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Capitalization of Accounting Information in the Analysis of the Economic and Financial Position of the Company

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Abstract

The information provided by the annual financial statements is a source of valuable data in the diagnosis of the financial condition of an economic entity in terms of visibility and credibility, the structures specific to the financial position and performance through liquidity, but also the profitability that ensures the optimal conditions for maintaining the financial balance and at the same time the efficiency of the activity.

The present study is meant to analyze the intermediate management balances in the period 2017-2021 of a company having the main activity field exploitation of salt and other non-metaleric products as well as the profitability rates as ways of analyzing economic performance in applying a discrepant method using the model proposed by Altman and Conan-Holder.

Key words: financial performance, intermediate management balances, financial profitability rates, liquidity, risk of bankruptcy
J.E.L. classification:C30, G33, M41

1. Introduction

The diagnosis of the economic and financial condition of the company aims at the use of tools for assessing the economic and financial results in order to calculate a score type indicator in detecting the risk of bankruptcy through the prism of the existing connection between suppliers, investors, customers, competitors, all of them having a common denominator / ground, such as : annual financial statements that provides relevant information regarding the performance and financial position of a company, over a long period of time.

2. Literature review

The degree of performance measurement for managers determines whether the company s goals are met ,to the extent that it faciliates the assessment of profitability for shareholders but also risk management by them.(Kopecká, 2018, pp .385-393)

The SWOT analysis is the tool through which the management of the entity looks for the viable solutions to clarify problems or to improve the activity.(Staicu, 2002, p. 16)

A sensitive topic of high relevance among specialists is the detection of financial difficulties that affect the proper functioning of the company based on the analysis of the financial report.(Altman, 1967, p.59)

Securing the neccessary funds for the current activiy of the company involves choosing a strategy that ensures a minimum cost of financing and an optimal structure of mobilized capital.The financial structure of economic entities is based on the own sources of financing (equity) and external sources of long-term funding(long-term or medium-term debt) as well as operating liabities.(Gomoi et al, 2020, pp.30-40)

In order to face the challenges manifested in the market,economic agents choose to use models of analysis of economic activity.(Simionescu, 2015, p.3)

Performance measurement involves the use of result indicators determined on the basis of the information provided by the annual financial statement ,which have a supporting role in decision-making.(Vâlceanu et al, 2005, pp.269,278,283,363)

In H.Stolowy's view performance is quantified by reporting to predetermined objectives ,this being in itself an abstract notion,a fact that involves its analysis with the help of some result indicators.(Stolowy, 1991)

A similar approach in terms of performance can also be found at Collase ,which associates terms such as profitability,efficiency,effectiveness productivity to this concept. (Collasse, 2008. pp.22-45)

Another point of view formulated by Bourguignon defines performance as:

- a success, because it is dependent on the manner of success representation by the different categories of users of accounting information;
- a result of an action, because it represents an ex-post evaluation of the results obtained;
- an action, because it is a process and not a result that appears at some point (Bourguignon, 1995, pp.61-66)

The performance of an economic entity aims at the profitability of the advanced capital, the risk assumed by investors but also the development potential of the bussiness. According to Purcărea,and Stancu the opportunity of placing the available funds must be analyzed referring to the alternatives available on the market.(Purcărea et al,2008,p.304)

The appreciation of performance must be seen as a condition of competitiveness in relation to the efficiency and productivity of the business that guarantees its resistance and existence in the market (Niculescu, 2005, p.43).Starting from this idea,we can tell the fact that financial performance presents an unstable character given the value-cost relationship and the steps taken by the company through the strategies adopted to face the pressures from the competition.(Lavalette et al, 1999, p.228)

A current problem faced by economic agents is risk ,a state of imbalance that generates significant losses ,some so serious that they can lead to the destruction of the organization. (Rusu, 2003, p.360)

Specialists in the field have signaled an imminent obstacle in anticipating the risk,because once identified it must be minimized and kept under control through the set of necessary measures imposed by the management of the organization. (Rusu et al, 2001)

4. Research methodology

For the analysis of the risk of bankruptcy we used two models, Conan -Holder and Altman. In the case of Conan and Holder the set of indicators used are represented by the own debt financing capacity, the patrimonial solvency, the performance of the patrimonial asset, the level of financial expenses, the level of staff remuneration having the Z-score ranges (-0.05-0.16). The score function for this model is customized by industry branches and it's applied to industrial enterprises with a number of employees between 10 and 500.

