

*Original article*

UDC 336.6

DOI 10.18101/2304-4446-2022-3-36-42

## THEORETICAL AND METHODOLOGICAL BASES OF THE ANALYSIS OF THE FINANCIAL SITUATION

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**Abstract.** The study is aimed at determining the theoretical and methodological bases for assessing the financial situation of insurance companies. We have used a systematic approach, logical generalization, and standard methods for analyzing the source information as a research methodology. The study is of practical significance, since it provides an opportunity to identify and justify the main indicators that are used for analysis of the financial situation of insurance organizations, as well as to determine the factors that affect their financial status. Originality and scientific novelty of the research consists in definition and evaluation of the theoretical and methodological bases for studying the financial situation of insurance companies in foreign countries.

**Keywords:** insurance, insurance activity, financial situation, methodology, factors.

### For citation

*Ganbarov V. A. Theoretical and Methodological Bases of the Analysis of the Financial Situation. Bulletin of Buryat State University. Economy and Management. 2022; 3: 36–42.*

### Introduction

The financial position of an enterprise is an economic category and reflects its position in the process of capital turnover. Financial condition refers to the ability of a company to finance its operations. It is characterized by the provision of financial resources for the normal operation of the company, their targeted placement and efficient use, financial interaction with other legal entities and individuals, solvency and financial stability. In the process of procurement, production, sales and financial activities, there is a continuous flow of capital, the structure of funds and their sources, the amount of financial resources and the need for them, which changes the financial condition of the company.

### Analysis of the financial situation of insurance companies

There are different views on the analysis of the financial situation in financial analysis in the context of market relations. Thus, legal entities and individuals providing commercial loans are only interested in the liquidity of the enterprise. Because commercial loans are short-term, and the short-term repayment of this loan is determined by analyzing the liquidity of the organization. Bondholders are interested in the level of liquidity of bondholders, i. e. the ability to repay principal and interest on bonds, by analyzing the capital structure of the bond company, the main sources and use of funds, the company's long-term tactical profitability and future profitability. study their financial situation. Those who buy and hold ordinary shares obtain accurate

information about the issuer's financial condition by analyzing the profitability of the firms and companies that sell the shares for the current and future periods.

Financial condition is the most important characteristic of a company's economic activity. It determines the competitiveness, the potential for business cooperation, the degree to which the economic interests of the enterprise itself and its partners are met in financial and production terms.

The finance of the enterprise is the economic relations arising in the process of formation of production funds, production and sale of products, formation of own financial resources, as well as attraction of foreign financial sources, their distribution and use [2, p. 208]. During the financing of economic activities of enterprises, certain financial relations arise in connection with the organization of production, sale of products, formation of financial resources, distribution and use of income. According to the content, the whole set of financial relations of enterprises can be systematized in the following areas:

- in connection with the formation of the authorized capital;
- production and sale of products, associated with the emergence of newly created value;
- issuance and placement of securities between commercial organizations and related enterprises;
- between the business entity and its divisions, as well as the superior organization;
- between commercial organizations and individual employees (for example, payment of dividends);
- the process of keeping money in banks, obtaining and repaying loans between business entities and the banking system in the state when paying taxes and other payments to the budget between economic entities and the financial system.

Based on this, the financial work of the enterprise is primarily aimed at ensuring the growth of profitability, investment attractiveness, ie the creation of financial resources for development to improve the financial condition of the enterprise [1, p. 64]. To ensure financial stability, the company must be able to create a flexible capital structure, maintain its solvency, constantly increase revenues over costs in order to create conditions for self-financing and the ability to effectively manage financial resources in this regard. Thus, the financial stability of a company characterizes the ability of the business entity to operate, develop, maintain a stable solvency in a changing internal and external environment, and maintain a balance of assets and liabilities that ensure investment attractiveness within acceptable risk levels.

Continuous production and sale of quality products has a positive impact on the company's financial condition. Interruptions in the production process, the decline in the quality of service, difficulties in its sale will lead to a decrease in the funds received by the company and, as a result, its solvency. There is also feedback. Thus, insufficient funds lead to interruptions in the supply of resources, which in turn leads to downtime in the process. In the company's work experience, there are times when even a well-functioning company faces financial difficulties. This is due to the inefficient allocation and use of available financial resources. Therefore, the organization of the company's financial activities should be focused on the systematic access and efficient use of financial resources, the maintenance of settlement and credit discipline, maintaining an efficient ratio of private and debt funds, ensuring financial stability.

