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FINANCIAL REPORTING: HIGHLIGHTING RESULTS AND STABILITY INDICATORS

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Abstract

In the contemporary financial landscape, accurate and comprehensive reporting is crucial for stakeholders to assess an organization's performance and long-term viability. This article explores the integration of financial results and stability indicators within financial reports, emphasizing the importance of a balanced presentation that encompasses both immediate performance metrics and indicators of financial stability. By examining best practices in financial reporting, the article underscores the necessity for transparency and consistency in disclosing financial outcomes and stability measures. The discussion includes an analysis of key stability indicators such as liquidity ratios, solvency ratios, and operational efficiency metrics, illustrating how these can be effectively communicated alongside traditional financial results. The article aims to provide financial professionals with insights and strategies for enhancing the informativeness and reliability of financial reports, thereby supporting informed decision-making and fostering stakeholder confidence.

Keywords: Financial Reporting, Financial Results, Stability Indicators, Performance Metrics, Liquidity Ratios, Solvency Ratios, Operational Efficiency, Transparency, Financial Health, Stakeholder Confidence.

Introduction

In today's rapidly evolving financial landscape, the imperative for comprehensive and transparent financial reporting has never been greater. Financial reports are no longer confined to the mere recounting of historical financial performance; they are critical tools that provide stakeholders—ranging from investors and creditors to regulators and management—with vital insights into an organization's financial health and its ability to sustain operations in the long term.

At the core of effective financial reporting lies the dual mandate of presenting financial results and stability indicators. Financial results, such as income statements and balance sheets, offer a detailed snapshot of an organization's financial performance over a specific period. These metrics include revenues, expenses, profits, and losses, and they paint a picture of how well the company has executed its business strategy. However, while these results are essential, they are often insufficient on their own to provide a complete view of the organization's financial health.

Stability indicators complement financial results by offering a forward-looking perspective on an organization's financial resilience and operational sustainability. These indicators

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encompass a range of financial ratios and metrics, including liquidity ratios, which measure the organization's ability to meet short-term obligations; solvency ratios, which assess long-term financial stability and debt management; and operational efficiency metrics, which evaluate how effectively the organization utilizes its resources to generate income [1].

The integration of these elements into financial reports is crucial for several reasons. Firstly, it enhances the transparency and consistency of financial disclosures, fostering trust and confidence among stakeholders. Transparent reporting practices ensure that stakeholders have a clear, accurate, and comprehensive understanding of the organization's financial position, reducing uncertainty and enabling more informed decision-making. Secondly, it supports regulatory compliance and adherence to financial reporting standards, which are increasingly emphasizing the need for a balanced approach to financial disclosure.

This article aims to provide a thorough exploration of the best practices for integrating financial results and stability indicators into financial reports. It discusses the methodologies for calculating key stability indicators, illustrates how these metrics can be effectively communicated alongside traditional financial results, and highlights the strategic benefits of such an integrated approach. By offering practical insights and examples, this article seeks to equip financial professionals with the knowledge and tools necessary to enhance the informativeness and reliability of their financial reports, ultimately supporting organizational success and fostering stakeholder confidence [2].

The Main Part

In the "Report on financial results" it is necessary to disclose the following:

1. Net sales revenue;
2. Gross financial results of trade;
3. Other operating income and expenses from the main activity;
4. Financial results of the main economic activity (profit or loss);
5. Other income and expenses related to financial activities;
6. The financial result of general economic activity;
7. Extraordinary profits and losses;
8. Total financial results (profits or losses) before income tax;
9. Net profit (loss) for the reporting period.

This is the net income or loss for the reporting period all items of income and expenses recognized in a particular period represent net income or loss for the reporting period unless a different approach is provided by national accounting standards. Net profit or loss for the reporting period is determined based on the following elements, each of which must be disclosed in the "Financial Results Statement":

1. Income or loss from general economic activity;
2. Extraordinary income (loss);
3. Total financial result (profit or loss) before payment of income tax;
4. Net profit before income tax.

Analysing the economic activity of enterprises has been and remains an important factor in improving their work and increasing their efficiency. Analysis of economic activity helps to determine the level of rational use of production, financial and labour resources of enterprises, identifying unused resources; the future development of enterprises allows to development of the necessary recommendations to improve their financial situation.

In determining financial results, the resulting effects of changes in accounting estimates are significant in determining net income and loss. They directly participate in the determination of profits or losses, that is, in the determination of net income and losses for the reporting period, if these changes affect only the current period. If these changes relate to the reporting of the period in which these changes occurred and the subsequent reporting periods affected by these changes, then they will affect the financial results of the following period accordingly. In order to ensure the comparability of financial statements of different periods when accounting estimates are changed, they are included in the classification items of the financial results statement that were previously used for evaluation. The nature and value of changes in accounting estimates that have a significant effect on the current period, or if these changes lead to significant changes in the following periods, their nature and value should be disclosed.

An entity shall disclose the following information to reflect material errors in the balance of retained earnings at the beginning of the year on the entity's balance sheet:

1. The nature of significant errors;
2. The amount of corrections in the current period and in each period for which the report is submitted;
3. The amount of corrections for the initial periods made to the data of previous years;
4. Recalculated comparative data or reasons why recalculation is not possible.

