Evaluating the Financial and Administrative Performance using Financial Analysis Methods Field Study in a Selected Iraqi Company

Lecturer - Abdul Hassan Rahim
Shatt Al-Arab University College –Accounting Department
Basra – Iraq

Abstract:

The main aim of this research is to explain the role of financial analysis in evaluating financial and administrative performance in business establishments.

A review is made to the methods of financial analysis, emphasizing the role of financial ratio analyzes in the aforementioned evaluation by choosing an Iraqi company trying to identify the company's financial and economic efficiency. Different ratios and indicators are used for this purpose, by analyzing and discussing the implications of the company and identifying the strengths and weaknesses in its activities. The research is based on the hypothesis that the use of financial analysis and the various financial ratios and understanding their implications is a necessary step for evaluating the performance of various business activities.

The research concluded that there are many activities in the sample company are considered good, while some of them appeared weak and require suitable attention and consideration by the company's management.

Key words: Financial analysis, Financial ratios, Efficiency of financial Management, Administrative Performance

Introduction:

The efficiency of financial and administrative performance is considered one of the basic aspects of the management's success in any company. Therefore, the process of measuring and evaluating these aspects is the focus of a constant discussion of many methods and methodologies of modern analysis.

Among these methods and methodologies are financial ratios analysis. The responsibility of management is to put studies and plans of how to deal with current and future work situations and how to face change situations to ensure stability and success in the market. In order to ensure this, it is necessary to have accurate knowledge of the aspects of activity and the efficiency of business performance and how to face market and customer changes to achieve competitive advantage. These aspects can only be reached through the use of comprehensive, efficient and accurate performance evaluation methods and methodologies.

Despite the emergence of many accounting methods for performance evaluation, financial analysis and its various methodologies have proven to be one of the most accurate and objective one. In order to take important strategic decisions and achieve the economic goals, the management must continuously analyze and monitor the financial performance. So financial analysis is used to identify performance indicators, evaluate the company's position and prevent financial crises that may lead to bankruptcy.

Therefore, this research seeks to shed light on the methods of using financial analysis in its various ways and how to apply it in practice to clarify how to benefit from it in Iraqi companies, using the information obtained from one of the Iraqi companies working in the industrial sector.

Research Structure:

This research consists of an introduction and four parts which are: (1) Research Methodology, (2) Theoretical Part, (3) Empirical Part, (4) Conclusions and Recommendations.

Research Methodology

The research uses the induction methodology and the case study through the practical application of the financial analysis elements and financial ratios on one of the selected Iraqi companies and analyzes its activities in detail in an attempt to evaluate its different activities, in particular, liquidity, profitability, inventory turnover and assets in line with the requirements of financial analysis standards and indicators. For the purpose of achieving this, the research methodology part includes (1) Identifying the research problem, (2) Research objectives, (3) Research hypothesis, (4) Research contribution, (5) Information necessary for research.

1- Research Problem:

All business establishments seek to improve their performance. This represents the basis for their survival and continuity. Among the recognized basic methods of measurement and evaluation is financial analysis. However, many Iraqi establishments do not give this subject the due importance. This is, mainly, because of the lack of knowledge by many of their officials of how to apply and interpret financial analysis' indicators and the analysis results. Therefore, the research problem can be stated as: "The lack of most of Iraqi industrial companies to the applications of financial analysis and financial ratios in evaluating financial and administrative performance, and thus, they don't benefit from its advantages to enhance efficiency and effectiveness".

2- Research Objectives:

The main objectives of the research are :

A- To clarify the basic knowledge of financial analysis and its applications, in particular for liquidity, profitability, and indebtedness, in order to diagnose the strengths and weaknesses points of the sample company .

B- To clarify the techniques of analyzing activities and evaluating the accounts of the company under study in a way that enables its account staff to use the financial and economic analysis techniques and prepare its reports using the Excel system easily.

3- Research Hypotheses:

The research is based on the following main hypothesis:

"The use of financial analysis techniques and tools helps the company under study (and industrial economic units in general) in evaluating the strengths and weaknesses aspects of its financial and administrative activities, and enables it to take the necessary corrective actions for improvement"

4- Research Contribution:

Despite the large number of methods and methodologies used for evaluating financial and administrative performance, their use in Iraqi private sector companies is still limited and is rarely used systematically. Therefore, proposing the idea of using the financial analysis methodology in evaluating financial and administrative performance and clarifying the data that can be provided to companies is a necessary contribution to motivate these companies adopting the use of this methodology and benefit from its advantages.

