MINISTRY OF HIGHER AND SPECIALIZED SECONDARY EDUCATION OF THE REPUBLIC OF UZBEKISTAN

TASHKENT FINANCIAL INSTITUTE

"ACCOUNTING AND AUDIT" FACULTY

"AUDIT" DEPARTMENT

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"SOLVENCY RATE AND FINANCIAL STABALITY OF THE COMPANY"

5230900 – "Accounting and audit (on branches)" bachelor major

FINAL QUALIFYING WORK

"PERMISSION FOR DEFENCE"	"PERMISSION FOR DEFENCE"
DEAN OF FACULTY	Chairman of the department of "Audit"
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"____"____________2018 year	"____"____________2018 year

Supervisor: **teacher Saidov A.**

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INTRODUCTION

Topicality of final qualifying work . Financial crisis has become a hotly debated term since the global financial crisis which was a sudden shock and for all entities in the planet. Numerous companies failed in coping with its impact and implications and could not withstand its waves. Government also weakened in crisis period and they also could not lend helping hands to enterprises to recover. Only Large enterprises were protected and provided with bailout money from the government funds due to their importance for the socio-economic stability. It enabled Large companies to stay solvent and to find a hole to the light in the darkness of crisis thanks to government-supported financial crisis management policy. Large companies in automotive and oil and gas industries are found financially health with very low probability of financial crisis, another couple who operate in metal and chemical industries are in poor financial health with below than average probability of financial crisis. Increasingly competitive environment in global business requires a sustainable financial profile to remain in a good financial status in market. Advancements in international business practices has reflected the growing consolidation of a double edged scenario: developments in business climate are serving for increase of financial burdens and tightening of liabilities, which is seen as key action towards creation of a healthy market. Clear-cut restrictions, frontiers of financial loosening, strengthening in business-related legislature and closer government-business relations in a bold frame is sweeping out insolvent firms and keeping the market healthy, but in a deteriorating macroeconomic condition, it has been major barrier for health market due to temporary illiquidity and blocking the access to many suffered but rapidly recovered market players. Consequently, companies are continuously facing a trouble of not only exiting from the market of their industry, but also from the listing of stock market they play. This trouble has carrying a huge loss in market share and profit due to consumer negativity to brand. Therefore, current businesses focus on financial crisis management as prerequisite for long-term operation in both markets. Financial crisis management is a set of regulatory tools with supervisory functions. It embraces balance sheet, market and business climate, stock market performance and business development strategy monitoring actions. However, recent history of global economy proved that financial crisis management actions have to be different across types, sizes, markets and ownership forms of enterprises. Small and medium sized enterprises operate in local markets with smaller consumer population and they have smaller turnover, sale and production capacities, which secure them from greater risks and external impacts. Large enterprises face harsh challenges of financial crisis because of larger market, national and international chain of supply, being listed in stock markets, participation in large investment projects and deterioration in both global and national business environment. Considering the scale of potential risks which can lead to financial crisis, large enterprises set specific map of avoiding financial distress and try to find the sources of support in distress period. Banks may be a good source of counter crisis funding, but banks are pure profit seekers – they do not provide financial support for company with a worsening financial profile. Government may be a good source of survival aid, if an enterprise is strategically important or Large one. Government allocates bailout money to keep the enterprise safe for ensuring the stability for the whole industry it operates. All governments always do not lend helping hands to companies in financial distress. In contrary, most of developing countries regularly monitor the financial performance of Large enterprises and provide them particular support tools such as tax exemption, money for covering short-term illiquidity, capital investment and funding support in case of losses from emergency. Therefore, recovery is achieved by state funding and regulatory easing. President of Uzbekistan Shavkat Mirziyoyev signed a decree "On Uzbekistan’s Development Strategy ". In this development strategy following opportunities mentioned. Further strengthening of the macroeconomic stability and the maintenance of high rates of economic growth: Ensuring growth rates of gross domestic product through maintaining macroeconomic balance, deepening of structural and institutional reforms by means of implementation of medium-term programs;

- Rreforming and improving the stability of the banking system, the level of capitalization and deposit base of banks and strengthening their financial stability and reliability, expansion of lending to promising investment projects, as well as small and medium enterprises;
- Expansion of the volume of insurance, leasing and other financial services through introduction of new types of services and improving their quality;
- Development of financial markets as an alternative source of capital attraction and investment by enterprises, financial institutions and the public;
- Expanding international cooperation, including with leading international and foreign financial institutions, upholding of prudent external borrowing policy, using foreign investments and loans effectively;[1]

Subject of final qualifying work. Analysis of solvency and financial stability ratios of the copmany.

The object of final qualifying work: "SHAKHRIYAR RESTORATION SERVICES" LLC, Adress Tashkent city, Sergeli district, Chosh street 160.

The pupose and tasks of final qualifying work: The pupose of graduation and qualification work is that deeply learning copmanies financial position by financial ratios and providing with more reliable financial data in high accuracy after that putting these learnings' result into practice. According to this purpose following tasks will be implemented:

- intially paying attention absolute factors before caculating financial ratios;
- determining solvency rate by using data of balance sheet and income statement;
- working out more related ratios to find out financial stability of the company;

[1] Interpretation for "Uzbekistan's Development Strategy for 2017-2021"

– periodically analyzing key financial ratios and copmaring them to identify optimal point of financial stability;

– giving theoretical opinions on the basis of business research in high accuracy;

– determining improvement opportunities of solvency ratio and financial stability;

– studying foriegn experiences and taking applicable ratios and exprimentalizing them.

Theoretical and practical importance of results earned from graduation certification work. Laws of the Republic of Uzbekistan regulating activity of house holding companies within the country, Decrees of the President of the Republic of Uzbekistan on the issues of strengthening economy and market relations of the country, Decrees of Cabinet of Ministers, Normative documents of ministry of Finance on principles of accounting and financial statements, scientific works of scholars, statistical information of the company and recommendations of scientific-research institutes were used to prepare diploma work. The practical significance of the graduation certification work is determined by the fact that its main results can be used in creating principal recommendations for economic entities on organizing financial stability, solvency rate and their effective utilization in business-related activities.

According to its structure, the final qualifying work consists of:

Introduction, three chapters, conclusions and offers, as well as a list of references. The paper presents 15 tables and several diagrams from the latest scientific literature and the author's development on the basis of the practical material of the study.

CHAPTER 1. THEORETICAL BASES AND INFORMATION SOURCES OF SOLVENCY RATE AND FINANCIAL STABILITY

1.1. Essence and objectives of analyzing solvency and financial stability ratios

Financial ratios are tools used to assess the relative strength of companies by performing simple calculations on items on income statements, balance sheets and cash flow statements. Ratios measure companies' operational efficiency, liquidity, stability and profitability, giving investors more relevant information than raw financial data. Investors and analysts can gain profitable advantages in the stock market by using the widely popular, and arguably indispensable, technique of ratio analysis. Effective planning and financial management are the keys to running a financially successful business. Ratio analysis is critical for helping you understand financial statements, for identifying trends over time and for measuring the overall financial state of your business. In addition, lenders and potential investors often rely on ratio analysis when making lending and investing decisions. Ratios are critical quantitative analysis tools. One of their most important functions lies in their capacity to act as lagging indicators in identifying positive and negative financial trends. The information a trend analysis provides allows to you to make and implement ongoing financial plans and, when necessary, make course corrections to short-term financial plans. Ratio analysis also provides ways for you to compare the financial state of your business against other businesses within your industry or between your business and businesses in other industries. The sheer numbers of available financial ratios makes it important to research and choose ratios most applicable to your business. The objective would be to discover possible weaknesses and any problem areas that should be discussed with company owners. The analysts would look for unusual movements in items from year to year and for patterns in revenue and profits. Steady growth is normally positive, and severe ups and downs might be a sign of discord. Cash flow statements should indicate how the business normally obtains and uses cash. The management team of a small business might conduct a similar analysis as a part of an annual review of the business. The company's financial adviser or accountant might participate in such reviews. Ratio analysis compares values within the company from year to year and against other companies and the industry. So what is financial stability? Stability is the ability to withstand a temporary problem, such as a decrease in sales, lack of capital or loss of a key employee or customer. Analyzing your cash flow and a variety of negative scenarios will help you determine whether or not your business is financially stable. In the book authored M. Rakhimov "The main purpose of analyzing solvency ratios and financial stability ratios is that determining current and future financial position of the company and making decision properly on ratios' result.

According to purpose there are some objectives of analysis of these indicators. They are followings:

- Researching companies' solvency through periodic interval;
- Assessing companies' financial stability, profitability of their assets and equity capital;
- Assessing placement and turnover of current assets;
- Assessing status of expired liabilities, changes in financial independence, changes in sales volume, status of more liquid assets and other like these additional indicators;

Financial analysis and threats analysis are implemented in analysis of solvency or liquidity ratios. The purpose of threats analysis is that identifying opportunity and level of giving loans.

According to forenamed purpose followings are analyzed:

- Dynamics of assessment indicators
- Components of balance sheet
- Quality of assets
- Analyzing main direction of operational activity of the companies".[2]

[2] M. Rakhimov "Analysis of financial position in economic entities" Tashkent "Iqtisod Moliya" 2013.

Many small and mid-sized companies are run by entrepreneurs who are highly skilled in some key aspect of their business, perhaps technology, marketing or sales, but are less savvy in financial matters. The goal of this document is to help you become familiar with some of the most powerful and widely-used tools for analyzing the financial health of your company. Some of the names, “common size ratios” and “liquidity ratios” for example, may be unfamiliar. However, nothing in the following pages is actually very difficult to calculate or complicated to use. The payoff can be enormous. The goal of this document is to provide you with some ways to look at how your company is doing compared to earlier periods of time, and how its performance compares to other companies in your industry. Once you get comfortable with these tools you will be able to turn the raw numbers in your company’s financial statements into information that will help you to better manage your business.

Although it may be somewhat unfamiliar to you, financial ratio analysis is neither sophisticated nor complicated. It is nothing more than simple comparisons between specific pieces of information pulled from your company’s balance sheet and income statement. A ratio, you will remember from school, is the relationship between two numbers. As your math teacher might have put it, it is “the relative size of two quantities, expressed as the quotient of one divided by the other.” If you are thinking about buying shares of a publicly-traded company, you might look at its price-earnings ratio. If the stock is selling for $60 per share, and the company’s earnings are $2 per share, the ratio of price ($60) to earnings ($2) is 30 to 1. In common usage, we would say the “P/E ratio is 30.” Financial ratio analysis can be used in two different but equally useful ways. You can use them to examine the current performance of your company in comparison to past periods of time, from the prior quarter to years ago. Frequently, this can help you identify problems that need fixing. Even better, it can direct your attention to potential problems that can be avoided. In addition, you can use these ratios to compare the performance of your company against that of your competitors or other members of your industry. Remember the ratios you will be calculating are intended simply to show broad trends and thus to help you with your decision-making. They need only to be accurate enough to be useful to you. Don't get bogged down calculating ratios to more than one or two decimal places. Any change measured in hundredths of a percent will almost certainly have no meaning. Make sure your math is correct, but don't agonize over it. A ratio can be expressed in several ways. A ratio of two-to-one can be shown as: 2:1 or 2-to-1 or 2/1

In these pages, when we present a ratio in the text it will be written out, using the word "to." If the ratio is in a formula, the slash sign (/) will be used to indicate division.

One of the most useful ways for the owner of a small business to look at the company's financial statements is by using "common size" ratios. Common size ratios can be developed from both balance sheet and income statement items. The phrase "common size ratio" may be unfamiliar to you, but it is simple in concept and just as simple to create. You just calculate each line item on the statement as a percentage of the total.

