



Estimation of the Efficiency of Private Capital in the Audit

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Abstract

The article reveals the economic content and essence of the financial potential of the enterprise, the issues of assessing its composition. In this regard, when assessing the efficiency of equity capital, including the level of its profitability, the factors influencing the change in turnover indicators are analyzed. The results of the scientific article will ensure the financial stability of enterprises based on the effective use of equity capital in audits.

Keywords: *Auditing; Balance Sheet; Financial Potential; Equity; Long-Term and Short-Term Liabilities; Return on Equity; Equity Turnover*

Introduction

In the conditions of further development of the economy, special attention is paid to the development of business entities in our country. Nowadays, it is necessary for enterprises to ensure proper management of the movement of financial resources at their disposal and the efficiency of their use. Using inefficient management methods can lead them to economic failure. After all, the adoption of a number of decisions by our government regarding the transition to international standards of financial reporting, further development of audit activities, evaluation of the efficiency of the economic activity of economic entities, and the improvement of the financial health system also determine the relevance and practical importance of conducting an audit of the financial potential of economic entities [1,2,3,4]. Therefore, the audit of the financial potential of the enterprise allows to improve its financial activity, to ensure the correct ratio of private and debt funds, to analyze the indicators of the effective use of financial funds and to develop the necessary recommendations for improving their financial situation. At the same time, it is an important condition for increasing their financial stability.

Analysis of Literature on the Topic

The issues of financial potential analysis of economic entities have been widely studied in the scientific works of economists of our republic and foreign countries. In particular, A. Kh. Shoalimov, Sh. I. Ilkhamov [14], B. A. Khasanov [13], M. Yu. Rakhimov [9], Sh. A. Tojiboeva [10, 11, 12], L. V. Dontsova [6] considered the issues of financial potential analysis. In the article "Assessment of the financial capabilities of Ukrainian companies and the possibility of forced liquidation" published by economists on this topic [8], the issues of analyzing the efficiency of private capital in the assessment of financial potential were considered. In world practice, there are many ways to assess the probability of bankruptcy of a company. At the same time, there are no methodological approaches to solving the

question of whether a company can be liquidated in case of bankruptcy. The article aims to assess the possibility of liquidation of the company in connection with the introduction of bankruptcy procedures and to develop a methodology for determining the financial potential of the company, taking into account the Ukrainian economy. It has been proven that the level of financial potential of a company is an inverse indicator of the probability of bankruptcy and liquidation of this company. Jo-Anne Sachard and Georg A. Shinkle [7] in the article published in the Australian Management Journal entitled "Innovation in New Public Firms: The Impact of Government Grants, Venture Capital, and Private Capital" address this issue sufficiently. The article examines the influence of state grants, venture capital and private capital funds on the innovation of new state firms, input resources, innovative results (patents) and their quality (references to patents), the mechanism between state grants, venture capital, private capital and innovation. It shows that grants are incentives for private equity financing rather than direct investment. In addition, it is observed that the homogeneity of venture and private equity investors has a significant effect on innovation in portfolio companies at the firm level, and practical recommendations are provided.

Economists Sivi Aryantini, Sapto Jumonolar [5], the purpose of the scientific article on "Firm Profitability and Value: A Case Study of the Manufacturing Industry in Indonesia" is to determine profitability indicators and factors affecting them and their impact on firm value based on DuPont's analysis.

Determinant profitability, i.e. net profit margin, total asset turnover and financial leverage multiplier have a positive effect on private equity profitability. In terms of contributing to firm value, private equity profitability has been shown to make a significant positive contribution to the industry. This requires the management to effectively manage the company's operational activities and reduce operating and other costs, increase the return on shareholder's capital and the profit margin, and use assets and liabilities effectively. In this article, these issues are sufficiently researched. Tojiboeva Sh.A. The article published by [14] covers the main aspects of the analysis of indicators representing work activity. In particular, the methods of analyzing the efficiency of the private capital of the enterprise were studied and recommendations were given.

Research Methodology

The study was conducted in order to improve the practice of evaluating the efficiency of private capital in the audit of the financial potential of the enterprise, and based on the results, specific conclusions and proposals were presented. The scientific article uses the methods of comparison, horizontal, vertical and factor analysis. On the basis of these methods, the level and quality of private capital composition and efficiency, change, weight, and growth rate will be determined, and it will be possible to systematically control and comprehensively evaluate them. The correlation method was also used in the scientific article, and the correlation coefficient was determined based on the calculation of the functional relationship between the net income from the sale of products and the average annual value of private capital. The method of factor analysis is used in the calculation of each factor affecting the change of the private capital efficiency indicator.

