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THE DEVELOPMENT OF SOLVENCY INDICATOR ANALYSIS AS A COMPONENT OF FINANCIAL INDEPENDENCE

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The international emblem of accountants is the emblem with the depicted sun, scales and the Curve of Bernoulli, and contains the inscribed motto: "Science, conscience, independence". That's why the main purpose of accountant is to provide an organization with financial independence.

Financial independence is an important characteristic of the stability of any organization. In the conventional sense, according to the experts financial independence is the ability of business entity to pay for its obligations in time.

From the author's point of view, financial independence is a complex of measures, which guarantee constant solvency, opportunity to cover any expenses of an organization in accounting period.

A lot of economists consider financial independence with the help of dynamic coefficients, which characterize, on the one hand, the level of financial independence, and on the other hand, the degree of protection of creditors' interests, as well as the implementation of long-term investment of an organization. From the economic point of view, financial independence is the information about the financial condition of an organization with the help of dynamic analytic coefficients, such as:

– coefficient of financial risk;
– coefficient of capitalization;
– coefficient of autonomy;
– current assets to equity ratio, etc.

The immediate source of information for the analysis of economic activities of an organization is the accounting data. That is why the author considers that it is necessary to develop the analysis of financial independence after the development of financial independence accounting.

The analysis of financial independence components will allow correctly to use the assets of an organization, make the right decisions for the efficient allocation of funds in order to improve the financial condition, evaluate the financial condition of an organization as a whole, as well as to identify factors that influence those results.

The author considers it necessary to carry out the analysis of financial independence in areas which are presented in the form of classification of financial independence (Fig. 1).

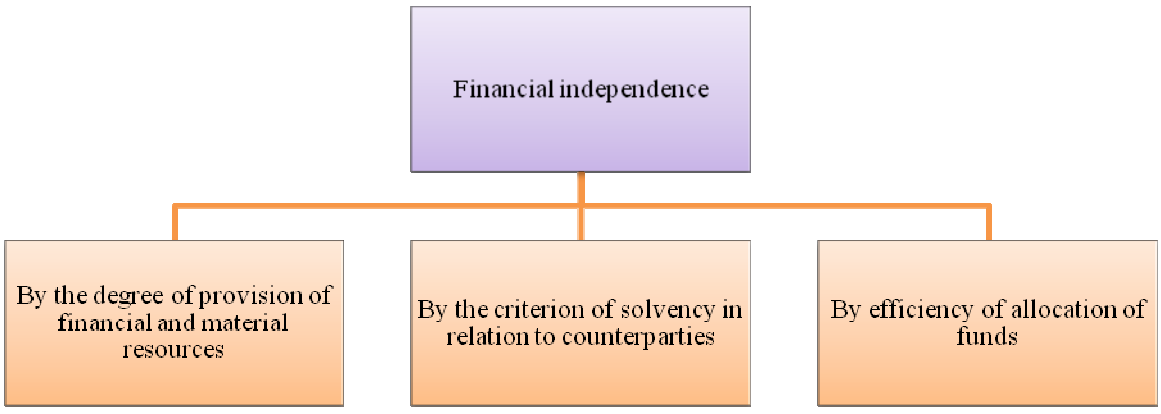

Fig. 1. General model of financial independence

Nowadays, in the national practice, there is no single approach to the analysis of the above mentioned indicators, but the interest of this article will focus on such indicators as solvency.

Solvency and the ability to continue normal financial and economic activities are the criterion of financial independence.

Maintaining a balance of its own assets and liabilities can guarantee permanent solvency to counterparties, as well as the attractiveness for investments taking into account acceptable risk.

Let us consider the methods of calculating of solvency indicators, which are proposed by legislation of the Republic of Belarus and various economists.

