

REPUBLIC OF AZERBAIJAN

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ABSTRACT

of the submitted dissertation for the degree of Doctor of
Philosophy

**ANALYSIS AND EVALUATION OF ECONOMIC AND
FINANCIAL ACTIVITIES IN THE REPUBLIC OF
AZERBAIJAN ON THE BASIS OF FINANCIAL
STATEMENTS**

Specialty: 5303.01 - Accounting
Field of science: Economic sciences

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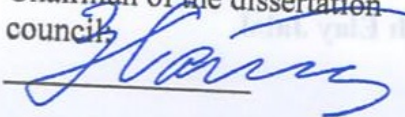
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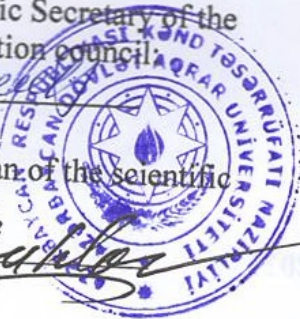
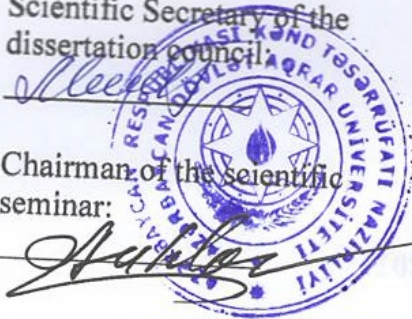
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GENERAL CHARACTERISTICS OF THE WORK

Relevance and development of the topic. The improvement of economic and political relations between the states, the growing development of international trade and financial relations make it inevitable that the national economies that make up the single world economy will participate in this process. As a result of this process, the flow of international capital is growing every day, and economic entities operating at different levels are becoming a participant in international finance.

This progressive process, which continues on a global scale, further increases the need for all participants to act in a single conceptual framework and to have comprehensible, reliable, comparable information in order to make the right decisions. Undoubtedly, the IFRS responds to this need by stating that the concepts, principles and provisions of the IFRS lead to more realistic accounting results. However, experience shows that IFRS alone is not enough to make the right decisions.

In order to make the right decisions, it is necessary to approach different events and processes separately, to comprehensively assess the factors influencing it and to interpret the results correctly, in short, to use the opportunities of analysis. Economic entities must make operational decisions to increase the sustainability and efficiency of their activities, as well as to the potential threats to their activities, which is possible in the context of analyzing information at all stages of their activities and assessing their impact on final activities. The analysis of the economic and financial activity of the entity, based on this need, serves to ensure the financial sustainability of its activities through the use of both internal and external resources of the enterprise.

The pandemic and the resulting global stagnation have affected the world economy, as well as the economy of Azerbaijan, of which it is a part. Measures against the pandemic have led to certain disruptions and problems in the activities of economic entities, and in

many cases to the termination of their activities, which called into question the financial stability and sustainability of these entities.

Along with the ongoing global pandemic, the Azerbaijani economy has also witnessed the Patriotic War, which ended nearly 30 years of occupation and restored historical justice. As it is known, there are socio-political aspects and manifestations of war, as well as large-scale financial and economic requirements. Azerbaijan, which ended the Patriotic War with a historic victory, considers the stability of economic entities as a priority as part of its economic security. It is no coincidence that this is one of the main goals of the Strategic Road Maps and National Priorities approved by the President.

Today, with the implementation of measures aimed at achieving this goal, the importance of analysis increases in the context of pressing issues such as increasing the sustainability of economic entities, creating a reliable financial mechanism, expanding financial accessibility, increasing liquidity and solvency, assessing production capacity, risk and efficiency of financial resources, as well as forecasting future activities and, accordingly, its role in the economic life of the state becomes relevant. All this forces us to approach the problem on a modern scientific basis and in accordance with the economic situation.

There is a limited amount of literature on economic analysis, as well as financial and management analysis in our country. However, our local economists Samedzade Z.A., Huseynov M.K. , Akhmedov Y.B., Sabzaliev S.M., Namazova J.B., Abbasov I.M., Abbasov G.A., Ismailov N.M., Gadzhiev F.S., Kazimov R.N., Jafarli Kh.A., Makhmudov I.M., Mukhtarova P.E., Yuzbashev Ch.R. and others have conducted significant research on economic analysis and its various areas. Foreign economists C.M.Valen, S.H.Penman, J.Alexander, K.Berman, A.D.Sheremet, R.S.Sayfulin, E.V.Negashev, V.V.Kovalyev, O.V.Efimova, V.I.Barelenko, A.Chabuk, I.Lazol, O.Akguch, N.Akdogan, S.Once and others played an invaluable role in the development of science by conducting research in the field of analysis.

Object and subject of the research. The object of the research is 4 processing enterprises engaged in grain and grape processing in Ganja-Dashkasan economic region, and the subject is the analysis and evaluation of the economic and financial activity of the enterprise on the basis of financial statements prepared in accordance with IFRS requirements.

Goals and tasks of the research. The goal of the research is to study the financial and economic activities of economic entities from the point of view of financial analysis through accounting data generated as a result of a conceptually updated accounting mechanism for economic entities that are the driving force of the national economy, assess the feasibility of using financial analysis methods in international practice and improve financial analysis, offering solutions to problems that we may face in this area. To achieve this goal, the following tasks were set:

- To study the essence of IFRS, the work done for its application in Azerbaijan and to substantiate the need for its application from the point of view of financial analysis;
- Systematize the theoretical foundations and methodology of financial analysis, as well as scientific approaches to development directions;
- To study the methods used in financial analysis and the possibilities of its application, to suggest new methodologies that can be applied in our country;
- Classification of the analysis database, specification of analytical capabilities of information sources and comparison with foreign countries;
- Analyze the financial situation and results based on real data and identify areas for improvement;
- Systematize efficiency indicators and substantiate their analytical significance;
- To study the possibilities of application of analysis methods widely used in international practice in local enterprises and to make suggestions on it.

