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ENTERPRISE FINANCIAL LIQUIDITY RATING BASED ON FINANCIAL STATEMENTS

Наведено опис одного із фундаментальних інструментів фінансового управління компанією, яким є грошовий потік. Аналіз ліквідності в системі дає змогу виявити сильні і слабкі сторони компанії. Надійний аналіз і оцінка фінансового стану оператора вимагає необхідної інформації з надійних фінансових звітів.

This article was devoted to characterize one of basic financial tools - financial liquidity. Analysis of the financial liquidity in the static and dynamic layout allows for identifying strengths and weaknesses of the enterprise in the course of timely repayment of current liabilities. Credible analysis and assessment of financial situation of an economic entity require essential information from diligent financial reporting.

Introduction. All enterprises functioning in the market economy can see the basic aim of their activity as maximization of profit and growth of their value in the long run. However keeping up liquidity is enterprise's short-run aim. The realization of aims is achieved thanks to efficient management and limiting the risk of activities. Finance management and more closely managing financial liquidity has become an important area of managing enterprise's activity. Making strategic decisions requires access to a complete resource of information concerning financial condition of an enterprise and of enterprise's material situation and surroundings (broad sense). Making developmental decisions is dependent on current and forecast level of financial liquidity. Thus, economic and financial analysis and accompany data determining the financial liquidity are becoming essential elements in functioning of every modern enterprise. They contribute to minimize probability of loss of profitability and liquidity, hence avoid of possible bankruptcy as a result of the insolvency.

1. **Sources of information on financial liquidity.** Financial reporting is the main source of information on asset-capital situation of the enterprise and its financial capacity. The information offers both static and dynamic image of the enterprise pointing to tendencies of changes in its economic situation. The financial report provides essential information for a wide circle of recipients who are using them in order to make rational economic decisions. In the financial report both present owners and future investors as well as different interested groups are recipients of the presented information: workers, creditors, contractors, banks or tax organs. However, board of directors is the most important recipient of financial report. On the one hand, they are responsible for creation of this report, but on the other hand the board uses the information to carry out different kind of economic-financial analyses in order to optimize the process of decision-making in the scope of future development of the enterprise.

Financial reporting consists of a systematized set of given data taken directly from or implied by account books concerning economic activity, its results and asset-financial conditions[1]. Presented numerical data makes the valuable base for calculating indices of determining assets-capital interrelation is being characteristic of state of economic means, capital and achieved results resulting from economic activity.[2]

It is possible to describe financial reporting as a compendium of information about the economic situation of entity and the level of risk it is taking while doing business on the market. Having the in-depth information contained in the financial report enables avoid the risk in activity of the enterprise on assumption that the managing body has appropriate specialist knowledge to make use of diligently

[1] Sprawozdanie finansowe bez tajemnic, praca zbiorowa pod red. G. K. Świderskiej, Warszawa 2003, s. 1-15.
[2] T. Waśniewski, W. Skoczylas, Teoria i praktyka Analizy finansowej w przedsiębiorstwie, Warszawa 2002, s. 81-82.

prepared financial report. Financial reporting is not only suitable for carrying all analyses but also at planning, making decisions and performing internal and outside control of economic entities.

The financial report is a stronghold for the accurate measurement of the financial liquidity and after processing it to indicators it serves as a base for various analyses and assessments of financial standing of the enterprise.

An extremely important aspect in this type of measurement is high quality and credibility of financial statements, upon which an objective assessment of the company's financial situation. Any manipulation of accounting in the direction of "coloring" the situation of the company and the creation of creative accounting can lead to incorrect interpretation of financial liquidity and the false belief about the right level of this evaluation the company.

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The financial reporting documents possess synthetic contents, formal layout and fixed terms of compilation. Accountancy Act, Domestic Accounting Standards and International Accounting Standards and International Standards of the Financial Reporting regulate the scope, for and content of financial reports.

According to the Polish Accountancy Act financial report of the economic entity consists of balance sheet, profit and loss statement and additional information lead-in to financial report and the also various accompanying information[3]. At the same time joint-stock companies and economic entities which are required to include changes in own capital and report financial flows in the scope frames of the financial report. Economic units preparing their financial reports in harmony with requirements of IAS have the same duties.

Financial liquidity is of special interest to managing body due the fact that it is the main indicator of financial condition of the economic unit. For this reason financial liquidity is of interest to surrounding entities of the enterprise, to its owners and creditors.

Huge importance of financial liquidity generates the need for multifaceted analysis, helping eliminate the risk and enhance its financial condition in the future.

