

FINANCIAL ANALYSIS IN MEASURING RISK OF RETURN KEY SECTORS IN SHKODRA REGION

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Abstract

The overall objective of the thesis is to show the role of financial analysis of financial reporting in taking part in management decisions, in the provision of financial resources and their use in financial crisis conditions. Finding information that has to do with the financial position, results of operations, cash flow statement, general purpose financial reporting is to satisfy the needs of a group of users, such as: credit, shareholders, potential investors, financial analysts, etc..

The purpose of the analysis of financial statements

Financial statements are statements with multiple purposes. They are prepared to be used by different groups of users; shareholders, short-term and long-term creditors, potential investors, state agencies and managers. Each of these decisions requires different information and therefore a different analysis. Relationship between items in the income statement and balance sheet or in both, as well as the link between financial statements amounts next to each other are not clear without financial analysis. Users of financial statements may be interested to see the progress of a unit compared to:

- a. objectives predetermined standards
- b. other units of the same sector
- c. Other opportunities to invest.

**Objectives are** to show the leaders of great importance to economic units through financial analysis information processing

To show that we understand the time when the entity is in financial difficulties. Financial analysis gives indications for the performance of business activity

The main objective of the paper is that recognizing the situation through business indicators unit is able to make appropriate arrangements for the future.

**The methodology** is consistent with the aims and objectives of the paper. The information collected from published financial reports are analyzed businesses through financial indicators.

Analysis of financial reports capital structure, profitability, profitability etc. will give us a clear picture of the progress of the business in terms of risk and uncertainty that brings financial crisis.

1. Analysis of financial statements

It is a process of trial that aimed to assess the financial position of the previous and present in a firm. Its primary objective is to determine and forecast the best estimate of the economic and financial conditions and its performance in the future

Based on the use of analytical tools and techniques on financial documents and data in order that by their realized measurement and connections that are important to making the right decisions.

Is the process of thinking, working and analyzing accounting data to create a system of indicators for decision-making and not be based on different assumptions. This look at any firm or institution organization.

Balance analysis is a technical comparison of the data obtained in different time periods, which is directly related to the reliability of its data.

During the analysis period distinction regarding different elements such as:

- Tests can be made from internal or outside entities
- Tests have revenue analysis, financial analysis and ownership analysis
- Tests have static or dynamic
- Tests have retrospective and historical perspective
- Tests have formal or operational

2. The main types of analysis of financial statements

Analysis of Financial Statements has one of the most important roles in the functioning of an entity. As you know, it comprises a set of tools, techniques and analytical methods required for business analysis, therefore, say that economic information, and financial accounting and their interpretation are the main object of financial communication between the entity and its environment. Statements provide information on past and current performance of an entity, so it is necessary to make comparisons between different voices or different financial statements in order to analyze and assess the performance of the same entity over the years. In this way also noteworthy increases or decreases its economic. Namely, for the reasons mentioned above it is necessary to analyze the performance and progress of a unit NNUAL over the years, become standardizing financial statements. Different users, to make the analysis take into use financial statements to several years in a row and standardization is achieved by expressing each item as a percentage of total assets in the case of the balance or the total sales in the case of the statement of revenue and expenditure . It is also called the Vertical Analysis (Common-size statements). Instead, standardization of financial statements expressing all the differences of all the rumors from year to year in the percentage of base year values, usually a year in advance. This is also called the Horizontal Analysis (Common-base year).

Another method to make the comparison and analysis of an entity's financial statements, assessing also the short-term liquidity and long-term, asset management and their returns, profitability, etc.. used mostly financial reports.

**Liquidity analysis through reports.** Short-term liquidity position of the company is based on the relationship

between short-term assets and short-term liabilities of the balance sheet.

Indicators of this nature are static mates liquidity because they connect the items of the balance sheet with one another.

#### Liquidity static reports

**Current ratio**, which connects with each other, short-term assets with short-term liabilities.

- Current ratio should be at least 2:1 in order to be considered as sufficient; following ratio "2:1" warns potential liquidity risk.