Research methods. The research used dialectical comprehension, systematic approach, comparison, graph, table, as well as vertical, horizontal, trend, coefficient and factor analysis methods.

The main provisions of the defense are as follows:

- Study the benefits and advantages of the application of international standards for economic entities, as well as shortcomings;
- New classification model for user groups of financial analysis;
- New analysis methodology for application in our country;
- New classification model of information sources of analysis;
- Methodology of analysis of the financial situation and results in accordance with the modern economic situation in our country;
- Evaluating the effectiveness of the enterprise;
- Methods for assessing financial difficulties and manipulations;
- Application of software used for financial analysis purposes.

The scientific novelty of the research is as follows:

- The views of researchers on the essence of international standards and the legal attitude of different countries to IFRS have been systematized, as well as the stages of applying IFRS to the accounting system in Azerbaijan and conceptual changes caused by their application have been identified;
- Opinions of different researchers on financial analysis are systematized, methodologies and directions of analysis are evaluated in a single context;
- The database of financial analysis in Azerbaijan, Turkey, Russia and the West was studied, the elements and analytical capabilities of the database were compared, and the different elements were evaluated;
- The goals and objectives of the analysis of the financial position and results have been clarified, and the reliability of the IFRS and IFRS has been assessed in accordance with IFRS requirements;

- The analytical significance of EBIT, EBITDA, NOPAT indicators, which are widely used in Western practice, has been clarified;
- Analytical capabilities of financial performance indicators have been clarified, prospects for the application of efficiency indicators used in Western practice have been assessed;
- Predictive models for forecasting financial problems have been systematized, variables and analytical capabilities have been explored, and prospects for use have been identified;
- The need for the use of computer technology in financial analysis is justified, the problems are systematized.

Theoretical and practical significance of the research. The proposals and recommendations made as a result of the study will help to make a more realistic assessment of the financial analysis of the enterprise on the basis of financial statements, to conduct analysis in other areas, as well as to improve the methodological regulation of financial analysis. It can also be used in higher education as a textbook for financial analysis and its individual sections.

Approbation and application. The main provisions of the dissertation, the proposed results were presented at international and national conferences, published in prestigious scientific journals abroad and at home. It is also reflected in the curricula of which I am the author. The results of scientific research and relevant recommendations were proposed to “Ganja Dayirman” LLC and accepted for practical use (Reference №18 / 4, 15.04.2021).

Name of the organization where the dissertation work is performed. The dissertation work was carried out at the "Accounting and Auditing" department of Azerbaijan State Agricultural University.

The total volume of the dissertation with a sign, indicating the volume of the structural units of the dissertation separately. The dissertation consists of an introduction (9055 characters), three chapters (Chapter I - 63189, Chapter II - 113897, Chapter III - 47579 characters) results (9234), a list of references (154 titles) and abbreviations, the total volume is 178 pages. There are 34 graphs, 11

schemes and 18 tables. The total text of the dissertation (excluding graphs, diagrams, tables and bibliography) is 242839 characters.

MAIN CONTENT OF THE WORK

The introductory part of the dissertation defines the relevance of the topic, object and subject, goals and objectives, research methods, provisions, scientific novelty, theoretical and practical significance, approbation and application, information on the organization and scope of the work.

The first chapter of the dissertation, entitled "**Theoretical and methodological bases of conducting financial analysis in accordance with IFRS**", examines the nature and necessity of IFRS, the genesis and methodology for the development of financial analysis, and its information base.

Accounting must ensure the interests of users of financial statements, reveal all aspects of the business activity of the economic entity. For this reason, standards should be established to record similar transactions with the same accounting principles. In our opinion, accounting standards should be understood as a normative document prepared for the formation and submission of reliable, transparent and comparable financial statements, consisting of rules and decisions in order to ensure uniform accounting.

The development of international accounting standards is associated with the name of IFRS. In 1973-2000, 41 international standards were created as a result of the successful activities of IFRS, covering 3 stages (1973-1988, 1989-1995, 1995-2000). Its activities have been criticized for developing standards that are largely in line with the Anglo-American model, and for not paying attention to DDCs and other accounting systems, being politically influenced, and not selecting members on the basis of technical and professional indicators.¹ Later, under the influence of "accounting scandals" such

¹ Uysal, O., Formation Process of International Accounting Standards: IASC and Leading National and International Organizations // –Ankara: Journal of Accounting and Auditing, –2006. №17, –p. 87-108.

as Enron and Worldcom, a committee was set up to ensure declining confidence in standards. Since that time, International Financial Reporting Standards have been developed.

Research on the application of IFRS and its benefits is constantly brought to the public's attention. The application of international standards eliminates the additional costs of using different accounting systems for economic entities and the need to adjust the financial statements of enterprises operating in other countries during consolidation, reduces additional interest costs for investors and creditors due to investment risks arising from unreliable and inappropriate information². In our opinion, the application of IFRS has certain advantages not only for external users of financial statements, but also for internal users.

At present, 166 jurisdictions have officially commented on the IFRS, and 87% have called for the use of these standards for financial market participants and public institutions. Starting from 01.01.2019, accounting has been started in Azerbaijan on the basis of IFRS. The application of international standards to the accounting system of our country has led to certain qualitative and conceptual changes. Thus, these changes resulted in the consideration of the interests of foreign users by economic entities, certain quantitative and qualitative changes in the financial statements, the creation of new chart of accounts, the emergence of new models of recognition, valuation and classification of assets and liabilities.

Of course, these changes did not go beyond the financial analysis. Adherence to the standards ensures that the reporting information is sufficiently transparent, understandable and unambiguously interpreted in an international context. The increase in the number of financial statements, the quality of the information provided had a positive effect on improving the sources of financial analysis, the application of fair value - on more realistic results of the analysis, taking into account the provisions of the prudence principle

² Melnyk N. History of origins and development of system of international accounting // Ternopil: Journal of european economy, –2013. Vol.12, №4, –s. 487-497.

