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Article

Financial Analyses Statements of Company "X" LLC

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Abstract

This research is about dealing with horizontal vertical and report analyses and the evidence of different explanations. We go beyond the figures, accounting policies and fiscal laws when we look on the financial condition of the companionship. Constitution of the horizontal and vertical income statements as well as expenditure and balance sheet accounting in the report analysis is an important part on this research. During the accounting information analysis it is necessary to analyze the existence of expression behind the figures of data in monetary form which is not fully accurate. The research is focused on two important analyses of the financial statements, The Balance Sheet and the Statement of Income and Expense, as well as the interpretation of some important reports such as: the turnover liquidity ratio and the profitability reports, taken together, give a picture of the financial condition of the company. In order for these mirrors to be useful for making different decisions, decision makers should be able to find information that is relevant to them and helps them compare from year to another. Detailed data is provided for the last three years where the given quantitative information is not only relevant, but also in a descriptive way.

Keywords*:* Horizontal and Vertical analyses, Accounting Policies, Fiscal Laws, Balance Sheet, Statement of Income and Expense, Turnover liquidity.

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INTRODUCTION

The purpose of the financial statements analysis is to examine the financial data of current and past periods to assess the company and determine the potential future risk. Analyzing financial reports and financial statements requires fundamental understanding of where these numbers come from, how they are organized and what they express, what they mean, what they measure and what they are used for. The first concept is about two important ways of using numbers in business.

The numbers provide a way to determine how the business operates. Measurement of financial performance, by nature, is historical and uses actual numbers or results from business operations. All three key financial statements are used to measure financial performance. Thus, the income statement shows income, expenses, and profit for a certain period of time. Each month, a six-month or one-year accounting period, the numbers generated by an operation are recorded in the income statement by showing us that the income and profit of the business has increased, decreased or remained the same. Balance sheet shows the assets, liabilities and equity of business owners at a specific time.

1. Organization and Actions of Company

The firm “X” LLC is a liable corporation with a one-time solvency liability. It was created by a court decision (nr.10234) on the date (06.04.1995) with a limited duration of 10 years.

Since 1995, this company has expanded its activity in the field of design buildings and construction of various social, tourist facilities. The society displays all the rights of the Albanian individual legislative from the issued date of the authorization by the suitable Albanian authorities. Additionally, it has expanded its activity in the field of tourist service to provide more comfortable conditions for accommodating the local and foreign tourists. This firm has continued to carry out activities in the constructing of a multi-story collective service. For example, residential facilities with a bilateral benefit, either in terms of apartment buying or environmental services, in the benefit of economic growth in society.

2. Horizontal and Vertical analyses of current state of property

2.1. Horizontal Analyses (Entire Activity)

Let’s have a look at the entire exploration of the company growth activities according to the table of balance sheets from the years 2014, 2015 and 2016. In comparison to 2014, in the year 2015, the assets of the company have experienced an increase of 41%or 68 388 642. Whereas in 2016, there was an increase of 36% or 84 986 640.

Based on the analysis of the assets together, we conclude that for the years reviewed there is an increasing trend of improvements for the economic standing of the company. The

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X and Y analysis of the balance sheet data shows the most accurate conclusion pertaining to the change and performance of the company’s financial standing.

2.2. Vertical Analyses

Vertical analysis is a procedure for preparing and presenting statements with common dimensions. It is a quantitative relationship study, existing between different ideas on a given date. It is a static analysis rather than a study of positions. With vertical analysis it is most commonly referred to the comparison of financial data (items of financial statements) within a year. For this, it is necessary to provide the basis for access to the structure of the balance sheet and the income statement. It is common that in the balance sheet of total assets, total liabilities and equity, be equal to 100, which means, individual positions of the balance sheet are expressed as a percentage of total assets or liabilities and total equity. In other words, vertical analysis, like horizontal analysis, is a growth and discount analysis expressed in value (€, $) or in percentage (%)of the items related to the usable financial statements, comparing one company to another or even the average of the industry.

3. Revenue and Expense Evaluation

3.1 The Review of Revenue and Expenses

The business’s main purpose is to ensure greater, maximum profit through better use of available capital. One of the best ways of achieving this goal is to manage the sales in an effective and timely manner, i.e., appropriate sales of manufactured products and services delivered. The sales represent the most dynamic element of each entity’s activity, so their volume and effectiveness analysis occupies a place in the study of this activity. For this reason, it is necessary to carry out the horizontal and vertical evaluation of this mirror.

The horizontal analysis highlights the magnitude of changes that have impacted revenue and the vertical analysis shows the distribution of revenue from sales among the factors the compete to produce.

