ECONOMIC ENTITIES FINANCIAL AND ACCOUNTING DIAGNOSIS

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The diagnosis of the functions of the company consists in the accumulation of the assessments of the quality of each function on which the respective company is structured. The most often diagnosis technique is the SWOT analysis (Strengths, Weaknesses, Opportunities, Threats; Strengths, weaknesses, opportunities and risks). This allows for the identification of the key features of the environment that influences the activity of the company and its intrinsic performance. While the accounting and financial diagnoses coexist within the same function due to the fact that they are synthetic in nature and common information sources, their evaluation should be approached separately. This paper aims at determine the financial and accounting diagnosis at S.C. Recon SA Craiova, taking into account that this company does not employ specialized staff for the financial analysis of the performed construction activity.

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Jel classifcation: M41

1. The accounting diagnosis of the company SC RECON SA Craiova

The specific nature of the accounting function influences the approach and accounting diagnosis method, i.e. the reliability of the accounting values is assessed based on two key elements:
- sufficient knowledge concerning the company and the conclusions of the other diagnoses;
- knowing the accounting principles and methods specific to the business segment.

From the accounting point of view, at the analyzed company, we deem that the strengths are: the fulfillment of all the requirements related to the reliability of the information included in the financial statements, the compliant submission in point of form and content.

2. The financial diagnosis of the company SC RECON SA Craiova

The financial diagnosis is focused on the same information related to the activity of the company during a certain period of time, but analyses the aspect of the financial management and the method used for the allocation of the financial resources to the financing requirements.
For the studied company, the purpose of financial analysis is to find the significant financial characteristics, to discover the strengths and weaknesses, to establish a hierarchy using several criteria and finally to provide a pertinent assessment of its status.

2.1. Balance-based analysis

The financial analysis of the balance sheet aims at assessing the method used for the achievement of the short-term and long-term financial equilibrium as well as its consequences for the solvency, liquidity and non-payment risk (bankruptcy) of the company.

Table no.1

Balance sheet for the financial exercises ended on 31.12.2007, 31.12.2008 (Lei)

Designation of the indicator	Sold		Variation	
	31.12.2007	31.12.2008	Absolute increase	Relative increase
A. FIXED ASSETS	6,036,587	6,266,030	229,443	4%

I. Intangible assets	6,600	13,736	7,136	108%
II. Tangible assets	5,327,508	5,875,336	547,828	10%
III. Financial assets	702,479	376,958	(325,521)	(46%)
B. CURRENT ASSETS	4,975,742	6,656,447	1,680,705	34%
I. Inventories	1,135,557	2,871,208	1,735,651	153%
II. Accounts receivable	3,371,214	3,285,249	(85,965)	(3%)
III. Cash and cash equivalents in lei	468,971	499,990	31,019	6%
C. PREPAYMENTS	41,057	47,897	6,840	17%
D. CURRENT LIABILITIES	4,267,067	5,223,512	956,445	22%
E. NET CURRENT ASSETS	749,732	1,480,832	731,100	98%
F. TOTAL ASSETS LESS CURRENT LIABILITIES	6,786,319	7,746,862	960,543	14%
G. LONG-TERM DEBTS	2,126,213	3,195,976	1,069,763	50%
I. INCOMES IN ADVANCE	23,637	14,422	(9215)	(39%)
-Subsidies for investments	23,637	14,422	(9215)	(39%)
J. OWN EQUITY	4,636,469	4,536,464	(100,005)	(2%)
I Registered capital	1,100,000	1,100,000		
II. Re-evaluation reserves (105)	1,273,168	1,273,168		
II. Reserves (account106)	1,176,483	1,176,483		
III. Result of the financial year	1,086,557	917,108	(169,449)	(16%)
IV Cumulated result	261	69,705	69,444	167%
V Distribution of profit	0			

2.1.1. Analysis of the balance sheet structure with the help of rates

✶**Structure rates** are indicators used in the assessment activity because the position of the company within the sector in which it is active can be assessed with the help of these indicators.