- on more accurate forecasts. Also, the accounting of capital accumulation operations, including events such as share premium, restored capital, on separate accounts had a positive effect on the quality of the analysis of the financial structure.

Analysis as a method of scientific cognition is a research method of other sciences along with economics. Economic analysis is the division of economic events and processes into components and the determination of the impact of each part on the change in the state of the object as a whole, as well as the understanding of connections and dependencies.

In a broad sense, financial analysis is an analysis that assesses the status and effectiveness of the use of the economic potential of the entity, identifies strengths and weaknesses of financial and economic activities, the financial condition of the enterprise for the reporting period and forecasts for the future, as well as the preparation of management decisions related to the optimization of its activities, identification, systematization and analytical processing of existing financial information. We believe that the purpose of financial analysis depends on the users of the analysis, ie individuals and groups interested in the activities of the entity. Researchers divide the subjects of analysis into internal and external users. In our opinion, internal, related and external users should be separated according to the ability of users of analytical data to have direct contact with the enterprise, to have access to financial and accounting information.

Financial analysis is divided into internal and external analysis. External financial analysis is based on the financial statements of the enterprise. The purpose of this analysis is to assess the rating, property and financial condition, financial stability, solvency of the enterprise, to reduce the risk of interaction between the enterprise and its partners. Internal financial analysis is based on "confidential" information about the enterprise that is inaccessible to related and external users. The purpose of internal analysis is to assess the condition of financial sources, make an internal assessment of the rating, analyze financial plans, investment projects and cash flows,

determine the level of internal risk, and ensure effective management of the economic entity. In addition, financial analysis is divided into types according to its content, duration and frequency.

The methodology of the analysis is formed on the basis of its principles, methods and models. We believe that the well-known principles of financial analysis should have special principles, such as confidentiality and identity of the subject. General and special methods, descriptive, predicative, normative models are used in the analysis.

In financial analysis, the methodology is a set of methods for the practical implementation of the process and is applied in specific areas. The methods of our local scientists Y.Ahmadov, S.Muslumov and R.Kazimov, foreign scientists A.D.Sheremet, E.V.Negashev and R.S.Sayfulin, O.V.Efimova, V.V.Kovalyev, J.Valen and S.Penman are very important and commendable for our time.

Taking into account the characteristics of the economic entities operating in our country, in our opinion, the application of the following methodology in financial analysis may be more effective:

1. Definition of organizational aspects of the analysis (purpose, task and object);
2. Selection of analysis method and information base;
3. Collection and reliability assessment of information suitable for analysis;
4. Preparation of analytical tables and analysis using methods;
5. Identification of trends on the basis of the obtained indicators, comparison with internal (past period, normative, plan) and external (other enterprises and sectors) data of the enterprise;
6. Summarizing the results and preparing recommendations;
7. Preparation of enterprise forecast based on analytical results.

Regardless of the application of any methodology, the actual results of the analysis depend directly on the quality of the information used. The quality of the analysis cannot exceed the quality of the information used. Therefore, different types of information are used in the analysis. In some studies, the information used in the analysis is limited to financial information only. In our

opinion, financial analysis, along with financial information, production-technical, social, environmental and macroeconomic information is also used in the analysis process, as well as in the interpretation of the results. Limiting the analysis to financial information reduces the ability of the economic entity to intensify its production capacity, the analytical capacity to objectively assess various macroeconomic trends. In our opinion, the information sources of the analysis should be divided into official, regulatory, internal, macroeconomic and other sources of information of known origin.

It should be noted that the number of financial statements and analytical capabilities are not the same in all countries. Reports on the targeted use of funds received in the Russian report, reports on the movement of funds, the distribution of profits and sales expenses in the Turkish report are "foreign" to our reporting. In addition to financial reports, the analysis database of Western sources includes management discussion and analysis, management, audit, and proxy reports³.

The second chapter of the dissertation is called "**Assessment of financial analysis of the enterprise**". In this chapter, the financial condition and results of the analysis of the enterprises, which are the object of our research, were analyzed, and the financial indicators of their effective activity were identified and evaluated.

Financial position is a complex concept that reflects the availability, location, movement and use of resources of an economic entity. In our opinion, the analysis of the financial situation, due to its functionality, should reflect both the composition and sources of resources. In this regard, the assessment of financial condition should focus on areas such as liquidity, solvency and financial stability, as well as potential areas such as the structure, movement and turnover of assets. The methodology of financial condition analysis consists of the stages of selection of information sources, assessment of its

³ Subramanya, K.R. Financial statement analysis eleventh edition / K.R.Subramanya. –New York: McGraw-Hill Education, –2014. –701 p.

reliability, initial reading of information, in-depth analysis of information and interpretation of results.

The main source of information used in the analysis of the financial position is the statement of financial position. Although there is no separate standard for the statement of financial position, IAS No. 1 contain information on the substance of the report, the periods presented in the report, and the line items recommended in the report. The assessment of reliability requires the study of compliance with the principles and legislation of accounting, ensuring the protection of accounting documents, monitoring the status (movement) of assets and other factors. The initial stage of reading the information is carried out according to the analytical balance, formal signs of a stable financial situation, the "golden rule" method.