**Fast Report.** This latest report includes in the numerator only those short-term asset classes that are expected to return to the "money" as soon as possible, so only short-term liquid assets classes. This ratio is calculated: short-term assets - Inventories / short-term liabilities  
**If the quick ratio has a value greater than "1" is almost sure that the company is able to cover its obligations using liquid assets.**

**Static Reports problems to measure the liquidity.** Even after calculating liquidity ratios are not sure if society liquidity situation is satisfactory or not. This happens for two reasons mainly related to the quality of its own reports as a measure of liquidity.

**First**, although the results of the high current Report and Report Fast suggest a consolidated liquidity position, they can also suggest the fact that an excessive amount of money has been invested in order profit in the form of short-term assets, prevent money investing in other forms of profit.

**Second**, inflationary situations, higher investments in short-term assets will lead to higher monetary loss, which societies will want to avoid.

Inflationary situations - to bring societies active positions monetary loss, and passive positions bring balance profits.

#### Static Reports problems to measure the liquidity

I – Reports discussed above are completely static in their nature. These reports provide information only on the liquidity situation on the date of preparation of the balance sheet and not for other moments of time. Thus, these reports do not provide information as to the results in the periods of time before or for the results after the balance sheet that are even more important if we want to anticipate liquidity. Further liquidity is a concept that relates to the dynamics of time and inflows and outflows of money, so can the receipts to cover ongoing payments in the future? And static reports treat liquidity as a concept that is closely linked to the balance sheet items.

II – Another problem that show these reports is the fact that they may be subject to attempts to "window dressing", then attempt to change the balance values intentionally. "Window dressing" results when society tries to change the value of certain items of the balance with the only purpose to

present good financial results. Current ratio and quick ratio are both more sensitive and susceptible to such manipulation effort, perhaps more vulnerable than many other financial reports.

**Problems present static reports liquidity:** Liquidity as an enterprise quality depends more on the dynamics of future cash flows, not on the level of cash in a moment of time.  
- There is no direct link between the surplus in the balance sheet working capital accounts and cash flows.  
- Management policies related to inventories and receivables focus primarily on efficient use and profitability of assets and secondly on the liquidity situation.

**Dynamic reports as a measure of liquidity .** Liquidity entity, is itself a dynamic concept. It has to do with the cash flows of the entity, so if society will be able to generate sufficient cash incoming cash to meet its ongoing outflows. For this reason, it is logical to base liquidity analysis on the dynamic type indicators which use dynamic data from the financial statements, such as

Statement of cash flows, or the income statement.

- Such dynamic reports can be the following reports:

- Net cash flow from operating activities /

- Short-term liabilities

This report gives an indication of the ability of society to produce money, enough money to repay short-term obligations entirety accumulated to the balance sheet date.

**The advantage** of this report - try to make a logical connection short-term liabilities with cash flows.

**Disadvantage** - the time discrepancy between the size of the counter and the size of the set, in the denominator.

Thus, counter placed cash flow for the accounting year is closed, while in the denominator set short-term obligations expected to be settled in the coming year and normally can not be settled in cash flows belonging to a year already passed, but with those that will be generated in the future.

Analysis of financial statements have much use for a wide range of users. Expert users begin by identifying an objective analysis (profitability, liquidity, etc.) and then choose a technique which will meet the target. This method usually provides useful information but does not answer all the questions. Analysis of financial statements has limitations that should be considered.

### 3. Analysis of some important sectors in the region of Shkodra and conclusions

#### Main financial indicators

Below through a table are grouped main financial indicators important financial sectors as trade sector, the manufacturing sector and the construction sector.

Unable to provide full financial information (balance sheet, income statement, statement of cash flows reported for The purposes tax) are described only a few reports.

