility excessive stock prices, reduced liquidity in certain segments abnormal market disruption in the functioning of payment systems, or limiting excessive credit growth, bankruptcies financial institutions etc.

All these phenomena can cause distortions in the allocation of scarce resources is capital, disturbing signal constellation which economic agents base their decisions: artificial prices, profitability erroneous assessments, deformed division of risks, insufficient or excessive risk premiums etc.

Due to financial phenomena that manifest in the world economy in recent decades, some authors believe that a greater risk of financial instability is the price to pay to benefit from the effects of otherwise beneficial of technological modernization, liberalization and interconnection of financial international markets. It is a hypothesis which is currently under review by numerous empirical investigations invoice. But whatever the outcome of these studies, there is no doubt that a methodical action to prevent the risk of financial instability is more necessary than ever in a world characterized by a generalized interdependence and therefore by a higher possibility of contagion and spreading global crisis. This requires a careful analysis of all the elements that constitute the natural environment of the global financial system - financial innovations, market operating principles, codes of conduct and good practice, prudential rules, strong institutions etc. - In terms of their effects on financial stability.

Ensuring financial stability is a natural concern, and lately one has become a priority for managers who top the entity. The objective of this paper is to present and develop the fundamental issues of financial stability. Designed as a summary of main knowledge in the literature field and as the authors' own research results, the paper aims to provide a basis for reflection and dialogue for scholars, practitioners and analysts. Chapter I present the content of the "financial stability", the premises of this state and sides analysis phenomena that lead to the machine and its disruption. In Chapter II, the processes are characterized method used to determine an entity's financial stability.

### **1. Defining Financial Stability Consent**

Any actives economic and financial management at all organizational levels - macroeconomic, microeconomic and territorial profile - is in its essence an activity permanent, deep and complex knowledge of the economic and financial structure of the past, present and future, permanent activity foundation of operational decisions packages, tactical and strategic action to establish ways to deliver the program and a permanent activity of enforcement decisions and systematic tracking of making them. Both the foundation and application activity current and future decisions as well as in the realization phase control decisions, an important role and mechanisms for determining the entity's financial stability.

Literature and economic practice have not yet reached a common view on the content of the concept of "financial stability", revealing his notes often starting from the opposite notion "financial instability". Thus, some authors, such as J. Foot believes that "financial instability refers to conditions in the financial markets, which affects or threatens to affect economic performance through the impact they have on the entities" [3, 3-4]. Also, A. Crockett defines "financially stability" as "absence of instability", is as "a situation in which economic performance is not affected potential fluctuations in asset prices or entities inability to meet its obligations" [2, 1-2].

In like manner a contrary, F. Mishkin believes that "financial instability occurs when shocks within the entities interfere with the flow of information in such a way that the entity is no longer able to fulfill their functions and to channel resources to the most productive destinations" [5, 7].

Generalizing, we conclude that "financial stability" is a state in which the economics of pricing, valuation, financial risk management division and works well enough to contribute to increasing the performance of the economic entity". More specifically, the "financial stability" is the state in which the entity when it is able to simultaneously fulfil the following three essential functions:

- mediation dynamic shocks smooth and effective financial resources ( transfer of funds from those who have to those who use them );
- assessing, anticipating and managing the risks involved with the relative rigor of the process;
- you suffer shock absorption and generates real economy and financial .

In light of this definition, "financial stability" is a feature that reflects the entity 's ability to determine an efficient allocation - in space and time - and resources to evaluate , divide and manage financial

risk through own mechanisms. In particular, a firm is considered stable if it meets two fundamental requirements:

- 1) Is able to lead to improved economic performance;
- 2) Allows the elimination of distortions of endogenous factors and unanticipated or adverse events.

The scope of the concept of "financial stability", as defined, in financial markets, financial institutions and their infrastructure appears as a result of the multiple links between these elements, any imbalance in the functioning of one or other of these links undermines the functioning of all others.

"Financial stability" is a dynamic feature, because the financial system state changes over time: it degrades due to various shocks they suffer components, but the system itself, however, always tends to recover under the action of specific self-regulatory mechanisms.

Under this approach, inspired by the famous work of N. Georgescu-Roegen, "The Entropy Law and the Economic Process" [4, 12-13] and that, therefore, we call it "entropic approach", the system continues nevertheless to exist and function in reasonable parameters, enabling business processes to be carried out with a certain efficacy and gradually rebalance. The "financial stability" appears as a property of the entity that allows it to adequately fulfil the role of resource allocation and mobilizing risk savings, wealth creation and stimulating, ultimately financing development and economic growth.

