FINANCIAL STATEMENT ANALYSIS PROCESSES ACCORDING PERFORMANCE OF TEXTILE COMPANIES IN UZBEKISTAN

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Recommended Citation
Mun, Taehyoung Associate professor and Tashmanov, Golib PhD (2021) "FINANCIAL STATEMENT ANALYSIS PROCESSES ACCORDING PERFORMANCE OF TEXTILE COMPANIES IN UZBEKISTAN," International Finance and Accounting: Vol. 2021 : Iss. 5 , Article 7. Available at: https://uzjournals.edu.uz/interfinance/vol2021/iss5/7

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FINANCIAL STATEMENT ANALYSIS PROCESSES ACCORDING PERFORMANCE OF TEXTILE COMPANIES IN UZBEKISTAN

Abstract

Analysis of the financial statements of the textile company is an important means to obtain information about how the company operated in the previous period in Uzbekistan. Interpretation of the evolution of financial indicators does not always prove to be easy, requiring multiple calculations and combined approaches, while the knowledge and understanding of type of business reviewed are essential in the proper interpretation of the results. Financial ratio analysis: liquidity ratio, leverage ratio, profitability ratio and turnover ratio are used and calculated by ratio formula through financial performance of 5 years. There are so many financial reasons to increase and decrease of financial performance, we explained and recommended which financial indicators need to be increased in selected Textile industry by investments and shareholders. Thus, the conclusions of the analysis carried out in a professional manner will be able to correctly describe the evolution of the company and to substantiate the user’s decisions.

Key words: Accounting, analysis, financial statement, reports, financial performance, economy, social, textile companies, liquidity, profitability, leverage, equity capital

Introduction

In the modern economic system every organization prepares financial statements at regular intervals such as quarterly, half yearly and at the end of the accounting year. Therefore, textile companies also conduct annual reports every year in Uzbekistan. Firstly, this chapter conducted review of textile industry in Uzbekistan, because textile industry very important industry to the growth economy and GDP. And also this chapter covers background of the study, study gap, statement of the problem, research questions, objective of the study, significance of research and scope of the study.

In recent years, given the globalization of the world economy, the textile production has shifted from Europe, Asia and America to developing countries, including the countries of Central Asia - Uzbekistan, Kyrgyzstan, Turkmenistan and Tajikistan.

Also, the textile industry is actively supported by the government. So, from January 1, 2016 abolished import duties on imported accessories, accessories, dyes and other materials that are not produced in local factories. Such prospects of textile industry in Uzbekistan make the country attractive for this type of business. A production of quality textile products allow businesses to get new export partners and to establish import of goods in the popular business of the state, such as the UAE and other Middle East countries. (Uzbekinvest 2018)

A financial statement is an organized collection of data according to logical
and consistent accounting procedures of past years in the company. Its purpose is to convey an understanding of some financial aspects of a business company. It may show a position at a moment of time as in the case of a balance sheet, or may reveal a series of activities over a given period of time, as in the case of an income statement and cash flow statements.

Thus, the term financial statement generally refers to the basis statements;

1) The balance sheet
2) The income statement
3) Cash flow statement

The balance sheet shows the financial conditions of an accounting entity as of a particular date. The balance sheet consists of three sections: assets, liabilities and stockholders’ equity, the owners’ interest in the company.

\[ \text{Asset} = \text{Liability} + \text{Stockholders’ equity} \]

The income statement summarized revenues and expenses and gains and losses, ending with net income. It summarizes the results of operations for a particular period time. Cash flow statement details the inflow and outflow of cash during a specified period of time – the same period that is used for the income statement.

Financial performance changes every year from the four types. The first type change is side of total assets, increasing current asset and decreasing non-current asset, but totally amount not changed. The second type change is increasing liability and decreasing equity, also not changed total amount of balance sheet. The third types of changes, increasing total asset and increasing also total liability and equity, after that total asset and total equity also increasing same amount of balance sheet. The last of type changes is decreasing total asset and decreasing total equity, after that the total asset and total equity decreasing same amount.