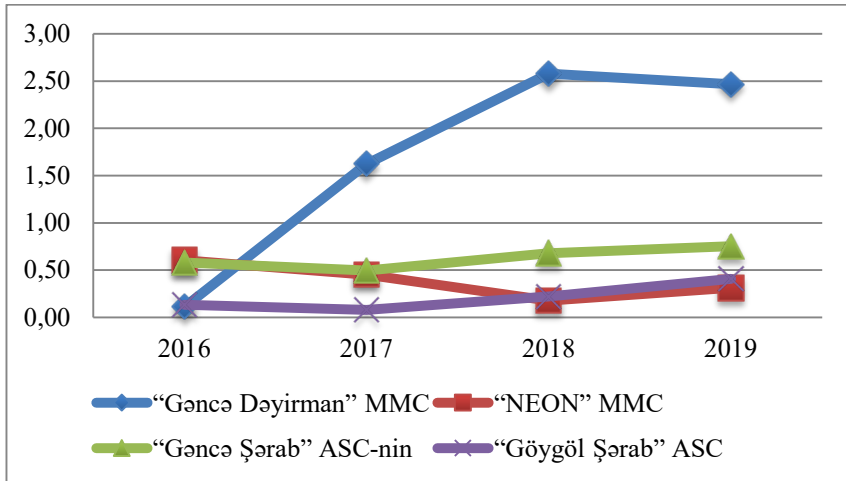
The next step in the analysis of the financial situation is an in-depth analysis of the information. In our opinion, the methodology for analyzing the financial situation can be as follows:

1. Analysis of the dynamics and structure of assets and liabilities;
2. Asset turnover analysis;
3. Liquidity and solvency analysis;
4. Financial sustainability analysis.

The slower the turnover of assets, the greater the need for financing. By managing the turnover of assets, enterprises have the opportunity to become less dependent on external financial sources and increase their liquidity. In this regard, the total turnover of assets should be separated from the individual turnover of individual elements. The turnover ratio of total assets is used to analyze the total turnover.

As it is clear from the graph, the highest turnover, as well as the increase, took place in "Ganja Dayirman" LLC. In 2019, the turnover increased by 2.36 points, ie in 2019, every 1 AZN of assets brought in 2.36 AZN more than in 2016. In "NEON" LLC, the coefficient was reduced by 0.43 points until 2018, and 0.18 AZN less income was obtained for 0.43 AZN per 1 AZN. It should be noted

that the optimal value of the coefficient for industrial enterprises varies mainly in the range of 2-4. In general, the higher the share of current assets in assets, the higher the total turnover of assets under equal conditions.

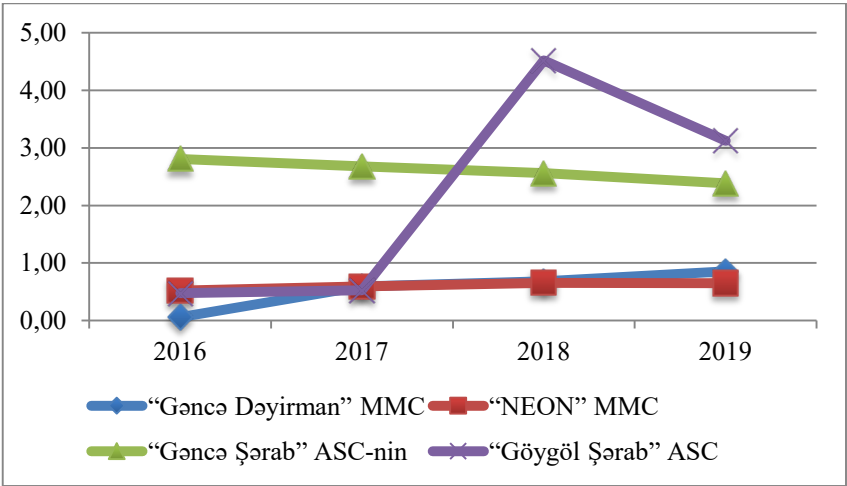


Graph 1. Asset turnover ratio

Liquidity is the ability of an economic entity to convert its assets into cash as soon as possible and to meet its obligations in the short term. In this context, liquidity is equated with the concept of solvency, but solvency is a concept that includes the long-term and full implementation of all obligations of the organization. It is the logical conclusion of this expression that researchers consider liquidity to be the main condition of solvency. Current, ordinary and absolute liquidity ratios are used to assess liquidity.

The ratio based on the ratio of current assets to current liabilities is used to assess the level of provision for current liabilities and reserves against losses. The ratio shows the solvency of the enterprise at the expense of current assets, ie the amount of short-term assets per 1 AZN of debt. The desired ratio is 2 for the Developed countries and 1.5 for the Developing countries.

First of all, it should be noted that "Ganja Sharab" OJSC has the most desirable and stable result. The average indicator of the enterprise in the analyzed period was 2.64, and in 2019 - 2.39, which means that for every 1 manat of short-term liabilities there are 2.39 manats of short-term assets. For all other enterprises, there is a positive dynamics of liquidity. The largest increase among these enterprises fell on the share of "Goygol Sharab" OJSC, which in 2019 increased by 2.65 points compared to 2016 due to capital investments. At the end of 2019, the coefficients for "Ganja Dayirman" LLC and "NEON" LLC amounted to 0.85 and 0.65, which once again indicates a lack of funds to fully cover liabilities (1,838,349.83 and 7,627,809.96 manats, respectively). On the other hand, the growth rate of liquidity for "Ganja Dayirman" LLC in 2019 compared to 2016 is 12.6, which gives confidence in a positive result in the near future.



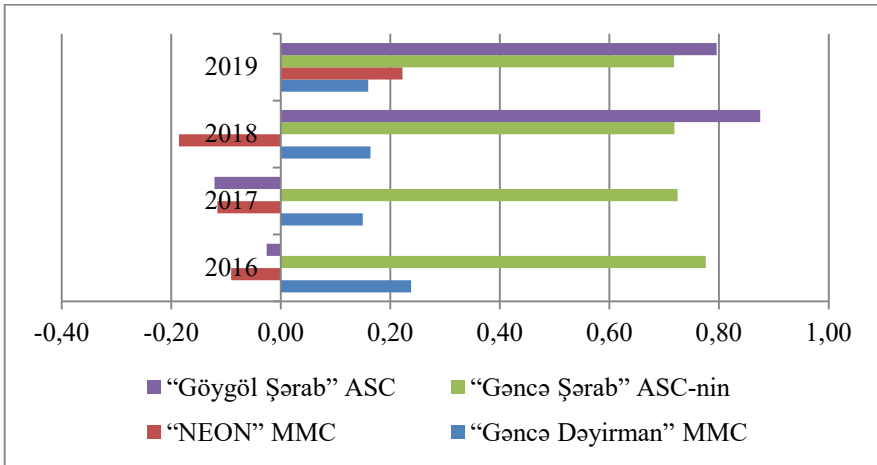
Graph 2. Current liquidity ratio

Financial sustainability ensures solvency, a ratio of equity to debt, a low level of entrepreneurial risk, earning enough money to cover regular expenses, and a reliable long-term financial flow for the business.