For example, each of the items on the income statement would be calculated as a percentage of total sales. (Divide each line item by total sales, then multiply each one by 100 to turn it into a percentage.) Similarly, items on the balance sheet would be calculated as percentages of total assets (or total liabilities plus owners' equity). This simple process converts numbers on your financial statements into information that you can use to make period-to-period and company-to-company comparisons. If you want to evaluate your cash position compared to the cash position of one of your key competitors, you need more information than what you have, say, 12,000 sum and he or she has 22,000 sum. That's a lot less informative than knowing that your company's cash is equal to 7% of total assets, while your competitor's cash is 9% of their assets. Common size ratios make comparisons more meaningful; they provide a context for your data.

Actually, to know financial position of a company, managers need financial stability ratios, solvency ratios and liquidity ratios together. In terms of financial stability ratios, we can take as an example, several ratios such as:

Stability is the long-term counterpart of liquidity. Stability analysis investigates how much debt can be supported by the company and whether debt and equity are balanced. The most common stability ratios are the Debt-to-Equity ratio and gearing (also called leverage).

debt-to-equity ratio = (Net debt) / (Shareholders' equity)

gearing = (Net debt) / (Net debt + Shareholders' equity)

Net debt = Interest-bearing debt – Excess cash.[3]

Net debt is defined as interest-bearing long-term and short-term debt less excess cash in the business. Note that only interest-bearing net debt is included here, and other current liabilities are excluded as they are short-term and can impact on liquidity, but not stability. Excess cash is the cash held on the balance sheet that is not needed and exceeds the normal cash level required for business operations (usually 3%-5% of annual sales).

Both Equity and Net Debt should be taken at market value as far as possible, otherwise book value should be used. Book values mostly record historical costs only and not "fair value". For debt, unless the company has a high credit risk or interest rates have changed considerably, the difference between book and market value will be small. For equity, market values are usually considerably higher, at least when the company is operating as a going concern and is not in liquidation.

Note that while the cost of debt is usually lower than the cost of equity, and a company attempts to minimize its cost of capital by using debt, it is unwise and often disastrous to put a company in a situation where it can not pay its interest and meet its redemption payments as they fall due. So gearing is all about using the right mix of debt and equity to finance the business in the long term.

"Different levels of gearing are regarded as normal across various industries, in particular depending on the ability of the business to generate a high level of cash and therefore bring protection from a risk of default, thereby reducing risk to debt holders. Even within one industry, some companies are more geared than

[3] Bakanov M. I., Sheremet A. D. Theory of economic analysis. M.: INFRA – 2016. – 37p. www.sciencedirect.com

others, especially those with stable profit and assets like land and buildings who are unlikely to fall in value quickly over time and therefore provide good security. When a company's gearing is outside of the usual industry range, its debt can be expected to be downgraded, thereby increasing the cost of debt. Other useful ratios here from a debt holder perspective are the interest cover ratio (also called times interest earned), the times burdened covered and the debt cover ratio".[4]

The interest cover ratio indicates by how much profit would have to fall until the company is unable to pay its interest. EBIT and EBITDA are taken from the Profit & Loss account and can be seen as proxy for respectively Cashflow from operations and Cashflow after investment. Sometimes interest cover is calculated using cashflows from the Cashflow statement.

Finally, the debt cover ratio shows how many years of EBITDA would be necessary to reimburse company debt (principal) in full. For telecom network operators, a ratio lower than 2 is regarded as acceptable. Solvency ratios are also vital indicators to know financial position. Solvency ratios are primarily used to measure a company's ability to meet its long-term obligations. In general, a solvency ratio measures the size of a company's profitability and compares it to its obligations. By interpreting a solvency ratio, an analyst or investor can gain insight into how likely a company will be to continue meeting its debt obligations. A stronger or higher ratio indicates financial strength. In stark contrast, a lower ratio, or one on the weak side, could indicate financial struggles in the future.

The solvency ratio is a calculation formula and solvency indicator that demonstrates the relationship between the various equity components. There are two ways to calculate the solvency ratio:

Equity is the capital that the entrepreneur has invested in the organization. Total assets is the capital that is incorporated in the organization, these are the Equity, the Short-Term Liabilities (the capital that has to be repaid in the short-term, for instance suppliers credit, creditors or overdraft facility) and

[4]Ph.D Patrick Enyi "A Comparative Analysis Of The Effectiveness Of Three Solvency Management model" published in 2016. www.sciencedirect.com

automatically Long-Term Liabilities (long-term liabilities that can be repaid after more than one year).

In order to determine whether an organization is viable, the outcome should be between 25% and 40%.This is of course dependent on the industry and type of undertaking. This also says something about the financial health of an organization but this does not necessarily mean that they are going bankrupt. The second manner is about the weighing of the assets with respect to the Total Liabilities.

Total Assets is the sum of assets of an organization. This is divided into current assets (these are the assets of a person, company or organization in which the capital is contributed for a period of less than one year). The current assets must be converted into money within one year. Examples of current assets are stock, receivables and liquid assets) and fixed assets (these are for example buildings, inventory, machines and plants and vehicles)

Total Liabilities are the total liabilities that are incorporated in the organization, these are the Short-Term Liabilities and the Long-Term Liabilities. The higher the outcome in percentages the more solvent the organization is. Solvency ratios indicate a company's financial health in the context of its debt obligations. As you might imagine, there are a number of different ways to measure financial health.

Debt to equity is a fundamental indicator of the amount of leverage a firm is using. Debt generally refers to long-term debt, though cash not needed to run a firm's operations could be netted out of total long-term debt to give a net debt figure. Equity refers to shareholders' equity, or book value, which can be found on the balance sheet. Book value is a historical figure that would ideally be written up (or down) to its fair market value. But using what the company reports presents a quick and readily available figure to use for measurement.

Debt to assets is a closely related measure that also helps an analyst or investor measure leverage on the balance sheet. Since assets minus liabilities equity capital. And also we can change formula like that assets minus liabilities is equal to book value, using two or three of these items will provide a great level of insight into financial health.

More complicated solvency ratios include times interest earned, which is used to measure a company's ability to meet its debt obligations. It is calculated by taking a company's earnings before interest and taxes (EBIT) and dividing it by the total interest expense from long-term debt. It specifically measures how many times a company can cover its interest charges on a pretax basis. Interest coverage is another more general term used for this ratio. Liquidity ratios such as the current ratio (current assets divided by current liabilities) show the company's ability to pay its short-term obligations on time. The debt ratio (total assets divided by total liabilities) shows how much of the company's assets are provided by debt. A lower percentage shows a lower dependence on debt. The higher the percentage, the more risk the company has taken on. Business owners and small-business management teams might use ratio analysis in their regular planning, to measure their companies against others in their industry. If ratio analysis shows that a company has a great deal more debt than other businesses in its industry, the owner might be prompted to pay off or reduce some loans.

Solvency Versus Liquidity Ratios:

The solvency ratio measures a company's ability to meet its long-term obligations as the formula above indicates. Liquidity ratios measure short-term financial health. The current ratio and quick ratio measure a company's ability to cover short-term liabilities with liquid (maturities of a year or less) assets. These include cash and cash equivalents, marketable securities and accounts receivable. The short-term debt figures include payables or inventories that need to be paid for. Basically, solvency ratios look at long-term debt obligations while liquidity ratios look at working capital items on a firm’s balance sheet. In liquidity ratios, assets are part of the numerator and liabilities are in the denominator.

Solvency ratios are different for different firms in different industries. For instance, food and beverage firms, as well as other consumer staples, can generally sustain higher debt loads given their profit levels are less susceptible to economic fluctuations. In stark contrast, cyclical firms must be more conservative because a recession can hamper their profitability and leave less cushion to cover debt repayments and related interest expenses during a downturn. Financial firms are subject to varying state and national regulations that stipulate solvency ratios. Falling below certain thresholds could bring the wrath of regulators and untimely requests to raise capital and shore up low ratios.

Acceptable solvency ratios vary from industry to industry, but as a general rule of thumb, a solvency ratio of greater than 20% is considered financially healthy. The lower a company's solvency ratio, the greater the probability that the company will default on its debt obligations. Looking at some of the ratios mentioned above, a debt-to-assets ratio above 50% could be cause for concern. A debt-to-equity ratio above 66% is cause for further investigation, especially for a firm that operates in a cyclical industry. A lower ratio is better when debt is in the numerator, and a higher ratio is better when assets are part of the numerator. Overall, a higher level of assets, or of profitability compared to debt, is a good thing.

Advantages and Disadvantages of Relying Solely on These Ratios

Solvency ratios are extremely useful in helping analyze a firm’s ability to meet its long-term obligations; but like most financial ratios, they must be used in the context of an overall company analysis. Investors need to look at overall investment appeal and decide whether a security is under or overvalued. Debt holders and regulators might be more interested in solvency analysis, but they still need to look at a firm’s overall financial profile, how fast it is growing and whether the firm is well-run overall.

When investors and analysts talk about fundamental or quantitative analysis, they are usually referring to ratio analysis. Ratio analysis involves evaluating the performance and financial health of a company by using data from the current and historical financial statements. The data retrieved from the statements is used to - compare a company's performance over time to assess whether the company is improving or deteriorating; compare a company's financial standing with the industry average; or compare a company to one or more other companies operating in its sector to see how the company stacks up. Financial ratios are a great way to quickly assess a company's health before digging deeper into its financial statements. Price-earnings ratios can provide insights into valuation, while debt-coverage ratios can tell investors about potential liquidity risks.

Ratio analysis can provide an early warning of a potential improvement or deterioration in a company’s financial situation or performance. Analysts engage in extensive number-crunching of the financial data in a company’s quarterly financial reports for any such hints. Successful companies generally have solid ratios in all areas, and any hints of weakness in one area may spark a significant sell-off in the stock. Certain ratios are closely scrutinized because of their relevance to a certain sector, as for instance inventory turnover for the retail sector and days sales outstanding (DSOs) for technology companies.

Of course, using any ratio in any of the categories listed above should only be considered as a starting point. Further ratio analysis using more ratios and using qualitative analysis should be incorporated to effectively analyze a company's financial position.

Ratios are usually only comparable across companies in the same sector, since an acceptable ratio in one industry may be regarded as too high in another. For example, companies in sectors such as utilities typically have a high debt-equity ratio, but a similar ratio for a technology company may be regarded as unsustainably high.

Ratios are a powerful tool in the interpretation of the accounts and can discover issues and problems not immediately evident from the accounts and financial information provided in the annual report. The can provide the basis for inter-firm comparisons allowing managers to benchmark the performance and efficiency of the firm against its competitors. Trends can then be examined and analyzed. Stakeholders may use ratios to support their decision making. Employees, for example may use profit ratios to support pay claims and creditors can use liquidity ratios to evaluate whether debts will be repaid. But there are some drawbacks of ratio analysis in different types of small and large enterprises and they are followings.

Further limitations:

– However other types of analysis exist, which are not based solely on financial performance;

– Ratios are based on data published in public financial accounts. Only financial data is used, so non-financial factors are not included. It cannot be concluded that all the data needed is published, so it is hard to draw solid conclusions from the ratios alone;

– Analysis is only of real use if there are a series of accounts available;

– Access to the equivalent information for other firms in the same industry is needed so inter-firm comparisons can be made;

– Ratios are always looking at historical data, and so the situation the firm is facing may have changed significantly between publication of the accounts and analysis of them;

– Financial ratios are important things that shows us real situation of the company but always relying on these indicators can lead managers to wrong decision.