3.1.1 Revenue Analysis

The data below shows the sales revenue growth

Table 1. Sales Revenue Growth

Year	**Revenue activity**
2014	38 303 382 $
2015	75 584 554 $
2016	88 407 786 $

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In the year 2015, there is a significant increase in revenues from sales of 37,281,172 or 97% and in the year 2016 there is an increase of 12 823 232 or 17%.

Table 2. Total Income for three years

Income	*2014*	*2015*	*2016*
Net Sales	35 797 973	72 456 499	75 114 295
TR from Tips	2 478 530	3 096 420	13 155 714
Total	38 276 444	75 552 919	88 270 009
TR from Interest	26 938	4 781	137 777
Earned By Caption	-	26 854	-
Total	38 303 382	75 584 554	88 407 786

The data in the table 2 above results the bulk of the revenue growth for the years, shows an increase in sales revenue. On the building site, there has been progress in the construction of several multistory buildings and sales are growing at a faster rate compared to the year 2014.

Also, in the field of tourism this firm has an increase in income from the high attendance of the facilities in possesses from different vacationers. Advices for 2014 include 93% of total revenues, for 2015 it was 95% and 2016 it was 85%. The second part of the total income are presented the financial income that has no less significant impact on the determination of the profit. Also, in the year 2015, there is a positive conversion differences that is in foreign currencies. So, as a result, there has been an increase from year to year because of sales growth for construction and tourism services.

3.1.2 Expenditure Analysis

Detailed cost analysis requires their classification into constituent elements.

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Table 3. Total Costs for three years

Costs	*2014*	*2015*	*2016*
Consumed materials	21 008 868	53 971 686	57 328 296
Cost of Labor	7 985 223	7 254 182	7 262 498
Amor. and Imp.	3 769 400	3 215 000	5 515 146
Other Expenses	784 831	2 860 154	6 119 523
Loss from Expenses	-	-	278 037
Total	33 548 322	67 301 022	76 503 500

For 2015, compared to 2014, there is a significant increase in expenditures of 33 452 700 or 98% due to the increase in the level of construction but also as a result of the expansion of activity in the field of tourism services, thus building a summer runway for to provide customers with services also at the restaurant. For 2016 against 2015 there is an increase of 9 202 478 or 14%. The percentage of depreciation expense has decreased slightly in 2015 and this is likely to be the result of the fact that new assets that have been put into use have been used only for a part of the year, thus reducing depreciation and depreciation annually. The highest weight of cargoes consumed 49% consumed materials in 2014; 71% in 2015 and 67% of total expenditures in 2016. A significant share of labor costs (23%, 11% and 9% of the total) includes salaries and insurance costs.

3.1.3 Loss / Profit Analysis

The main indicators of the loss / profit account are presented as follows:

Table 4. Benefits and Losses of the company in three years

Loss / Win	*2014*	*2015*	*2016*
TR from Activities	38 303 382	75 584 554	88 407 786
Spending	33 548 322	67 301 022	76 503 500
Result before Tax	4 755 059	8 283 532	11 904 286
Profit after Tax	519 550	826 360	1 225 000
Net Profit	4 235 509	7 455 172	10 679 286

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Profit The financial result of 2015 (before tax) as a result of the increase of revenues rather than expenditures, amounted to 3 528 473 or 74% more than in the previous year, whereas in 2016 compared to 2015 the increase is 5 620 754 or 43%. Percentage of profit tax calculation is 10%. Gross profit is on the rise, which is a positive indicator of the development of the activity of society. Growth in gross profit in 2015 is important as it has occurred in a period of expansions with significant increase in spending.

3.1.4 The importance of solvency and liquidity

The entity's solvency, the liquidity ratio of its assets and the level of profitability of the business develops to a large extent determine the survival and development of the entity over time. The solvency of an economic unit represents its ability to withstand the timely repayment of the entity's current assets. Solvency is closely related to the level of liquidity which, on the other hand, can be defined as the ability of the company to have the funds it owns, to pay the liabilities in their maturity and to meet the unexpected needs in money. Reports of liquidity show the correlation of current assets with current resources and consequently the ability of the company to settle its current liabilities at the time they mature. Two of the most usable liquidity ratios are the current ratio and the quick ratio or otherwise the acid ratio.