Analysis and Results

In order to improve the conditions for the development of the audit services market in the conditions of further development of the economy and to introduce modern approaches in accordance with international standards in the regulation of audit activity, the decision of the President of the Republic of Uzbekistan dated September 19, 2018 "On measures to further develop the audit activity in the Republic of Uzbekistan" was adopted [3] The implementation of such activities will certainly create an opportunity to further improve the quality of audits.

The adoption of this decision requires special attention to be paid to auditing the activities of economic entities in order to ensure their financial stability. Therefore, the analysis of the financial potential of the enterprise is an important task during the audit. The financial potential of the enterprise

refers to the complex of financial funds, which are composed of various sources, which fully support its activities. Financing will consist of two parts: private capital and liabilities. According to the analytical scientific article: "The purpose of the private capital efficiency analysis is to study the main sources of private capital formation and to determine the possibilities of increasing the efficiency of their use" [12]. The main tasks of the analysis are presented in Figure 1.

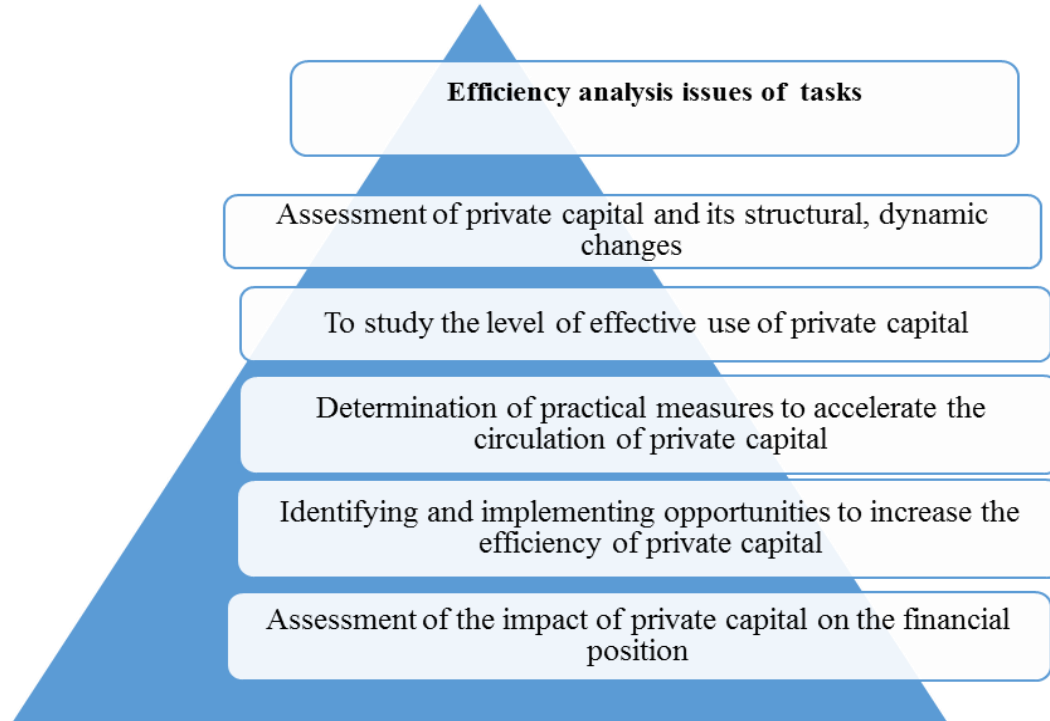


Figure 1. The main tasks of equity analysis.
Source: Compiled by the author based on literature.

The analysis of the efficiency of private capital of the enterprise begins with the determination of its structural structure and change (Table 1).

Table 1, Horizontal and vertical analysis of the private capital of "Deutsche Kabel" JSC

Indicators	The report is the beginning of the year		The report is at the end of the year		The difference (+, -)		Growth rate, %
	Amount, th. s.	Weight, %	Amount, th. s.	Weight, %	Amount, th. s.	Weight, %	
Private equity. From him:	119965378,00	100	72348385,00	100	-47616993,00	-	60,31
authorized capital	8724441,00	7,27	8724441,00	12,06	-	+4,79	100
added capital	2610,00	0,002	2610,00	0,004	-	+0,002	100
reserve capital	86361930,00	71,99	86445550,0	56,40	+83620,00	-15,59	100,10
retained earnings (unreimbursed losses)	24876397,00	20,74	(-) 22824216,0	31,53	-2052181,00	+10,79	91,75

Source: "Deutsche kabel" JSC financial report data (openinfo.uz).