1.2. Information sources of analyzing solvency rate and financial stability

Forenamed part of chapter we just understood what are solvency, liquidity and financial stability ratios, however we need one more important things, help us to calculate these ratios, are information sources of those indicators. Of course, there are a lot of source documents but we have to learn them in detail. Level and quality of analyzing creditworthiness definitely related completeness and learning information sources comprehensively. Therefore, compiling and systematizing information sources are considered important in analyzing process. In below, we introduce assessing creditworthiness of the companies, analyzing information sources and requirements for them. The can provide the basis for inter-firm comparisons allowing managers to benchmark the performance and efficiency of the firm against its competitors. Information sources of internal and external financial analysis in assessing creditworthiness in following table.

Table 1

Information sources of internal and external financial analysis in assessing creditworthiness[5]

Internal financial analysis	External financial analysis
Constitutional documents (charter documents)	Constitutional documents (charter documents)
Documents that confirm relationship with third parties	Documents that related only lenders
Business plan	Business plan
Project estimate documents	Project estimate documents
Initial documents (revaluation of PPE, their components, movement, status of turnover assets)	_
Data of analytic accounting	
Statements of accounting	Statements of accounting
Statements of tax	Statements of tax
Statements of statistics	Statements of statistics

Charter documents (Constitutional documents) are essentially the formation documents of a company, such as the Articles of Incorporation or Articles of Organization. In many corporate transactions, such as foreign qualifications, a state may require the company to provide a copy of these documents. Although these documents can be ordered as a "plain copy" or "certified copy," in most cases a certified copy is required. When a state provides a company with a certified copy of charter documents, the company is receiving the exact copy of the documents on file with that particular state (domestic or foreign).These documents are often used in corporate transactions, financial transactions, for the purpose of opening bank accounts, and often required when filing a fictitious business name or assumed

[5] Author's self-made work based on M. Rakhimov "Analysis of financial position in economic entities" Tashkent "Iqtisod Moliya" 2013

name on behalf of a company. Although a company can request a variety of official certificates from state agencies, the most common type of certificate obtained is the "Certificate of Good Standing" which is also commonly referred to as a "Certificate of Authorization" or "Certificate of Status" or "Certificate of Existence." This certificate is an official legal document that proves a company to be incorporated and authorized to transact business within that state. A certificate can be obtained from the domestic state or any foreign state(s) where the company has qualified to conduct business. Some states will include compliance standing information and/or tax standing information on these certificates. These certificates are frequently used in a variety of corporate transactions, but may not be favorable if a company does not maintain good legal standing with the respective states statutory requirements. In fact, some states will still issue the certificate noting the defaults of the company, while others will not issue the certificate at all because of the existing defaults or suspensions. These certificates are often required to accompany foreign qualifications or registrations as supporting documentation.

Documents with third parties are important documents. Actually, they are called dales documents. There are six types of sales documents

The seller prepares a memorandum that details his company. He brings it to a specialist who circulates it within a restricted circle of interested parties. This memorandum showcases the company and sets out the sellers conditions.

The potential buyer(s) who would like to further analyze the company with a view to making an offer will request access to certain information not presented in the memorandum so they can, among other things, have the company valued. It is normal practice to have them sign a confidentiality agreement before giving them access to the information.

If there seems to be a mutual interest by both parties, an initial negotiation follows. It is often the legal advisers who negotiate on behalf of the seller and the buyer. They advise their respective clients on the negotiation points to hold out on or to let go. This period can be long and delicate because it is at the heart of the process. The result of this negotiation will be set out in an offer letter. This is an engagement to transact at a later date under certain conditions.

One of the classic conditions of this letter is the verification of the elements in the due diligence list. During this exercise, the buyer will perform and in-depth examination of the financial position of the company, of its assets and liabilities, of its legal situation, environmental situation, etc. The information gathered will validate or modify the conditions initially established in the offer letter. The buyer is bound by rules of confidentiality.

The sales contract is the result of final negotiations between the buyer and the seller and it specifies their rights and respective commitments, including the representation and guarantee clauses of the seller to the buyer. It could also include possible price adjustment clauses. The signatures are added following one last reading before the parties. The deal is sealed.

Following the sale, if there are several shareholders, if the seller accepted a seller's credit or he still retains shares, the legal adviser will draft a shareholder's agreement, an essential document even when the new owners are family members. This document sets out ways to handle all possible litigation among the partners, including situations that could lead to dissolving the company.

Documents with lenders are agreements, between an entity and bank or another entity, that confirm the entities liability with lenders.

Business plan is a written description of your business's future, a document that tells what you plan to do and how you plan to do it. If you jot down a paragraph on the back of an envelope describing your business strategy, you've written a plan, or at least the germ of a plan. Business plans are inherently strategic. You start here, today, with certain resources and abilities. You want to get to a there, a point in the future (usually three to five years out) at which time your business will have a different set of resources and abilities as well as greater profitability and increased assets. Your plan shows how you will get from here to there. Your well-thought-out business plan lets others know you're serious, and that you can handle all that running a business entails. It can also give you a solid roadmap to help you navigate the tricky waters. The seven components you must have in your business plan include:

- Executive Summary
- Business Description
- Market Analysis
- Organization Management
- Sales Strategies
- Funding Requirements
- Financial Projections

In my opinion there are some parts that are really important to find out financial stability or solvency rate of the company, they are followings:

Organization Management

Use this section of your business plan to show off your team superstars. In fact, there are plenty of indications that your management team matters more than your product idea or pitch. Venture capitalists want to know you have a competent team that has the grit to stick it out. You are more likely to be successful and pivot if needed when you have the right management and organization for your company. Make sure you highlight the expertise and qualifications of each member of the team in your business plan. You want to impress. In the case of Coffee House, Inc., the founders emphasize their connections in the world of coffee, particularly growers that use sustainable practices. They can get good prices for bulk beans that they can brand with their own label. The founders also have experience in making and understanding coffee and the business. One of them has an MBA, and can leverage the executive ability. Both have worked in marketing departments in the past, and have social media experience, so they can highlight their expertise.

Here's where you ask for the amount of money you need. Make sure you are being as realistic as possible. You can create a range of numbers if you don't want to try to pinpoint an exact number. Include information for a best-case scenario and a worst-case scenario. You should also put together a timeline so your potential funders have an idea of what to expect. It can cost between 2000,000 sum and 5000,000 sum to open a coffee house, and profit margins can be between 7 and 25 percent, depending on costs. A well-run coffee house can see revenues of as much as 10 million a year by the third year. Some of the things Coffee House, would include in its timeline are getting premises, food handlers' permits and the proper licenses, arrange for regular supply and get the right insurance. How long these items take depend on state and local regulations. No matter your business, get an idea of what steps you need to take to make it happen and how long they typically take.

Finally, the last section of your business plan should include financial projections. Make sure you summarize any successes up to this point. This is especially important if you hope to secure funds for expansion of your existing business. Your forward-looking projections should be based on information about your revenue growth and market trends. You want to be able to use information about what's happening, combined with your sales strategies, to create realistic projections that let others know when they can expect to see returns.

Even though it can be time-consuming to create a business plan, your efforts will be rewarded. The process is valuable for helping you identify potential problems, as well as help you plan ahead.

The most important sources of analyzing stability and solvency of the companies are financial statements.

Financial statements (or financial report) is a formal record of the financial activities and position of a business, person, or other entity. Relevant financial information is presented in a structured manner and in a form easy to understand. They typically include basic financial statements, accompanied by a management discussion and analysis

A balance sheet or statement of financial position, reports on a company's assets, liabilities, and owners equity at a given point in time.

An income statement or statement of comprehensive income, statement of revenue & expense, P&L or profit and loss report, reports on a company's income, expenses, and profits over a period of time. A profit and loss statement provides information on the operation of the enterprise. These include sales and the various expenses incurred during the stated period.

A statement of changes in equity or equity statement or statement of retained earnings, reports on the changes in equity of the company during the stated period.

A cash flow statement reports on a company's cash flow activities, particularly its operating, investing and financing activities.

For large corporations, these statements may be complex and may include an extensive set of footnotes to the financial statements and management discussion and analysis. The notes typically describe each item on the balance sheet, income statement and cash flow statement in further detail. Notes to financial statements are considered an integral part of the financial statements.

The objective of financial statements is to provide information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions. Financial statements should be understandable, relevant, reliable and comparable. Reported assets, liabilities, equity, income and expenses are directly related to an organization's financial position.

Financial statements are intended to be understandable by readers who have "a reasonable knowledge of business and economic activities and accounting and who are willing to study the information diligently. Financial statements may be used by users for different purposes:

Owners and managers require financial statements to make important business decisions that affect its continued operations. Financial analysis is then performed on these statements to provide management with a more detailed understanding of the figures. These statements are also used as part of management's annual report to the stockholders.

Employees also need these reports in making collective bargaining agreements with the management, in the case of labor unions or for individuals in discussing their compensation, promotion and rankings.

Prospective investors make use of financial statements to assess the viability of investing in a business. Financial analyses are often used by investors and are prepared by professionals (financial analysts), thus providing them with the basis for making investment decisions.

Financial institutions (banks and other lending companies) use them to decide whether to grant a company with fresh working capital or extend debt securities (such as a long-term bank loan or debentures) to finance expansion and other significant expenditures. Financial statements should be understandable, relevant, reliable and comparable. Reported assets, liabilities, equity, income and expenses are directly related to an organization's financial position.

"Consolidated financial statements are defined as Financial statements of a group in which the assets, liabilities, equity, income, expenses and cash flows of the parent (company) and its subsidiaries are presented as those of a single economic entity, according to National Standards of Accounting 8 "Consolidated financial statements and accounting of investment for subsidiaries" in Uzbekistan and international practice International Accounting Standard 27 "Consolidated and separate financial statements", and International Financial Reporting Standard 10 "Consolidated financial statements"."[6]

Notes to financial statements (notes) are additional information added to the end of financial statements that help explain specific items in the statements as well as provide a more comprehensive assessment of a company's financial condition. Notes to financial statements can include information on debt, going concern criteria, accounts, contingent liabilities or contextual information explaining the financial numbers (e.g. to indicate a lawsuit). These information

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[6] Senior Researcher, Tashkent Financial Institute Omonulla Hamdamov "Financial analysis in large industries", "International Journal of Economics, Commerce and Management", Vol. V, Issue 7, July 2017

sources show absolute financial position of the company. without those data finding out real result is really difficult.

When assessing creditworthiness and financial stability of the company following sources documents are submitted:

Table 2

Information sources and components of solvency rate and financial stability[7]

Information sources	Component of information
Charter documents	Components of capital
	Directions of profit distribution
	Members of shareholders
Accounting	Component and structure of properties
	Financial position, creditworthiness, financial stability
	Status of using effectively own equity and debt capital
	Components and structure of receivables and payables
	Profitability of the company
	Cash flow
Technical economic base, business plan	Reputation of the company
	Development strategy of the company
	Quality of provision
	Quality of assets
	Level of being provided with technical instruments
Credit offices	Having other loans
	Level of using other loans
	History of credit
Other banks	Other bank loans
	Level of using other bank loans
	History of other bank loan
Founders	Reputation of founders in the market
	Their fervor
	Other factors
Costumers	Reputation among competitors
	Volume of sale
	Quality of goods
Supplier	Reputation of supplier
	Volume of supply
	Condition of crediting

[7] Author's self-made work based on Кондраков Н.П., Краснова Л.П. Принципы бухгалтерского учета. Учебное пособие. – М.: «ФБК ПРЕСС», 2011г., с.72

These information sources show absolute financial position of the company. without those data finding out real result is really difficult.