Table 1 – The methods of calculating of solvency indicators

Source	Calculated coefficient	Method of calculation	Value
1	2	3	4
Instruction on the procedure for calculating solvency ratios and analysis of financial condition and solvency of business entities [1]	The current liquidity ratio	$C_1 = \frac{SA}{SO}$, where SA – short-term assets; SO – short-term obligations	The ratio of result for Section II to result for Section V of balance sheet
	The coefficient of availability of current assets	$C_2 = \frac{SE + LO - LA}{SA}$, where SE – shareholders' equity; LO – long-term obligations; LA – long-term assets; SA – short-term assets	The ratio of sum of result for Section III and result for Section IV of balance sheet after deduction result for Section I to result for Section II of balance sheet
	The coefficient of availability of financial liabilities with assets	$C_3 = \frac{SO + LO}{RB}$, where SO – short-term obligations; LO – long-term obligations; RB – result of balance sheet	The ratio of sum of result for Section IV and Section V to result for balance sheet
	The absolute liquidity ratio	$C_{abs} = \frac{FI_s + CE}{SO}$, where FI_s – short-term financial investments; CE – cash and cash equivalents; SO – short-term obligations	The ratio of sum of short-term financial investments cash and cash equivalents to short-term obligations
Krasovskaya S.I. [2]	Real current liquidity ratio	$C_{cur.liq} = CR_L + R_L + \frac{C}{SI}$, where CR_L – the cost of liquid reserves; R_L – liquidity receivables; C – cash; SI –short-term indebtedness of an organization	Comparison of the current liquidity ratio to the level of the real factor allows to answer the question whether an organization is solvent or not. An organization is able to pay if $CR_L + R_L + C > R_N + SI$
	Minimum required coefficient of overall liquidity	$C_{ov.liq} = R_N + \frac{C}{SI}$, where R_N – the cost of necessary reserves; C – cash; SI – short-term indebtedness of an organization	
	The absolute liquidity ratio	$C_{abs.liq} = \frac{C + S}{SL}$, where C – cash; S – easily realized securities; SL – short-term liabilities	Shows how much short-term debt obligations can be repaid immediately if necessary
	The coefficient of intermediate liquidity	$C_{int.liq} = \frac{C + FI + F}{SO}$, where C – cash; FI – financial investments; F – funds in the calculations; SO – short-term obligations	Determines the possibility of an organization to pay off short-term liabilities in cash, by investments and funds in the calculations

Continued

1	2	3	4
	The coefficient of movables	$C_{mov.} = \frac{CA}{GA}$, where CA – current assets; A – gross assets	Can testify to the formation of mobile assets' structure, which conducts to acceleration the turnover of funds of an organization and the diversion of the current assets by lending consumers of goods and services to an organization, affiliated organizations and other debtors
	The coefficient of the share of reserves and taxes in current assets	$C_{sh.} = \frac{Vi + Vc + T}{SA}$, where Vi – value of inventories; Vc – value of costs; T – taxes on purchased goods, finished goods of an organization; SA – short-term assets	Reflects both the increase of the production capacity of an organization and of the irrationality of the chosen business strategy
Savitskaya G.V. [3]	The absolute liquidity ratio	$C_{abs.liq} = \frac{C + FI_S}{SD}$, where C – cash; FI_S – short-term financial investments; SD – short-term debts	Shows how much short-term obligations can be repaid at the expense of available cash. The higher it is, the more it guarantees of repayment of debts
	The coefficient of quick (immediate) liquidity	$C_{quick.liq} = \frac{C + FI_S + SR - DD}{SFI}$, where C – cash; FI_S – short-term financial investments; SR – short-term receivables, DD – doubtful debts, SFI – short-term financial liabilities	Satisfies the usual ratio of 0.7–1. However, it may not be enough if a large share of liquid assets is receivable, the part of which is difficult to claim in a timely manner
	The current liquidity ratio	$C_{cur.liq} = \frac{SA}{SO}$, where SA – short-term assets; SO – short-term obligations	Shows the degree in which current assets cover current liabilities
Lisenko D.V. [4]	The absolute liquidity ratio	$C_{abs.liq} = \frac{C + FI_S}{SO}$, where C – cash; FI_S – short-term financial investments; SO – short-term obligations	Characterizes which part of short-term liabilities can be repaid by available cash resources and short-term financial investments
	The coefficient of critical liquidity	$C_{crit.liq} = \frac{AR + C + FI_S + OCA}{SO}$, where AR – accounts receivable; C – cash; FI_S – short-term financial investments; OCA – other current assets; SO – short-term obligations	Characterizes the projected payment opportunities of an organization on condition of timely settlements with debtors
	The current liquidity ratio	$C_{cur.liq} = \frac{CA}{SO}$, where CA – current assets; SO – short-term obligations	Characterizes the degree at which all current liabilities are secured by current assets

Source: authors` own elaboration based on a special study of the economic literature.

As you can see from the above studied different methods of calculating solvency, it can be concluded that the calculation of analytical ratios is one of the best known and most frequently used methods of solvency analysis of an organization. These methods can allow you to see the relationship between the indicators and to assess trends in their changes.

Based on the research, the author identified two most complete methods for calculating the solvency index: methodology proposed by the legislator and the methodology proposed by the author Krasovskaya S.I. These two methods, in our opinion, more fully disclose the information about the state of an organization, characterize its ability to pay for the obligations in time, as well as allow us to make accurate conclusions about the financial condition and solvency of an organization with a view to adopting a competent management decisions.

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