From the data of Table 1, the sources of own funds of "Deutsche Kabel" JSC decreased by 47616993,00 thousand soums at the end of the reporting year. During the reporting year, reserve capital took the main place in its structure, its share was 71,99 percent at the beginning of the year, and 56,40 percent at the end of the year. According to the report, the share of authorized capital in the sources of own funds was 7,27 percent at the beginning of the year, and by the end of the year it was 56,40 percent. The weight of added capital was not significant during the reporting period, making 0,002 and 0,004 percent. At the beginning of the reporting year, the share of undistributed profit in the structure of the company's private capital was 20,74 percent. According to the report, at the end of the year, the society had an unreimbursed loss of 22824216,00 thousand soums, which was 31,53% of its sources of funds. Profit occupies a special place in the structure of sources of increase of funds. The increase in the volume of profit leads primarily to the replenishment of the Nizam fund and the creation of other reserve funds. So, as it can be seen from the results of the analysis, the main part of the total resources of the society during the reporting year corresponds to the share of the reserve capital. During the analyzed years, there was a significant change in the share of the authorized capital in the structure of private capital, that is, it was 7,27 percent at the beginning of the year and 12,06 percent at the end of the year. As can be seen from the table, the amount of undistributed profit in the company decreased during the reporting period, and by the end, 2052181,00 thousand soums of unreimbursed losses were received. At the beginning of the year, the resources in the object of analysis were formed at the expense of own funds, and at the end of the year, they increased at the expense of debt resources. This situation leads to a decrease in the financial independence of the enterprise, deterioration of the solvency.

In the audit of the effectiveness of the financial potential of joint-stock companies, the analysis of the profitability of private capital is one of the main indicators, and their financial stability is related to the correct formation of the profit received. Return on equity characterizes the profitability of the company's own funds. In the audit process, it is also important to assess the efficiency of private capital. Equity capital turnover refers to the degree and period of their justification.

We present Table 2 below for analysis.

Table 2, Analysis of profitability and turnover coefficients of the private capital of "Deutsche Kabel" JSC

Indicators	The report is the beginning of the year	The report is at the end of the year	The difference (+,-)
1. Annual average value of private capital, th. s.	118112382,00	96156881,5	-21955500,5
2. Net income from the sale of products, th. s.	89577498,00	249943612,00	+160366114,00
3. Net profit, th. s.	20154192,00	23259690,00	+3105498,00
4. Return on equity (3x100:1), %	17,06	33,63	+16,57
5. Equity turnover ratio (2:1)	0,76	2,60	+1,84
6. Equity turnover period, in days (1x360:2)	473,68	138,50	-335,18
7. Equity capital turnover ratio (1/2)	1,32	0,38	-0,94

Source: "Deutsche kabel" JSC financial report data (openinfo.uz).

Table 2 shows that the amount of private capital of "Deutsche Kabel" JSC decreased by 21955500.5 thousand soums at the end of the year compared to the beginning of the year. The return on equity increased to 16.57% from 33.63% at the end of the year. We determine the influence of factors on this change by the method of chain replacement (Table 3).

Table 3, Calculation of the factor analysis of the level of profitability of private capital

Factors included in the calculation formula		Generalized indicator – rate of return on equity, %	The difference to the previous account (+,-)
Net profit	Annual average value of private capital		
1	2	3(1x100:2)	4
20154192,00	118112382,00	17,06	-
23259690,00	118112382,00	19,69	+2,63
23259690,00	96156881,5	33,63	+13,94

Balance of factors: +16.57 %

Source: "Deutsche kabel" JSC financial report data (openinfo.uz).

According to the data of Table 3, as a result of the increase of the net profit in "Deutsche Kabel" joint-stock company by 3105498,00 thousand soums at the end of the year compared to the beginning of the year, the profitability of private capital increased by 2,63%. The decrease of the average annual value of private capital by 21955500,5 thousand soums increased its profitability by 13,94 percent. Thus, the effect of the two factors calculated above is: 2,63+ 13,94=+16,57 percent.

From the data of Table 3, it can be seen that "Deutsche kabel" joint stock company's turnover ratio of private capital was 0.76 at the beginning of the year, and at the end it was 2.60 and increased by 1,84.