2. **Financial liquidity in static and dynamic perspective.** Financial liquidity is connected with ability of entity to achieve level of financial flows allowing it timely repayment of current liabilities unexpected cash expenses[4]. Hence the level of financial liquidity affects financial stability of the enterprise. Financial liquidity can be perceived from static or dynamic perspective. The static perspective concerns the balance approach towards the financial liquidity and focusing on different relations of current assets to liabilities.

In turn, dynamic approach refers to measurement of financial liquidity taking into account the stream of financial flows on different stages of activity of the enterprise and assessing the level of the possibility of covering expenses from revenue. In such enterprise financial liquidity is high enough for streams of inflows outnumber streams of leakages of cash in nominal terms at simultaneous distinct inflows are ahead of time in comparison to outflows. Analysis of reports financial flows financial (cash flow) allows application of dynamic approach towards financial liquidity.

2.1 Static analysis of the financial liquidity. Analysis of the financial liquidity in static way is based on contained data in balance sheet of the enterprise. In the static assessment of financial liquidity horizontal connections have basic meaning in balance. The special interest concerns value of current assets

[3] Act from 29th of September 1994 about acctounc, (Dz.U.2002, nr 76, poz. 694 wraz z późn. zm.).

[4] D. Wędzki, Strategie płynności przedsiębiorstwa, przepływy pieniężne a wartość dla właścicieli, Kraków 2002, s. 34.

and current liabilities, and more closely of current short-term liabilities. The static approach towards the financial liquidity is a relative measure of final state of current assets[5]. The degree of liquidity of assets and the degree of maturity of liabilities are indicators of financial liquidity and company solvency.

The board of directors of the enterprise must bear in mind the necessity of the repayment of borrowed capital and must conduct the rational economic policy having depositing financial means into high profitability solutions but bearing in mind that they should be fairly easily to cash giving the guarantee of the repayment of current liabilities of bank, merchant credit and public-legal taxes. Economic units cannot lead to circumstances when liquidity of assets will be lower than due term of borrowed capitals. Every shortening of due date of borrowed capital, especially short-term, must pull the bigger liquidity of assets. Indicators are in the scope of static analysis of financial liquidity of rotation of the current assets, the cycle of conversion of cash, changes in the size of working capital and analysis of the level of rationality in financing the long-term assets. Analysis of the short-term financial liquidity is based on definite indicators called levels of liquidity as ratios of elements of rotational assets to short-term borrowed capital. From here, the degree of liquidity of current assets and the degree of the maturity of current liabilities are basic indicators of financial liquidity[6].

The liquidity of assets is decisive of financial surviving of the enterprise in a short run because is based upon cash and its equivalents. Computing indicators of the financial liquidity is usually based on accounting criterion divides short-term rotational assets into three degrees of the liquidity:

- Short-term investments 1st degree of liquidity,
- Short-term amounts due 2nd degree of liquidity,
- Inventories 3rd degree of liquidity[7].

On the basis of this division three basic indicators of financial are constructed[8]:

- Financial liquidity and of first degree (cash) determined by ratio of current rotational assets to current obligations.
- Financial liquidity of the 2nd degree (Quick Ratio) expressed with ratio of rotational assets of I and II degree to current obligations.
- Financial liquidity of the 3rd degree (Current Ratio) calculated as ratio of assets as the whole to current obligations.

Cash ration allows assessment of the condition of the solvency of the enterprise for the moment by use cash in the bank account or of different equivalents for financial means. It offers little insight and has approximate character because it only states what portion of current obligations the enterprise is able to pay off in that moment. Customarily, recommended value of this ratio should be 10-20%. The cognitive worth of the ratio is limited and even its low value cannot be treated equally with the negative message. It can be result of the rational company policy, which is recognizing the principle that disengaged capital isn't working and it isn't bringing in a profit, a level of cash limited to the necessary minimum.

From the point of view of cognitive value and practical advantages for apt financial management the two remaining indicators are more important for financial liquidity. In literature of the subject only Quick Ratio and Current Ratio are often considered authorative[9].

Quick ratio indicates how short-term assets (relatively high liquidity) can cover current obligations. This indicator should fluctuate around the limit of 100% what is tantamount to the full ability of the company for the repayment of obligations in the payable time in a short span of time. Too high a level of the ratio can indicate high amounts of unproductive financial means in the bank vaults or high level of payments due. Too low a level of quick ratio can indicate to payment problem in the enterprise as well as it can be a cause of past sales date and connected with them current liabilities with interest for late payment. However, in the situation, when the enterprise is practising prompt repayment dates of the amounts due at longer dates, repayment of current liabilities too quick isn't posing a threat.