In the case of the model proposed by Altman, the indicators used are the return on assets reported to gross profit, the economic operator's own contribution to the financing of investments, the asset structure rate, the patrimonial efficiency, and the level of indebtedness, and the Z score range should be within the range (1.81-2.675). The score type indicator allows the early detection of the company's difficulties and, as a result, facilitates the adoption of preventive measures from the first signs of vulnerability. (Beaver, 1967, p.23)

5. Findings

To determine the set of indicators in the two models, we calculated the intermediate managements balances that represented the starting point for the Z-score method.

Table no.1 The dynamics of the interim management balances for SALROM SA in period 2017-2021

Indicators	2017	2018	2019	2020	2021
1.Trade margin	9.854.096	9.253.910	10.662.008	10.793.889	12.888.397
Revenue from sale of goods	22.106.062	21.574.700	24.933.523	23.821.658	27.657.101
The costs of goods sold	12.251.966	12.320.790	14.271.515	13.027.769	14.768.704
2. Exercise production	323.434.661	362.999.440	346.107.997	247.003.371	324.321.188
Sold production	317.170.875	353.325.994	321.494.941	214.301.679	314.033.036
Stored production	6.263.786	8.994.381	20.865.158	27.963.980	2.363.737
Capitalised production	0	679.065	3.747.898	4737712	7.924.415
3.Intermediate consumption (CI)	55.394.529	62.500.551	62.313.890	50.710.856	55.898.965
Expenses raw materials and consumable materials (Mp)	44.613.886	48.868.358	48.876.981	39.711.102	43.919.284
Other materials expenses (Acm)	0	0		0	0
Utilities (U)	10.780.643	13.632.193	13.436.909	10.999.754	11.979.681
Other external benefits (Ape)	0	0		0	0
4.Added value (VA)	277.894.228	309.752.799	294.456.115	207.086.404	281.310.620
Operating subsidies	0	0	0	0	0
Other taxes ,duties and similar expenses	0	0	0	0	0
5.Gross operating surplus(EBE)	172.312.264	200.747.415	167.454.925	80.304.991	151.720.154
6.Operating profit	107.302.626	93.503.490	84.559.489	15.837.395	70.132.300
Financial revenue	198.755	2.532.514	3.047.525	2.160.977	2.245.573
Financial expenses	375.567	361.245	519.637	462.312	579.637
7.Current result	107.125.814	95.674.759	87.087.377	17.536.060	71.798.236
8.Gross result ot the exercise	81.121.398	76.383.983	76.955.788	11.481.766	60.191.050
Profit tax	19.924.205	22.039.182	5.279.140	4.419.444	13.695.548
9.The net result of the exercise	61.197.193	54.344.801	71.676.648	7.062.322	46.495.502

Source: Own processing based on financial statements https://www.salrom.ro/rapoarte.php)

The trade margin is the first factor used through intermediate management balances in order to identify the solution and make the necessary decisions to optimize the profitability of the business, For SALROM SA in 2018, compared to 2017, the trade margin decreased by 600.186 lei due to the decrease in revenue from sales of goods with 531.362 lei and the simultaneous increase in spending on goods with cu 68.824 lei. In 2021, the trade margin increased by 3.034.301 lei because the increase in income (3.835.443 lei, by16%) was higher than the increase in expenses (1.740.935 lei, by 13%), the overall situation can be appreciated as favorable.