An economic entity must disclose the following information at the same time as the change is made:

1) the nature of the critical error;
2) the amount of change recognized as income or loss in the current period;
3) the amount of changes related to each period for which additional information is provided and the amount of changes related to the periods included in the additional information regarding the periods prior to this period. If additional information is not used in practice, then the reasons for this should be disclosed.

At the same time, during the formation of financial results, changes in the accounting policy can be indicated only in the cases provided for in the prescribed manner, or only if the changes help to provide more reliable information in the financial statements of the economic entity, and the amount of changes that occurred as a result of the changes in the accounting policy is recorded in the balance sheet by changing the balance of retained earnings at the beginning of the year. should be placed and included in the determination of net income or loss for the reporting period.

It is the stage of financial analysis after the general assessment of the financial situation of enterprises, and it is the analysis of the financial strength (stability) of enterprises. Before analysing financial strength, we need to agree on the meaning of financial strength.

In most of the economic literature, financial strength (stability) and balance sheet liquidity have the same definition, and the indicator being determined is understood as either financial strength or balance sheet liquidity, that is, the ability of enterprises to repay borrowed debts.

Financial strength and balance sheet liquidity are two different financial indicators that have their own meaning and represent the financial activity of enterprises from different perspectives. This is what is said in the study guide "Analysis of the Financial Situation of Enterprises" by our respected teacher E. Akromov, one of the leading economists of our republic:

The indicator of financial stability is an indicator as complex, which is:

• the ability of enterprises to maintain production in the period of complex market relations;
• that there is an opportunity to freely use the company's funds;
• that it is possible to sell products without stopping production;
• overall stability of enterprise activity;
• that enterprises are properly managed;
• that the financial resources available in enterprises meet the requirements of market relations;
• shows the degree to which enterprises have resources covering their needs for reserves and expenses.

Therefore, financial stability is determined by the formation of financial resources of enterprises and their use. The financial stability of the enterprise is affected by all directions of economic and production activity of enterprises. It is affected by both internal and external factors and conditions.

We can indicate the following as internal factors:

• stability of production at the enterprise;
• organization of production;
• production management;
• the size of the authorized fund of the enterprise;
• the ratio of the company's expenses and income;
• the ratio of sources of equity funds and liabilities of the enterprise;
• composition of the company's working capital.

As enterprises are in economic relations with other economic entities during their activities, external factors also affect the financial stability of enterprises. Among such factors we can include the following:

• the state of the enterprise in the goods market;
• export and import relations of the enterprise;
• activity of the enterprise in business relations with other enterprises;
• relations with bank authorities, debtor and creditor enterprises;
• economic policy, tax, pricing and finance, banking policy, technique, and technology policy implemented in the republic.

Thus, financial strength is affected by the situation, factors, and conditions inside and outside the enterprise, and it can be seen that the level of financial strength has a great impact on the current and future activities of enterprises.

Therefore, financial stability is the result of the influence of several factors and conditions, which in turn affect many aspects of the enterprise's activity. Before starting the analysis of financial strength, let's solve one more problem. This is a problem with the meaning of the term financial soundness. To solve this problematic question, we believe that it is appropriate to get acquainted with the opinions of economists below.

The essence of financial stability is that it is necessary to limit the system of indicators used to measure and evaluate financial stability. Accordingly, in the opinion of V.G. Artemenko and M.V. Bellenders, "financial strength represents the efficiency of formation, distribution and use of financial resources of the enterprise. However, it is known that the efficiency of the formation, distribution and use of financial resources of enterprises is their overall financial condition, while financial strength represents only one form and direction of enterprise activity" [8]. According to A.D. Sheremet and R.S. Sayfulins, "financial strength and solvency have the same meaning, and solvency represents the outward appearance of financial strength" [9].

A.N. Li to the same opinion. and SIShevchenkos also have. In their articles, they focused on the analysis of the financial strength ratio and analyzed the solvency indicator. In reality, financial strength and solvency have different meanings and are defined in different ways. Besides A.N. Li. and S.I. Shevchenko’s accepted financial stability as financial stability. This is also wrong in our opinion. Financial stability means that the financial condition of enterprises remains at the same level and does not decrease. When it comes to financial stability, there are two more things to consider. This is a criterion of financial stability and a system of indicators representing financial stability. A.N. Li. and S.I. Shevchenko's opinion, the criterion of financial stability should be determined, and as this criterion, a low probability of bankruptcy of enterprises is recommended. In our opinion, first of all, the probability of bankruptcy of enterprises is not determined according to the level of financial stability [10,11].

Conclusions

In our view, optimal or normative levels of financial indicators, including financial soundness, should be approved rather than criteria.

In the economic literature, various indicator systems are recommended for measuring the level of financial strength. A.N. Li. and S.I. Shevchenko used structural indicators of the enterprise's capital to determine financial strength, while V.G. Artemenko and M.V. Bellendir used relative indicators as well as absolute indicators in the analysis of financial strength.

Financial stability must be determined by relative indicators, reserves and expenses and the ratio of sources that cover them. The absolute difference between reserves and expenses and the resources covering them does not indicate financial strength. They are used only as an information base to determine financial strength. Thus, the main problem in the analysis of financial stability in the economic literature is that there is still no consensus among economists regarding its economic content.

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