**Effects of global risk in transition countries**

Analysis of sectoral reports <sup>1</sup>							
				Commercial sector	Construction sector	Production sector	M.Indust
current ratio				1.1	2.43	1.02	1.7
Cashing average period				96.5 day	138 day	7.8 day	14
The inventory turnover				2.32 time	3.2	-	4.5
Total assets turnover				0.82 time	1.10	0.68	3.7
Fixed assets turnover				21.3 time	5.4	1.07	6.5
Debt ratio				84.4%	32 %	79%	68.8
debt to equity				5.4	6.9	3.7	2.2
Operating return of assets OROA				6%	4%	4.4%	9
ROA Return on total assets				5,4%	9.3%	4.4%	7.12
ROE profit on equity				38.7%	26.97%	12%	35.58
Cash Flow							
				Commercial secto	Construction sector	Production sector	
I. Cash flow from operating activities							
Money collected from customers				12828343	58608509	1643543	
Cash paid to suppliers and employees				-4281464	-70739894	-68935357	
Interest paid				-4277	-1025109	-2537562	
Income tax paid				-262050	-606984	313906	
Other payments				0	-132431	130	
Duty customs				-177851	-1312814	0	
Net cash from operating activities				8102701	-15208723	-8101612	
II. Cash flow from investing activities							
Purchase of long-term material assets				-1947512	0	-40711992	
Proceeds from sale of equipment				0	0	0	
Interest receivable				4277	421	0	
Dividends receivable				0	0	0	
Net cash used in investing activities				-1943235	421	-40711992	
III. Cash flow from financing activities							
The proceeds from the issue of financial capital				0	0	0	
Revenues from other borrowings				793187	230754	672842	
Dividends paid				0	-500000	0	
Net cash used in financial activities				0	-269246	672842	
Increase / Net cash Fall				793187	-14939056	-48140762	

Tab.1 Main financial indicators

Current ratio = Current assets / Current liabilities

Turnover ratio = cash + accounts receivable / current liabilities

Individuals who are interested in the current report and the report of the velocity of the companies are creditors. Creditors are concerned about the ability of the unit to discharge their obligations in terms of short term. The studies made on the commercial sector, the construction sector and the manufacturing sector, we notice that the commercial sector has current ratio = 1.1, the construction sector has current ratio 2.43 and the manufacturing sector has current ratio 1.02. According to current construction sectors functioning well since the middle of the industry 1.7<sup>2</sup>.

<sup>1</sup> The data are taken from the financial statements of the relevant sectors for the years 2009 ,2010

<sup>2</sup> Industry average refers to the analysis of a number of businesses operating in this sector

From this information we can see that the construction sector has a turnover ratio > 1 which indicates an inefficient performance, have cash without investing that in the future gives us no benefit. If invests this money means that the prospects for the future grow.

#### **Analysis of Return to Equity (Profit)**

Return of Equity or Profit has to do with a key measurement of all economic unit activity performance. To appear much better this performance have to do some measuring: \* ROE (Return on Equity), ROA (Return on Assets) OROA (operating return of assets).

ROE, Return on Equity =  $EAN / \text{Average shareholders' equity}$ .

Return on equity shows the ratio of net profit on equity. By doing research on the performance of our operating businesses in the town noticed that the level of remuneration of invested capital or invested capital remuneration varies from sector to sector. According to studies carried noticed that commercial companies have a return of capital to its highest so profit savers or investors to buy or to sell, or to preserve their wallet is higher. Shareholders invest to have a profit out of their money and this report shows how well their investment is going.

$ROA = EAN / \text{Average total assets}$

Return on assets shows the net profit after tax and minority interest assets

According to the conclusions drawn noticed that again trading companies have higher returns on assets. With regard to construction or service companies lower returns

resulting from:

- 1-Low power generating profit from the company's assets
- 2-high costs of interest from its use of debt.

#### **4. Conclusions and recommendations**

Conclusions arising from the paper will be very interesting for the economic environment in which it conducts its business in the region of Shkodra.

Through analysis generalization issued in paper business will focus on the region of Shkodra for financial structure optimization in difficult financial period.

With regard to the average period of cashing noticed that using different policy sectors collection. Flow analysis indicates a difficult financial situation for construction and manufacturing businesses, a negative operating cash flows.

This means that businesses only from normal business activity does not generate money, to face the exit and investment flows should therefore continue to be financed with debt.

High debt ratios indicating significant financial difficulty for the manufacturing sector and construction. Business studies in the region of Shkodra have observed significant financial difficulties for business reasons were:  
a. Financial crisis on businesses Faso and the economy in general fall of remittances, more expensive credit contraction of the economy in general  
b. Flooding in Shkodra is followed by negative-strand factor for the region with unprecedented consequences that it is impossible to identify through this modest paper

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