The production of the exercise in the case of the SALROM SA company with the main activity of the exploitation of salt and other non-metallic products, we notice a downward trend in the value of the production in the period 2017-2021 which demonstrates a reduction in the dynamism of the activity. In 2019 compared to 2018 ,the year's production increased by 39.564.779 lei, due on the hand to the increase in stored production (by 2.730.595 lei) and on the other hand to the increase in income from the sale of production(increase by 36.155.119 lei),and the increase in income from immobilized production.(by 679,095 lei).In 2021,compared to 2020,the production of the exercise increased by 31%,indicating a good situation for the analyzed period ,especially as the degree of capitalization of the exercise's production increased. We can say that the production and marketing activity of the company has developed with 74.224.216 lei (by 35,8%). Raw materials and materials expenses increased by 4.208.722 lei (by 10,8%) and utility expenses by 4.208.182 lei(by 8,9%).

In 2019, the added value increased by 31.858.571 lei (in percentage terms by 11%), mainly due to the evolution of the year's production (which registered an increase of 12%). At the same time ,there is a slight increase in expenses with raw materials and consumables of 4.254.472 lei(by 9%) and in expenses with utilities of 2.851.550 lei (by 26%).In 2021 the evolution of added value followed the same trend ,recording an increase of 929.927 lei(by 10,8%). Given the increase in production during the year, the increase in expenses represents a relatively normal development.

It can be seen that all the indicators of intermediate management balances have a positive value. The added value is high and indicates that the company has sufficient financial resources for all stakeholders involved in the company. At the same time, the net result is positive being available to stakeholders/associates for distribution in the form of dividends or reinvestments in the business.

Table no.2 The patrimonial situation of the company SALROM SA is presented in the following table for the years 2017-2021

Indicators	2017	2018	2019	2020	2021
Current assets	338.809.261	355.968.190	304.246.765	291.782.700	347.655.459
Stocks	15.255.477	12.867.458	25.060.306	40.170.855	29.937.517
TOTAL Asset	545.241.188	537.769.563	497.026.679	543.344.916	617.180.734
Net current assets	195.965.304	213.278.223	222.646.769	239.048.966	272.052.692
Equity	360.991.281	368.701.903	383.191.722	453.044.025	510.585.268
Provisions for risks and expenses	65.289.475	69.722.316	18.863.023	7.342.433	15.553.915
Permanent equity	745.902.995	757.653.470	515.889.703	550.687.349	632.734.648
Reinvested profit (retained earnings)	-22.509.958	-21.893.589	-25.222.906	72.317.870	77.226.943
Gross profit	81.121.398	76.383.983	76.955.788	11.481.766	60.191.050
Total liquidity	319.622.239	19.229.251	113.834.958	90.300.891	106.595.465

Source: Own processing based on financial statements (https://www.salrom.ro/rapoarte.php)

