

ISSUES OF PERFECTING THE ANALYSIS OF LIQUIDITY AND SOLVENCY OF CONSTRUCTION COMPANIES

LELA KHELADZE

PhD student of Caucasus International University. Kutaisi Georgia. Email: lela.kheladze@ciu.edu.ge
Affiliated Assistant of Kutaisi University Ltd.

Abstract

Analysis of the financial condition of the enterprise involves consideration of assets and sources of their financing, liquidity, solvency, business activity, bankruptcy diagnosis, development of financial recovery measures and other important issues. One of the main directions of financial analysis of construction companies is checking its liquidity and solvency. Liquidity and solvency indicators are of fundamental importance, since it is the liquidity and solvency of the company that determines whether it can function properly in the market. Therefore, it is necessary to study the state of financial stability of construction companies, their level of liquidity and solvency.

Keywords: construction companies, financial reporting, Publication of reporting, publicity of reporting, Accounting, Auditing, Liquidity, Solvency, Financial results, Profit.

INTRODUCTION

The purpose of the study is to study the peculiarities of the disposal of their own financial resources by construction companies, to identify, analyze, evaluate and make appropriate conclusions about the main measures taken to improve the financial situation. The construction company "Anagi" LLC (S/C 245416401) and the audited financial statement data published by it for the years 2018, 2019 and 2020 were selected as the research object.

In order to analyze the liquidity and solvency of construction companies, we should calculate the liquidity indicators of the research company and determine the liquidity according to the ratio between assets and liabilities. Research object: According to Forbes Georgia's 2020 ranking of construction companies, the construction company "Anagi" Ltd., which holds the first place, was selected as a research object. It includes 5 subsidiary companies. "Anagi" LLC builds residential houses, public and industrial buildings. The company offers design and construction works to customers, owns construction equipment and construction materials enterprise, as well as an accredited testing laboratory for construction materials and products.

Method: The methods of economic and financial analysis, the method of abstraction, grouping, detailing, comparison, coefficients, etc. will be used as methodological bases of the research. The research is based on general scientific methodological approaches: analysis and synthesis, deduction and induction, analogy, modeling, abstraction and dynamic method. Quantitative and qualitative methods were used for the study. Primary and secondary information were obtained and used to achieve the research objectives.

Sample description: In the process of liquidity analysis, based on the goals of the research, we analyzed the liquidity of the research object according to the following indicators:

- Current liquidity (coverage) ratio;
- Quick liquidity ratio;
- Absolute liquidity ratio.

Results: The current liquidity ratio is calculated using the following formula:

$$\text{Current liquidity ratio} = \frac{\text{current assets}}{\text{current liabilities}}$$

According to the indicators of "Anagi" LLC, the current liquidity ratio will have the following form depending on the years:

$$\text{Current liquidity ratio of 2018} = \frac{110812}{58145} = 1,91$$

$$\text{Current liquidity ratio of 2019} = \frac{180237}{88285} = 2,04$$

$$\text{Current liquidity ratio of 2020} = \frac{198918}{110019} = 1,81$$

The current liquidity ratio should vary from 1 to 2 in order to function properly in the enterprise. This indicates that the company can reduce a certain amount of current assets without reducing its solvency in relation to current liabilities. If the mentioned ratio is much higher than 2, it means that the company unjustifiably keeps a large number of current assets and does not use them for its own growth purpose.

The higher the current liquidity ratio, the higher the company's ability to cover its liabilities, although only an approximate estimate can be made on the basis of this ratio, as it does not take into account the liquidity of individual elements of current assets. A company whose current assets consist of cash and current accounts receivable is considered highly liquid compared to a company whose current assets consist primarily of inventory. As a result, it is necessary to use a more accurate indicator to assess the level of liquidity of companies. For this, the acid-test or quick liquidity coefficient is used. The quick liquidity ratio, or critical valuation ratio, provides a more convincing check of liquidity. Most of the company's inventory cannot be instantly converted into money, so it is better to exclude this particular asset when calculating the liquidity ratio, i.e. the sum of cash and receivables should be compared to short-term liabilities. Thus, the quotient counter does not include stocks.

We calculated the quick liquidity ratio using the following formula:

$$\text{Fast liq. Ratio} = \frac{\text{cash and receivables}}{\text{current liabilities}}$$

According to the indicators of "Anagi" LLC, the quick liquidity ratio will have the following form depending on the years:

$$\text{2018 Quick Liquidity Ratio} = \frac{17623+61256}{58145} = 1,35$$

$$\text{2019 Quick Liquidity Ratio} = \frac{35386+85953}{88285} = 1,37$$

$$2020 \text{ Quick Liquidity Ratio} = \frac{13541+118943}{110019} = 1,20$$

A large amount of inventory increases current assets too much. An increase in current assets, in turn, leads to an increase in the liquidity ratio. Due to the fact that inventories are less liquid and quick turnover means and it may become difficult to meet the current liabilities through them, the quick liquidity ratio assured us about the liquidity of the company.

