The Acrobatics of the Corporate Finance: the Norming of Financial Rations

for the Agricultural Enterprises

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ABSTRACT

The analysis of financial agricultural activity by the methods of coefficient analysis suggests the presence of standard indices of financial coefficients. As a rule, they are not presented in the active official methods. The norms of financial coefficients should be different for different spheres and take into account the size of the firm and regional differences. There were suggested the normative meanings of financial coefficients for agricultural organizations in Russia and Omsk region.

Keywords: *the norming of financial coefficients, indicators of financial and econonomic activities, enterprise restructuring, the construction of parametrical models, the financial situation for the agricultural enterprises.*

INTRODUCTION

During the last 3 or 5 years many agricultural organizations in Russia finish their economic year with positive financial results, but on the whole 40% of farms in Russia remain to be chronically unprofitable and in particularly 36% are in Omsk region.

The Federal Law "On financial normalizing agricultural commodity producers" (2002) established legal limits of restructurization debts of agricultural commodity producers in order to improve their financial condition before using applying bankruptcy procedures and provide for including in restructurization overdue and deferred arrears not only to the budgets of all levels but also to the debts for supplied goods, works and services.

According to the indices of the financial state of a debtor and due to the basic conditions of restructuring debts the territory committee determines the variant of debts restructurization.

Calculation of financial condition of agricultural organization gives the opportunity to the commissions define using rate system to what of five groups of financial stability a debtor can be referred to. (Table 1)

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Each group has its own conditions of restructuring. The farms belonging to the first category get 5 years of deferment of payment and 4 years of debt payment by installments, the ones of the second group – 5 and 5 years accordingly, the third group – 6 and 5 years, the fourth one – 6 and 6 years, the fifth group – 7 and 6 years accordingly.

Sanation of agricultural commercial organization carrying out in the limits of legislative innovations, can improve the current financial situation and the solvency of organizations.

Table 1 Calculation of coefficients for referring agricultural commodity producers

to the groups of financial stability of debtor (in rates)

Indices	Groups				
	I	II	III	IV	V
Coefficients:					
Absolute liquid assets **(cash ratio)**	K >= 0,5 (20)	0,4 <= K < 0,5 (16)	0,3 <= K < 0,4 (12)	0,2 <= K < 0,3 (8)	K < 0,2 (4)
Critical assets **(acid-ratio test)**	K >= 1,5 (18)	1,4 <= K < 1,5 (15)	1,3 <= K < 1,4 (12)	1,2 <= K < 1,3 (7,5)	K < 1,2 (3)
Current liquid assets **(current ratio)**	K >= 2 (16,5)	1,8 <= K < 2 (13,5)	1,5 <= K < 1,8 (9)	1,2 <= K < 1,5 (4,5)	K < 1,2 (1,5)
Providing one's own means **(equity ratio)**	K >= 0,5 (15)	0,4 <= K < 0,5 (12)	0,3 <= K < 0,4 (9)	0,2 <= K < 0,3 (6)	K < 0,2 (3)
Financial independence **(coefficient of financial independence)**	K >= 0,6 (17)	0,56 <= K < 0,6 (14,2)	0,5 <= K < 0,56 (9,4)	0,44 <= K < 0,5 (4,4)	K < 0,44 (1)
Financial independence applying to forming stock and expenditures **(coefficient of financial independence in recourses and expenses)**	K >= 1 (13,5)	0,9 <= K < 1 (11)	0,8 <= K < 0,9 (8,5)	0,65 <= K < 0,8 (4,8)	K < 0,65 (1)
Meanings of group limits, rates	100 - 81,8	81,7 - 60	59,9 - 35,3	35,2 - 13,6	13,5 и менее

Sources: appendix to the method of calculating the financial condition of agricultural commodity producers.

The coefficient analysis in Russian official methodic issues applied to the evaluation of financial situation.

In spite of the deficiency in examining rate valuation method, nowadays the presence of the meanings of the standard financial coefficients first installed into the rating system (separately for each of 5 organization groups) and secondly taking into account the specific sphere are a very sufficient help in carrying out the financial coefficient analysis.

Remind that the present inter-spheres method "Methodic instructions to the carrying out the analysis of organizations financial condition" (2001) suggests calculating 26 indices but doesn't give any reference points even for coefficients, that is why the financial analysts still refer to "Methodic thesis for evaluating organizations financial condition and for the ascertainment of unsatisfied balance structure" (1994), that are applied at present in the part that doesn't contradict to present legislature and is used for determining appropriate indices of the organization balance structure in total with the statue of the RF Government Resolution on 25 June 2003 №307 "On asseveration the rules of conducting financial analysis by arbitrary managers".