Conclusion for Chapter 1

Generally, shareholders, debenture holders, and long-term creditors like financial institutions are interested in these ratios. These ratios are also used to analyze the capital structure of the company. They indicate the pattern of financing, whether the long-term requirements have been met out of long-term funds or not. These ratios enable one to ascertain the proportion of shareholders' stake in the business. Excessive liabilities tend to cause insolvency. The ratio indicates the extent of assets 'cushion' available to creditors on liquidation. However, the interpretation of the ratio depends upon the financial and business policy of the company. While the owners try to gain the benefits of maintaining control with limited investment, the creditors would insist that the owners' investment is more in the business. Hence, an acceptable norm for this ratio is considered to be (i.e., possessing equal interest in the business by both creditors and owners). Theoretically, if the owners' interest is greater than that of creditors, the financial position is highly solvent.

CHAPTER 2. PRACTICAL ANALYSIS OF SOLVENCY RATE AND FINANCIAL STABILITY OF THE COMPANY

2.1. Solvency rate analysis and its impact on the operational activity of the company

First of all we have to pay attention absolute indicators, they also show us the company's potentials. they are also considered assessing elements of creditworthiness or financial stability.

Table 3

Assessing companies' activity to find out stability[8]

Assessing elements	Indicators
The company's intention to improve its activity	Dynamics of improvement
	Mutability
	Perspectivity
Changes in demand for goods or services	Description of client
	Market volume and quality indicators
	Sales volume
	Sales plan
	Turnover of goods
	Stability of demand
Description of goods quality	Level of technology
	Goods quality
	Capital and labor capacity
Level of competitiveness	Competitors
	Intensiveness of compete
	Barriers to enter market
	Shares of leader competitors

At present following 5 groups of ratios are required to identify potentials, stability and solvency of the companies:

- Creditworthiness and liquidity ratios;
- Ratios of assets in use;
- Financial leverage ratios;
- Profitability ratio;
- Cash Flow Ratio;

[8] Shvetskaya V. M. Financial economic analysis: Textbook / V. M. Shvetskaya. - M.: KNORUS, 2010. - 395 p.

Following table shows us financial ratios that increasingly required.

Table 4

Financial ratios[9]

The group of ratios	Indicators	Formulas	Industrial benchmark(changeable by sectors)
Liquidity ratios	Current ratio	CA/CL	1.5 – 2
	Absolute ratio	Cash and cash equivalent/ CL	0.2 – 0.5
Activity ratios	Turnover of assets	Sale/average assets	0.25-0.6
	Turnover of fixed assets	Sale/average fixed assets	3
	Inventory turnover	Sale/ Inventory turnover	7
	Receivables turnover	Sale/receivables	9-10
	Days receivables	365 / receivables turnover	36
	Payables turnover	COGS/ accounts payable	8-9
	Days payables	365/payables turnover	45
	Cash cycle	Days inventory - Days payables + Days receivables	
Leverage Ratios	Total assets to equity	Total assets / shareholders' equity	Should be lower
	Total liabilities to equity	Total liabilities / shareholders' equity	0.67
	Times interest earned	EBIT/interest expense	6
Profitability Ratios	Gross margin ratio	Gross profit / sales	11% (S&P 500)
	Operating income ratio	Sustainable operating income / sales	Should be more
	Net margin ratio	Sustainable net income / sales	Should be more
	Effective tax rate	Income tax provision/ Income before taxes	Should be more
	Return on total assets	Sustainable net income / total assets	
	Return on equity	Sustainable net income / shareholders' equity	
	DuPont Analysis	Net margin ratio * total asset turnover * total assets to equity	
Cash Flow Ratio	Net cash margin	Operating cash flow / sales	
	Capital expend. To depreciation	Additions to PP&E/depreciation expense	

[9] Author's self-made work based on www.finanalysisbenchmark.com

Two trends are now in evidence. First, the number of companies reporting quarterly earnings forecasts is falling, but the number reporting annual forecasts is increasing. Second, many companies are providing other types of forward-looking information, including key operating ratios plus qualitative information about the company and its industry. Ratio analysis can help investors use such information, so keep that in mind as you read this chapter.

In this chapter I am going to analyze balance sheet and income statement of LLC “SHAKHRIYAR RESTORATION SERVICES” and determine solvency rate of the company.

Liquidity ratios:

Current ratio = CA/CL: The current ratio is a liquidity ratio that measures a company's ability to pay short-term and long-term obligations. To gauge this ability, the current ratio considers the current total assets of a company (both liquid and illiquid) relative to that company's current total liabilities. LLC “SHAKHRIYAR RESTORATION SERVICES” in short has 55 250 057 sum current assets and 28 275 259 current liabilities for 2017. So, current ratios equals 1.95 that is (55 250 057/28 275 259). Industrial average should be more than 2 and it can be seen current ratio of the company is just under the industrial average. We can say the company has good current ratio.

Absolute ratio = (Cash + short term investment)/CL: absolute liquidity ratio relates cash, bank and marketable securities to the current liabilities. It means absolute liquid assets worth one half of the value of current liabilities are sufficient for satisfactory liquid position of a business. If we look at amount of cash and marketable securities of LLC “SHAKHRIYAR RESTORATION SERVICES” it is 40 598. Absolute ratio of the company is 0.0014. Absolute ratio of the company is not good, actually the company is in critical position managers should implement some measurements to increase cash of the company.

Activity ratios:

The asset turnover = (Sale/average assets): the ratio is an efficiency ratio that measures a company's ability to generate sales from its assets by comparing net sales with average total assets. In other words, this ratio shows how efficiently a company can use its assets to generate sales. The sale of the company is 55 877 268 and total average assets are 60 543 176 = (61 793 015+59 293 337)/2 that is (beginning of the year + end of the year) in this case assets ratio is 0.92. And it is normal in our country but if we look at international industrial average assets ratio is more than1.8.

The fixed assets ratio = sales/average total assets. Fixed-asset turnover is the ratio of sales (on the profit and loss account) to the value of fixed assets (on the balance sheet). It indicates how well the business is using its fixed assets to generate sales. A declining ratio may indicate that the business is over-invested in plant, equipment, or other fixed assets. Amount of average fixed assets is (4 513 298 + 5 052 243)/2 = 4 782 771 and fixed assets ratio is 11.6. This ratios is really high. While a higher ratio is indicative of greater efficiency in managing fixed-asset investments, there is not an exact number or range that dictates whether a company has been efficient at generating revenue from such investments. For this reason, it is important for analysts and investors to compare a company’s most recent ratio to both the historic ratios of the company and to ratio values.

Inventory turnover = sale/inventory. The inventory turnover ratio is an efficiency ratio that shows how effectively inventory is managed by comparing cost of goods sold with average inventory for a period. In other words, it measures how many times a company sold its total average inventory sum amount during the year. Average inventory of LLC “SHAKHRIYAR RESTORATION SERVICES” is (30 429 628 + 52 415 998)/2 = 41 422 813and sale is 55 877 268 as the result inventory ratio (55 877 268/41 422 813)= 1.34. This indicator is very low and it means this suggests that the company is holding too much inventory. High levels of inventory add to net operating working capital (NOWC), which reduces FCF, which leads to lower stock prices. In addition, the company’s low inventory turnover ratio makes us wonder whether the firm is actually holding obsolete goods not worth their stated value. Days inventory = 365/ inventory turnover = 365/1.34 = 272. This condition is too bad for company. A high days inventory outstanding indicates that a company is not able to quickly turn its inventory into sales. This can be due to poor sales performance or the purchase of too much inventory.

Receivables turnover = sales/average receivables. Accounts receivable turnover is the number of times per year that a business collects its average accounts receivable. The ratio is intended to evaluate the ability of a company to efficiently issue credit to its customers and collect funds from them in a timely manner. Average receivables of LLC "SHAKHRIYAR RESTORATION SERVICES" is equal to (21 358 095 + 2 793 461)/2 = 12 075 778 and receivable turnover (55 877 268/12 075 778) = 4.62. Result is half of industrial average. A low ratio, in a similar way, can also suggest a few things about a company, such as that the company may have poor collecting processes a bad credit policy or none at all, or bad customers or customers with financial difficulty. Theoretically, a low ratio can also often mean that the company has a high amount of cash receivables for collection from its various debtors, should it improve its collection processes. Generally, however, a low ratio implies that the company should reassess its credit policies in order to ensure the timely collection of imparted credit that is not earning interest for the firm.

Days receivable (days sales outstanding) = 365/receivable turnover. Accounts receivable days is the number of days that a customer invoice is outstanding before it is collected. An effective way to use the accounts receivable days measurement is to track it on a trend line, month by month. Doing so shows any changes in the ability of the company to collect from its customers. Days receivable of LLC "SHAKHRIYAR RESTORATION SERVICES" is equal to 365/4.62 = 79. This number is twice of industrial average. Higher days sales outstanding can also be an indication of inadequate analysis of applicants for open account credit terms. An increase in DSO can result in cash flow problems, and may result in a decision to increase the creditor company's bad debt reserve.

Payables turnover = Cost of goods sold/average payables. The measure shows investors how many times per period the company pays its accounts payable. Accounts payable, also known as payables, represents short-term debt obligations listed under the balance sheet's current liabilities. Accounts payable is not exclusive to businesses; it also extends to individuals with short-term debt obligations, such as credit card payments. The company LLC “SHAKHRIYAR RESTORATION SERVICES” has (26 728 669 + 28 275 259)/2 = 27 501 964 and cost of goods sold from income statement is 48 373 834 and payables turnover = 48 373 834/27 501 964 = 1.75. A decreasing turnover ratio indicates that a company is taking longer to pay off its suppliers than in previous periods. When the turnover ratio is increasing, the company is paying off suppliers at a faster rate than in previous periods. The rate at which a company pays its debts could indicate the financial condition of the firm. A decreasing ratio could signal that a company is in financial distress; alternatively, it could reflect that the company has negotiated different payment arrangements with its suppliers. Days payable = 365/1.75 = 208. A high days payable outstanding also comes with its disadvantages. If the company takes too long to pay its creditors, the creditors will be unhappy, and may refuse to extend credit in the future, or they may offer less favorable terms. Also, because some creditors give companies a discount for timely payments, the company may be paying more than it needs to for its supplies. If cash is tight, however, the cost of increasing DPO may be less than the cost of foregoing that cash earlier and having to borrow the shortfall to continue operations.

Cash cycle = Days inventory - Days payables + Days receivables. The cash conversion cycle (CCC or Operating Cycle) is the length of time between a firm's purchase of inventory and the receipt of cash from accounts receivable. It is the time required for a business to turn purchases into cash receipts from customers. CCC represents the number of days a firm's cash remains tied up within the operations of the business. A cash flow analysis using CCC also reveals in, an overall manner, how efficiently the company is managing its working capital. We have all indicators to calculate CCC. Cash cycle = 272- 208 + 72 = 136. The company is in critical situation. Managers had better decrease inventory days and days payables.

Leverage Ratios:

Total assets to equity = Total assets / shareholders' equity. The asset/equity ratio indicates the relationship of the total assets of the firm to the part owned by shareholders (owner's equity). This ratio is an indicator of the company's leverage (debt) used to finance the firm. Balance sheet of LLC "SHAKHRIYAR RESTORATION SERVICES" shows that amount of the company's total assets and equity is 61 793 015 and 31 595 775 respectively. Total assets ratios is equal to 61 793 015/31 595 775 = 1.95. At some higher levels, however, the ratio can reach unsustainable levels, as the additional debt ratchets up interest costs and the deteriorating financial position puts the firm in jeopardy.