Table no.2

Structure rates: assets

Rata	Designation of the indicator	Calculation formula (%)	Financial exercise 2008	Interpretation
A 1	Rate of fixed assets	Ai/At *100	48%	The capital investment ratio in the company exceeds the average technologization degree in the specific business segment (constructions).
A 1.3	Rate of intangible assets	In/At*100	0.1%	The importance attached to research is significantly lower than the business segment average.
A 1.2	Rate of tangible assets	Ic/At*100	45%	The fixed capital weight is represented by tangible fixed assets.
A 1.4	Rate of financial assets	If/At*100	2.9 %	Poor financial connections, without prospects of external growth.
A 2	Rate of current assets	Ac/At*100	51 %	Indicates a financial flexibility, stressing the relative of assets easily converted into cash.
A 2.1	Rate of inventories	S/At*100	22%	Operational cycle time
A 2.2	Rate of claims	C/At*100	25%	Incidence of the credit granted to the clients
A 2.3	Rate of cash	D/At*100	4%	The liquid assets percentage in the case of this company is lower than the average of the business segment

In what the liabilities items are concerned**,** the structure rates are useful for the calculation of the indicators that reflect the composition of financing. They allow for the assessment of self-financing, on one hand, and they are helpful in the estimation of the financial stability, on the other hand.

Table no.3

Structure rates: liability elements

Rate	Designation of the indicator	Calculation formula (%)	Financial ex. 2008	Interpretation
P 1	Global financial autonomy ratio	Cpr/Pt *100	34.9 %	Good financial independence of the company in its relationship with third parties.
P 2	Long term financial autonomy rate	Cp/Cperm*100	58.67 %	Very good financial independence in its relationship with fund lenders
P 3	Financial stability rate	Cperm/Pt*100	59.62 %	The stability of long-term financing. It exceeds the average in the business sector
P 4	Total debts rate	Dt/Pt*100	65.1 %	The weight of total debts (a rate that complements P1, because P4 = 1 –P1)
P 5	Short-term debts rate	Dts/Pt*100	40.38 %	The stability of short-term financing (a rate that complements P3, because P3 =1-P5)
P 6	Leverage rate	Dfin/Cp*100		There are no financial debts

✶ **The synthesis rates** provide information concerning the financing conditions of certain asset and liability elements

Table no.4

Synthesis rates

Designation of the indicator	Formula	Fin.ex. 2008	Notes concerning the normal value
The rate of stable financing of fixed assets	Cperm/Ic *100	132 %	The investments in capital goods are covered from permanent resources
The rate of own financing of fixed assets	Cpr/It*100	72%	There is a good return on investments from resources
Current ratio (1.8 -2)	Ac/Dc	1.27	It is good, because it is >1 and the company can pay its debts <1an with the help of current assets.
Limited liquidity(0.8 - 1)	(Ac-S)/Dc	0.72	It is poor, because it is <1
Quick test rate(0 – 1)	(D+Tp)/ Dc	0.09	

✶**The turnover rates (management rates)** point out the terms and the speed of rotation of certain asset and liability elements (inventories, claims, debts), thus clarifying the operational conditions (credit-client, credit-supplier, storage times) and their effect on the solvency of the company.

From a synthetic point of view, the global movements of the patrimony are expressed by means of management or turnover rates that measure the speed of converting assets into cash, as well as the speed of renewing debts, according to the table below.