Financial performance analysis: It is the process of identifying the financial strength and weakness of a firm from the available accounting data and financial statement. The analysis is done by properly establishing the relationship between the items of balance sheet and profit and loss account the first task of financial analyst is to determine the information relevant to the decision under consideration from the total information contained in the financial statement. The second step is to arrange information in a way to highlight significant relationship. The final step is interpretation and drawing of inferences and conclusion. Thus financial performance analysis is the process of selection relating and measuring of the accounting data/information.

Furthermore, financial performance analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing the relationship between the items of balance sheet and profit and loss account. It also helps in short-term and long term forecasting and growth can be identified with the help of financial performance analysis. The dictionary meaning of ‘analysis’ is to resolve or separate a thing in to its element or components parts for tracing their relation to the things as whole and to each other. The analysis of financial statement is a process of evaluating the relationship between the component parts of financial statement to obtain a better
understanding of the firm’s position and performance. This analysis can be undertaken by management of the firm or by parties outside the namely, owners, creditors, investors.

**Literature Review**

Sabarinathan, Jenifer (2018) analyzed in the basis of secondary data from the records, reports and profile of the organization. The validity of any study based on a systematic analysis method of data collection. Liquidity analysis is the process of determining the financial sustainability and efficiency of company costs by establishing a relationship between the elements of the balance sheet and profit and loss accountings. The present study has thrown a large concentration ratio analysis 5years from the balance sheet and profit and loss accountings. The study includes profitability, cost of goods sold and other experience of the whole company’s financial performance. Short-term and long-term position of the company. Based on five years of the balance sheet and the profit and loss account with a suitable offer was given to a researcher for better reliability and economic efficiency of the company.

Indhumathi, Palanivelu (2017) made the study attempt to find out the profitability and the financial position of certain textile companies to fulfill this goal. The data collected from the annual reports from 2001-2010 on the selected textile companies in India, the collected data is analyzed and evaluated to fit for drawing conclusions, this study uses a variety of relationship analysis, correlation, trend, compounded by the growth rate. Results reveals that there is a close connection exists between the financial performance of companies selected textiles in India and changes in the share of profit on total assets.

Amalendu (2011) they published the article "Analysis-A Financial Performance Case Study" they present study aims to identify the financial strengths and weaknesses of the Indian pharmaceutical public sector enterprises through the proper establishment of relations between the elements of the balance sheet and profit and loss Account. The study covers two drug and pharmaceutical public sector companies listed on the BSE.

The study was conducted in a period of twelve years from 1997-98 to 2008-09 and the necessary data were obtained from the database CMIE data. The liquidity position was strong in the case of the two selected companies in a way that reflects the company's ability to pay short-term obligations in time and they rely more on external funds in terms of long-term debt, thereby providing a lower level of protection of creditors. The financial stability of the two selected companies showed a tendency to decrease and, consequently, the financial stability of individual pharmaceutical companies reduced the intensive speed.

Morris, Shin (2010) conceptually defines liquidity ratio as the "realizable cash on the balance sheet as current liabilities." In turn, "realizable cash" is defined as other liquid assets plus assets that shearing has been applied. Analysis of diet is one of the conventional method, which use financial statements to evaluate the company and create standards that are simply interpreted by financial sense (George, Mark Holmes 2005). Sudden stops in the organization, as a rule, is
defined as a sudden slowdown in emerging capital markets (cash) inflows, with a corresponding shift from a large deficit in the current account deficits in small or small surplus. Sudden stops "are dangerous and can lead to bankruptcy, the destruction of human capital and local credit channel" (Calvo, 1998)

**PEST Factors of Textile Industry**

**Political factor:** An Industry will not be able to gain success, good reputation and trust if it will not consider legal and political sector as part of their strategy. Political and legal sectors include the needs of the company to follow the given policies and regulations of the Uzbekistan in order to be considered as legal and authorized textile industry. In this manner, industry should be able to consider political and legal aspects so as to show that they value the policies and regulations of the Uzbekistan in any of the business operations.