In cases when official methods don't give approximate meanings of financial indicators, it is possible to compare with the average sphere indices (this approach was in the financial normalizing business plan (1994), this document functioned till 2003).

The flexibility of establishment normative meanings in the analyzed method consists in using interval meanings (see table 1), the same approach is found in present "Methodic recommendation concerning the reform of enterprises" (1997) that includes issue 5 in particular "Methodic recommendation for working out the financial policy of an enterprise" where the so called "corridors" of optimal meanings for some indices were defined.

Besides, the method allowed to mark out the class of non-fixed indices (profitably the characteristic feature of the property structure, the sources and conditions of circulating assets) the meanings of which can't be used for evaluating the effective organization functioning and its financial and economic condition without comparing them with the meanings of this indices in enterprises producing the same product and having producing powers compared with the powers of an examining enterprise.

In Provisional checking rules carried out by the arbitrary manager for the presence of fictitious and premeditated bankruptcy indications (Ratified by the Decree of the RF Government on 27 December 2004 №855) laid the ideology of the analysis of 10 financial coefficients dynamic calculated according to the Rules of financial analysis realization by arbitrary managers.

In case of fixing essential deteriorating of meanings of 2 or more coefficients, the second stage is carried out to reveal the signs of premeditated bankruptcy of a debtor that consist in analyzing debtor's deals.

THE PARAMETRICAL CONSTRUCTION OF THE MODEL AND MAIN RESULTS

As the basic set of the instruments of revealing conditionally normative financial coefficients meanings we've chosen the construction parametrical models. Petalous diagram (radar chart) allows to apprise fields and spheres of possible meanings.

For the basic source of information we referred to the statistic datum published in statistic collections of articles "Russia in figures" (2006), "Russian statistic annual" (2006), "Omsk regional statistic annual" (2006).

The datum process was executed with the electronic tables MS Excel application, the average meaning was calculated in the following way: the minimum and maximum indices were disposed from the calculation, the best ones for each definite coefficient left was chosen.

Thus, the data for **"petal"** diagram (radar chart) construction were obtained, that reflected the spheres of possible meanings of each coefficient.

In particular the norms for agriculture based on Russia and Omsk region indices were obtained.

Table 2. The dynamics of financial indices of agricultural organizations (in per cents)

	Profitability of sold goods (wares), production (output), works and services (Рп)	Profitability (unprofitableness) of all agricultural activity (Рхд)	Profitability of assets (Ра)	Coefficient of current liquidness (Ктл)	Coefficient of provision by one's own circulating assets (capital) (Косос)	(coefficient of financial independence) Autonomy coefficient (Кавт)
1995	-3,1	2,3	0,3	168	36,7	87,9
1999	8,2	9	1,5	94,6	-13,8	73,2
2000	6,3	7	2	93,2	-10,5	67,7
2001	9,3	10	3,1	103	-2,9	64,5
2002	1	1	-0,1	105,6	-5,6	59,9
2003	2,7	3	0,3	112,4	-5,6	56,5
2004	6,4	10	4	135,4	1,1	56,2
2005	6,7	8	2,8	137,5	-3,2	52,5
Limits	8,2	10	3,1	137,5	1,1	73,2

The source: Russian statistic annual. 2006. S. 442, 657-661.

Figure 1: The dynamics of financial coefficients of Russian agricultural organizations activity (in per cents)
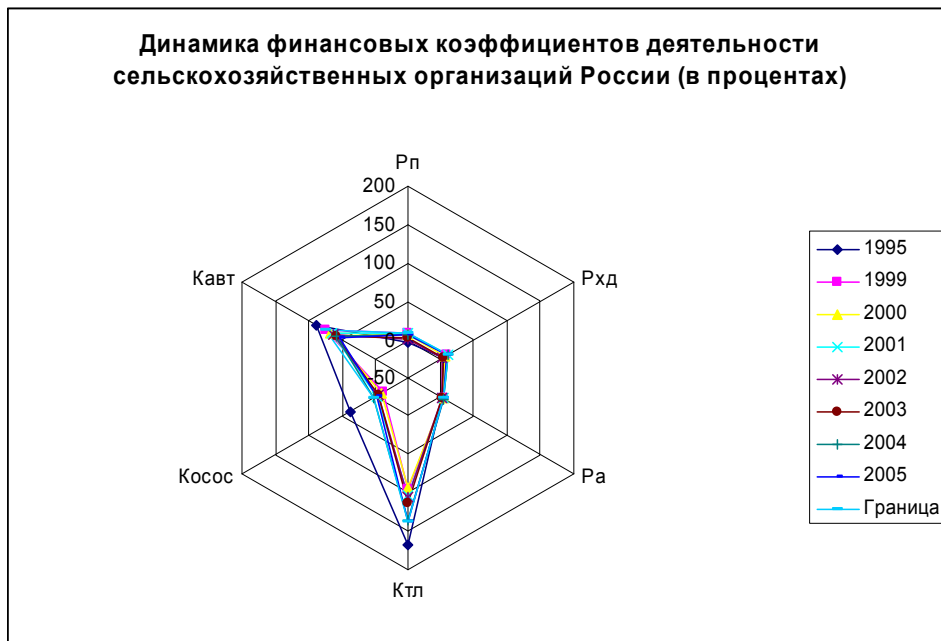