Therefore, like other economic concepts, the notion of "financial stability" is rather vague and intuitive. Therefore, some economists tries to increase accuracy, treating it with conceptual and analytical device using probability theory, game theory , theory of expectations, [4, 12-13 ] etc. Such approaches, which are widespread in the current economic literature, envisage the dynamic character of "financial stability" multitude of determinants (endogenous and exogenous) stochastic nature of some of the variables that describe etc.

From a practical standpoint, consistent pursuit of ensuring stability is important because this state exercises a large number of beneficial effects on the overall economic and social life.

Based on the reported propose the following definition of "financial stability" , which clearly stating "proximate genus" and "specific difference" better meet formal logic: financially stability mechanism is the feature of an entity that lies in its ability to absorb financial imbalances occurring endogenous or exogenous events due to significant and unanticipated, thereby facilitating achievement of economic performance.

The implication is that if the entity does not meet these requirements, there is the possibility of vulnerability (fragility) likely to generate "financial instability".

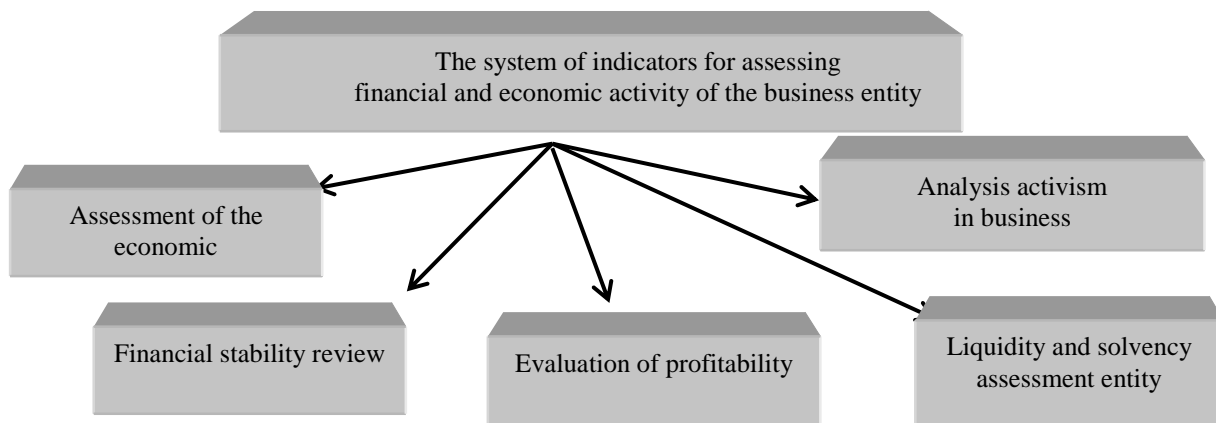
## **2. Methodological Procedures for Assessing Financial Stability of Commercial Entities**

Assessment of economic and financial situation of entities is necessary for all those involved in economic activity. Formation of anti-crisis program should be accompanied by analysis of economic and financial activity of the enterprise, its assets, liabilities, accounts receivable and payable, the level of insurance with their own etc. This will help to determine the causes of the crisis situation, establishing methods to overcome it.

Analysis of financial condition and solvency commercial entities structures is carried out based on the use of different assessment methods in dynamic business processes. In the promotion of commercial business activity analysis using financial ratios are calculated on the basis of the main accounting documents. For a more thorough analysis of business enterprises use special research reports based on data production and administrative records.

Evaluation is a component of management science and is one of the most developed and complex market conditions, being part of financial management.

Analysis of corporate entities is needed not only when the company is in decay, but also when the company "has a good health", but want to improve their performance. Evaluation of commercial entities can be made based on analytical indicators, which may have the following areas of financial analysis presented in Figure no.1.



**Figure no.1 Analytical indicators calculated on the basis of financial reports**

Balance sheet of the company reflects the value of its financial resources at the beginning and end of the reporting period. However, this information reflects the situation for a certain period of assets and liabilities and not always shows the real future trends of business activity. The carrying values of assets often do not reflect the real situation of the company.

Therefore, to declare the insolvency of the enterprise in domestic practice assessment is carried out preventive balance sheet structure in order to perform the analysis of the company's financial situation to justify commercial and administrative decision declaring unsatisfactory balance sheet structure and the company insolvent.