- Tax policy
- Employment laws
- Political stability
- Environmental regulations
- Trade and tariff restrictions

**Economic factor:** It is important that apparel must also give enough attention to its economic stability. The economic goal of a certain industry is like an axis in which other objectives or goals are revolving. The economic factor involves the context in which an industry belongs, i.e. the configuration of the competition in which a company operates the active demand of the products, general economic condition of the nation or region, conditions in relation with other industries, and the situation of the resource markets.

- Economic stability
- Economic growth
- Interest rates
- Inflation rates
- Exchange rates

**Social factor:** Social is an important factor that must be given emphasis by any business, specifically those who are operating in the global arena. It is important that the company must operate in compliance with the social systems in order to gain good reputation and effective public image. On the other hand, cultural aspects is equally essential, in order to understand the various needs of different individuals that belongs to different cultures.

- Population growth rate
- Age distribution
- Career attitudes
- Consumer behavior
- Religion and culture itself

**Technological factor:** The complexities of achieving business success through increased efficiency, effectiveness and competitiveness, combined with innovative applications of modern technology, has heightened the awareness of
both technology and business managers towards more strategically oriented approaches for planning and management of any industry. Hence, it is important that industry must be able to give consideration to the technological aspects.

- Distribution and communication channels
- Technology incentives
- Automation
- Rate of technological change
- Environmental and ecological aspect
- Barriers to entry
- Production level
- Outsourcing decisions

**Financial Performance Analysis methodology**

The most common approaches for analysis are the common size and comparative analysis (horizontal and vertical analysis) trend analysis and financial ratio analysis.

**Picture 1. Conceptual framework of financial performance analysis**

Analysis of financial ratios is to compare those values with the basic values and the study of their dynamics for reporting period and for a number of years. In this thesis, we present some standard values financial ratios recommended by various literary sources. It is important to understand that the given value is not necessarily always a true characteristic the financial condition, due to, for example, specificity of the event or features of the economy.

Using the financial statements of the DTF Textile Company below, calculate the following financial ratios:

- liquidity ratio,
- leverage ratio,
- profitability ratio,
- turnover ratio,

**Results and discussions of study**

**Analysis of Liquidity Ratios**

Liquidity ratios allow us to determine the company's ability to pay its short-term liabilities during the reporting period. The most important of these are improving sales in the market.

The following table shows Liquidity ratios (current and quick ratios) compared of the DTF in 2016-2019.

**Table 1. Analysis of the Liquidity ratio of the DTF for in 2016-2019**

<table>
<thead>
<tr>
<th>Years</th>
<th>Liquidity Ratio</th>
<th>Quick ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Current Ratio</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>1.23</td>
<td>0.94</td>
</tr>
<tr>
<td>2017</td>
<td>1.30</td>
<td>1.02</td>
</tr>
<tr>
<td>2018</td>
<td>1.31</td>
<td>1.08</td>
</tr>
<tr>
<td>2019</td>
<td>1.27</td>
<td>1.07</td>
</tr>
</tbody>
</table>

Source: Secondary data of DFT Company

Liquidity ratio including two types of ratio, current and quick ratios. These ratios helping to increasing and improving of the “DTF” LLC company.

For four years, the guideline for the minimum current ratio has been 1.00. The typical “DTF” company successfully maintained a current ratio of 1.00 or better until the mid-2016s. Since that time 2016 years current ratio is 1.23 time, in the 2017 years increased to 1.3 times, in the 2018 year also increased to 1.31 time, but in the 2019 year decreased to 1.28 times. Because last year current liabilities increased, that is why current asset little less the other years. Table 14 shows the current ratio of over one over that of all of years.