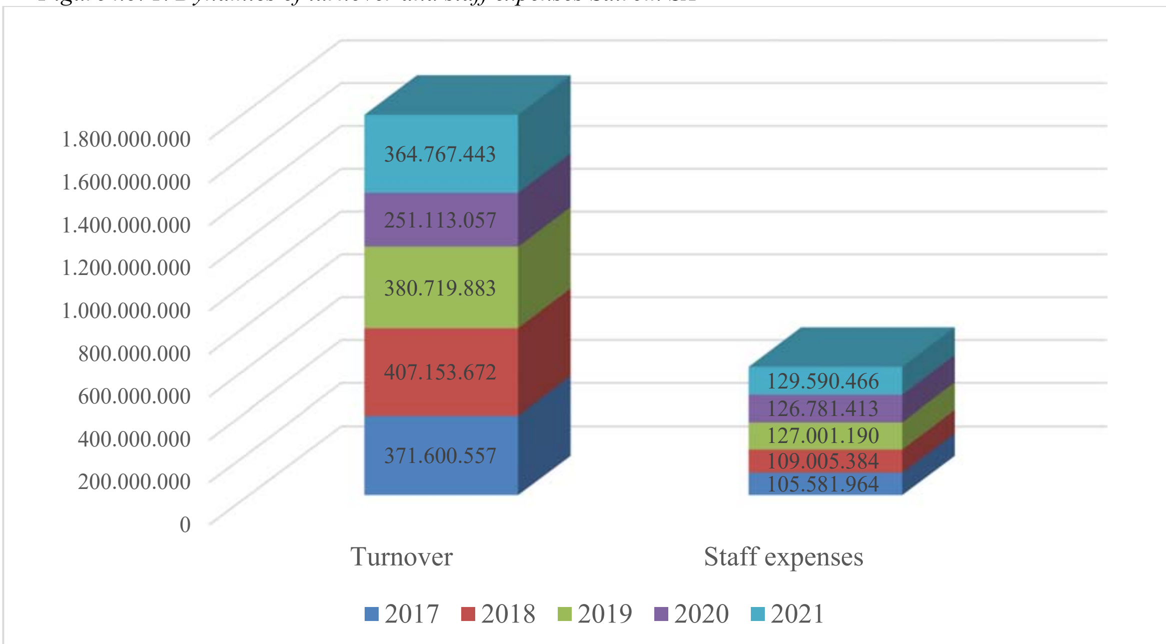
The determination the optimal size of permanent equity is a problem of greatest importance in the financial management of the enterprise, because a possible insufficient of long-term sources influences its solvency, liquidity and profitability.

Table no. 3 The turnover and staff expenses for SALROM SA for the years 2017-2021

Indicators	2017	2018	2019	2020	2021
Turnover	371.600.557	407.153.672	380.719.883	251.113.057	364.767.443
Staff expenses	105.581.964	109.005.384	127.001.190	126.781.413	129.590.466

Source: Own processing based on financial statement (https://www.salrom.ro/rapoarte.php)

Figure no. 1. Dynamics of turnover and staff expenses Salrom SA



Source: Own processing based on financial statements

The assessment of the turnover dynamics for SALROM SA is realized through the turnover index, a criterion for an indirect assessment of the economic efficiency. Thus, the turnover index in 2021 compared to 2017 was 98.16% [(364,767,443/371,600,557)*100].

Staff expenses have registered an ascendant trend during 2017-2021, respectively a variation of 24,008,502 lei in 2021 compared to 2017.

In the table presented below, we calculated the repayment capacity of SALROM SA necessary for the establishment the company's financing rate.

Table no. 4 The dynamics of the repayment capacity of SALROM in the period 2017-2021

Indicators	2017	2018	2019	2020	2021
Exercise production (1)	323,434,661	362.999.440	346.107.997	247.003.371	32.4321.188
Intermediary consumption (2)	55.394.529	62.500.551	62.313.890	50.710.856	55.898.965
Staff expenses (3)	105.581.964	109.005.384	127.001.190	126781413	129.590.466
Other taxes, fees and similar payments (4)	0	0	0	0	0
Other operating income receivable (5)	15.881.481	238.400	63.881.488	13.167.300	2.656.480
Other operating expenses receivable (6)	829.985	947.448	38.623.714	234.147	361.731
Financial income earned (7)	198.755	2.532.514	3.047.525	2.160.977	2.245.573
Financial expenses payable (8)	0	0	530.970	107.640	367.995
Profit tax (9)	19.924.205	22.039.182	5.279.140	4.419.444	13.695.548
Expenses related to employee participation in profit (10)	5.974.087	3.687.948	4.237.010	4.239.000	3.373.728
CAF (1-2-3-4+5-6+7-8-9-10)	151.810.127	167.589.841	175.582.066	75.946.788	126.302.803