In our opinion, the best results of the economic analysis are those making a diagnosis operative financial situation of the company. On the one hand, financial resources are only one aspect of the organization's activities and, on the other hand, strong and stable cash flow is equivalent evaluation of all activities.

Every single aspect of entrepreneurial activity reflects the financial situation of Trade Company, which brings a certain result in cash.

Analysis of the financial situation of the company shows that some indicators exceeding the standards, while others are smaller than admissible level.

Different groups of indicators touch various financial processes: liquidity, liquidity indicator; financial efficiency, profitability indicator; lent means financial stability indicator.

Here an important role is complex analysis of the financial situation of economic subject on different parameters that characterize each area.

It deserves to be examined separately financial activity assessment methodology proposed by the Republic of Moldova law to conduct commercial entity's financial condition monitoring and recording solvency.

This methodology is based on the calculation of financial indicators and qualitative interpretation. For the analysis of financial activity are recommended for application 26 indicators:

Recommended indicators are divided into five groups:

1. General indicators;
2. Indicators of solvency and financial stability;
3. The measures of effectiveness used in working capital (business activity), profitability and financial results ;
4. The measures of effectiveness used fixed capital and investment activity.

Limits the uses of this methodology for assessing the financial activity are:

- inaccessibility of financial data needed to calculate coefficients, such as gross receipts and net settlement enterprise data with the taxation and state non-budgetary funds;
- lack of norms and values of the coefficients recommended; ambiguous interpretation of indicators (e.g.: efficiency tangible indicator);
- to calculate the indicator influences a number of articles of an regulatory nature.

**Coefficients Method** is the main instrument of commercial enterprise activity analysis. This method is related to the company's balance sheet structure analysis and evaluation on the basis of accounting reports. These indicators are considered sufficient for assessing commercial enterprise. Further characterizations of these indicators do not operate with Articles balance, which means that it is possible to make calculations without complete reporting.

Applying the coefficients method, it is possible assessing the veracity of the data presented in the reports. Analysis coefficients commercial enterprises must be accompanied by the qualitative study of the nature of risk in quality and number of clients, diversification of goods etc. The finding crisis leading financial ratios are:

- liquidity ratio ( $Klc$ );
- coefficient with its own insurance ( $Kamp$ );
- solvency coefficient ( $Ks$ ).

Liquidity ratio ( $Klc$ ) shows the insurance company's current assets necessary to conduct business and settle in for short-term obligations of the enterprise.

Liquidity ratio is calculated as the ratio of the actual value of the current assets of the company available in the form of stocks of goods and materials, finished goods, cash, receivables, current investments in current and most urgent obligations of the company in the form of bank loans short-term, short-term loans and other short-term liabilities.

Current liquidity ratio calculated as the sum of the actual value is determined liquidity ratio at the end of the reporting period and changes in the value of this coefficient between the end and the beginning of the report, recalculated for the period determined to restore (loss) of solvency.

The coefficient is represented by the following formula:

$$Klc = AC / DC, (1)$$

where: AC - current assets;  
DC - current liabilities.

Coefficient to ensure their own means ( $Kamp$ ) is determined as the difference between the volumes of its own sources and actual fixed assets and other assets extra assets reported fair value of the current assets of the company as reserves, production unfinished production finite cash, receivables and other current assets. The coefficient is represented by the formula:

$$Kamp = (VMP - VMF) / AC, (2)$$

where: VMP - the volume of own funds;  
VMF - the volume of fixed assets and other extra assets;  
AC - current assets.

Solvency coefficient ( $Ks$ ) or solvency ratio characterizes the coverage of borrowed sources total assets at its disposal. It is calculated by the formula:

$$Ks = TP / (DTL + DTS), (3)$$

where: TP - total liabilities;  
DTL - long-term debt;  
DTS - current liabilities.

Basis for recognizing the company balance sheet structure is unsatisfactory and the insolvent company performing one of the following conditions:

Klc report at the end of  $< 2$ ;  
at the end of Kamp ratio  $< 0.1$ .

Given the period of six months and that  $KLC = 2 Ks > 1$ , the company is able to restore solvency. In the absence of established values for Klc and Kamp, thus failing firm basis for recognition satisfactory balance sheet structure and where Ks is calculated for three months and is less than 1 can be adopted decision on the fact that the company in the near 't and can meet obligations to creditors.

One of the basic problems, to restore liquidity and balance sheet structure satisfactory, is to ensure the balance between cash and short-term financial liabilities, which are obtained by various methods and depending on the conditions of the real situation of the company.

Next, we perform a calculation of these coefficients, the basis of the enterprises SC "Storm" reflecting the results graphically.