Under market conditions, any operation carried out by any company is considered risky for the entrepreneur. It is not possible to predict in advance whether the capital advanced by the entrepreneur will be returned in terms of time and result (profit or loss). In a market economy, an entrepreneur may go bankrupt unexpectedly, that is, he may face financial difficulties. Therefore, it is necessary to determine the expected financial position in the near or distant future by analyzing the financial situation not only in companies with difficult financial situation, lack of financial resources, but also in business entities with sufficient cash and timely fulfillment of payment obligations. Thus, the company's financial activities serve one key strategic goal — to increase the company's assets.

In order to assess the financial condition of the company and its stability, it is considered expedient to consider the following issues:

- availability of capital, placement and intensity of its use;
- optimal structure of the company's liabilities, its financial independence and degree of financial risk;
- optimization of the company's asset structure and degree of production risk;
- optimization of the structure of sources of working capital financing;
- level of solvency and investment attractiveness of the company;
- risk of bankruptcy of the business entity;
- the company's financial stability reserve.

The company's financial condition is analyzed on the basis of relative indicators. Because in the conditions of inflation it is difficult to bring the absolute indicators of the balance to a comparable level.

Accordingly, the analysis is divided into internal and external analysis. The purpose of the internal analysis carried out by the relevant departments of the company is to properly allocate special and borrowed funds and reduce the probability of inflation to zero in order to ensure the inflow of funds in accordance with the plan and maximum profit. Based on the published financial statements, the main purpose of external analysis conducted by various investors, suppliers of financial resources and regulators is to determine the most effective ways to invest to maximize profits and eliminate losses. External analysis has the following features:

- existence of numerous analytical subjects — users of information about the company's activities;
- diversity of goals and interests of the subjects of analysis;
- existence of standard methods and standards of accounting and reporting;
- the analysis is based solely on publicly published financial statements;
- limited information when using publicly published financial statements;
- maximum transparency of the analysis results for those who use information about the company's activities.

The study of indicators characterizing the financial situation uses the types of horizontal, vertical and trend analysis of comparative analysis, as well as the study of balance readings and relative indicators. The following important aspects are identified during the reading of the balance sheet:

- total value of the company's property;
- cost of withdrawn and mobilized funds;
- the amount of the company's special and borrowed funds.

A company's financial position is an economic category that reflects the entity's financial relationships, market and its ability to finance its operations as of a particular date. As a result of the process of supply, production, sales and financial activity, the company's financial condition is constantly changing the demand for financial resources, its sources of formation, the structure of funds and the process of capital turnover. The company's financial position can be stable, unstable and in crisis. The company's ability to pay on time, to finance its activities widely, to maintain its solvency in unfavorable conditions, the company's good financial condition, and vice versa, depends on the results of its activities. In order to prevent a company from going bankrupt in a market economy, it is necessary to know how to manage finances, the structure of capital according to its composition and sources of formation, the ratio of special funds and borrowed funds. At the same time, as a business activity, it is necessary to know the concept of market economy, the company's liquidity, profitability margin, risk level, financial instrument efficiency, etc., as well as the methodology of their analysis.

The analysis of the financial situation is mainly based on relative indicators, as it is practically impossible to compare the relative indicators of the balance sheet in the context of inflation. The relative performance of the analyzed company can be compared with the following:

In order to predict the possibility of insolvency and assess the degree of risk, it is necessary to compare the generally accepted norms with the same data of another enterprise, which allows to identify the company's strengths and weaknesses, its capabilities.

The objective need to assess the financial condition of insurance companies is due to its high social significance. Assessment of the financial condition of the insurance company allows determining the efficiency of the business entity, shortcomings in its activities, the causes of their occurrence, and based on the results obtained allows to develop specific recommendations for optimizing insurance.

Due to the fact that insurance activity provides insurance protection of the company, the requirements for the financial condition of insurance companies are very high. If ensuring the financial stability and solvency of insurance companies is a prerequisite for their existence in the insurance market, for consumers of insurance services, the stable financial condition of insurance companies is a guarantee of the stability of their economic activities. Maintaining a stable financial position of insurance companies is the main purpose of insurance — a way to resolve the conflict between the insurance of customers and its commercial purposes as a type of entrepreneurial activity.

The main purpose of insurance is to protect the economic interests of the insured from losses due to accidental hazards, which should be of interest to all participants in the insurance relationship. This includes the economic interests of policyholders, insurers and the state through the production, sale and purchase of quality insurance products [3, p. 19]. The financial condition of an insurance company is a characteristic feature of its competitiveness in the field of insurance activity and the resulting efficiency of the use of invested capital. Indicators are understood as factors that allow the insurer to judge the results of its activities, as well as the factors influencing the receipt of these results. The financial stability of an insurance company is a feature of the stability of the insurer's financial position.

Most methods of financial analysis are designed for industrial facilities, which, due to the nature of its activities, does not allow them to be fully used to assess the financial condition of the insurer. This specificity is reflected in the characteristics of the formation of the financial potential of the insurance company. This concept covers not only the capital, but also the capital raised by the insurance company in the form of insurance premiums, which serves as a source of asset formation.