The absolute liquidity ratio indicates what part of short-term obligations can be paid immediately. It is calculated by the ratio of cash and cash equivalents to short-term liabilities. This ratio characterizes the share of current liabilities that must be covered at the expense of the most liquid part of assets, cash, given the circumstances that there is a very small probability that all creditors will make claims on the enterprise at the same time. Based on the above, the optimal value of the coefficient from 0.2 to 0.3 is theoretically justified.

We calculated the mentioned coefficient using the following formula:

$$\text{Absolute liquidity ratio} = \frac{\text{cash}}{\text{current liabilities}}$$

According to the financial reporting data of "Anagi" LLC, the quick liquidity ratio will have the following form by year:

$$\text{Absolute liquidity ratio of 2018} = \frac{17623}{58145} = 0,30$$

$$\text{Absolute liquidity ratio of 2019} = \frac{35386}{88285} = 0,40$$

$$\text{Absolute liquidity ratio of 2020} = \frac{13541}{110019} = 0,12$$

When considering liquidity indicators, it should be taken into account that their value is conditional, as the liquidity of assets and the duration of liabilities are only approximately determined by the accounting balance sheet. For example, inventory liquidity depends on its types and quality, turnover, and the proportion of scarce or hard-to-sell inventory or finished products. The liquidity of receivables also depends on the speed of its turnover, the share of overdue or bad debts. Therefore, a radical increase in the accuracy of liquidity assessment is achieved based on current accounting analytical data.

In addition, it is acceptable to take into account the fact that liquidity ratios provide a static representation of the amount of means of payment to cover obligations at a specified date. In fact, in a normal situation, current assets change: used stocks are replenished, covered receivables are replaced by newly created debts.

From the analysis of the liquidity quality indicators of "Anagi" LLC, it follows that the assets are more than the liabilities, so the balance is liquid. Thus, based on the study and analysis of the actual data of "Anagi" LLC, it was established that the company has a liquid balance according to the years 2018, 2019 and 2020.

The long-term liquidity, or solvency ratio, measures a company's after-tax operating profit relative to its total liabilities and also takes into account depreciation. This is important

because the company has to renew, repair or replace obsolete or fully depreciated assets. Because of this, there is a need to measure future costs, which will be useful in future investment analysis. Similar to current liquidity, we can also calculate long-term solvency. Solvency means ability/ability to pay long-term obligations. Its analysis shows whether we can cover long-term liabilities with long-term assets. Long-term solvency is important to stay in business and continue to operate in the long term. A company that is insolvent will go bankrupt, although there is a risk of bankruptcy even if it is solvent in the long term and does not have enough short-term liquidity.

There are many ratios that help us calculate solvency, one of the most common formulas is the ratio of fixed assets to long-term liabilities:

$$\text{Fixed Assets Ratio} = \frac{\text{fixed assets}}{\text{long-term liabilities}}$$

According to the indicators of "Anagi" LLC, the solvency ratio will have the following form depending on the years:

$$\text{Solvency ratio of 2018} = \frac{29381}{8964} = 3,28$$

$$\text{Solvency ratio of 2019} = \frac{29841}{15262} = 1,96$$

$$\text{Solvency ratio of 2020} = \frac{26889}{14211} = 1,89$$

With this formula, we can conclude that the ratio of fixed assets would be more than 100%, this is certainly a good indicator, because the number of fixed assets exceeds the total number of long-term liabilities in every year.

When considering the financial condition of the enterprise as unsatisfactory according to the indicator of liquidity and financial stability, it is appropriate to calculate the solvency recovery ratio for a period of 6 months. It is established that the period during which the enterprise must restore its solvency is six months, this is the accepted norm, regardless of the industry to which the enterprise belongs.

To restore solvency, it is first of all necessary to ensure the growth rate of sales, to reduce the term of collection of receivables, which is a prerequisite for the growth of cash resources. Applying these monetary means to cover obligations ensures the restoration of solvency.

Construction companies should be focused primarily on achieving high quality of work performed. They should take into account the interests of customers and make customer satisfaction a priority. Financial resources should be planned in such a way that existing resources are used rationally to maximize profits. Construction companies should have a financial-analytical department that will constantly assess this or that risk and take preventive measures if necessary.

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