ACCOUNTING ANALYSIS – TOOL AND NECESSITY FOR MANAGEMENT OF THE COMPANY IN A CRISIS

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ABSTRACT

The main characteristic of modern market conditions is that they are dynamic, uncertain and risky. This is due to the fact that there is the increasing globalization of markets and deepening global economic and financial crisis. To be steady in such a market situation, a company must be able to continually adapt to environmental conditions.

The purpose of this article is to present the role and importance of accounting analysis in the diagnosis of negative aspects within company activity. By applying a variety of methods, the accounting analysis considers both the data obtained from the current accounting and any other needed information, including that information which is not available to external analysts. The results from accounting analysis could be used by company management to adopt optimal solutions in crisis situations.

Key words:
Accounting analysis, crisis, management decisions

1. INTRODUCTION

The successful management of a company requires the anticipation and overcoming of the potential risks. In the global theory and practice, this activity is known as management in the conditions of crisis (management of crisis). The importance of this aspect of management is growing. This is dictated by the fact that companies are forced to operate in constantly changing and unstable environment. The global competition, continuous technical and technological development, rapid changes in consumer expectations, increasing global economic and financial crisis are prerequisites for this growth. The successfully overcome of the complicated economic situation largely depends on the company's ability to work effectively in various crisis situations. In other words, the company must be able to continually adapt to the conditions of the external environment to maintain a balance between internal

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characteristics and those of the dynamically changing market. The lack of such a balance creates a risk of organizational, industrial and financial crises.

This report aims at presenting the role and importance of the accounting analysis in the diagnosis of negative aspects of the company activity. By applying a variety of methods, accounting analysis examines both accounting data obtained from current accounting and any other relevant information, including one that is not available to external analysts. Results obtained from this analysis are used by management to adopt the optimal solutions, especially in a crisis situation. Making the right decisions for action in extreme conditions largely depends on timely and accurate accounting analysis.

2. CHARACTERISTIC OF COMPANY CRISIS

Company crisis stands for the occurrence of a critical point within the development of the company at which with unsustainable progress the company priorities are threatened. According to Yarnih V. I. crisis in the business is "a period of instability, a situation marked by approaching of major changes. Moreover, the result of changes can be either extremely negative or positive. But it is clear that every crisis is a threat to the organization"[2]. A company that falls into crisis has difficulties in achieving its goals. The violation of its stability can lead to bankruptcy[3].

The main causes for the occurrence of a crisis in the company are associated with threats arising from the uncertainty of external and internal business environment. External and independent of company activity causes may be: macroeconomic instability, international factors, technological factors, etc. The internal causes include: wrong product-market decisions, wrong investment and strategic decisions, wrong policy of the company in terms of personnel, inadequate operational management, etc.

Typical of today's economic environment is that every company is under crisis. Since the crisis is sudden or continuous change, giving rise to an urgent problem, it requires immediate action to solve this problem. Any manager whose firm faces a critical economic situation has to react quickly to sustain the least damage - loss of money, time, and public image.

From what was said about the essence and nature of the company's crisis became clear she is extremely negative phenomenon. Therefore, this undesirable situation should be diagnosed promptly and mitigation measures for its overcoming have to be proposed and implemented. Undoubtedly, the implementation of long-term analysis of various aspects of the company is an effective way to do this.

2 Yarnыh, V. Successful management in conditions of crisis, Sofia, Immortals, 2007

3 Kurteva, G., Effective management in the condition of crisis, ICSS ”Industrial organization: Theory and Empirical Applications”, Izmir – Turkey, september, 2009

3. ESSENCE, ROLE, TECHNOLOGY AND METHODS OF ACCOUNTING ANALYSIS

To clarify the **essence** of the accounting analysis it is necessary to distinguish it from other types of analysis. According to Yototva, "economic analysis in its development has gradually differentiated and in the economic literature in use now are the terms: Economic Analysis, Business Analysis, Financial and Economic Analysis, Financial Statements Analysis, Financial Analysis for managers, Financial Accounting Analysis, Accounting Analysis, etc"[4]. According to the author, the various names relate in one or another degree to the analysis of information, reflecting economic processes and phenomena.

The economic analysis in the light of general economic theory can be viewed from two perspectives: macroeconomic and microeconomic. Subject to the microeconomic analysis can be: marketing activities, production program, innovation and investment, resources, personnel management and financial condition. The use of different adjectives, such as financial, business, accounting, etc. depends on the particular study and the type of information analysed.