5- Collection of Information:

The research used all possible sources of financial analysis and its literature to determine its basic elements and indicators that are used in evaluating various activities, including libraries, publications, and researches to cover the theoretical part. An Iraqi private sector' company is selected to be the research sample to apply the financial analysis techniques on its activities in order to collect actual information through its financial statements and reports that contain its various economic activities figures. Excel program is used to clarify the indicators of the financial analysis results.

Theoretical Aspect and literature Review**Financial Analysis - Concept and Importance:**

Financial Analysis is the process of evaluating businesses, projects, budgets and other finance-related entities to determine their suitability for investment. Typically, financial analysis is used to analyze whether an entity is stable, solvent, liquid, or profitable enough to be invested in (Al-Shaikh, 2008, pp.2-24) 1.

The economic success of any company is the primary objective of its management and owners. The economic situation of a company is based on its financial position and stability. Economic and financial situation is based on a set of sub-activities such as liquidity, profitability, indebtedness, and others, which in its entirety determine the extent of its efficiency. Here, financial analysis helps in diagnosing weaknesses and strengths in the company and contributes to providing basic information to the company's management (Al-Sheikh, 2008, Op. Cit)2.

The main purpose of financial analysis is to analyze information about assets, liabilities and basic inputs, and facilitate the decision-making process (Al-Naimi and Al-Tamimi, 2002)3, (Muter, 2000)4.

No doubt that the process of financial analysis does not depend only on the nature of the information available to the company, but also depends on the method of using the analyst himself, the indicators and methods he uses to reach the results, due to the different needs of the user. Here, the nature of the indicator and the data it provides also play an important role in the nature of the results, (Al-Zubaidy, 2004, P104)5, (Al-Hayali, 2007, PP.1-12&22) 6.

Financial Analysis Indicators :

There are many indicators of financial analysis used for evaluating companies' activities, the following are some of them:

1- Liquidity Indicators:

Liquidity ratio analysis assisting in measuring the short-term solvency of a company. This means that this measure helps in measuring a company's ability to face its short-term liabilities. Thus, liquidity indicators explain how quickly assets of a company get converted into cash. In addition, this measure ensures that a company has uninterrupted flow of cash to meet its current liabilities. Liquidity indicators explain how much a company has sufficient funds to meet its day-to-day activities. This is to say that the majority of current assets should not be linked to inventories and credit sales- accounts receivables. Otherwise, the company will run out of cash to meet its current debt obligations, (Fadel and J, Parkinson (1978), pp. 101-107)7, ([https://quick book.intuit.com](https://quickbook.intuit.com))8.

Liquidity indicators are set in the form of a percentage, and has different levels according to the speed of response, and thus, there is *first level liquidity* which shows the number of times the short-term (current) financial assets are able to cover the company's short-term obligations (Baran, 2008)9. This level may be expressed by the following equation: $Level (1) Liquidity = \text{Current Financial Assets} / \text{Short-Term External Sources of Funding}$.

The *second level* is equal to: $(\text{current financial assets} + \text{short-term liabilities}) / \text{short-term external sources}$. The professional standard of this level is stated to be within a period from 1 to 1.5.

As for the *third level*, this level states the ability of the company to pay its obligations from short-term capital borrowed through current assets. This means that the company already has enough short-term resources to run its regular activities. The optimal interval in this case is 1.5 to 2.5 maximum. Compared to the liquidity at the first or second level, the third level liquidity index has increased due to the reasons of the decrease in the liquidity necessary for equipment. The short-term borrowed capital should not exceed 40% of the value of the current assets. The third level liquidity equation is: $Level (3) liquidity = \text{current assets} / \text{short-term external sources}$ (George, J. P. Jobard, (1990) P. 315)10.

1.1: Horizontal Liquidity:

Horizontal Liquidity is concerned with the interrelationship between the components of assets and capital elements stated in the balance sheet. This arises because of the significance that current assets should be financed

by short term resources, (Al-Nuaimi, 2002, Op.Cit.P3)11 , (Baran, et al, 2016, PP.73-92) 12. There is also a rule referred to as the ideal rule of liquidity or the golden rule. This rule indicates that each type of asset is to be financed by the source of the appropriate asset for it in line with the repayment period that corresponds to the period of effective use of the related asset. This is the basic rule for managing finance.