Figure 2: The financial indices of agricultural organizations activity (in per cents)

It's necessary to highlight that statistic department of Omsk region suggests the recommended 3 indices, although there are no legal consequences (however there are no recommended indices in the federal annual); the recommended index is more than 200% - for the coefficient of current liquid assets; the recommended index is 60-80% for the

provision of circulating assets coefficient by one's own resources; the recommended index is more than 50% for autonomy coefficient.

While comparing inter sphere differentiation based on Omsk region indices it was revealed that the best indices of all coefficients belong to transport and communication service sphere.

To compare: profitability realized production (works, services) coefficient in this sphere in 2005 was 148.5%, and the least index is the sphere of wholesale and retail trade. The least index of profitability extra-circulating assets coefficient is in the sphere of building. Agriculture demonstrates efficiently high coefficient of current liquid assets at the rate of 1.6 compared with other spheres. The negative meaning of the provision circulate assets coefficient by one's own resources in observed in the building sphere and in the wholesale and retail trade (-7%). The wholesale and retail trade also has the least autonomy coefficient -0.13% whereas in agriculture its index is 0.63.

The multi-measured model of the financial competency parametrical interpretation in the sphere of Omsk region (Figure 3).

Figure 3: The financial indices of organizations activity (in per cents)
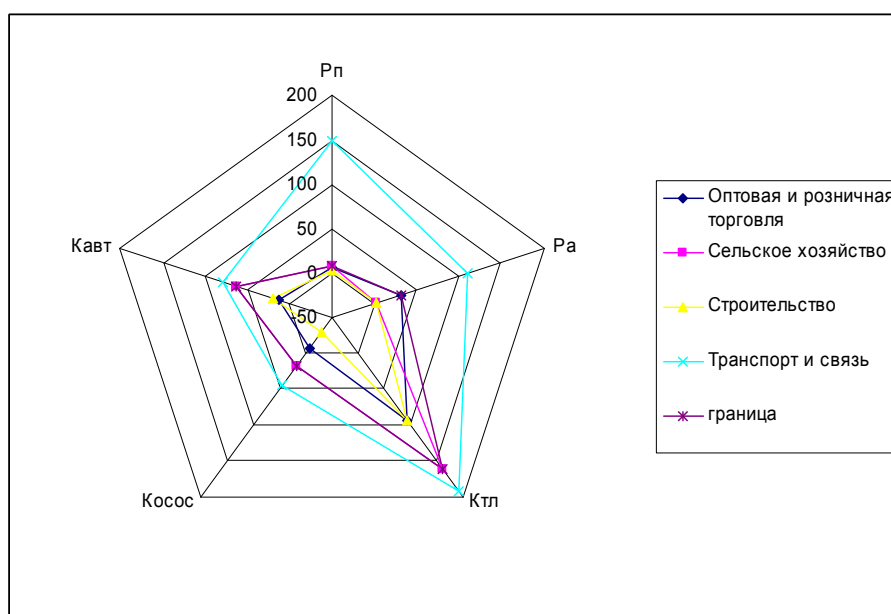
SUMMARY

For an adequate interpretation of the received coefficient it's necessary to carry out the following comparison:

1. to compare actual coefficients of the analyzed period with the last year coefficients, and also with their indices for the last 3 years.
2. to compare the coefficients with the standards accepted by the company (external users of financial accounts don't conduct such a comparison).
3. to compare the coefficient with the indices of the most successful competitors.
4. to compare the coefficient with the sphere and regional indices departments.

5. to compare financial indices with the non-financial data (labour, material and so on).

While choosing financial indicators reflecting the real financial and economic processes of the firm in the countries with the transformation processes you can't rely only on the classic analysis scheme and the traditional approach but apprise the possibility of receiving substantial results beforehand.

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