The independence ratio reflects the share of private capital in the sources of the company's financing. The acceptable value of the financial independence ratio is 0.5, i.e. half of the assets of the enterprise should be financed from the enterprise's own funds.⁴ The higher this figure, the more attractive the company is to investors, because it shows that it has the necessary funds to repay its debts and does not depend on foreign creditors. However, the fact that the coefficient of financial independence is close to 1 may indicate to investors that the enterprise is developing slowly and that there are some kind of restrictive mechanisms. If it refuses to attract external funding, the company loses additional sources of investment, which could increase revenue and expand the market.

“Ganja Dayirman” LLC and “Ganja Sharab” OJSC have positive indicators for the analyzed periods. The coefficient for 2019 is 0.16 in “Ganja Dayirman” LLC and 0.72 in “Ganja Sharab” OJSC, ie 16% and 72% of total assets were financed by private capital, respectively. Another positive dynamics in the analyzed period belongs to "Goygol Sharab" OJSC. The company, which had a negative indicator at the beginning of the period, had a positive dynamics due to capital investment, and in 2019 was able to finance 80% of its assets through capital. “NEON” LLC is facing a serious financing problem. Thus, the growing losses and liabilities have led to a negative assessment of the ratio of the enterprise.

⁴ Sadigov, M.M. Finance of agriculture / M.M.Sadigov, M.J.Huseynov, H.H.Hasanov - Ganja: ASAU Publishing House, 2012. –402 s.



Graph 3. Coefficient of independence

The final financial result that characterizes the complex efficiency of the enterprise is profit. Approaching profit from the point of view of financial analysis, we can characterize it as the ability to ensure the sustainable development of the enterprise. The methodology for analyzing financial results is determined by its goals and objectives. Thus, while external users use financial statement data, internal users use management accounting data, which leads to some specificity in the analysis.

We believe that the methodology of financial results analysis consists of the stages of selection of information sources, determination of the system of indicators, assessment of its reliability and specificity of accounting policy, analysis of information, interpretation of results. The methodology is unique and can be implemented on the basis of information from both internal and external users. In our opinion, in accordance with the requirements of the current economic situation, the analysis of information can be carried out in the following areas:

1. General analysis of income, expenses, financial results of the enterprise;
2. Analysis of profit and its use;

3. Assess the quality of profits and the impact of inflation;
4. Analysis of the profitability of the enterprise.

General analysis of income, expenses, financial results of the enterprise means vertical and horizontal analysis of information. The cost structure analysis should assess the cost of operating activities, the ratio of commercial and administrative expenses to sales revenue.

Although the amount of proceeds from sales at the enterprise exceeded the cost price, in the analyzed period, against the background of an increase in costs by 146.7% and revenue by 50.1%, there was an increase of 0.32 points in the ratio of costs to sales proceeds. Commercial costs are stable, and the increase in sales, as it is directly related to sales, indirectly affects the growth of these costs. However, the lack of growth in selling costs in the face of increased sales can be viewed as a positive development, and inappropriate cuts in these costs can reduce the company's sales opportunities and face marketing problems.

Table 1. Proportion of expenses of “Ganja Sharab” OJSC to sales income (in%)

R	Indicator	2016	2017	2018	2019
1	The ratio of cost to sales revenue	48	69	82	80
2	The ratio of commercial expenses to sales revenue	2	4	4	4
3	The ratio of administrative expenses to sales revenue	19	8	6	4

The absence of any direct correlation between administrative costs and product production provides a basis for assessing it as a fixed cost. That is why, despite the growing pace of sales, no significant increase in these costs is planned. The tendency of administrative expenses to decrease during the analyzed period can be interpreted as a positive thing for the enterprise.

Given the limited access to financial information, a factor analysis of sales revenue may be performed for external financial analysis.

Table 2. Factor analysis of sales profit of “Ganja Sharab” OJSC

Variable factor	Factor				Sales revenue	Effect of factor
	Operating profit	Cost	Commercial costs	Administrative expenses		
Base indicator	12942846,4	10628550,4	564361,9	760396,6	989537,48	-
Pop	16921415,2	10628550,4	564361,9	760396,6	4968106,2	3978568,8
Cost	16921415,2	13477015,1	564361,9	760396,6	2119641,5	-2848464,7
Ccom	16921415,2	13477015,1	715611,6	760396,6	1968391,8	-151249,7
Ead	16921415,2	13477015,1	715611,6	618312	2110476,4	142084,5
Total						1120938,9

In 2018, the profit from sales increased by 1120938.94AZN (2110476.43 - 989537.49). As can be seen from the table, this increase in sales revenue was due to positive factors such as an increase in operating income and a decrease in administrative expenses. Despite the increase in cost and commercial costs, the positive outcome of the other two factors offset the increase in costs.

Profits are analyzed not only by the factors that affect them, but also by their type, and in international practice, indicators such as EBITDA, EBIT and NOPAT are used. EBITDA is a profit before interest, taxes and depreciation. Depreciation reflects the efficiency of the main activity, regardless of the method of calculating taxes and debts to creditors. EBITDA identifies a more sensitive outcome by neutralizing depreciation costs, especially against the background of increased material and technical resource potential due to large capital investments⁵. In our opinion, the EBITDA indicator is very useful for comparing enterprises with different capital structures operating in the same sector to assess the profitability of sales.