4. Liquidity reports

The current report is used to measure short-term solvency, the company's ability to meet debt requirements when it matures. The breakdown of a company's current assets to current liabilities is recognized as current ratio. Short-term receivables are used as report denominators because they represent the most urgent debts that require repayment within a year or an operating cycle. The level of this indicator must be above 1: 1 and in normal circumstances it should rotate 2: 1, the level at which there is a logical basis, because it is reasonable to expect that if short-term assets represent twice the short-term liabilities, the ratio cannot. The data provided by this report should be interpreted with caution. In the periods of economic downturn, the sale of products is more difficult and large product reserves can be generated, which increase the size of the circulating assets but their transformation in liquidity it has difficulties. As far as economic growth is concerned, there may be an overwhelming increase of customers and debtors caused by the company's efforts to expand sales, invade new markets, and increase clientele. A downward ratio may be a sign of a deterioration in the financial position, may be the result of a reduction in inventories used or other residual assets. An upward improvement may be the result of an inventory stockpile or may to show an improvement in the financial standing. For the current report is easy to measure but difficult to interpret. To avoid any possible mistake, the analyst should look carefully at the individual assets and liabilities involved.

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Table 5. Assets and Liabilities of the Company

Year	***2014***	***2015***	***2016***
Short-Term assets	241 817 603	164 877 992	106 301 549
Short-Term liabilities	213 699 163	139 391 809	72 154 735
Current Report	1.13	1.18	1.47

The above statement (Table 5) reflects the current account calculated for three years. Referring to this report concludes:

For the three years under review, an approximate liquidity ratio is seen, because although there is an increase in the level of short-term assets and liabilities, this increase has been almost equal.

Speed Report: Another indicator that characterizes better and more accurately the solvency of each entity is the solvency indicator or the acid test. This indicator is calculated as: Short-term assets - Inventories-Prepaid expenses

Short-term liabilities
This indicator should usually be not less than 1 and possibly higher than 1.

Table 6. The Company indicators for three years

	2016	***2015***	***2014***
Short-term assets	241 817 603	164 877 992	106 301 549
Minus Inventory	8 397 217	11 044 749	12 897 172
Less Prepaid Costs	7 913 180	3 494 419	3 494 419
Numerator	225 507 206	150 338 824	89 909 958
Short-term liabilities	213 699 163	139 391 809	72 154 735
Speed Report	1.05	1.08	1.24

From the above data, it is noted that there is a slight decrease in the speed ratio and the liquidity situation. From the calculations, it can be said that the value of short-term assets has been able to cover the value of short-term liabilities for the three years.

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5. Circulation reports as Part of the Liquidity Analysis

In general, the turnover reports are considered all the ratios that are calculated by putting in the size of the statement of income and in the denominator a size of the balance sheet, the size for which we are interested to disclose information.

Report on the turnover of receivables. This report measures the ability of a company to attract timely amounts for sales on credit. It measures the relative size of the accounts receivable of a company and shows how long the accounts receivable are returned on cash over a given period. A low ratio would indicate that the value of accounts receivable is high against sales.

Turnover of LL.A = Sales / Average balance of accounts receivable.

Average collection period = 365 days / Turnover of LL.A

Both of the above reports represent the same thing, the quality of the receivables and the efficiency of the collection as well as the credit policies of the company.

Table 7. Calculation Reports

Year	**2016**	**2015**
Sales	75 114 295	72 456 499
The State of LLA	165 474 752	98 017 682
Turnover of Ic. receivable	0.45	0.74
The period between collection	811	494

In 2016 there is a decrease in the level of turnover of accounts receivable compared to 2015. In 2015, customers circulated approximately 0.5 times or 811 days, so there is a deterioration in the situation regarding cash collection by customers. The factors that can have affected the non-processing are:

-Unsuitable efforts to collect receivables.

-Delays in payments from customers.

- Clients in financial difficulty.

Inventory turnover is the indicator that measures the relative size of the inventory and its effectiveness in the amount of expected money to pay matured debts. Generally, small and fast inventory shows that society has put less money on inventory.

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Cost of goods sold

Making the report of the days with the inventory turnover can be calculated for how many inventory days money is returned. Inventory control may be one of the toughest management problems, the inventory should be as large as the company responds to the requirements of the firm. High turnover means inventory shortages, lost orders, price drops, material wraps or more sales are planned as low turnover can be the result of a large inventory held by society or large stock obsolete stock, with slow or low turnover.

Table 8. The average stock of inventories

Year	***2016***	***2015***
COGS	57 328 296	53 971 686
Average Inventory	9 720 983	11 970 960
Turnover of Inventory	5.8	4.5
Average Collection Period	63	81

Reducing the magnitude of the average inventory in 2016 has led to an increase in inventory return this year and an improvement in the average collection period. In 2015 it took 81 days to turn inventories into liquidity and in 2015 it took 63 days.

The above-mentioned reasons may have led to this situation.

6. Reportability Reports

The profitability reports show the combined effects of liquidity, asset management and debt on the balance sheet. The analysis of the entity's return indicators constitutes a proper analysis of the financial statements of a company, through which the entity's profitability analysis returns of the entity.