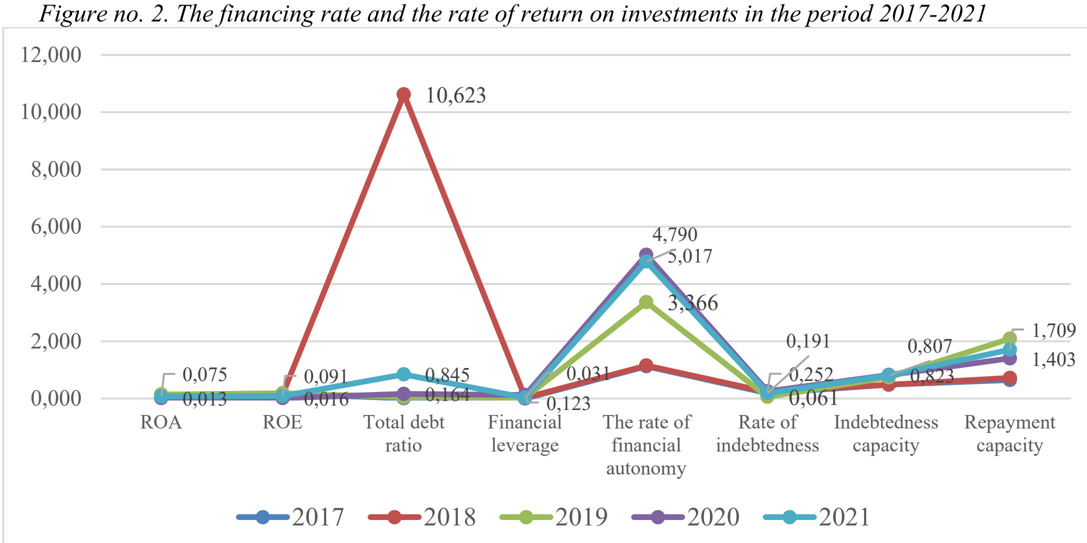
Source: Own processing based on financial statements

Table no. 5 The financial return rates and the financing rate for the period 2017-2021

Indicators	2017	2018	2019	2020	2021
ROA	0,11	0,10	0,14	0,01	0,08
ROE	0,17	0,15	0,19	0,02	0,09
Total debt ratio (Total liabilities)/liability)	0,59	0,59	0,23	0,17	0,17
Financial leverage (Total liabilities/equity)	0,89	0,87	0,30	0,20	0,21
The rate of financial autonomy (Equity/total liabilities)	1,13	1,15	3,37	5,02	4,79
Rate of indebtedness (Non-current liabilities/Equity)	0,49	0,48	0,08	0,08	0,06
Indebtedness capacity (Equity/permanent equity)	0,48	0,49	0,74	0,82	0,81
Repayment capacity (CAF/total liabilities)	0,47	0,52	1,54	0,84	1,18

Source: Own processing based on financial statements

Figure no. 2. The financing rate and the rate of return on investments in the period 2017-2021



Source: Own processing based on financial statements

By analyzing the degree to which the total assets of the company generate net profit (ROA), we can notice a fluctuating evolution, sinusoidal, during the period under review. The values are positioned around an average of 8.8% and are satisfactory. According to the data in the table above, ROA, the economic entity is situated in the safe range for each invested leu. Practice suggests that an optimal range for a society is within the range of 3%-9%.

By analyzing the degree to which the company's equity generates net profit (ROE), we can observe the same oscillating dynamics during the period under review. The values are positioned around an average of 12.4% and are satisfactory.

According to the data presented in the table, the total indebtedness rate is 59% in the period 2017-2018, continuing with a descending trend in 2021 of 17%, which means that total liabilities in total liabilities have been reduced.

Starting from the data presented in the table, the degree of the term indebtedness rate is below the threshold of 50% between 2017-2021.

We can also see that the solvency ratio is lower than 1.5, which means that the total debt is covered by equity.