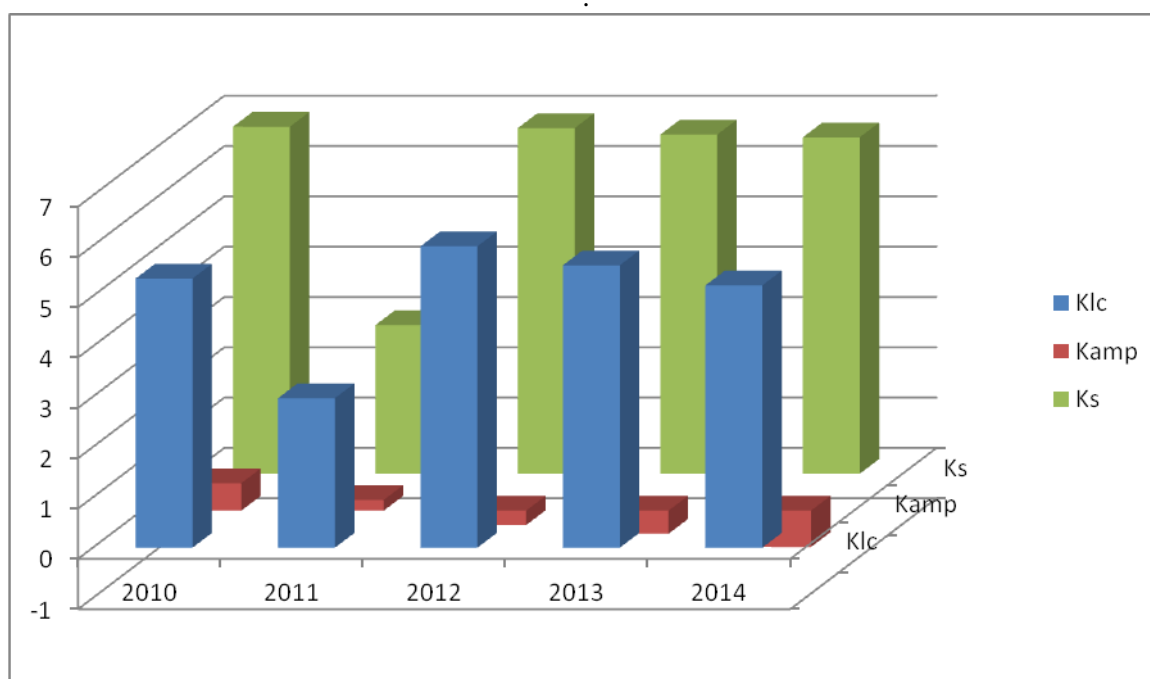
The company called "Vifor" SRL is a company founded in 2005 in accordance with the Law on Enterprise and Entrepreneurship, the Law on Limited Liability Companies and other legislative acts. . The main activity of the company is retail of food. The average number of employees at the beginning of 2015 was 15 people.

Calculation of liquidity ratio (Klc), the coefficient of ensuring their own means (Kamp) and solvency coefficient (Ks) enterprise is presented in Table no.1 [8] .

**Table no.1 Calculation of coefficients company SC "Vifor" SRL for the years 2010-2014**

Nr. crt.	The coefficient / Year	2010	2011	2012	2013	2014	Level recommended
1.	Liquidity ratio (Klc)	5,348	2,970	5,989	5,612	5,212	$\geq 2$
2.	Coefficient ensure their own means (Kamp)	0,545	0,212	-0,286	-0,458	-0,721	$\geq 0,1$
3.	Solvency coefficient (Ks)	6,898	2,955	6,872	6,742	6,687	$> 1$

Results coefficients company SC " Vifor" SRL are presented in graphical form in Figure no. 2.



**Figure no. 2. Company's coefficients results SC " Vifor" SRL management for the years 2012-2014**  
Source: prepared by the author (based on financial reports)

Performing a study in complexity of these factors within the business unit "Vifor" SRL, we observed that in 2010 the liquidity ratio is 5.348, is characterized by a poor structure of the company balance sheet, and since 2011 satisfies the second condition  $Kamp < 0.1$ , so it is necessary to use a mechanism to restore solvency efficient level.

Under the analysis of the indicators listed above can be adopted decision on:

- structure company's balance sheet (if it is unsatisfactory, the company is insolvent);
- borrowers company -the possibility to restore solvency;
- eventual drawdown solvency enterprise in the near future when it won't could honour obligations to creditors.