Table no.5

The turnover rates

Designation	Calculation formula	Financial exercise	
		2007	2008
1. Assets turnover rate	Sales/Total assets	1.85	1.47
2. Capital turnover rate	Sales/fixed assets	3.38	3 .03
3. Current assets turnover rate	Sales / current assets	4.10	2.86
4. Current assets turnover – no. of days	Current assets/Sales * 360	87	126
5. The ratio of financing of “supplier loan” current assets	Current assets/Debts to suppliers	1.75	0.02
6. Social capital rate	Total assets/Social capital	10.05	11.79
7. Equity capital turnover	Sales /equity capital	4.40	4.20

2.1.2. Analysis of solvency and liquidity

✶ The appreciation of solvency

Solvency is appreciated with the help of the “net situation of net asset” indicator calculated as the difference between total assets and total debts. The net situation also constitutes a guarantee for creditors in the event of an unfavourable evolution of the company’s business.

Table no.6

Appreciation of solvency

It. No.	Designation of the indicator	Calculation formula	Financial exercise value 2008	Notes concerning the normal value
1	Patrimonial solvency	Equity capital/ Total liabilities * 100	35%	It has an average value because it is between 30% - 50%
2	Debt to equity ratio	Total debts / Equity	1.86	It is inadequate, because it is > 1

✶Appreciation of liquidity

FR reflects not only the liquidity but also the solvability and therefore the financial equilibrium threshold of the company.

Table no.7

The evolution of floating capital

Elements	Financial exercise 2007 (lei)	Financial exercise 2008 (lei)
+Long-term capital -Fixed assets	6,762,682 6,036,587	7,732,440 6,266,030
Floating Capital FR	**726,095**	**1,466,410**

The financial floating capital is an indicator of the company's solvability that is appreciated by creditors, because its presence proves that there is no risk of insolvency.

Table no.8

Estimation of the need for floating capital

Indicators	Financial exercise 2007 (lei)	Financial exercise 2008 (lei)
+Stock and production in course of being manufactured +Claims, including financial ones -Debts on TS including liabilities	1,135,557 3,371,214 4,267,067	2,871,208 3,285,249 5,223,512
Need for floating capital NFR	**239,704**	**932,945**

The need for floating capital is increasing in 2007 as a result of the decrease in the stock turnover rate
The analysis of the liquidity reflects a double capacity of the company:
- the liquidity, i.e. the cash maturity coverage;
- the solvency, i.e. certain maturity coverage of the liabilities with a certain maturity (such as current debts) with assets with a corresponding maturity (current assets).
The liquidity remains a condition for the appreciation of the company management quality.

2.2 Analysis of the company performance

✶**The profitability rates** allow for the study of the performance and provide information related to:

- the rates resulted from the commercial activity;
- fixed asset turnovers;
- the return on equity.

Table no.9

The profitability rates

Indicator	Method of estimation	Financial exercise 2008	Interpretation
Net margin ratio	(Net Res/ CA) x 100	4.6 %	The efficiency of the company in turning products into account
Gross margin ratio (*commercial profitability rate*)	(EBE / CA) x 100	10.8 %	The efficiency of the company (in monetary terms) in turning products into account
After-tax economic rate of return	(Net Res / AT) x 100	7 %	The efficiency of turning invested capital into account
Before-tax economic rate of return	(CAF / AT) x 100	12.84 %	The efficacy of turning invested capital into account
Financial rate of	(Net Res / Equity) x	20%	It is good, because it is >than

return	100		the bank interest rate

Conclusions of the financial and accounting diagnosis

The conclusions of the financial and accounting diagnosis made at the studied company can be synthesized as follows:

-The technologization degree corresponds to the business sector of the company;

-The floating capital is positive and covers the need for floating capital, generating positive cash flow;

-The need for floating capital is generally at an acceptable level and the equilibrium is ensured;

-The financial independence is close to the specific norms of the business segment;

-The value of current assets exceeds the average of the business sector, an aspect that is also pointed out by turnover rate of the composing elements;

-The cash flow indicates difficulties concerning the payments as per the due days;

-A slight risk of non-payment is suggested by the quick test rate;

-The values of the solvency and liquidity indicators are good and appreciate the quality of the company management;

-The profitability rates exceed the bank interest rate, which is a positive aspect.

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