Total liabilities to equity = Total liabilities / shareholders' equity. The D/E ratio is a basic metric used to assess a company's financial situation. It indicates the relative proportion of equity and debt that a company uses to finance its assets and operations. The ratio reveals the amount of financial leverage a company is utilizing. The amount of total liabilities of the company is 30 197 240 and we have amount of equity in this case the ratio is equal to 30 197 240/31 595 775 = 0.95. The financial sector overall has one of the highest D/E ratios, but looked at as a measure of financial risk exposure, this can be misleading. Borrowed money is a bank's stock in trade. Banks borrow large amounts of money to loan out large amounts of money, and they typically operate with a high degree of financial leverage. D/E ratio higher than 2 are common for financial institutions.

Times interest earned = EBIT/interest expense. The times interest earned ratio measures the ability of an organization to pay its debt obligations. The ratio is commonly used by lenders to ascertain whether a prospective borrower can afford to take on any additional debt. The ratio is calculated by comparing the earnings of a business that are available for use in paying down the interest expense on debt, divided by the amount of interest expense. To calculate this ratio we use income statement of LLC “SHAKHRIYAR RESTORATION SERVICES”. EBIT (earnings before interest and tax) is 1641217 and amount of interest expenses is 368254. TIE ratio = 1 641 217/368 254 = 4.4. A lower times interest earned ratio means less earnings are available to meet interest payments and that the business is more vulnerable to increases in interest rates and being unable to meet their existing outstanding loan obligations.

Profitability ratios:

Gross margin ratio = Gross profit / sales. Gross margin ratio is a profitability ratio that compares the gross margin of a business to the net sales. This ratio measures how profitable a company sells its inventory or merchandise. In other words, the gross profit ratio is essentially the percentage markup on merchandise from its cost. Gross profit of LLC “SHAKHRIYAR RESTORATION SERVICES” is 7503434 and gross margin ratio is equal to 7 503 434/55 877 268 = 0.13 namely, 13%. A company that has an operating profit margin higher than 11% would have outperformed the overall market. However, it's important to take into consideration that average profit margins vary significantly between industries.

Net margin ratio = Sustainable net income / sales. Net profit margin is the ratio of net profits to revenues for a company or business segment. Typically expressed as a percentage, net profit margins show how much of each sum collected by a company as revenue translates into profit. Net profit of the company is 1 096 974 and then net profit ratio is equal to 1 096 974/55 877 268 = 0.02, that is 2%. It means that every 1 sum sale contributes 0.2 sum towards the net profits of the business.

Effective tax rate = Income tax provision/ Income before taxes. The average rate at which a corporation is taxed on pre-tax profits. Profit before tax is 1374663 and income tax expenses of the company is 277 689 then effective tax rate is equal to 277 689 /1374663= 0.2. The effective tax rate is typically a more accurate representation of tax liability than an individual or business's marginal tax rate.

Return on total assets = Sustainable net income / total assets. Return on assets (ROA) is an indicator of how profitable a company is relative to its total assets. ROA gives a manager, investor, or analyst an idea as to how efficient a company's management is at using its assets to generate earnings. Total assets are 61 793 015 and net profit is 1 096 974. ROA = 1 096 974/ 61 793 015 = 0.018. For this reason, ROA is usually of less interest to shareholders than some other financial ratios; stockholders are more interested in return on their input. But the inclusion of all assets, whether derived from debt or equity, is of more interest to management which wants to assess the use of all money put to work.

Return on equity = Sustainable net income / shareholders' equity. Return on equity (ROE) is a measure of profitability that calculates how many dollars of profit a company generates with each dollar of shareholders' equity. Equity is 31 595 775 and net profit is 1 096 974. ROE = 1 096 974 /31 595 775= 0.03. ROE is more than a measure of profit; it's a measure of efficiency. A rising ROE suggests that a company is increasing its ability to generate profit without needing as much capital. It also indicates how well a company's management is deploying the shareholders' capital. In other words, the higher the ROE the better. Falling ROE is usually a problem.

Cash ratios:

Cash Flow Ratio = Operating cash flow / sales. The operating cash flow ratio is a measure of the number of times a company can pay off current debts with cash generated in the same. Cash flow from operational activities of LLC "SHAKHRIYAR RESTORATION SERVICES" is 12 635 660 and Cash flow ratio is equal to 12 635 660/55 877 268 = 0.22. Operating cash flows concentrate on cash inflows and outflows related to a company's main business activities, such as selling and purchasing inventory, providing services, and paying salaries. Any investing and financing transactions are excluded from operating cash flows and reported separately, such as borrowing, buying capital equipment, and making dividend payments. Operating cash flow can be found on a company's statement of cash flows, which is broken down into cash flows from operations, investing, and financing.

2.2. Analysis of financial stability ratios and its effects for future perspectives

Stability ratios are also considered vital indicator in analyzing process. Following graph shows indicators of financial stability. Financial ratio analysis is the process of calculating financial ratios, which are mathematical indicators calculated by comparing key financial information appearing in financial statements of a business, and analyzing those to find out reasons behind the business's current financial position and its recent financial performance, and develop expectation about its future outlook.

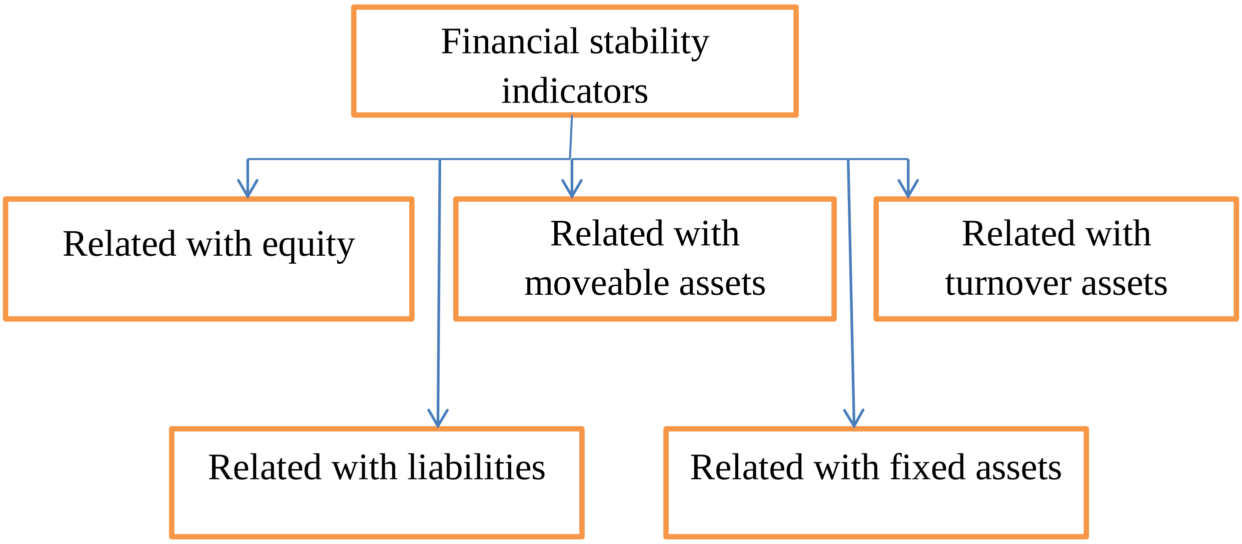

Diagram 1. Stability indicators[10]

Financial ratio analysis is very useful tool because it simplifies the process of financial comparison of two or more businesses. Direct comparison of financial statements is not efficient due to difference in the size of relevant businesses. Financial ratio analysis makes the financial statements comparable both among

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[10] Author's self-made work based on Bakanov M. I., Sheremet A. D. Theory of economic analysis. M.: INFRA – 2010. - 37s.

different businesses and across different periods of a single business. There are different financial ratios to analyze different aspects of a business' financial position, performance and cash flows. Financial ratios calculated and analyzed in a particular situation depend on the user of the financial statements. For example, a shareholder is primarily concerned about a business's profitability and solvency; a debt-holder is concerned about its solvency, liquidity and profitability in the descending order of importance; a creditor/supplier is worried mainly about the business' liquidity, etc. Analyzing your cash flow and a variety of negative scenarios will help you determine whether or not your business is financially stable.

There are several ratios that help us to determine whether the company financially health or not. The following table indicates the most important formulas and industrial benchmark of the financial stability indicators. These indicators are used almost all business sectors.

Table 5

Financial stability ratios[11]

Indicators	Formulas	Industrial benchmark
Capitalization level	Liabilities/Equity	<=1.5
Availability of own capital	(Equity – long term assets)/Current assets	Minimum 0.1 K>0.5
Financial independence	Equity/ total balance	K>0.5
Financing ratio	Equity/Liablities	K>0.7
Financial stability coefficient	(Equity + long term liab)/total balace	K>0.6

With the help of these indicators we will analyze LLC"SHAKHRIYAR RESTORATION SERVICES" is financially health or not.

Capitalization level, financing ratios, independence, financial stability and also availability of own resource of the LLC"SHAKHRIYAR RESTORATION SERVICES" are considered vital indicators in business sphere in every country's

[11] Author's self-made work based on M. Rakhimov "Analysis of financial position in economic entities" Tashkent "Iqtisod Moliya" 2013.

economy. And we will analyze all other indicators too and conclude for every indicator. After that we give recommendations for the company based on scientific researches.

Table 6

Analysis of capitalization level

Indicators	Beginning of the year	End of the year	Changes
Liabilities	30 137 749	30 197 240	59 491
Equity	29 155 588	31 595 775	2 440 187
Capitalization level	1.033	0.95	- 0.083

The company's position on capitalization is very normal, because capitalization level should be less than 1.5 and in this case, company is considered financially health. Here it can be seen from the table that equity increased considerably from beginning of the year to the end of the year. As the result this increase influenced capitalization level positively. Liabilities of the company also rised slightly but its impact on capitalization level was not noticeable.

Table 7

Availability of own equity

Indicators	**At the beginning of the year**	**At the end of the year**	**Changes**
Equity	29 155 588	31 595 775	2 440 187
Long term assets	5 113 414	6 542 958	1 429 544
Current assets	54 179 923	55 250 057	1 070 134
Availability of own capital	0.44	0.45	0.01

The company's availability of own equity is just under industrial benchmark. Therefore, the company should keep growing this indicator. Availability of own capital increased marginally from 0.44 to 0.45 and also other indicators increased noticeably.

Table 8

Financial independence

Indicators	At the beginning of the year	At the end of the year	Changes
Equity	29 155 588	31 595 775	2 440 187
Total balance	59 293 337	61 793 015	2 499 678
Financial independence	0.49	0.51	0.02

Financial independence's industrial benchmark should be more than 0.5. The company has good financial position because independence ratio rised marginally by 0.02. This is because equity capital grew considerably. The company should keep continuously improving to reach more sustainability and financial independence. However, we have to know reason why equity of the company increased considerably.

Table 9

Financing ratio

Indicator	At the beginning of the year	At the end of the year	Changes
Equity	29 155 588	31 595 775	2 440 187
Liabilities	30 137 749	30 197 240	59 491
Financing ratio	0.96	1.05	0.09

Financing rate of the LLC "SHAKHRIYAR RESTORATION SERVICES" is very good, because both times show us financing rate is more than industrial standard, industrial benchmark is more than 0.7. And also here we can see slight growth of this rate. The reason that influences to this slight increase is the increasing of equity. A lower percentage means that a company is using less leverage and has a stronger equity position.