From the foregoing the following clarifications could be made:

- The economic analysis is actually the classical analysis and has the widest scope to include all processes and phenomena in the business. It includes all analyses mentioned above, i.e. they are, by their nature, economic analyses. But apart from that, the economic analysis may be on a macro level and to explore the information that is beyond the scope of the concrete company.
- The financial analysis gives an overall assessment of the company in the interconnections and dependencies between different activities: production, trade, investment and financial. The information provision of this analysis is primarily implemented through the annual financial statements, i.e. through public external accountancy. Generally the financial analysis is divided into two categories: internal (results obtained by which are oriented exclusively to the company management) and external (which is characterized by the presence of a large number of entities using information about the company). The financial analysis can be performed on the basis of statistical and operational information.
- The accounting analysis is performed on micro-economic level. It is implemented on the basis of "information taken from both accounting records (in the form of financial statements and business accounts) and accounting management (in the form of records regarding activities, costs and centres responsible for them"[5] .

In other words, the accounting analysis is based on both data obtained from the current accounting and any other relevant information, including that one which is not available to external analysts. In this sense, it is an internal analysis. It is characterized

4Yonkova, J., T. Kaneva, Accounting analysis (in example of banks), Svishtov, AI "Cenov", 2006

5 Dimitrov, M., Accounting analysis - new insights into company accounting, journal "Bulgarian accountant", issue. 21/2001

by the fact that analytical procedures can not be predetermined. Accounting analysis is more creative and somewhat has makeshift character. It examines not the whole company activity, but some aspects of this activity. The results obtained from the accounting analysis are used by managers to adopt the optimal solutions, i.e. its results are oriented to the needs of management.

To fully clarify the nature of the accounting analysis it is necessary to distinguish the features of accounting and financial analysis. In this case, it is assumed that no coverage between the accounting and financial state of company. The lack of such identity could be argued by the two basic accounting principles - for accrual computation and for comparison between revenues with costs. For the accounting analysis, which aims at evaluating the cash equivalent of revenues and costs, the moment of their occurrence is of great importance. For the financial analysis, the moment of monetary recognition is important In other words, the difference between accounting and financial condition determines the difference between accounting and financial analysis.

It is an undeniable fact that the **role** of the accounting analysis is crucial when adopting management decisions. The appropriateness of management decisions depends on its depth, quality, focus and timeliness. The more profound and detailed the implemented analysis is, the more rational the adoption decisions are. As a result of the analysis, an overall picture of the situation (past, present and future) regarding managed objects is obtained (cause - effect relationship becomes clear). As a result, managers establish and adopt reasonable and effective solutions to regulate operations and transactions in progress. Accounting analysis through objective description of a given situation allows making the largest number of possible options for solutions. To achieve a successful outcome it is needed to meet the following requirements to accounting analysis:

First, the aims and objectives of the analysis should be consistent with the forthcoming management decisions, i.e. they should be adequate;

Second, The used by the analysis criteria and indicators have to be relevant to the criteria of management;

Third, the decisions should be analysed not only at the moment of their occurrence, but also in the course of their implementation.

In other words, the more close to management the accounting analysis is the more effective it will be. This is particularly important when a crisis (risk event) occurs in the company.

Priority of the accounting analysis is the detailed study of costs incurred and income received by an operation. Thus, the principle of commensurability of revenues and costs (on the basis of which the accounting result is calculated) is realized. This is the basis for both pricing and development of specific management decisions.

To perform reliable accounting analysis from which to obtain useful information, the analytical **technology** should pass through the following major phases:

-Identification of the objects of analysis and determination of appropriate method of implementation;

-Establishment of criteria for qualitative and quantitative evaluation to be used in the optimization of business operations;

-Systematizing of the information needed for analysis;

-Development of alternatives and determining the optimal option using selected criteria;

-Control over the optimal option and evaluation of results.

Regarding tools used by accounting analysis, we can say that it utilizes both inherent for its methods and methods of other sciences - mathematical, statistical, econometric, simulation methods. The **methods** used depend on the tasks that the accounting analysis has to decide to give effective and useful information to managers. These tasks are related to different aspects of the company and could be classified as follows:

-Exploration of production and sales (including assortment structure) and their optimization;

-Assessment of effectiveness of the resources usage in the company;

-Study of dynamics of the incomes and costs and also their comparison;

-Examination of financial result, and its influencing factors;

-Examination of financial condition;

In carrying out these tasks, the set of analytical technologies and methods is crucial for quality analysis.

This paper will examine some of the most commonly used methods in accounting analysis. As already mentioned, the accounting analysis uses its own and other methods. Some of *the inherent* of accounting analysis methods are:

• Dialectical method. This is a common method of all scientific knowledge. Induction and deduction are basis of this method. Induction applied to the accounting balance sheet means that the analysis is initiated by the individual balance sheet items and leads to the establishment of common relationship between assets and liabilities. Within deduction, the analysis is performed in the opposite direction.

• Method of comparison. It estimates the change of magnitudes of the reported sites. For credibility and objectivity of the results of this analysis, the compliance with the criterion of comparability of data is required. The method is usually used in combination with other methods.

• Method of detail. It carries out structural analysis. For example, in the structural analysis of the balance sheet, the importance and influence of each asset (liability) on the property state of company is assessed.