Factors affecting the financial condition of insurance companies are divided into internal and external factors. The organization is unable to change external conditions and is forced to adapt to them. Internal resources should be used in such a way as to effectively resist the negative effects and make full use of the beneficial effects of external factors.

An analysis and forecast of the company's financial position is needed to manage cash flows. Therefore, the results of such analysis are used to assess the turnover of funds, determine the financial resources and reserves, determine the solvency of the company, the efficiency of long-term financial investments and competitiveness.

The results of the analysis and assessment of the financial condition are the basis for the regulation of production, economic, financial and investment policies of the company, forecasting, planning and, above all, management decisions.

The development of a system of indicators is of particular importance in the analysis of the financial condition of the insurer. An objective opinion about the insurance company can be formed only on the basis of some indicators. The analysis is always carried out for a specific purpose, and the degree of its achievement depends on the correct selection of indicators. As a rule, a comprehensive assessment is required from an analyst, which involves the establishment of a system of indicators. It is a set of interrelated quantities that comprehensively reflect the state and development of the analyzed object or event.

The system of indicators must meet a number of requirements, including the adequacy of the selected indicators for the comprehensive coverage of the object of analysis (and at the same time the need to include each of them in the system); existence of meaningful and formal connections between indicators; possibility of inspection; the correct combination of absolute and relative indicators, etc. It is important to have.

The following is used to analyze various aspects of the insurance organization's activities:

- absolute cost indicators characterizing volumes of activity;
- relative indicators (coefficients) reflecting quality.

In the theory and practice of financial analysis, there are several approaches to the classification of indicators of the financial condition of the enterprise. According to one approach, the indicators are grouped by conditions: short-term and long-term. For short-term lending purposes, the indicators are divided into three groups:

1. indicators of production activity;
2. liquidity indicators;
3. indicators of financial stability [5, p. 55].

Some authors distinguish another group of indicators that assess the performance of the insurer:

- sales indicators that determine the relationship between sales, income and capital used (these are indicators of return on investment and financing, turnover of assets and sales of products);
- financial indicators that determine the relationship between the financial structure of capital and assets (indicators of solvency, raising funds);
- investment indicators characterizing the economic efficiency of various investment methods (capitalization indicators, return on capital).

Unlike other economic entities, insurance companies do not generate income. However, profits are formed due to the redistribution of insurers' funds. Therefore, it would be more accurate to define the profitability of insurance operations as an indicator of the level of profitability, i. e. the ratio of gross profit for a given period to the total amount of payments for that period. Assessing financial condition is important for internal users in terms of self-assessment.

### **Conclusion**

Absolute and relative indicators are used to analyze the performance of the insurance company. The most informative are relative indicators. These include: profitability, liquidity, financial stability, the level of solvency of the insurance company and the overall financial potential.

To study the improvement or deterioration of the financial situation, a comparison should be made with similar data from previous years. In this regard, as mentioned above, the analysis is divided into internal and external analysis. The main purpose of the analysis is to ensure the planned inflow of funds, to create conditions for the normal operation of the enterprise, to maximize profits and eliminate the risk of bankruptcy, to determine the profitability of the invested funds.

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*The article was submitted 28.06.2022; approved after reviewing 29.08.2022; accepted for publication 01.09.2022.*

ТЕОРЕТИЧЕСКИЕ И МЕТОДОЛОГИЧЕСКИЕ ОСНОВЫ  
АНАЛИЗА ФИНАНСОВОГО ПОЛОЖЕНИЯ

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*Аннотация.* Целью исследования, изложенного в настоящей статье, является определение теоретической и методологической основы оценки финансового состояния страховых организаций. Методология исследования заключается в том, что автором в работе использованы системный подход, логическое обобщение, а также стандартные методы анализа исходной информации. Практическая значимость исследования заключается в возможности выявить и обосновать основные показатели, которые применяются для анализа финансового состояния страховых организаций, а также определение факторов, влияющих на их финансовое состояние. Оригинальность и научная новизна исследования, изложенного в работе, заключается в определении и оценке теоретической и методологической основы изучения финансового положения страховых компаний в зарубежных странах.

*Ключевые слова:* страхование, страховая деятельность, финансовое состояние, методология, факторы.

*Для цитирования*

*Ганбаров В. А.* Теоретические и методологические основы анализа финансового положения // Вестник Бурятского государственного университета. Экономика и менеджмент. 2022. № 3. С. 36–42.

*Статья поступила в редакцию 28.06.2022; одобрена после рецензирования 29.08.2022; принята к публикации 01.09.2022.*