The decrease in debt capacity that remains above 0.5% indicates the decreasing trend of the share equity in permanent equity.

The results show that the company has a good solvency and can always honor its long-term debts.

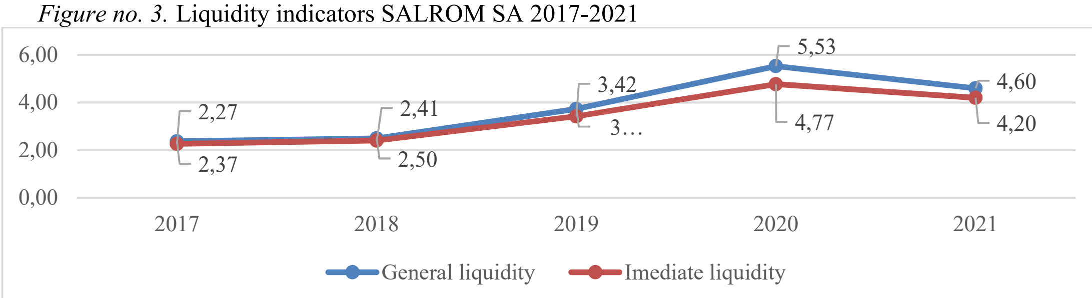
If there is limited responsibility of shareholders, a very good solvency implies a debt ratio of less than 50% and a leverage of up to 100%. For solid entities with strong links with creditors, it can be admitted debt ratios of up to 67% (two-thirds of the asset/liability) and a leverage of up to 200%.

Table no.6 Liquidity indicators for the period 2017-2021 for SALROM SA

Indicators	**2017**	**2018**	**2019**	**2020**	**2021**
General liquidity	2,372	2,495	3,729	5,533	4,598
Imediate liquidity	2,265	2,405	3,421	4,771	4,202

Source: Own processing based on financial statements

Figure no. 3. Liquidity indicators SALROM SA 2017-2021



Source: Own processing based on financial statements

In this context, the liquidity of the company involved favorable levels and trends in the analyzed interval, the values recorded at 31.12.2021 being 4.6 which reflect a balance in the short-term, that means that the company has the ability to pay its current debts from current capital, the size of this indicator is recommended as acceptable if it is around 2.61.

The size of the immediate liquidity rate of 0.77 at the level of 2021 reflects the company's ability of not being forced to postpone its creditors. In economic theory, there are views which stipulate that a rate between [0.8-1] represents the optimal situation in terms of partial liquidity.

According to the proposed Conan and Holder model, the set of indicators used to determine the Z test equation are found in the table below:

$Z = 0,24\ XI + 0,22\ X2 + 0,16\ X3 - 0,87\ X4 - 0,1\ X5$

XI = gross operating surplus/total debt

X2 = permanent equity / equity

X3 = current asset - stocks / current liabilities

X4 = financial expenses / turnover

X5 = staff expenses / added value

Table no.7 The results obtain after applying the Conan-Holder model

INDICATORS	**2017**	**2018**	**2019**	**2020**	**2021**
X1	0,539	0,629	1,471	0,889	1,423
X2	2,265	2,405	3,421	1,216	1,239
X3	2,265	2,405	3,421	4,771	4,202
X4	0,001	0,001	0,001	0,002	0,002
X5	0,380	0,352	0,431	0,612	0,461
Z	0,9512466	1,0286783	1,6088627	1,181444112	1,2391750

Source: Own processing based on financial statements

Table no.8 Rating scale

Z-score value	The situation of enterprises	Risk of bankruptcy (%)
Z>0,16	Very good	<10%
0,1<Z<0,16	Good	10%-30%
0,04<Z<0,1	Alert	30%-65%
-0,05<Z<0,04	Danger	65%-90%
Z<-0,05	Failure	>90%

Source: Own processing based on financial statements

The Z-score value reveals that the company has a very good situation with low risk of bankruptcy, however, we can see a decreasing trend of this value recorded over the years 2020-2021, it is recommended to the management of the company to outline an action plan in the correct management of the current debts of the company.