[5] H. Zagórski, Sprawozdawczość finansowa przedsiębiorstw podstawą monitoringu ich płynności finansowej, Zeszyty Teoretyczne Rachunkowości, tom 51 (107), Warszawa 2007, s. 181.
[6] W. Gabrusewicz, Podstawy analizy finansowej, Warszawa 2005, s. 253.
[7] To the third degree of liquidity alongside stocks also include short-term accruals.
[8] M. Sierpińska, D. Wędzki, Zarządzanie płynnością finansową w przedsiębiorstwie, Warszawa 2002, s. 58-62.
[9] T. Waśniewski, Analiza finansowa przedsiębiorstwa, Warszawa 1993, s. 307.

Current liquidity ratio has model value of 120-200% indicating the need of relatively high surplus of rotational assets over the whole of short-term borrowed capital. It serves as a indicator of safety for economic units in the scope of assets liquidity, in spite of the fact that its interpretation is made difficult due to different level of liquidity of current assets. Excessively high or low value of current ratio indicator should alert the management of the enterprise to review and assess assets-capital relations. The first alarming indicator of decrease in Current Ratio should trigger investigation into possible causes of diminishing the level of working capital. Too high a level of current ratio is indicative of over liquidity which is satisfactory from a point of view of repayment of current liabilities, but at the same time may have a negative influence on the level of profitability of the enterprise.

The division to the three degrees of the liquidity is simplified and isn't taking into consideration actual terms of liquidity in the enterprise, including settling amounts due or outdated amounts due. Hence, in order to attain bigger accuracy of detail of assessment of financial liquidity it is possible to examine rotational assets from the economic perspective[10]. Rotational assets in economic perspective consider both the real time essential to sell the given asset and its real market value.

Working capital is a next essential element of analysis of the financial liquidity. Examining it and taking care of the optimal level for the size of activity and the exploitation cycle in an given economic unit are principal responsibility of management board. Working capital is the surplus of short-term rotational assets above current obligations and is financing needs of the enterprise in the scope of the rotational assets in order to keep up the continuity of full of production cycles. For this reason financing individual elements of rotational assets should have long-term character what using for this end own and long-term borrowed capital. That way securing correct functioning of the enterprise in the scope of constant capital for prompt solvency. The more working capital is worth the more favourable image the enterprise sends. However, one should remember that the exaggerated amount of working capital can lead it to limiting the profitability on operational activity.

Effective managing of financial liquidity also requires examining the operating cycle and the cycle of conversion of cash. An operating cycle is a period in which the cash passed into economic turnover is regained as in result of payment by contractors behind delivered products or services. However the cycle of the conversion of cash is determining the amount of days, in which with constant capital operational activity of the enterprise is being financed. In order to list above cycles one should at first establish a efficiency index of inventories, the clearing cycle of short-term amounts due and the rotation of short-term obligations in days. For them an operating cycle is shorter as well as it is all the easier to hold the cycle of the conversion of the cash at correct level of the financial liquidity as connections oneself of capital with the faster return invested involved in the rotational assets. Managing the liquidity is becoming a game of on one hand a production cycle on the other the essential level and the period here of rotation of rotational assets and current obligations.

The strategy of keeping up financial liquidity requires not only analysis of the financial liquidity of short-term rotational assets, but there is a necessity of financing of fixed assets characterized by a little liquidity and high risk of return on invested capital. To reach financial independence in the long term long-lasting assets, in accordance with so-called, golden balance rule, long-term assets should be financed exclusively from own capital which indefinite date of return. It is an ideal situation which in practice rarely occurs in time of dynamic technological progress practically doesn't have the chance of happening. Enterprise which wants to be modern and to face up to world challenges using borrowed capital must take into consideration in it investment politics. It is important it is exclusively long-term capital. In the long run financial liquidity means investing own capital in financing fixed assets that is covering the long-lasting assets with own capital. To this purpose the following indicators are being used:

- First degree of covering (own capital/assets)
- Second degree of covering (own capital + long-term borrowed capita/ fixed assets).

These measures can adopt different values of individual constant capitals and the long-lasting assets.

Current indicator related to assessment of level of financial liquidity referred to one temporal moment. In order to get the more objective image of financial liquidity one should analyse financial liquidity also in the dynamic aspect.

[10] M Sierpińska, T. Jachna, Ocena przedsiębiorstwa według standardów światowych, Warszawa 1998, s. 86.