⁵ Aydeniz, E.S. A study to measure the effect of macroeconomic indicators on financial performance measures of companies: An application on food and beverage businesses listed on the ISE // –Istanbul: Marmara University İ.İ.B.F. Journal, –2009. №2, –p. 263-277.

EBIT is a measure of profit before the payment of interest on debt and income tax, focusing on the ability of the enterprise to make a profit from operations without taking into account variables such as tax burden and capital structure. EBIT shows the profit earned by the enterprise through its main activities, excluding various taxes and interest rates. It also provides a comparable basis for subsidiaries and associates operating in different countries and financed at different tax and interest rates. However, excluding debt in the analysis of the indicator can be problematic if debt increases due to lack of cash flow or poor sales, in contrast to manufacturing enterprises, for service enterprises (in the absence of depreciation costs) EBIT and EBTIDA indicators coincide.

NOPAT is net operating income after tax before interest. Essentially, it is a measure that adjusts EBIT for the income tax rate. This indicator characterizes the profitability of the main activity without the effect of leverage, only at the expense of private capital, without attracting borrowed funds and investments.

Table 3. Financial indicators of “Ganja Deyirman” LLC

R	Indicator	2016		2017		2018		2019	
		Amount	%	Amount	%	Amount	%	Amount	%
1	Sales revenue	569491,6	100	15497395,9	100	27045667,7	100	39455831,9	100
2	EBITDA	198609,9	34,87	481238,1	3,11	871 888,5	3,2	2171398,7	5,55
3	EBIT	23542,6	4,13	287383,4	1,85	648696,6	2,4	2015118,8	5,11
4	Net profit	18834,1	3,31	229906,7	1,48	518957,2	1,9	1612095,1	4,09

As can be seen, the relevant indicators have increased both in quantity and in specific gravity. In 2019, due to the failure to take into account depreciation costs, EBITDA was 1.08 times higher than EBIT and 1.35 times higher than net profit. It is noteworthy that the share of EBITDA in 2016 was higher than EBITDA, which was due to the effect of depreciation allowances during that period. For this reason, many researchers use EBITDA to create a clearer picture of an enterprise's revenue across manufacturing facilities.

Factors affecting the "quality of profit" are divided into internal (accounting policy, cost estimation, organization and professionalism

of management) and external (sector status, economic and political situation, natural and climatic conditions). We believe that the process of assessing the "quality of profit" is essentially a complex concept, which includes the following areas:

- Estimate the role of accounting policies and assessments in profit formation;
- Analysis of the role of factors of production in the stability of profit from sales;
- Assess the composition and structure of other income;
- Analysis and assessment of the impact of tax accounting policy and tax payments on net profit.

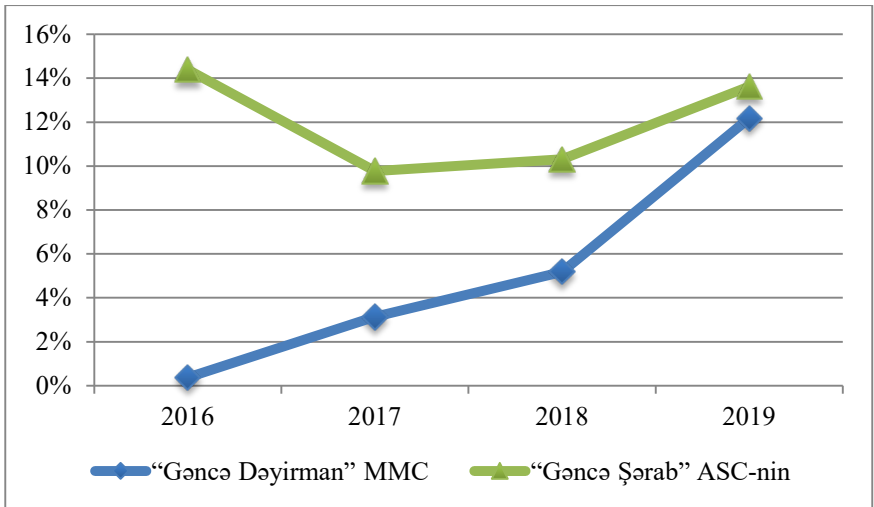
One of the directions of the analysis of financial results is to assess the impact of inflation on the financial results. During periods when the general level of prices changes, there are deviations in the value of the indicators mentioned in the P&L statement, and as a result, the enterprise has problems in making sound economic decisions and providing objective information. We believe that inflation affects financial results in three ways - the misrepresentation of performance, the inability of enterprises to protect their capital, and the difficulty of comparing comparisons between reporting periods and similar enterprises.

Efficiency is an indicator of the quality of activity as a result measure of efficiency, as a ratio between cost and result. Profitability as an indicator of the efficiency of the enterprise is assessed on the basis of indicators of profitability of sales, assets and capital in international practice. Return on assets characterizes the profit generated from the use of all assets of the enterprise. The ratio shows the structure of capital, the ability to make a profit without taking into account the quality of asset management. Unlike capital return, it takes into account all the assets of the entity.

The profitability of "Ganja Sharab" OJSC is high, it was more than 10% during all the analyzed periods, which shows that for every 1 AZN invested in the assets of the enterprise, it brings a profit of 0.10 AZN. "Ganja Dayirman" LLC also draws attention with the positive dynamics of profitability, the increase of 7% compared to

the previous year at the end of the analyzed period gives confidence that the company will continue this dynamics in the coming years.

In Western practice, the ratios of return on net assets (RONA), capital raised (ROCE) and invested capital (ROIC) are also used. In our view, these ratios are sensitized types of asset and capital return ratios, respectively, and there is no significant analytical content difference between them.