• Method of the grouping. Typical of the accounting analysis is that the grouping of accounting information to be analysed is made in advance - through a system of synthetic and analytical accounts. Sometimes, for the needs of management it is optional to make another grouping with criterion not connected with business accounts (e.g. grouping of costs as variable and fixed).

• Method of chain substitution. Within this method, the resultant index and its consequential amendment are considered as a function of the system of influencing factors. By successive substitutions, the influence of each factor on the amendment of resultant index is determined.

In addition to those characteristic of the accounting analysis methods, some more methods are used:

• Method of linear regression. Through it an overall logical and mathematical analysis is implemented and regression line of the expected value of the studied variables is constructed. The main advantage of this analysis is that it is possible to calculate some measures of confidence regarding the relationship between the studied parameters. Moreover, it is also possible to measure the strength of this connection by the subsequent implementation of correlation analysis.

This method is most often applied to create a model for quantifying the relationship between production costs and production volume. Based on data about costs and volume in previous reporting periods, the linear regression allows estimating future costs, depending on the production volume. This method is regarded as the most accurate method for approximative presentation of the cost function for accounting purposes with its two components - fixed and variable.

• Method "Cost-Volume-Profit". By applying this method it is possible to study such a key problem as the relationship between volume of activity, costs, revenues and financial results. This is a prerequisite for effective management of the company, especially in a crisis situation. This method is known as "analysis of the critical point" (break-even analysis). Based on the marginal theory of economics, the distinction of costs as fixed and variable is essential in this method. By using this method it is possible to calculate some certainty indicators regarding company activity through which the business risk could be assessed. These indicators are essential, especially when there is a risk of incurring losses. These indicators are: safety zone, rate of economic certainty, coverage ratio of critical revenues, operating leverage. The method has various applications. For example, it can be used in the construction of a forecast and extended inter-company income statement which summarizes the indicators in respect of critical volumes, certainty and efficiency. Based on the information in this statement, managers can identify the impact of changes in fixed and variable costs on both the critical volume of activity and indicators of certainty and hence on the financial results. Thus, managers are given the opportunity to take actions by seeking ways of reduction of production costs (variable and fixed), sales volume and activity volume.

The application of the model is particularly relevant in circumstances of risk and uncertainty. Then it includes probability values. Such a model allows the determination of: the critical volume of sales within a given confidence interval calculated on the basis of different confidence probabilities, the probability of a negative, respectively positive financial results and the achievement of different values of this result.

• Simulation method (Monte Carlo method). H Sometimes, the processes in complex technological systems can not be described satisfactorily using a previously developed and adapted to the problem analytical models. This is because most of the processes in these systems are realized in conditions of uncertainty caused by the influence of one or more random variables. When the uncertain variables are more than two, a more complicated model is constructed, because to the variance of one variable the variance of the next variable is added, etc. Such a model is a prerequisite for a more complex consideration of the uncertain variables, which in turn contributes to making more informed management decisions. The realization of this more complex model is carried out easily by applying the simulation method. The essence of the method lies in the development and multiple implementation of /0} logical model in the structure of which certain variables are included, as values and relationships between them are decisive for the outcome. Application of the method allows the multiple implementation of a large number of combinations (simulations) of economic parameters. The method does not require mathematical "solution" of the predetermined model, but just its "implementing", which is the major advantage of this approach. With increasing of system complexity the efficiency of the method also increases (compared with the analytical methods). In practice, there are no restrictions on the complexity of the model. Simulation method is a reliable tool that can be used by management in planning and forecasting of future production activity. It allows managers to choose various combinations between certain and uncertain variables, and thus to achieve the desired accuracy in predicting the resulting variable. At the same time, the model gives the opportunity to assess the influence of each parameter on the resulting variable, which is a prerequisite for further refinement of proposed solutions.

• Method of linear programming. Accounting analysis by this method aims to achieve optimization. The criterion of optimality in the accounting approach is the maximization of marginal income. The method allows managers to produce an optimal plan, which combines the quantities of manufactured products, so as to achieve maximum financial result even in the circumstances of resource limitations.

Of course, these are some of many other but most used methods by accounting analysis to support the development of effective management decisions.

3. CONCLUSION

To minimize the risks in decision-making it is necessary to ensure management with complete, accurate and objective economic information for the business activity of company. Characteristic of our times is that new economic information is constantly generated. However, sometimes the managerial staff feel need of such information. The reason is that due to an uncertain and risky environment in which the company operates, it is not always possible to turn the available information into useful knowledge. It is namely accounting analysis which is the main contribution to turning a set of data into meaningful information (from a management point of view).

In this connection it may be argued that the role and importance of the accounting analysis are increasing, especially during a crisis situation. This is dictated by the fact that the implementation of a continuous survey of various aspects of company activity would contribute to the development of strategies for optimal use of resources. At the same time, it is prerequisite to avoid different risky situations.

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