2.2 Dynamic analysis of the financial liquidity. The static approach towards the measurement of financial liquidity isn't objective in the scope of repayment of current liabilities. Hence, supplementing these analyses and assessments with information coming from the report of financial flows is necessary. Financial flows statement is becoming an important element of the financial report pointing at effects of circulating of financial means and changes in cash resources sin the enterprise. Cash flows statement introduced in the report are determining influences and expenses in the given accounting period with the division into three basic areas of activities:

- operating,
- investment,
- financial.

Financial flows statement in part of basic operating activity is pointing at the move of cash connected with operations concerning the production, trade and rendering services. In frames of this cash stream the financial flows statement can be created according to the direct method based on introducing received and expended financial means or using indirect method, in which the surplus in the form of net profit is corrected for effects of different transactions, in it depreciation and the change in the state of inventories and the amounts due and short-term liabilities. Separate statement for investment area recognizing cash operations in the scope of fixed assets. In this way we can determine not only a level of the possible financial surplus worked out as part of this activity but also point and assess the correctness of sources of financing the long-lasting assets with given capital. However in area of financial flows we deals with influences and expenses connected with operations on financial markets concerning the sphere of outside recruiting capital mainly by taking out credit and loans, emission of shares and bonds or debt securities.

Analysis of the statement of financial flows in respective areas of activity is pointing at operations occurring in the enterprise which are aimed at generating cash stores. Analysing streams of financial flows it is possible to point, which economic operations are contributing to the level of solvency and financial liquidity of the enterprise. At the same, balances from individual areas of activity enterprises and the change in the state of net financial flows permit to distinguish eight variants of developing of balances of cash flows, characterized by a different policy in the scope of functioning of the enterprise[11].

Analysis of the level of the cash with the help of the statement of financial flows serves for the dynamic assessment of financial liquidity. The negative cash balance as part of operational activity explicitly points at higher expenses than receipts. However positive value of this balance points at the surplus, thanks to which the enterprise has chances of future development using the depreciation and surpluses in the form of net profit. The cash surplus also points at possibilities of taking out credit due to the ability to pay interest[12].

Dynamic assessment of financial liquidity resists upon examining the business activity by aid of series of indicators making the relationship of the surplus of net financial means achieved in the analysed period of the time to payable expenses in the same period. Assessed here is the level of self-financing of all needed economic operational, investment and financial activity. As part of dynamic analysis of financial flows we are sketching preliminary situation of financial, and indicator analysis of the structure of financial means and perform causal analysis of the degree of the ability of the enterprise to generate cash stores[13]. On the basis of the statement of financial flows a series of different indicators which taken jointly are giving the synthetic image of state of how financial means are managed. Relations of individual balances of cash means are making the algorithm from three below mentioned areas of activity of the enterprise to different economic-financial values.

We can tidy these indicators up in three groups:

- Indicators of financial flows structure,
- Indicators of cash efficiency,
- Indicators of sufficiency of cash.

Among indicators categorised above we can distinguish those offering most insight and which are most useful in practice:

[11] L. Bednarski, Analiza finansowa w przedsiębiorstwie, Warszawa 2007, s.164.
[12] M. Sierpińska, D. Wędzki, op. cit., s. 35.
[13] T. Waśniewski, W. Skoczylas, op. cit., s. 435.

1. Indicators of the structure of financial flows:

a) indicator of the ability to generate net financial means (financial net flows from operations/(financial net flows from operations + receipts from investment activity + receipts from financial activity).

b) indicator of financing the dependence on outside resources (receipts from financial activity financial/receipts from operational activity).

c) indicators of the participation of net profit in net financial means from operational activity (net financial profit/flows from operational activity).

d) indicators of the financial self-sufficiency in the scope of financial activity (receipts from financial activity / expenses from financial activity).

Values of indicators depict structures of financial flows of the degree of self-sufficiency of an economic unit in individual areas of activities and about the participation of net profit in the stream of flows from operational activity.

2. Indicators of the cash efficiency:

a) indicators cash efficiency of sales revenues (financial net flows from operation activity/(revenues from sales of products, goods and materials + remained operating gross receipts).

b) indicator of cash efficiency of invested capital (financial net flows from operating activity/average state of invested capital).

Indicators of cash efficiency are characteristic on one hand of an influence of gross receipts from sales from operating activity and remained gross receipts, on the other hand they are characteristic of influence of invested capital on the level of the generated cash as part of operational activity.

3. Indicators of sufficiency of cash:

a) indicator of general sufficiency of cash (net financial flows from operations/(paying obligations + payment of dividends + investments in the non financial long-term assets).

b) indicator of full ability to pay all obligations (repayment of obligations/net financial flows from operational activity)

c) indicator of covering interest (interest/net financial flows from operational activity).

d) indicator of financing investments (expenses on investment/net financial flows from operational activity).