Quick ratio is some different from current ratio, quick ratio also increased from 0.94 time in 2016 to 1.07 time in 2019. The quick ratio is similar in the sense of "acid-test ratio", but excluded from the calculation of inventories. According to the literature it takes literature it is taken approximately less than (≥ 0.8), but it is conditional. One can see from table 14 quick ratio of the coefficients of liquidity are also normative of “DTF”

**Analysis of Leverage Ratio**

The company’s policy in relation to the maximum allowable advantage in the total amount of sources can be accessed by the leverage ratio - leverage is determined by a number of conditions. The leverage ratio can be divided into long-term debt to equity ratio and total debt to equity ratio. The following table shows the leverage ratios (long term debt to equity and total debt to equity ratios) compared to the DTF Company in 2016-2019.
Table 2. Analysis of the Leverage Ratio of the DTF companies for in 2016-2019

<table>
<thead>
<tr>
<th>Years</th>
<th>Long term debt to equity ratio</th>
<th>Total debt to equity ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>0.31</td>
<td>0.35</td>
</tr>
<tr>
<td>2017</td>
<td>0.29</td>
<td>0.44</td>
</tr>
<tr>
<td>2018</td>
<td>0.52</td>
<td>0.85</td>
</tr>
<tr>
<td>2019</td>
<td>0.90</td>
<td>1.32</td>
</tr>
</tbody>
</table>

Source: Secondary data of DFT Company

From the table above, we can see two types of leverage ratios. The first of ratio is long-term debt to equity ratio. This ratio more important to improving of growth export and economic performance of “DTF” company. We calculated from formula that all ratios and the results are followings.

Long-term debt to equity ratio is 0.31 in the 2016 years, and decreased to 0.29 in 2017, but increased from 0.29 in 2017 to 0.52 in 2018, and increased from 0.52 in 2019 to 0.90 in 2019. This ratio is not good for export potential in “DTF” company, because all years increasing the long-term debt.

Total debt to equity ratio also increased from 0.35 in 2016 to 0.44 in the 2017. In the 2018 year increased two time 0.85 than 2017. Also increased from 0.85 in 2019 to 1.32 in the 2019. This total ratio also not good for “DTF” company. Long term and total term debt more important for enhancing financial performance of “DTF” company.

Analysis of Profitability Ratio

Profitability ratio - relative measure of economic efficiency. Profitability comprehensively reflects the degree of efficiency in the use of material, labor and money, and others resources. The profitability ratios are calculated as the ratio of net income to assets, equity or sales, as its shaping.

The following table shows Profitability ratios (return on assets, return on equity and net profit margin ratios) compared of the DTF Company in 2016-2019.
Table 3. Analysis of the Profitability Ratio of the DTF companies for in 2016-2019.

<table>
<thead>
<tr>
<th>Years</th>
<th>Return on assets ratio</th>
<th>Return on equity ratio</th>
<th>Net profit Margin ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>0.05</td>
<td>0.19</td>
<td>0.05</td>
</tr>
<tr>
<td>2017</td>
<td>0.04</td>
<td>0.16</td>
<td>0.04</td>
</tr>
<tr>
<td>2018</td>
<td>0.04</td>
<td>0.15</td>
<td>0.04</td>
</tr>
<tr>
<td>2019</td>
<td>0.02</td>
<td>0.11</td>
<td>0.03</td>
</tr>
</tbody>
</table>

Source: Secondary data of DFT Company

Return on assets is evaluated by comparing net income to total assets on the balance sheet. This number is one of the most important characteristics for profitability.

Return on assets ratio of “DTF” company decreased from 0.05% in 2016 to 0.04% in 2017. Because, this year net profit decreased than last year. In the 2018 year, period not changed tendency return on assets ratio, but in the 2019 year also decreased from 0.04% in 2018 to 0.02% in 2019. This year, also net income decreased than last years. That is why last year not profitable than other years. Because, total asset increased and net income decreased in the 2019.

Return on equity measures the effectiveness of using only the company’s own sources in funding. When calculating this indicator we used the net profit enterprise in conjunction with a company's equity.

The return on equity ratio for “DTF” company the following calculations. Return on equity ratio decreased from 0.19% in 2016 to 0.16% in 2017. The reason is net income decreased this year. In 2018, also decreased only 0.01% from 2017. There reason is equity increased and net income decreased. The last year also decreased return in equity ratio from 0.15% in 2018 to 0.11% in 2019. Because, this year net income and equity decreased.

Net profit margin ratio shows the share of profits in each sum earned. It is usually calculated as the ratio of net profit (profit after tax) for a certain period usually expressed in cash terms of sales for the same period.