Table 10

Financial stability coefficient

Indicators	**At the beginning of the year**	**At the end of the year**	**Changes.**
Equity	29 155 588	31 595 775	2 440 187
Long term liabilities	3 409 080	1 921 981	-1 487 099
Total balance	59 293 337	61 793 015	2 499 678
Stability coefficient	0.54	0.54	0

The company's stability is not normal because, coefficient is under the standard benchmark. The reason to be stable position of this coefficient is the decreasing of long term liabilities and increasing equity capital. Industrial average should be more than 0.6. If the company can take long term loan, stability coefficient will be normal and the company is considered financial stable.

One of the important analysis of financial stability is liquidity of balance sheet. Following indicates components of balance sheet liquidity

Table 11

Differences in structural components[12]

N	Assets	N	Liability
A1	The most liquid assets	L1	Matured liabilities
A2	Salable assets	L2	Short term loans
A3	Slowly salable assets	L3	Long term loans
A4	Hard salable assets	L4	Permanent libilities

[12] Author' self-made work based on M. Rakhimov "Analysis of financial position in economic entities" Tashkent "Iqtisod Moliya" 2013.

And following table shows us components of every part of balance sheet liquidity.

Table 12

Articles of assets and liabilities[13]

Assets	Balance articles	Liabilities	Balance articles
The most liquid assets	Cash and short term securities	Matured liabilities	Matured payables for stakeholders
Salable assets	Receivables	Short term liabilities	Short term bank loans and other loans
Slowly salable assets	Inventories	Long term liabilities	Long loans
Hard salable assets	Long term assets	Permanent liabilities	Equity

After realizing the components of balance sheet liquidity we should analyze and compare them. Following table indicates full financial position of the company and we can get information about it.

Table 13

Level of liquidity[14]

Changes order	Changes in absolute differences				Level of liquidity
1- state	A1>=L1	A2>=L2	A3>=L3	A4=<L4	Absolute liquid
2- state	A1<L1	A2>=L2	A3>=L3	A4<L4	Liquid balance
3- state	A1<L1	A2<L2	A3>=L3	A4=<L4	Non-liquid balance
4- state	A1<L1	A2<L2	A3<L3	A4=<L4	Critic state

[13] Author' self-made work based on M. Rakhimov "Analysis of financial position in economic entities" Tashkent "Iqtisod Moliya" 2013
[14] Author' self-made work based on M. Rakhimov "Analysis of financial position in economic entities" Tashkent "Iqtisod Moliya" 2013

Let's calculate our own LLC "SHAKHRIYAR RESTORATION SERVICES" company' state and which sate fits this company.

Table 14

Components balance sheet liquidity

Components	Assets of company	Components	Liabilities of company
A1	40 598	L1	28 275 259
A2	2 793 461	L2	0
A3	52 415 998	L3	1 921 981
A4	6 542 958	L4	31 595 775

It is obvious that the company is in 2-sate and we can say this LLC company has liquid balance. But the reason why company is liquid is no short term bank loans. And also company's absolute liquidity is very low so that managers should convert receivables into cash immidietly. Converting receivables into cash can not help to tackle this problem, because current liabilities almost 9 times more than A1+A2 and. The only reason is that the company has huge amount of inventories. Manager had better find way how to sell this amount of inventories and gather frequently cash to their company, after that they find solution for this hard position.

Conclusion for Chapter 2

Forenamed chapter we learnt real financial position of LLC "SHAKHRIYAR RESTORATION SERVICES" deeply and properly. Overall, the company has no good financial position. There are some reasons for this, the main reason is that company holds huge amount of inventories and this impact on significantly liquidity of the company. Managers have to make proper decision on them. In my opinion every small company should conduct these type of analysis to find out threats and opportunities of their own company.

CHAPTER 3. IMPROVEMENT WAYS OF ANALYZING SOLVENCY RATE AND FINANCIAL STABILITY

3.1. Determining improvement opportunities of solvency rate and financial stability

Effective financial management is vital for business survival and growth. It involves planning, organizing, controlling and monitoring your financial resources in order to achieve your business objectives. Good financial management will help your business to make effective use of resources, fulfill commitments to your stakeholders, gain competitive advantage and prepare for long-term financial stability. Financial management should become part of the key processes within your business and be included in your ongoing planning. You might feel that your finances are complicated and confusing but the following ten top tips should help you to gain control of them.

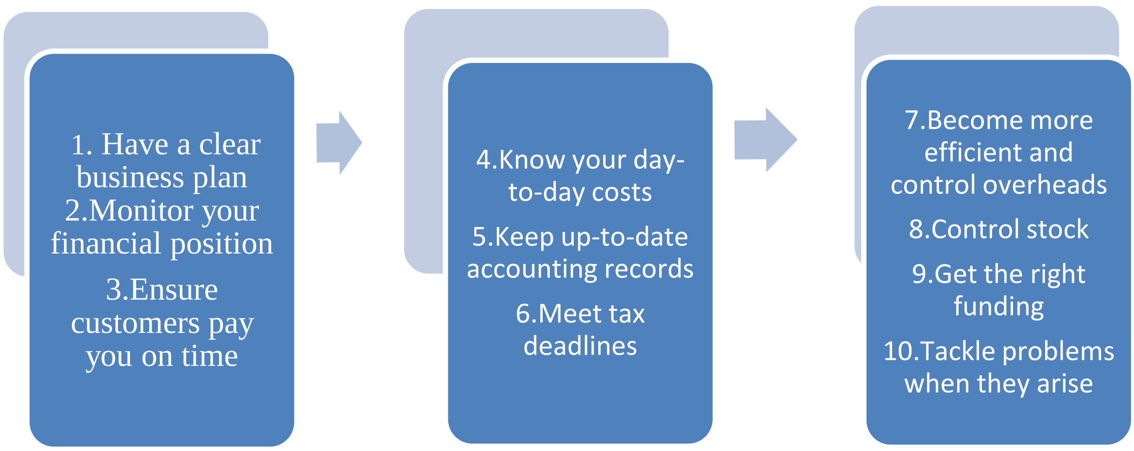

Diagram 2. 10 tips for controlling finance of the company[15]

1. Have a clear business plan . A business plan will establish where you are and where you want to get to over the next few years. It should detail how you will finance your business and its activities, what money you will need and where it will come from - see write a business plan: step-by-step.

[15] Author's self-made work based on www. bpk.com - (magazine " Market, money and credit»)

2. Monitor your financial position. You should regularly monitor the progress of your business. On a daily basis, you should know how much money you have in the bank, how many sales you’re making and your stock levels. You should also review your position against the targets set in your business plan on a monthly basis - see cash flow management.

3. Ensure customers pay you on time. Businesses can run into major problems because of late customer payments. To reduce the risk of late or non-payment, you should make your credit terms and conditions obvious from the outset. You should also quickly issue invoices that are clear and accurate. Using a computerised credit management system will help you to keep track of customers’ accounts - read ensure customers pay you on time.

4. Know your day-to-day costs. Even the most profitable of companies can face difficulties if there isn’t enough cash to cover day-to-day costs such as rent and wages. You should be aware of the minimum your business needs to survive and ensure you do not go below this - see how to measure cash in your business.

5. Keep up-to-date accounting records. If your accounts are not kept up-to-date, you could risk losing money by failing to keep up with late customer payments or not realising when you have to pay your suppliers. Using a good record keeping system will help you to track expenses, debts and creditors, apply for additional funding and save time and accountancy costs - see financial and management accounts.

6. Meet tax deadlines. Failing to meet deadlines for filing tax returns and payments can incur fines and interest. These are unnecessary costs that can be avoided with some forward-planning. Keeping accurate records saves your business time and money and you can be confident that you’re only paying the tax you owe. Therefore, it’s important that you meet your obligations - see set up a basic record-keeping system.

7. Become more efficient and control overheads. Is your business operating at its most efficient? Saving energy and therefore money can happen by implementing changes in behaviour and using existing equipment more efficiently.

It’s one of the easiest ways to cut costs. Areas to look at in an average office include heating, lighting, office equipment and air conditioning - see save money by using energy more efficiently.

8. Control stock. Efficient stock control ensures you have the right amount of stock available at the right time so that your capital is not tied up unnecessarily. You should put systems in place to keep track of stock levels – taking control of this will allow you to free up cash, while also having the right amount of stock available - see business mistakes: poor stock and asset management.

9. Get the right funding. It is essential that you choose the right type of finance for your business – each type of finance is designed to meet different needs. Smaller businesses usually rely more on business overdrafts and personal funding but this might not be the best kind of funding for your company - read business financing options - an overview.

10. Tackle problems when they arise. It is always very stressful facing financial problems as a business, but there is help and advice available to help you tackle them before it gets too much to handle so seek professional advice as soon as possible. There are also some initial steps you can take to minimise the impact such as tackling priority debts first and assessing how you can improve your cash flow management.

The enterprise is capable of passing from economic value of business to the highest surge of development – social responsiveness. Creation of economic value of business is a result of managerial activity; the procedure suggested by the author provides exactly for the support of managerial decisions. Sustainable development, in its turn, is the goal of a long-term sustainable development.

And also there are seven ways to improve liquidity of the company and these ways are suitable for each type of company. Following diagram indicates them and then they are explained one by one.

Diagram 3. 6 ways to increase liquidity of a company[16]

1. Sweep accounts: Use sweep accounts through your financial institution. This will allow you to earn interest on any excess cash balances by 'sweeping' or transferring the funds into an interest-bearing account when the funds aren't needed and sweeping them back to your operating account when you do need them.

2. Overhead: Assess your overhead costs and see if there are opportunities to decrease them. Lowering overhead has a direct impact on profitability. Overhead expenses, including rent, advertising, indirect labour and professional fees, are indirect expenses that you incur to operate the business outside of direct material and direct labour.

3. Unproductive assets: If you have unproductive assets that the business is just storing, then it's time to get rid of them. The only reason you should spend money on assets such as buildings, equipment and vehicles is to generat revenue.

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[16] Satyvaldiev A. etc. Financial and managerial accounting. T: IQTISOD-MOLIYA, 2012 - 563p.

4. Accounts receivable: Monitor accounts receivable effectively to ensure that you're billing your clients properly and that you're receiving prompt payments.

5. Accounts payable: Negotiate longer payment terms with your vendors whenever possible to keep your money longer.

6. Owner's draws: Monitor the amount of money that's being taken out of the business for non-business purposes such as owner's draws. Taking too much money out can put an unnecessary cash drain on the business.

7.Profitability: Review the profitability of your various products and services. Assess where prices can be increased on a regular basis to maintain or increase profitability. As your costs increase and markets change, prices may need to be adjusted as well.

Implement these seven easy tips in your business to improve your liquidity. It will help to ensure that you have the proper cash flow levels for continued operations and company growth. There are two main financial ratios used to measure a company's liquidity ratio:

Current ratio equals current assets divided by current liabilities. This should have a target ratio of 2 to 3, which indicates that you have adequate liquid funds to pay your current obligations. Quick ratio equals current assets (less inventory) divided by current liabilities. This should have a target ratio of 1 to 2, which indicates your liquid funds without selling your inventory. You can find the balances of your current assets and current liabilities on your balance sheet. Speak to your accountant if you need further guidance and analysis. Looking at industry information also can help you assess how you compare to others in your specific industry. How to improve liquidity by effective cash management

There are various ways and means of improving the liquidity. Some common ways and other innovative ways are listed below. Normally, the common ways are known to an entrepreneur or finance controller but the some innovative ways may be skipped from their mind. Common ways of improving liquidity

Speed Up the conversion cycle of Debtors or Account Receivables.