As an effective method of financial analysis operative activity of commercial enterprise can become stable determine 'financial strength reserve'. Reserve financial strength depends on such financial indicator as break even (turning points).

To determine this indicator are sufficient administrative report data, which makes it quicker for ongoing evaluation of the company.

Timely assessment of commercial business structure allows taking timely and appropriate action to bring the company to a level of stable development.

In case of any crisis set is required to:

- set control of the situation;
- to centralize key decisions. To review the organizational structure of the enterprise, to consolidate decisions by regulatory documents;
- to install reporting system and coordination of decisions in crucial areas of activity;
- suspend execution of dubious decisions, payments, contracts, projects etc.; to limit the amount of expenses of all kinds of resources;
- to liquid problematic areas of activity;
- to establish relationships with external and internal environment;
- to neutralize negative information about the company in crisis and formulate optimistic expectations.

In conclusion, the formation of anti-crisis program should be preceded by analysis of financial and economic activity of the enterprise, its assets, liabilities, accounts receivable and payable, the level of insurance with their own etc. This will allow to detect causes of the crisis, to establish methods to overcome it. Analysis of financial stability and solvency of business structures is carried out using different methods to study the dynamics of economic processes. These methods are distinguished by a set of indicators and methods of detection networking between them and based on the data needed to calculate the relationship between indicators.

### **Conclusions**

With globalization of financial flows and the rising level of integration of financial markets, financial stability has become a very important research topic both for operators in the trade and research.

The reasons behind this interest is that modern finance consist of a variety of public and private contracts whereby the parties seek to obtain exclusive benefits. It follows therefore that the net social benefits of finance is a sum of individual net benefits and effectiveness of private actions depend on conventions and content of public policies promoted in society. As such, the net benefits to society depend overwhelmingly on the effectiveness of the financial system becomes a valuable public good and an essential feature of such a system is stability.

Like to achieve stability is a dynamic process that is the usual state of the financial system instability, as shown and phenomena of volatility and market turbulence imbalances that lead to a wrong assessment of financial assets artificially inflate asset prices (price bubbles), numerous financial crises that have faced financial markets.

Accordingly, economists and researchers have tried to define stability through its opposite, its instability, without reaching a unanimous conclusion on its contents. We believe, however, that the analysis of markets constituent state of the financial system should start from a direct definition of stability, which is why these material authors propose a definition of stability, based on the views expressed in the literature.

The definition that we propose as a basis of discussion for further analysis is that financial stability is the state in which the economics of pricing, valuation, financial risk management division and works well enough to help increase economic performance.

Given vulnerabilities manifested in financial markets in recent decades through more intense capital flows may spread rapidly adding to the fragility of markets, financial stability has become a key objective of public policy. Special interest in the subject stems from the fact that the condition of stability of the financial system stimulates the efficient allocation of resources, allowing financial risk assessment and shock absorption.

The analytical framework for assessing financial stability includes system components, namely economic, and infrastructure markets. Depending on the results of the analysis can target political measures to prevent, remedy or resolve situations of imbalance, so that economic activity remains within acceptable stability. Such an approach falls under the responsibility of central banks and / or supervisory institutions and instruments and the strategy used should have a systemic dimension focusing rather on the whole and not on individual components. This is explained by the growing trend of integration of these markets becoming increasingly interdependent with implications for the organization of supervisory activity.

Stability analysis of commercial entities requires the adoption of tools to allow quantification of vulnerabilities that could lead to financial crises and not just those that currently exist. Such an approach is necessary in the future to identify and block the accumulation of stress transmission mechanisms other parts of the system.

The difficulty of such an approach is that crises cannot be predicted accurately due process of contagion and non linearity in the stress accumulation and transmission to the real economy.

Although there have been developed a number of techniques such as stress testing, which undoubtedly have made an important contribution to improving techniques for the analysis of risk potential commercial entities, they are still limited in terms of possibilities for modelling interactions economic and financial uncertainties in estimating the potential costs. As such, until address these limitations, the best possibility for assessing financial stability are an eclectic approach using multiple sources, indicators and models.

Given that market discipline alone does not ensure the prevention of systemic risk, central banks have a duty role in ensuring stability, for which purpose they use mainly indirect intervention tools, introduces a number of safety nets and implements surveillance system financial.

In the future, the trend will continue amending financial structures and markets increasingly complex and integrated will determine the changing nature of financial risks. For this reason, this material is desired to form a useful tool in interpreting financial vulnerabilities and risks and putting them into instruments of economic and financial policy.

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