Graph 4. Return on assets ratio

In international practice, new approaches are emerging in assessing the effectiveness of the enterprise. Instead of valuation based on the use of various profitability indicators, valuation based on the use of “market-type value” indicators that reflect the formation of prices is more commonly used.⁶ The Economic Value Added (EVA) model shows how much a company's profit covers the cost of capital, ie whether the profit pays for the value of the resources used to obtain that profit. The focus of the EVA concept is not to maximize the business goal of the business, but to maximize

⁶ Yakubovich, M.A. Problems of evaluating the effectiveness of the functioning of companies // M: Planning and economic department, –2005. No. 1, –c. 78-81.

the market value of the company⁷, which is evidence of the effective performance of companies acting as issuers to shareholders and investors.

Specific efficiency indicators are also used to evaluate efficiency. In our opinion, we can summarize these indicators in three groups - indicators of the use of fixed assets and material resources, the use of labor resources and the efficiency of the stock exchange.

Unlike other areas of financial analysis in Azerbaijan, there is a normative document on efficiency analysis. The rules apply to state-owned economic entities whose share or share control envelope is used to determine how effectively the state-owned entity is managed by the governing body of the entity's efficiency indicators, which cover most areas of the entity's operations (liquidity, turnover, profitability, financial structure, use of labor resources). Unfortunately, this rule used in the practice of Azerbaijan applies only to legal entities, and other enterprises do not have any methodological document for the calculation of these indicators or the assessment of efficiency in general. This leads to a lack of interest in determining the effectiveness of economic entities operating in an increasingly competitive environment.

The third chapter **“Directions for Improving the Efficiency of Financial Analysis Based on Financial Statements”** looks at two major areas of the modern economy: forecasting and automation in financial analysis.

Predictive models are forecasting methods used in financial analysis. We believe that predicative models are models based on certain probabilities that serve to predict financial stress (difficulty) and financial condition, as well as results, based on the dynamic data of the enterprise.

⁷ Akgun, A.İ., Gunay B. The relationship between economic value added (EVA) and stock market performance criteria: Findings for the BIST financial index // – Ankara: Journal of Accounting Science World,–2020. №22(3), –p. 405-425.

Financial stress is a process of decline from the time an enterprise begins to have problems meeting its existing obligations to the time it goes bankrupt. There are well-known models for forecasting financial stress, such as "Beaver", "Altman", "Springeyt", "Ohlson", "Fulmer", "Zmijevsk", "Taffler".

Manipulation models are used to identify and predict distortions based on financial statement data. "Healy", "DeAngelo", "Jones" and "Beneisch M" belong to these models.

It should be noted that these models should be used as an aid to the analysis of enterprises. It is careless and dangerous to rely entirely on their results. In order to apply the models, it is necessary to check the application environment and make appropriate adjustments. We believe that in connection with the prediction of predicative models, environmental testing should be carried out through the processing of potential borrowers' data to determine solvency risk, credit terms, as well as the company's solvency trend analysis using data from previous reporting periods. When companies use existing models in the internal analysis process, they should conduct an in-depth analysis of financial condition, profitability and efficiency decisions, internal control and planning, identification of weaknesses and strengths, and assess the reliability of the information. Thus, the raw material information for the model can be adequate to the requirements and the predicted accuracy of the model can be ensured.

Automation of financial analysis is a means to achieve the integrity, objectivity and reliability of the analysis process. It is required to automate the process of financial analysis in the enterprise and the use of computer technologies against the background of such factors as the abundance and complexity of data acting as a database, the use of various methods in the daily structuring and analysis of primary data, as well as the time required to calculate indicators reflecting the current and the future state of the enterprise.

We believe that the application of computer technology to financial analysis should include the selection of methods to optimize

the financial situation, identify and forecast resources to increase efficiency in all activities, study external environmental factors and monitor macroeconomic trends, as well as conduct comprehensive financial analysis.

The perspective of application of analytical products such as "SAS Analytics", "SAP Business Objects", "Oracle", "XBRL", "INEK-Analyst", "Audit Expert", "Alt-Finance", "OLYMP: FinExpert", "Mikro Jump" and "YAZMER" is studied.

In our opinion, these problems occur in the following cases:

- Lack of objective interpretation of the results of the analysis due to the lack of information about the accounting policies of the enterprise and the limited skills of the employees of the enterprise, often due to the invitation of an external expert to perform the automated analysis;

- Inaccurate analysis results due to incomplete or incorrect data entry by users due to insufficient information to use the program;

- Problems in the process of receiving and transmitting data, as well as reading, using several different reporting and data management systems in the entity;

- Inadequate and incomplete information provision in the preparation of analytical reports for related parties (shareholders, investors and their representatives), in most cases only due to the fact that analytical tools are directed only to the internal user;

- The requirement for periodic maintenance of technical support services relating to software maintenance, error correction, innovation and safety;

- Incomplete provision of cybersecurity and electronic identification tools or the need for sufficiently large funding.

At present, the application of information technology is making a positive contribution to all areas of human activity, "smart" technologies with higher capabilities are being used in a safe environment, and the digital economy is driven by these trends. We believe that the positive dynamics of digitalization will be possible in the near future with the introduction of "smart" technologies, which will eliminate these problems. At the same time, the emergence of

national analytical technologies that will promote the formation and development of local analytical practice in accordance with the requirements of national accounting rules will ensure the use of financial analysis opportunities in enterprises and the implementation of goals set in the Strategic Roadmaps.