Net profit margin ratio is more important for “DTF” company, net income also effect to net profit margin ratio. Net profit ratio decreased from 0.05% in 2019 to 0.04% in 2017. Because, net income decreased than last year. However, in the 2018 year not changed net profit margin ratio. In the 2019 year decreased from 0.04% in 2018 to 0.03% in 2019 The reason also net income decreased.

Analysis of Turnover Ratio

Turnover ratio - is a financial ratio shows the intensity of use of certain assets or liabilities. Turnover ratios are the indicators of business activity.

Among the most popular turnover rates used in the financial analysis:
- total assets turnover ratio;
- inventory turnover ratio.

The following table shows turnover ratios (total assets turnover, account receivable turnover and inventory turnover ratios) compared of the DTF company in 2016-2019.

Table 16. Analysis of the Turnover Ratio of the DTF companies for in 2016-2019

<table>
<thead>
<tr>
<th>Years</th>
<th>Turnover ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total assets turnover</td>
</tr>
<tr>
<td>2016</td>
<td>1.04</td>
</tr>
<tr>
<td>2017</td>
<td>1.02</td>
</tr>
<tr>
<td>2018</td>
<td>0.93</td>
</tr>
<tr>
<td>2019</td>
<td>0.88</td>
</tr>
</tbody>
</table>

Source: Secondary data of DFT Company

Total asset turnover ratio - this financial measure is calculated as the ratio of turnover to the value of total assets.

Total asset turnover ratio of “DTF” decreasing from 1.04 in 2016 to 1.02 in 2017. The other years also decreased from 1.02 to 0.93 in 2018, the reason is total asset increased than sales. The last year also increased total asset turnover ratio from 0.93 to 0.88 in 2019. This year also total asset increased than sales that is why company must to increase sales indicators. Furthermore, company must to improve sales market potential in the world market.

Turnover ratio of inventories - reflects the rate of consumption (consumption, use) of these stocks over the period analyzed. An overabundance of inventory in stock - this extra spending on storage products, "freezing" of money, but the lack of reserves - a shortfall in profits due to the inability to meet the demand of customers. Therefore, you should avoid large reserves with low turnover. The indicator is calculated: separation of cost of goods sold by the average annual cost of inventories. Decrease in this index shows the relative increase of inventory the reduction in the demand for finished products. The higher the index, the greater the liquidity of current assets and the stability of the financial position of the company.

Inventory turnover ratio for “DTF” was increasing tendency from 9.27 in 2016 to 9.31 in 2017. In the year 2018, Inventory turnover ratio also increased to 9.79. Also increased from 9.79 to 10.42 in 2019.

Given line graph has two ratio which is increasing every year, these ratios are the same as the receivable turnover ratio where it is easier to express a yearly purpose analysis. Asset turnover ratio entities invest in assets in anticipation that the investment will generate returns. Asset turnover ratio is increase of “DTF”LLC, it is an entity’s overall efficiency in generating income per sum of investment in assets is referred to as the asset turnover ratio.
Conclusion

The effective financial analysis of a company solely relies on the adequacy of accounting information as well as on analyses that are derived from the financial and economic activities of the organization in order to make timely management decisions.

Also, the financial analysis of the company includes various methods of processing information, which can help in distinguishing qualitatively different financial conditions of the organization in the presently developed existing relationship. As well as helping in the timely detection and highlight of areas of concern that appear as a result of the changes. In addition, to determine the situation analysis of the financial stability of the organization aims to provide information and justification during decisions making.

Financial analysis help to detect and change on time in response to unfavourable trends in the development of the organization in this way financial analyses exercise the control function. The main purpose of the financial analysis of companies is the accumulation and processing of financial information about all aspects of the organization, in the form required to identify and assess existing problems.

Examining the point of view of various authors and clarifying the basic characteristics of the concept of financial analysis of the textile companies, it is possible to propose the following definition: Financial sustainability of any business entity - the ability to perform basic and other activities in a business risk and the changing business environment in order to maximize the welfare of the owners, strengthening the competitive advantages of the organization in the interests of society and the state.

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