The ratio of the weight of private capital turnover decreased by 0,94. The turnover period of private capital in the society increased to 335,18 days from 138,50 days at the end of the year. The increase in the amount of net income from the sale of products by 160366114,00 thousand soums accelerated the turnover of private capital. As a result of the decrease of the average annual value of private capital by 21955500,5 thousand soums, the turnover day has accelerated. Based on the application of the correlation method, it is possible to calculate that the changes of the factors influencing the change in the turnover date of private capital are related to each other. If the correlation coefficient is equal to 0, then it indicates that there is no correlation between the studied indicators. If the correlation coefficient is equal to 1, then the relationship in the studied indicators is highly complete, that is, it is functional. A correlation coefficient of 0,1 to 0,3 is low, 0,3 to 0,5 is moderate, 0,5 to 0,7 is significant, 0,7 to 0,9 is high, and 0,9 to 1 up to is very high, that is, it is considered fully functional.

In the table below, we can see the relationship between the volume of net income from the sale of products and the value of private capital, (Table 4).

Table 4, Calculating the dependence of the factors influencing the change of the turnover day of private capital by the correlation method

Years	Net income from product sales, (thousand soums) X	Value of private capital (thousand soums) Y	X the square of the row X ²	The square of the yqator Y ²	Factors multiple X*Y
2013	11720	10476	13736	10975	12279
2014	89790	99910	80622	99820	89709
2015	76778	24276	58949	58932	18639
2016	89577	11996	80240	14390	10746
2017	24994	72348	69968	52342	18083
Сумма	292859	219006	303515	236459	149456

Source: "Deutsche kabel" JSC financial report data (openinfo.uz).

The correlation coefficient between the net income from the sale of products and the balance of private capital can be expressed by the following formula: $R_{xy} = \frac{\sum X \times Y}{\sqrt{\sum X^2 \times \sum Y^2}}$. Calculation of this formula: $149456 / 303515 \times 236459 = 0,6$.

Therefore, the relationship between net income from the sale of products and private equity is highly functional. The correlation coefficient according to the calculation results was 0.6 points. 60% of the net income from the sale of products depends on the amount of private capital, and the remaining 40% depends on other factors. According to the results of the analysis, the private capital of "Deutsche Kabel" joint-stock company decreased during the reporting period. The decrease in private capital of the enterprise was mainly due to the decrease in retained earnings. Because, if the private capital was provided for the first time through the charter fund formed at the expense of the founders, then it should increase due to the deductions from the profits received during the enterprise's activity. Therefore, in order to increase private capital, first of all, it is necessary to increase the profit of the enterprise. The profit of the enterprise is not the result of any economic activity, but the result of efficient activity.

Conclusions and Suggestions

Assessing the financial potential is one of the main issues in ensuring the financial stability of enterprises and increasing efficiency indicators, and it should always be in the center of attention of the head of the enterprise, analysts and auditors. In this scientific article, the composition of the financial potential of "DeutscheKabel" joint-stock company was studied using practical data and practical recommendations were given. Private capital forms the basis of the source of the company's own funds, and it is one of the important indicators describing the company's financial condition.

Depending on its situation, the economic dependence or independence of the enterprise is assessed based on the composition of total funds. Therefore, the turnover coefficients related to the private capital of the joint-stock company "Deutsche Kabel" were analyzed, practical recommendations were given for the analysis of the factors influencing the change of the turnover period, the relationship between the net income from the sale of products and the value of private capital was calculated by the correlation method. At the same time, a method of analyzing the level of profitability of private capital was also recommended.

Therefore, as a result of the evaluation of the effective use of the private capital of the enterprise, it will be possible to establish their targeted management, accelerate the circulation of money and liquid funds, and determine practical measures to ensure financial stability. After all, the analysis of financial potential is important in determining the financial independence, stability, and creditworthiness of the enterprise.

Based on the results of this scientific article, the following practical recommendations can be made:

- to ensure the stability of the financial potential of the enterprise, it is necessary to increase the amount of private capital and use it effectively. To increase private capital, first of all, it is necessary to increase the profit of the enterprise;
- most of the expenses of the enterprises are the interest paid for the loan received from the banks and the cost of transportation. Because of this, the enterprise should increase the share of private capital in the working capital as much as possible and finally cover all the working capital at its own expense;
- one of the main ways to ensure financial stability is to take measures not to increase the company's receivables and current creditor obligations. The large amount of liabilities leads to deterioration of the financial condition of the enterprise. Failure to meet payment obligations can lead to economic insolvency.

We believe that the application of these recommendations in the practical activities of the enterprise during the audit allows to make a clear diagnosis of their financial situation, increase the efficiency of private capital, ensure competitiveness, prevent bankruptcy, increase their financial potential and ensure their financial stability.

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