MAIN RESULTS

Taking into account the issues covered in the three chapters of the dissertation, the following substantiated proposals are put forward to achieve development in the direction of analysis and evaluation of financial and economic activity of the enterprise on the basis of financial statements, to ensure its use in the republic:

- The lack of an “accounting culture” for all accounting entities currently operating in the country, which serves to communicate their financial statements to the public in accordance with the law, also complicates the process of comparing companies operating in the sector or in a competitive environment. We believe that the formation of a database of consolidated financial statements for sectors applied in most foreign countries will at least allow enterprises operating in the sector to evaluate their performance by comparing it with the summary of the relevant sector. In the Turkish experience, the financial statements are prepared on the basis of scale (small, medium and large enterprises), as well as sector averages, which stimulates the development of financial markets by facilitating both the evaluation of enterprises and the appropriate financial decisions;

- Although accounting entities in Azerbaijan have rules, standards, instructions or any normative-legal document on the organization of accounting established by the Ministry of Finance, there is no similar document directly related to financial analysis, except for the rules for assessing the efficiency of enterprises (this document applies only to state-owned or controlled legal entities). We believe that the preparation of an appropriate normative-legal document that can be applied to all accounting entities in the country

will both fill the existing methodological gap in this area and change the existing views of entities on financial analysis;

- SMEs are less interested in financial analysis than corporate entities due to the lack of qualified staff and limited financial resources. We believe that the creation of a simple analytical program or web-based product with the support of SMBDA can help solve this problem, as well as become a reliable database for the state, increasing the flexibility and resilience of enterprises;

- Taking various stimulus, support or regulatory measures to increase the interest of SMEs operating in the private sector in conducting financial analysis will undoubtedly have a positive effect in this area;

- Under current accounting rules, allowing two methods (nature and function of expenditures) in the preparation of the Profit and Loss Statement hinders the integrity of the database, and in some cases even makes it impossible to calculate a number of financial ratios when analyzing economic entities operating in the same sector. We think that the application of a unified method in this direction will also help solve the problem.

- There are manifestations of inflation at the macroeconomic level as well as at the microeconomic level. However, current accounting legislation does not allow for a full analysis and assessment of the impact of this process on accounting and financial reporting. Improving the existing legal framework in this area will improve the quality of accounting information and, consequently, increase the reality of financial analysis;

- The lack of weight indicators of relevant model elements for the application of predicative models to assess the sustainability of enterprises and the likelihood of manipulation (these indicators are determined in accordance with the economic realities of foreign countries) calls into question the validity of its application and results. In our opinion, the determination of appropriate weight indicators in accordance with our current economic realities will make it possible to apply predicative models in economic entities;

- A new methodology for conducting financial analysis has been proposed, taking into account the specifics of the activities of economic entities operating in our country. The main advantages of the proposed methodology are its simple algorithm, determination of the reliability of information and forecasting of future activities. In addition, a special methodology was formed during the analysis of the financial situation and financial results in the dissertation, and the analysis was carried out in that direction.

The main content of the dissertation is reflected in the following scientific works:

1. The application of International Financial Reporting Standards in Azerbaijan // Economics and Management in the XXI Century: Strategies for Sustainable Development of the IX International Scientific and Practical Conference -Penza: "Science and Education" -5 July 2019, -p.63-65

2. History and stages of development of international accounting standards // –Baku: Journal of Science and Innovative Technologies, –2019. №11, –p.40-53

3. The impact of the application of International Financial Reporting Standards in Azerbaijan on the accounting system and financial analysis // –Baku: Journal of Baku Engineering University- Economics and Administration, –2019. Volume 3, Number 2, – p.158-168

4. Information base of financial analysis // –Pereiaslav: Actual scientific research in the modern world, –2019. No. 6 (62), –p.103-107

5. Stages of development of economic analysis in Azerbaijan // Priority vectors of development of industry and agriculture: materials of the III International Scientific and Practical Conference - Makeyevka: DONAGRA, -09.04.2020, -2020, -p.68-71

6. Development of financial analysis (the case of Turkey) // Science and education: experience, problems, prospects for the development of an international scientific and practical conference. – Krasnoyarsk: Krasnoyarsk State Agrarian University. -21-23 April 2020, -p.421-422

7. Modern methods of financial analysis // -Baku: Scientific news of Azerbaijan State Economic University, -2020. Year 8, Volume 8, p.57-76

8. A review of theoretical approaches to financial analysis // – Moscow: Creative Economy, -2020. Volume 14, Number 10, – p.2367-2382

9. Assessment of creditworthiness // IV International Scientific Conference of Young Researchers dedicated to the 97th anniversary of our National Leader Heydar Aliyev, -Baku: Baku Engineering University, -5 June 2020, -p.878-881

10. Scientific schools of financial analysis // International scientific conference on "Economic security: current situation and prospects". –Sumgayit: Sumgayit State University, -8-9.07.2020, -2020 –p.173-176

11. Azerbaijan's experience in assessing the effectiveness of the enterprise // -Baku: "Audit" scientific-practical magazine, -2020, №4 (30), -p.13-22

12. Assessing the reliability of the profit and loss statement // -Baku: SILK WAY, -2021. №1, –p.121-128

13. Influence of inflation on financial statements and its assessment // -Ganja: Scientific Works of ASAU, -2021. №1, – p.123-128

14. Evaluation of financial indicators of efficiency // –Baku: Journal of Science and Innovative Technologies, –2021. №16, –p.51-65

15. The analysis method of cash flow statement // Economics, finance, accounting and law: theoretical approaches and practical aspects of development. International scientific-practical Conference –Poltava: ЦФЕИД, - 24.02.2021, -2021 –p.47-48

16. The analysis methodology of the statement of changes in equity // Priority vectors of development of industry and agriculture: IV International scientific-practical conference. - Makeevka: DONAGRA, -15.04.2021, -2021, -c.342-344

17. Preliminary analysis of the financial condition of business // Republican scientific conference on "Regional economy: modern aspects and current issues". –Sumgayit: Sumgayit State University, -22-23.04.2021, -2021 –p. 225-229

18. Manipulation models used in financial analysis // III International Scientific Conference of Masters and Doctoral Students in the field of "Economics and Management". - Ganja: Azerbaijan State University of Economics, -04-07.06.2021, -2021 - In print.

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