These indicators are informing enterprises of the ability of self-financing of debt from the title of obligations, covering one's expenses for the purchase of the non-cash long-term assets and intangible assets and legal intangibilities, payments of dividends to shareholders or stakeholders. They are informing about sufficiency of cash in the scope of paying interest on credit and financing investment.

Cash surpluses demonstrated in the statement of financial flows are extremely important for functioning of enterprise and its credibility and the rise in the positive cash balance from operational activity is enjoying reliability than the amount of the profit.

Growth of cash vaults from operational activity better expresses reliability of the enterprise than amount of profit[14].

Summary. The financial liquidity is an important economic category letting fit functioning of the enterprise. Keeping up the sufficient level of financial liquidity makes enterprise solvent. In-depth analysis of the financial liquidity based on statement of financial flows and static and dynamic indicators of financial liquidity is essential for assessment of financial situation of the enterprise. Besides analysis purpose it is a base of all strategic decisions. However, analysis of financial liquidity will be deprived of established cognitive and practical usefulness, if we don't base it on the credible and diligently prepared financial report. Conclusions of the financial liquidity of the enterprise are depending on data contained in balance, the profit and loss account, the statement from financial flows and different supplementing additional information making the base of enterprise functioning and its future development.

1. Bednarski L., Financial analysis in the enterprise, Warsaw, 2007. 2. Gabrusewicz of the C., The base of financial analysis, Warsaw, 2005. 3. Sierpińska the Flat, Jachna the Vol., The assessment of the

[14] T. Waśniewski, W. Skoczylas, Jak korzystać ze sprawozdania z przepływu środków pieniężnych, „Rachunkowość” 1999, nr 12.

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ДОХОДИ БЮДЖЕТНИХ УСТАНОВ ЗА МЕТОДОМ НАРАХУВАННЯ В УМОВАХ УНІФІКАЦІЇ ОБЛІКОВИХ СИСТЕМ ДЕРЖАВНОГО СЕКТОРУ ЕКОНОМІКИ

Надано критичний аналіз способів запровадження методу нарахування в облікових системах бюджетних установ України для обліку доходів від бюджетних асигнувань з урахуванням вітчизняного законодавства та економічних реалій.

There is provided critical evaluation of ways of introducing accrual basis for accounting systems of Ukrainian budgetary institutions to account for revenue allocations, considering the national legislation and economic realities.

Вступ. Уніфікацію світових облікових систем, розпочату ще у 1980–70-х роках, ініціювала Організація Об'єднаних Націй, що розробила Систему національних рахунків (СНР) (SNA або UNSNA). Пропозиція полягала в тому, що окремі країни мали використовувати СНР ООН як керівництво для побудови власних національних систем бухгалтерського обліку, з метою сприяння міжнародній порівнянності. Дотримання міжнародних стандартів обліку в державному секторі економіки не є догмою. Країни можуть адаптувати та конкретизувати їх відповідно до національних особливостей законодавства та економіки. Єдиною вимогою є дотримання методу нарахування для обліку операцій виконання кошторису та бюджету суб'єктами державного сектору, що виконує більшість країн, що належать до Організації економічного співробітництва та розвитку (ОЕСР). Метод нарахування, покладений в основу облікових систем бюджетних установ, вимагає відображати в обліку доходи та витрати у періоді їх фактичного здійснення незалежно від руху коштів, що з ними пов'язані.

У результаті реформування облікових систем державного сектору України у 1999-2000 рр. запроваджено модифікований метод нарахування. Незважаючи на те, що вказаний метод є доволі поширеним у світі (наприклад, у Канаді, Франції, Іспанії), досконалим вважають повний метод нарахування, до якого і прямує нині вітчизняна система обліку виконання кошторису.

Аналіз останніх досліджень і публікацій. Переваги повного методу нарахування для державного сектору економіки досить повно викладено у науковій літературі. Зокрема, вказана проблематика висвітлена у працях таких учених та практиків, як О. В. Кравченко, С. О. Левицька, Л. Г. Ловінська, В.М. Метелиця, С. В. Свірко, Н. М. Хорунжак, А.І. Фаріон. Водночас шляхи запровадження методу нарахування не досліджено.

Тому **метою** нашого дослідження є розроблення шляхів запровадження методу нарахування в облікових системах бюджетних установ України відповідно до вітчизняного бюджетного законодавства та економічних реалій.