– Delay in Purchases.
– Sell-off unproductive assets.
– Sweeping Bank Account.

For implementing this measure, one must analyze each of their products in terms of its margins and volumes. The loss-making or very low margin products may either be eliminated completely or their prices can be hiked, if the market permits. An appropriate and efficient product's sales mix can generate higher margins and, therefore higher amount of cash is available for disposal.Everybody knows that sooner the invoice is raised, sooner will be the realization but still most business are not disciplined in this respect. It is very important to raise invoice on time and with 100% accuracy to save the time and energy wasted in creating credit notes, resolving billing issues etc. The terms of credit should be crystal clear and should be documented, agreed and duly signed by the parties. It applies to both creditors (liquidity providers) and debtors (liquidity users) simply because both are relevant for liquidity considerations. This avoids a lot of nuisance related to legal suits, post supply negotiations, rebates, discounts, time of payment, collecting interest on the delayed payments etc. There are many benefits to entrepreneurship. You get to be your own boss, work in a business you're passionate about, and reap significant rewards if that business turns into a success. Unfortunately, entrepreneurship often entails significant risk, and without proper planning, a failed business can also tank your own finances.

No one wants to consider the possibility of their business failing. Entrepreneurs that don't have a backup plan often fall back on the excuse that they want to be fully committed to their business, but that's poor logic. You can commit to a business and still prepare to be financially stable if that business goes under. Many great businessmen failed several times before landing their big successes. A good backup plan actually allows you to commit to your business even more, as it frees you up from worrying about what you will do if the business doesn't work out. Here are a few tips for how to set yourself up to survive the worst-case scenario of your business going under.

1. Keep Personal And Company Finances Separate

There should be a wall of separation between your own finances and the corporate bank account. This will ensure that you save money for yourself and don't lose it all on the business. More importantly, it protects you from liability in the case of legal trouble or corporate debts. Your business should be incorporated as a distinct legal entity with its own finances. Otherwise, you run the risk of having to pay any debts the company incurs out of your own pocket.

2. Keep Yourself Marketable

You may not intend to work for someone else ever again, but it's still a good idea to keep that resume up to date while working on your own business. Keeping a record of your role within the company can help give potential employers context for what skills and experience you might bring to the table.Online classes and certifications are a great way to keep your qualifications up to date while on a tight schedule. These classes will let employers know you haven't fallen behind in your field while working on your business. Most will also be very impressed by your dedication in finding time to work in those classes.

3. Pay Yourself What You're Worth

Define your role in the company, and pay yourself an appropriate salary for someone in that role. Many entrepreneurs will only pay themselves the bare minimum they need for survival at first, but this can be a dangerous habit. Not only does it put your personal finances in jeopardy, it also creates a misleading picture of your company's finances. Paying yourself an appropriate market rate gives you the resources to cover basic expenses and save up money. It also allows you to factor in how much capital you will need to finance your business long-term, and it saves you from drastically changing your cost structure a few years down the road. Drew Hendricks, Inc. contributor and CEO of Infographics. Space says, "It's best to have plenty of money saved when starting a new business so when you're paying yourself a small salary it won't affect your life outside of work."

4. Know Your Personal Financial Goals

You're more likely to come out of your business in good shape if you have clearly defined goals for your personal finances going in. These are distinct from any business goals and should only reflect what you want your own bank account to look like. Personal financial goals might be saving up enough emergency money to provide for your family for a year, or building towards retirement. Knowing what you want from your personal finances will help you structure the cash flows from your business in the best way possible.

5. Talk To Professionals

No matter what your business looks like or what your financial goals may be, it's always useful to talk to a professional financial planner. A financial planner can give you advice on investing the money you have saved up, budgeting your resources to save the maximum amount, and structuring your finances to reduce your tax burden and protect yourself from liability.

Many entrepreneurs don't take the step of talking to financial planners, as they don't believe they have enough time. In reality, it takes very little time to talk to a professional and create a financial plan (after all, handling money is what they do all day). Considering that a good financial plan can mean the difference between stability and going broke, there's no sound reason not to take a couple of hours to talk to a professional and consider at least working with them to prepare for worst case scenarios.

3.2. Analyzing solvency and financial stability ratios in international practice

Increasingly competitive environment in global business requires a sustainable financial profile to remain in a good financial status in market. Advancements in international business practices has reflected the growing consolidation of a double edged scenario: developments in business climate are serving for increase of financial burdens and tightening of liabilities, which is seen as key action towards creation of a healthy market. Clear-cut restrictions, frontiers of financial loosening, strengthening in business-related legislature and closer government-business relations in a bold frame is sweeping out insolvent firms and keeping the market healthy, but in a deteriorating macroeconomic condition, it has been major barrier for health market due to temporary illiquidity and blocking the access to many suffered but rapidly recovered market players. Consequently, companies are continuously facing a trouble of not only exiting from the market of their industry, but also from the listing of stock market they play. This trouble has carrying a huge loss in market share and profit due to consumer negativity to brand. Therefore, current businesses focus on financial crisis management as prerequisite for long-term operation in both markets. Financial crisis management is a set of regulatory tools with supervisory functions. It embraces balance sheet, market and business climate, stock market performance and business development strategy monitoring actions. However, recent history of global economy proved that financial crisis management actions have to be different across types, sizes, markets and ownership forms of enterprises. Small and medium sized enterprises operate in local markets with smaller consumer population and they have smaller turnover, sale and production capacities, which secure them from greater risks and external impacts. Large enterprises face harsh challenges of financial crisis because of larger market, national and international chain of supply, being listed in stock markets, participation in large investment projects and deterioration in both global and national business environment. Considering the scale of potential risks which can lead to financial crisis, large enterprises set specific map of avoiding financial distress and try to find the sources of support in distress period. Banks may be a good source of counter crisis funding, but banks are pure profit seekers – they do not provide financial support for company with a worsening financial profile. Government may be a good source of survival aid, if an enterprise is strategically important or Large one. Then policymakers may turn face to the enterprise with unstable financial condition. Government allocates bailout money to keep the enterprise safe for ensuring the stability for the whole industry it operates. All governments always do not lend helping hands to companies in financial distress. Historical observations shows that developed economies provide bailout funding only in condition of bankruptcy caused by macroeconomic instability in the country. In contrary, most of developing countries regularly monitor the financial performance of Large enterprises and provide them particular support tools such as tax exemption, money for covering short-term illiquidity, capital investment and funding support in case of losses from emergency. Therefore, recovery is achieved by state funding and regulatory easing. This paper is structured around the financial distress analysis of Large enterprises in developing countries in the context of Uzbekistan. Uzbekistan is a developing economy with rapid growth and transformation. After gradual privatization policy, all sizes of enterprises emerged in different ownership forms. Soft tax burden and developing business climate allow businesses to keep long-term financial stability. In parallel with private businesses, government owns the control package or a considerable share of some enterprises in order to ensure a favorable social protection policy. The sectors which supply the primarily necessary goods and services are mainly owned and controlled by the government to enable the smooth transition to market economy without huge income inequality. In this paper we examine the financial stability and crisis management capabilities of selected Large enterprises through Enyi's model of relative solvency.

There are many models to analyze and predict the financial stability and financial distress level of a firm. Altman's z-score model is sufficiently famous among both business rounds and academia. This model is truly convenient and classifies across ownership and markets. Nowadays many modified formulas of Altman's z-score model exist, since probably it was a fundament for some other similar models. Being presented in 2005, Enyi's relative solvency model is new, but famous and effective. It is different from Altman's z-score both in terms of mathematical expression and approach to the financial distress. In this study we analyze the financial distress and distance to default status of selected Large enterprises by exploiting Enyi's relative solvency model. “Enyi’s model relies on the sequences steps of arithmetic calculations. There are two basic fulcrum indicators of the model: OBEP (operational break-even point) and RSR (relative solvency ratio). The initial step of model is begun with calculating the mark-up ratio (MUR), which indicates the ability of a company management to recover the costs and maximize the profit.

$$MUR = PBT/TOC$$

$$PBT = TS - TOC$$

Here, PBT – profit before tax, TOC – total operating cost, TS – total sales. The second step is calculation of break-even point (OBEP). Enyi defined OBEP as “the point or stage of activity where cumulative contribution margin on recovered production outputs equal the total cumulative production costs and losses of the learning periods”.

$$OBEP = 1 + MUR/2 * MUR$$

Enyi defined OBEP as “the point or stage of activity where cumulative contribution margin on recovered production outputs equal the total cumulative production costs and losses of the learning periods”.

Next step is the measuring the required volume of working capital which is central to operation of the company to sustain operational break even.

$$W\ CR = TOC \times OBEP$$

Another fulcrum indicator is relative solvency ratio (RSR). RSR measures the liquidity of a company.

$$RSR = AWC/\ W\ CR$$

Here, AWC is available working capital which is the difference between current assets and current liabilities of a company."[17]

There is a couple of indicators to reflect the possibility of crisis and level of capital to lead to the crisis. Choice of insolvency (COI) shows the probability of insolvency.

$$COI = 1 - RSR$$

Possible stage of insolvency shows minimum level of solvency to go bankruptcy

$$POI = RSR \times OBEP$$

"Financial crisis management in Large enterprises, as we discussed above, is financially supported by the government funds due to their high importance for socio-economic stability. However, global financial crisis showed clear evidences of the incapability of the governments in providing bailout funding to secure them from bankruptcy. In macroeconomic crisis period fiscal status of the public finance system often faces the imbalance of revenue and spending, which results in the limited availability of funding. There may be a probability of staying helpless in harsh times at Large enterprise, if they rely on government's bailout support"[18]. Therefore Large enterprises are recommended to take following measures to avoid dependence to public financial support:

To monitor the market profile, access and entry conditions, and to avoid being a monopolist in order to share the entire market risk;

To regularly monitor the macroeconomic condition and to set a risk map to predict all types of risks and their sources;

To control the receivable and payables accounts to ensure an optimal balance;

To avoid bank lending and to create a safety nets in case of market failure.

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[17] Author's self-made work based on economic materials

[18] Dr. Charles W. Mulford "Financial Statement Analysis" Scheller College of Business Georgia Institute of Technology Atlanta,

Overall, Large enterprises are a separate type of business entities with different financing rules. Ensuring their crisis-free performance depends on other external factors, arise in operational processes. Proposed scientific recommendations may have different impact on the enterprises across industries and countries. Therefore, there is a necessity for further research to be conducted in the above mentioned area.

Another really important and effective international model is "Altman z-score" model. Let's take look at this model in detail.

Bankruptcy, foreclosures, unemployment are all too familiar terms and headline news over the past several years. The economy is slowly recovering, but the loss of jobs and businesses will be with us for years to come. In this article, the focus is on survivability - not just to survive but also to thrive and grow. We look "under the hood" of the Altman Z-Score formulations for insight and survivability guidance. Speedometer charts display the "Green Zone" and boundaries of financial performance for the Altman Z-Score contributing ratios. Subsequently, trend charts compare survivability performance for four publicly traded companies.

