

ECONOMIC SECURITY OF BUSINESS AND INDIVIDUALS

FULFILLMENT OF THE GOING CONCERN IS A BASIS FOR THE ECONOMIC SECURITY OF THE ENTERPRISE

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Abstract

The principle of going concern is a fundamental principle of accounting, while being the basis for the economic security of an enterprise. In this regard, there is a need to determine indicators, algorithms that would confirm the implementation of the principle of going concern. This article analyzes the various indicators that formed the basis for the violation of the principle of going concern, which may lead to the fact that the company will cease operations in the future. The author proposes a grouping of indicators of violation of the principle of the enterprise's activity into 3 groups and analyzes their impact on the possibility of the enterprise functioning in the future.

Keywords: going concern, business, continuity, economic security.

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INTRODUCTION

The going concern principle is a fundamental principle of accounting, as reflected in Law No. 287 "On Accounting and Financial Reporting" dated December 15, 2017. At the same time, Article 6 "Basic Principles" of this law establishes that "going concern means that the entity will continue to operate normally for at least 12 months after the reporting date without the intention or need to liquidate or significantly reduce the volume of activities." [1] Thus, the management of the enterprise must carry out its work in such a way that the principle of going concern is fulfilled. In addition, International Accounting Standard (IAS) 1 "Presentation of Financial Statements" requires management to assess an entity's ability to continue as a going concern.

A number of factors should be noted that are related to the uncertainty in the entity's activities in the future:

- the degree of uncertainty associated with the outcome of events that may affect future results;
- the size and complexity of the organization of the enterprise, the nature, conditions of the business and the degree of its dependence on external factors;
- any decision that is based on information available at the moment, if a decision on it will be made in the future (for example, court decisions). Subsequent events may lead to results that are inconsistent with the decisions that were reasonable at the time they were made.

Thus, it becomes necessary to establish indicators, calculation algorithms that would indicate whether the entity will be able to comply with the principle of going concern, in order to ensure economic security.

RESULTS OF THE STUDY

During a crisis, the risk of the termination of enterprises' activities significantly increases, the management of enterprises must analyze the indicators, in an ensemble, which would show whether the enterprise is in a critical state, in terms of the possibility of activity in the future. It should be noted that such an indicator may include not only negative indicators of financial and economic

activity, but also certain conditions in which an enterprise finds itself. Thus, the violation of the principle of going concern of an enterprise can be considered from a comprehensive point of view, taking into account not only the indicators of economic and financial analysis, but also certain conditions in which the enterprise operates.

In this regard, the author proposes to classify the indicators that should be taken into account when determining the fulfillment of the going concern principle into 3 categories. The following figure shows these indicators.

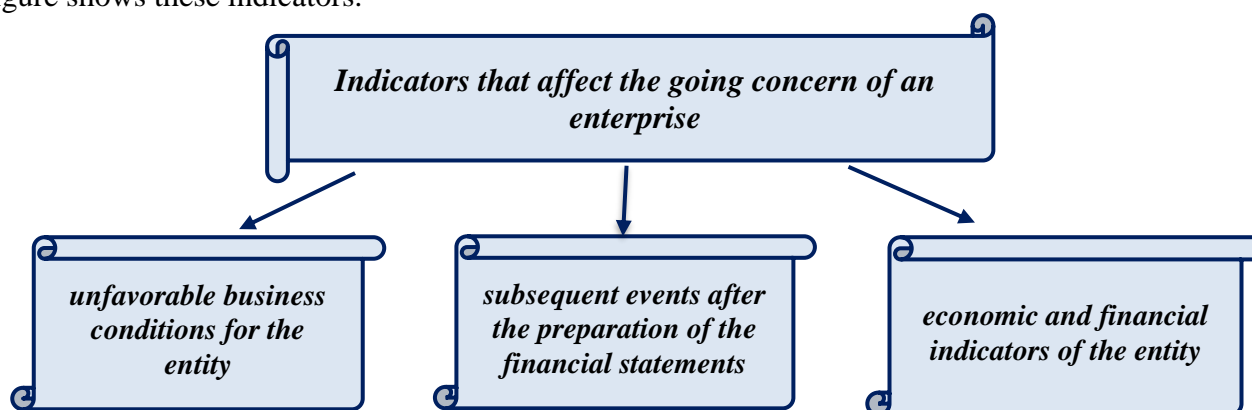


Figure 1. Classification of indicators affecting the going concern principle

Source: compiled by the author

Thus, we will consider in more detail the indicators that affect the continuity of the enterprise:

- ✓ *unfavorable conditions of activity,*
- ✓ *subsequent events after the preparation of the financial statements,*
- ✓ *economic and financial indicators of the enterprise.*

Having analyzed the operating conditions of enterprises in modern conditions, it is possible to identify the following unfavorable conditions for the enterprise:

- *approaching maturity of loans without real prospects of their extension or repayment;*
- *urgent claims of creditors for debt repayment;*
- *negative cash flows from operating activities;*
- *significant losses from the main activity of the enterprise or a significant decrease in the value of assets used to receive cash;*
- *non-payment or termination of payment of dividends;*
- *inability to obtain funding for major new product development or other vital investments;*
- *management's intentions to liquidate or reorganize the enterprise, or to terminate certain operations;*
- *dismissal of key managers without adequate replacement;*
- *loss of the main sales market and key customers, franchise, license or main supplier;*
- *difficulties in recruiting qualified personnel to carry out further activities;*
- *the emergence of successful competitors;*
- *failure to comply with capital maintenance or other regulatory requirements;*
- *forthcoming changes in legislation, which may negatively affect the activities of the enterprise;*
- *non-insurance or insufficient insurance of events that may occur and the consequences of such actions;*
- *restrictions on activities due to the pandemic.*

The size of the enterprise also affects the ability to withstand adverse conditions. Small businesses can react quickly to adverse events, but they may not have the capacity and reserves to cope with the adverse situation.

Analyzing the possibility of the company's functioning in the future in terms of subsequent events, it can be stated that the company's management should take into account those events that may occur in the future and affect the continuity of the company's activities in the future, such as:

- + unfavorable court decisions for the enterprise that may be taken in the future and which may negatively affect the ability of the enterprise to operate,
- + various uncertainties in the future, for example: the possibility of obtaining a license in the future or loans, etc.

The economic indicators of the enterprise are important indicators of the financial condition of the enterprise. Negative economic indicators can significantly affect the possibility of successful operation of the enterprise in the future, from the absolute indicators can be noted:

- ✓ Losses of the enterprise for the reporting year,
- ✓ Negative working capital ratio,
- ✓ Negative net cash flow from operating activities,
- ✓ Negative equity ratio, etc.

At the same time, there are also relative indicators (coefficients) that characterize the activities of the enterprise. These indicators include: liquidity, profitability, ratios of sources of financing assets.

After analyzing various relative performance indicators of the enterprise, the author came to the conclusion that in the express analysis of the financial position of the enterprise, the indicators of liquidity, profitability of sales calculated by gross profit and the autonomy ratio will be sufficient at the first stage to analyze the implementation of the business continuity principle.

Let us analyze the data of the indicator calculated for a number of state-owned enterprises of the Republic of Moldova.

Table 1. Economic indicators of enterprises of the Republic of Moldova for 2020, proposed as an express analysis of the fulfilling of the principle of going concern

Indicators	S.A. Metalferos	Î.S. Combinatul de Vinuri de Calitate "Mileştii Mici"	S.A. Moldtelecom
Absolute liquidity	54.2	0.38	0.01
Gross profit ratio, %	8.06	42.58	19.52
Autonomy ratio	0.99	0.88	0.77

Source: compiled by the author based on the financial statements of a number of state-owned enterprises [2,3,4]

To verify the correctness of the application of these relative indicators in order to analyze the possibility of the continuity of the enterprise in the future, enterprises of various industries, various sales revenues were taken. Analyzing these relative indicators presented in table 1, we can state the following:

- 1) Absolute liquidity: optimal indicators are above 0.2. Studying the data in Table 1, it can be stated that only at S.A. Moldtelecom this indicator is lower than the optimal one,
- 2) Gross profit ratio shows the profit from sales per 1 lei of income from sales, in this situation, S.A. Metalferos, has only 8 bani per lei, despite the fact that it has the highest liquidity of the 3 companies,
- 3) The coefficient of autonomy should be more than 0.5 for all three enterprises, this indicator is higher than 0.5.

Thus, the selected three indicators: absolute liquidity, Gross profit ratio and the autonomy ratio, allow the ensemble to use the express method to analyze the possibility of going concern in the future.

By analyzing these indicators in the ensemble, you can examine the financial position of the enterprise for the possibility of working in the future, for example: by analyzing the indicators of S.A.

Moldtelecom, it can be stated that the company is faced with a lack of cash, with a fairly good profitability of sales as a result of operating activities, the company is quite autonomous.

CONCLUSIONS

It should be noted that the implementation of the principle of going concern is the basis for the possibility of effective operation of the enterprise in the future and, accordingly, is the basis for its economic security. If the principle of going concern is no longer acceptable, and the management intends to suspend the activities of the enterprise or liquidate it, then this event so radically changes the whole situation that adjusting the data of the already prepared statements cannot correct the statements. It is necessary to radically change the accounting methodology and draw up other reports, and the previously compiled must be withdrawn.

Thus, the management of the enterprise should conduct an annual assessment of the implementation of the principle of going concern. The purpose of this article was to establish indicators that need to be taken into account in order to correctly assess the possibility of acting for an enterprise in the future.

As a conclusion, the author:

- 1) Proposes a classification of indicators affecting the principle of going concern into 3 groups,
- 2) Identifies unfavorable operating conditions that need to be taken into account when assessing whether the going concern principle is met,
- 3) Proposes an ensemble of economic and financial indicators that will help to carry out an express analysis of the implementation of the principle of going concern and the possibility of enterprise functioning in the future.

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