6.1. Return on Investment Capital (ROI)

ROI is the indicator of the efficiency and efficiency of the firm's operating sectors (purchase, production, trading) and the reporting of operating income with the invested capital in the firm (or total net assets). It is generally accepted that this indicator is greater or equal to the percentage of banker interest.

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* ROA = Marginal Profit / Total Assets Turnover * 100

* Marginal profit = Net gain / Sale

*Total Turnover = Sale / Total Assets

Table 9. Total Net Assets

	2016	*2015*
EAT (Net Income)	10 679 286	7 455 172
Total Assets	323 696 438	238 709 798
ROA	3.3%	3.1%

Return on assets is a good measure of profitability because it combines marginal profitability and asset return ability. For 2016 we have a higher power generating profit from the assets of the company.

Table 10. Total Assets Turnover

YEAR	Marginal profit * Total assets turnover	ROA
2016	14.2%*0.23	=3.3%
2015	10.2%*0.03	=3.1%

The growth of assets in 2016 is due to the increase in marginal profit, this year the return on investment has increased as a result of improvement in inventory management, which has had a favorable effect on the turnover of the lumbar and the ability of the company to controlling operating costs.

6.2. ROE (Return on Equity)

ROE is a very important measure of the profitability of the company, seen from the point of view of the shareholder of the company as its owner. This ratio measures how much the profit is realized for every amount invested by the owners of the company.

Return on Equity: Net Income

Own equity

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Table 11. Return of Equity

	2016	***2015***
Net Income	10 679 286	7 455 172
Own Capital	109 997 275	99 317 989
ROE	9.7%	7.5%

This indicator measures the capability of its own capital to generate profit. In general, it can be said that the return on equity expressed in percentages should be the largest amount equal to the percentage of interest rate.

RO = ROA * CAPITAL EXPENDITURE

Capital Multiplier = ROE / ROA = Total Assets / Own Capital

2016 9.7/3.3=2.94
2015 7.5/3.1=2.4

The combination of debt growth and improvements in profitability and use of assets has led to a better ROE in 2016 compared to the previous year. More specifically, the company has added debt to finance the expansion of capital investment. Debt risks and added costs in the form of interest expenditures, it also benefits from the leverage that society is using successfully.

6.3. Profit Limit

Net income is undoubtedly one of the most important items in the balance sheet. a company's objective is revenue generation and it can be said that a firm has reached the goal of existence when its income is to the right extent and should never underestimate their importance. This report shows the size of the net income earned for a unit of sales realized. It is calculated as the net income ratio of a period of sales of that same period.

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Profit Limit = Net Income / Sale

Table 12. Revenue Generation

	2016	*2015*	*2014*
Net Income	10 679 286	7 455 172	4 235 509
Sales	75 114 295	72 456 499	35 797 913
Profit Limit	14%	10%	12%

The profit margin for the three years is positive. Sales contribute positively, they cover the expenses incurred by the company. In 2016 there was a situation compared to the previous two years. For the three years the profit limit has satisfactory values regardless of the decrease in 2015 which has occurred as a result of the expansion with a significant increase in the expenses for the company.

CONCLUSION

By carefully reviewing and analyzing the company's financial statements, it is concluded that:

Over the last three years, it has been found that the assets of the company have increased year by year. This result indicates an increase in its use. The capital account has increased every year due to the level of profit of the company.

Incomes from construction activity accounts take the highest percentage of revenues each year. During the three years there are also the expenses for carrying out the company's current activity. From the liquidity ratio society for the last three years has almost an approximate level of liquidity. There was an increase in the same ratio of short-term assets as well as short-term liabilities. So we can say that the company has a stable liquidity position in accordance with the allowed rates showing high solvency. The operating cycle nowadays can be said that has a need of increment for cash collection from receivables logarithms, thus improving the average collection period from inventories.

With regard to profitability ratios, the company displays a better performance in 2016 compared to 2015 as there is a return from equity and a return from the higher assets. This shows that the company has an improvement in liquidity, assets and debt management, indicators that have influenced the company's overall performance in generating profits.

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From all the analysis carried out, it is clear that the financial condition of the company has been increasing as a result of the efficient use of liquid assets, inventories, investment performance, sales growth, increased working capital and growth of assets. The Cash Flow Statement shows what money was generated from the business and what effectiveness is spent on business operations over a specific time period. Money and liquidity are critical to business success, while the numbers included in this overview show how money was secured and used. The numbers generated from accounting assessment for six-month or one-year period, by an operation are recorded in the income statement by showing us that the income and profit of the business has increased, decreased or remained the same.

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