The first major model on the analysis of the risk of bankruptcy, both in the literature and in the financial practice, belonged to E. I. Altman, who published it in its original form in 1968, is known as the Z-score function. Although apparently simple, this model had an analogous effect on the prediction of the risk company bankruptcy, which the famous Black-Scholes model had on the evaluation of derivatives.

According to the model proposed by Altman, the set of indicators used to determine the equation of the Z test are found in the table below:

Z = 1,2 X3 + 1,4 X2 + 3,3 X1 + 0,6 X5 + 1,0 X4
X1 = profit before tax and interest / total assets
X2 =reinvested profit (retained earnings) / total assets
X3 = net currents assets / total assets
X4 = turnover / total assets
X5 = equity / total debts

Table no.9 The results obtain after applying the Altman model

INDICATORS	2017	2018	2019	2020	2021
X1	0,149	0,142	0,155	0,021	0,098
X2	-0,041	-0,041	-0,051	0,133	0,125
X3	0,359	0,397	0,448	0,440	0,441
X4	0,682	0,757	0,766	0,462	0,591
X5	1,129	1,155	3,366	5,017	4,790
Z	2,223664	2,337749	3,763166	4,256412	4,490957

Source: Own processing based on financial statements

Table no.10 Rating scale

Z-score value	The situation of enterprises	Risk of bankruptcy (%)
Z>2,675	Good solvent	Non-existent
1,81<Z<2,675	Precarious difficulty	Undetermined
Z<1,81	Hard-insolvent	Iminent-maxim

Source: Own processing based on financial statements

Analyzing the data obtained from the table we can see that during 2017-2018 SALROM SA the situation of the company was precarious, worrying for the management of the company. However, during the following years 2018-2021 this has improved and the risk of bankruptcy has decreased.

6. Conclusions

The information provided by the annual financial statements is a source of valuable data in the diagnosis of the financial condition of an economic entity in terms of visibility and credibility, the structures specific to the financial position and performance through liquidity, but also the profitability that ensures the optimal conditions for maintaining the financial balance and at the same time the efficiency of the activity.

It can be seen that all the indicators of intermediate management balances have a positive value. The added value is high and indicates that the company has sufficient financial resources for all stakeholders involved in the company. At the same time, the net result is positive being available to stakeholders/associates for distribution in the form of dividends or reinvestments in the business.

By analyzing the degree to which the total assets of the company generate net profit (ROA), we can notice a fluctuating evolution, sinusoidal, during the period under review. The values are positioned around an average of 8.8% and are satisfactory. According to the data in the table above, ROA, the economic entity is situated in the safe range for each invested leu. Practice suggests that an optimal range for a society is within the range of 3%-9%.

By analyzing the degree to which the company's equity generates net profit (ROE), we can observe the same oscillating dynamics during the period under review. The values are positioned around an average of 12.4% and are satisfactory. We can also see that the solvency ratio is lower than 1.5, which means that the total debt is covered by equity.

The liquidity of the company involved favorable levels and trends in the analyzed interval, the values recorded at 31.12.2021 being 4.6 which reflect a balance in the short-term, that means that the company has the ability to pay its current debts from current capital, the size of this indicator is recommended as acceptable if it is around 2.61.

The size of the immediate liquidity rate of 0.77 at the level of 2021 reflects the company's ability of not being forced to postpone its creditors. In economic theory, there are views which stipulate that a rate between [0.8-1] represents the optimal situation in terms of partial liquidity

The two models used to detect the risk of bankruptcy reveal the fact that the company has a good situation, the risk of bankruptcy being low, in the period 2017-2018, subsequently increasing slightly which requires the management of the company to outline an action plan in the correct management of the company's current debts.

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