From 2008 through 2012, U.S. Bankruptcy Courts processed 247,597 business bankruptcies. For each business bankruptcy there were 26.3 non-business bankruptcy filings or in total 6,522,928. Over 69% of both business and non-business filings were for Chapter 7 liquidation of assets. That is, businesses were dissolved assets were sold and jobs were lost. Non-business Chapter 7 liquidation of assets primarily includes individuals and households. People lost their jobs and, in many cases, their houses and means of supporting their families. The reasons for bankruptcy are varied, but ultimately cash inflow was not sufficient to meet the cash outflow demands of creditors and lenders. There are tools available, if not crystal balls, to help provide guidance to businesses. Altman Z-Score is one such tool that should be in every business management toolbox. We show that Z-Score is not just for predicting bankruptcy but also for navigating the performance pitfalls for existing businesses. It is a critical tool for emerging entrepreneurial ventures or those in the early stages of developing business plans and seeking financial support. It is also useful as a tool for due diligence in merger and acquisition endeavors.

Actually, the Altman Z-Score exists in three forms. The original version developed by Edward Altman in 1968 was for predicting bankruptcy potential in publicly held manufacturing businesses. The Z-Score formulation successfully predicted bankruptcy with 90% accuracy within one year of filing and 80% accuracy two years in advance. While this was an impressive accomplishment, there was criticism that the original Z-Score did not work very well with privately held companies. Dr. Altman then created two new forms of the bankruptcy prediction formula. These were identified as Z' (Z prime) and Z" (Z double prime) although they are also referred to as Z (A) and Z (B). Z' was developed for privately-held industrial companies and Z" developed for non-manufacturing and service companies. Dr. Altman developed a fourth bankruptcy predictor, ZETA®, in 1977 that modifies and incorporates additional factors into the formula. ZETA® is said to predict the potential for bankruptcy with a high degree of accuracy up to five years in advance. However, the formula is proprietary and of limited availability to business management and owners. Many have criticized the Z-Scores as being inadequate. Some critics claim different and purportedly better ways to predict bankruptcy. However, the Altman Z-Score has withstood the test of time and some 45 years after its first use is still relevant and widely used as a bankruptcy predictor. No one, to this author's knowledge, has proposed Z-Score for survivability. The Z-score is a linear combination of four or five common business ratios, weighted by coefficients. The coefficients were estimated by identifying a set of firms which had declared bankruptcy and then collecting a matched sample of firms which had survived, with matching by industry and approximate size (assets).

Altman applied the statistical method of discriminant analysis to a dataset of publicly held manufacturers. The estimation was originally based on data from publicly held manufacturers, but has since been re-estimated based on other datasets for private manufacturing, non-manufacturing and service companies.

The original data sample consisted of 66 firms, half of which had filed for bankruptcy. All businesses in the database were manufacturers, and small firms with assets of <$1 million were eliminated.

"The Altman Z-Score expressions are as follow:

Z-Score = (X1*1.2) + (X2*1.4) + (X3*3.3) + (X4*0.6) + (X5*0.999) for public manufacturing businesses

Z' Score = (X1*0.717) + (X2*0.847) + (X3*3.107) + (X4*0.42) + (X5*0.998) for private industrial businesses

Z" Score = (X1*6.56) + (X2*3.26) + (X3*6.72) + (X4*1.05) for private non-manufacturing companies

Where:

X1 = Working Capital / Total Assets

X2 = Total Retained Earnings / Total Assets

X3 = E.B.I.T. / Total Assets

X4 = Market Value Equity / Total Debt for Public Companies or Owners' Equity / Total Liabilities for Private Businesses

X5 = Net Revenue / Total Assets"[19]

Well-informed investors frequently use Z-Score to check on the financial strength and health of businesses considered for potential investments. One perhaps surprising user of Z-Score is the U.S. Environmental Protection Agency (U.S. EPA). The U.S. EPA applied financial ratio analysis and Z-Score evaluation to companies and multi-facility firms in industries such as pharmaceutical, waste treatment, pulp and paper industries, and transportation equipment cleaning and industrial laundries. Business creditors and lenders are the primary consumers of Z-Score information. Some business accountants also routinely look at the Z-Score for their business clients. Z-score has separate industrial benchmark for the each business sector. The U.S. EPA also funded a "Recycling Industry Benchmarking and Performance Measurement" effort carried out by AMPros

[19] Dan Hauschild "Altman Z-Score: Not Just for Bankruptcy" 2014, 322p. www.sciencedirect.com

Corporation. Participating recycling businesses provided confidential financial and operational information. AMPros Corporation subsequently consolidated the business financial information via AMPros' ProfitizeIt® software tools, and created numerous financial performance ratio benchmarks including Z-Score for survivability. Feedback from several of the participants indicated they used the Benchmarking report to acquire funding support from the Small Business Administration, alter pricing strategies or to improve their operations. According to individual Z-Score results, 18% of the benchmark participants were in danger of bankruptcy while 45% were in an excellent performance category.

Note that the underlying ratios are fundamentally the same for each formula. Income statement and balance sheet information combine to calculate the ratios but vary as to which information originates from the balance sheet. Publicly traded businesses incorporate market equity to debt ratio while privately held enterprises use book value of equity to debt. Although there are individual formulas for different business types, the original Z-Score expression receives the most press and common usage. Each score has a unique range of defined values for bankruptcy likelihood. The following table presents the Altman range of score predictors. Some business accountants also routinely look at the Z-Score for their business clients. Z-score has separate industrial benchmark for the each business sector.

Table 15

Industrial benchmarks for Z-score[20]

Z-score	Z'-score	Z"-score
< 1.8 Bankruptcy likely	< 1.23 Bankruptcy likely	<1.1 Bankruptcy likely
>=1.8-2.99 zone of uncertainty	>=1.23-2.9 zone of uncertainty	>= 1.1-2.6 zone of uncertainty
>= 3 Bankruptcy unlikely	>=2.9 Bankruptcy unlikely	>=2.6 Bankruptcy unlikely

[20] Dan Hauschild Altman Z-Score: Not Just for Bankruptcy 8/19/2013

Well-informed investors frequently use Z-Score to check on the financial strength and health of businesses considered for potential investments. One perhaps surprising user of Z-Score is the U.S. Environmental Protection Agency (U.S. EPA). The U.S. EPA applied financial ratio analysis and Z-Score evaluation to companies and multi-facility firms in industries such as pharmaceutical, waste treatment, pulp and paper industries, and transportation equipment cleaning and industrial laundries. Business creditors and lenders are the primary consumers of Z-Score information. Some business accountants also routinely look at the Z-Score for their business clients. Z-score has separate industrial benchmark for the each business sector. The U.S. EPA uses pre- and post- compliance Z-Score results to estimate financial impact caused by regulatory compliance investments. The U.S. EPA also funded a "Recycling Industry Benchmarking and Performance Measurement" effort carried out by AMPros Corporation. Participating recycling businesses provided confidential financial and operational information. AMPros Corporation subsequently consolidated the business financial information via AMPros' ProfitizeIt® software tools, and created numerous financial performance ratio benchmarks including Z-Score for survivability. Feedback from several of the participants indicated they used the Benchmarking report to acquire funding support from the Small Business Administration, alter pricing strategies or to improve their operations. According to individual Z-Score results, 18% of the benchmark participants were in danger of bankruptcy while 45% were in an excellent performance category

The power and resilience of the Altman Z-Score has been demonstrated for over four decades. A major reason for the durability and relevance of the Z-Score is that it incorporates within a single measure five measures representing business Profitability, Liquidity, Efficiency, Productivity and Leverage or Coverage. Each measure individually and collectively yields insight to business performance and expectations for sustainable growth and in fact survivability over time. The Altman Z-Score puts everything under one measure which predicts potential bankruptcy. AMPros Corporation looked under the hood of the Z-Score and the contributing ratio values. A range of operating values, color coded by performance zone, was developed for business management and investment guidance. We conclude that the recommended "Green Zone" performance metric values are relevant and should be adopted as part of the tool set for evaluating business performance, improvement and survivability. Lori Tapani, Co-President and Co-Owner, Wyoming Machine states that "monitoring and making adjustments to business operations based on these Green Zone metrics can help with growth, profitability and prosperity over the long haul – much more than pure survival." Are the Z-Score and contributing ratios the only financial ratios needed? Absolutely not, but utilizing these results and guidelines is a good place to evaluate business survivability and focus for action. Use the guidelines for establishing goals in forecasting budgets or developing business plans and proforma financial statements. The guidelines provide some additional benchmarks for due diligence in business mergers and acquisitions. In particular, these guidelines are helpful to those striving for financial investments and funding whether needed for a start up or to expand an existing business.

Conclusion for Chapter 3

This chapter covers international practices on financial stability and solvency rate. After learning these practices a lot of applicable formulas and ratios has been realized. If we learn these kind of ratios deeply and properly we can easely use them and put them into practice. For example, Z-score helps to find out the companies' financial position almost 80%, it is just example to urge researchers to study like these ratios to reach results in high accuracy. We will continue to learn these type of indicators in order to increase overall economic condition of our country.

CONCLUSION AND RECOMMENDATIONS

The problem of financial stability of a modern enterprise predestines a long-term development of states. The economic instability existing nowadays under the crisis bailout circumstances inevitably affects business systems of all levels; therefore, any manager team should be ready for taking prompt actions of planning and process monitoring at the enterprise. The domain of finance is normally highlighted as one of the main fields at an enterprise, since the result to be achieved depends on quality, deadline, and volume of funding necessary.

By examining the notion of stability in the context of ensuring a sustainable and long-term development, necessity of investigating that concept and developing a new method of its application. The new enterprise financial system stabilization technique implies a partial disclaimer on generally-accepted elements and methods of anti-crisis financial management; it is based on a separate analysis of activity and processes running at an enterprise.

Researching investigation of the origin and evolution of the concept of stability, as well as the development of an innovative technique of financial stabilization of enterprise to provide for a long-term and sustainable development of a modern economy of Uzbekistan are the point.

1) To attain the forenamed point , followings should be implemented:
2) investigating the origin and the evolution of stability concept;
3) determination of the role of stability in the process of ensuring a long-term sustainable development;
4) developing the concept of financial stability at enterprise level;
5) to work out the innovative model of financial stabilization of enterprise and its basic principles,
6) validation of the model against the actual relevant data obtained from the two operating companies
7) interpretation of the model results, drawing conclusions, and working out proposals for improving the results of enterprise activities.

The approach and the stage-wise stabilization procedure examined in this article are fundamental concepts of the problem of financial stability of enterprise. This scientific approach is innovative since it has not actually been investigated and used to stabilize an enterprise. Moreover, unlike the generally accepted qualitative methods of financial analysis which are insufficient for making managerial decisions – this approach provides for a simultaneous balanced use both of qualitative and quantitative investigation methods.

By learning the theme of final qualifying work author has gave recommendations as follows:

1) learning financial stability of many companies and comparing them to reach optimal point;
2) setting up individual industrial benchmark for every sector through investigating properly;
3) developing outsourcing more to provide companies with reliable and objective information for making right decision;
4) Enabling managers to study abroad to get valuable experience and knowledge;
5) continuously learning financial stability ratios to compare periodic changes and find out threats and opportunities;
6) comparing financial ratios to other companies' ratios in same sector and discussing points with professional experts.

Form all that has been said it follows that an enterprise achieving financial stability of its activities passes through the stage-wise procedure of stabilization. So far as individual stages are passed on the way from the state of instability to the state of stability, certain changes take place at the scale level. From a loss of equity capital, one can return to loss of turnover only, having retained property. From a loss of turnover, one can return to loss profit, having preserved the rate of economic growth. Finally, from a loss of profit, one can return to free cash щows for owners, to the aircraft sheet development, an efficient implementation of investment projects, and creation of economic value.

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