Accordingly, this basis requires that long term assets (LA) have to be financed by long term (LC) sources , this also means that the financial resources periods should be consistent with coverage periods of assets. This is to say that current assets (CA) should be covered mostly by current sources (CS). The difference between (CA) and (CS) is called net working capital.

2- Net Working Capital Indicator:

This indicator refers to the possibility of rebuilding the portion of the current assets that are financed through long-term financial resources, either by equity or by borrowed capital. The net working capital of a company affords, in theory, a situation in which the company commits in real time to pay off a significant portion of its short-term obligations, which constitutes a meaningful source of funding for it to continue the business. This relationship shows the overload of current assets towards short-term liabilities. This means that the company has a financial background in the form of long-term financial resources. The equation of Net Working Capital is: *Net Working Capital (NWC)* = Current Assets - Short-Term Liabilities (Abo Al Futooh, 1999,P51)13.

3- Activity Indicators:

Activity indicators are mainly concerned with the assets and liabilities elements reflected by the general budget. These indicators are concerned with the flow of revenues and expenses and the difference between them, which are clarified by the processes of preparing the income account. Therefore, work on these indicators is necessary and it often leads to the least possible deviation from reality because the results of the analysis show the average of individual balance sheet items.

Asset management normally use activity indicators to evaluate the efficiency of these assets. Activity analysis assesses the survival of individual items of capital with their various forms of assets. If the activity has exhausted more assets than it should, it will require other unnecessary costs and will lead to a reduction in profits. Conversely, if the subject matter of the activity requires few assets, it will lead to lower potential revenues (Al-Zubaidy, 2004,P104)14. Here, when we apply activity indicators, we see that the problem lies in dealing with flows and stocks and the way and timing of their disposal.

4-Inventory Turnover Indicators:

Inventory turnover refers to the number of days it takes for inventory to run out and then replenished. In other words, it refers to the time required for the transition of financial resources through production and products into the form of money. The ideal situation for inventory turnover is when the value of this indicator decreases, as the decrease in time for the indicator usually expresses an increase in efficiency, however, it is necessary to take into account the nature of the work. Therefore, costs instead of revenues can be used as an alternative in the following equation: $\text{Inventory Turnover} = \text{Average Inventory} / \text{Revenue} \times 365$. (Mohamad, et al., 2005, P.77) 15.

As for the accounts receivable turnover rate, it expresses the length of time that business assets remain in the form of receivables or the time period for which receivables are paid on average, and the billing maturity period represents the standard time period for bills to be due. If the period of time for the turnover of receivables (ie their maturity) is longer than the standard period of time for the bills to be due, then this means the inconsistency with the trade credit policy of the business partners. However, it is nowadays noticeable that the billing period exceeds the advertised one. In this case, it is important to take into account the size of the company being studied and analyzed. The equation that governs the accounts receivable turnover indicator is:

$\text{Accounts receivable Turnover} = \text{average short-term receivables} / \text{revenue} \times 365$

As for the short-term liabilities' maturity indicator, it reflects the time they are incurred until they are paid. Here, this indicator must reach at least the value of the accrual turnover of receivables. The indicators of accrual of receivables

turnover and maturity of liabilities turnover are important for assessing the time differences from the beginning of the receivables until their collection and from the assumption of obligations until their payment, as this difference directly affects the company's liquidity. The longer the turnover of short-term liabilities, the greater the commitment time than the total inventory and the turnover of receivables, and the more suppliers can lend the receivables and inventory, which is the best case for the company (Al-Hayali, 2007, Op.Cit)¹⁶. The equation that governs the rotation. The short-term liabilities are: $\text{Liabilities Turnover} = \text{Average Short-Term Liabilities} / \text{Revenue} \times 365$

If we turn to long-term asset turnover, it is closely related to the decision-making process for determining whether to purchase subsequent long-term production assets or not. The value of the index, if it is less than the average, is an indication of the decline in production and the need to increase the use of available energy and the need for financial managers to reduce commercial investments (Mohamad et al., 2010) ¹⁷. The long-term asset turnover equation is: $\text{Long-term asset turnover} = \text{Revenue} / \text{Average holding of long-term assets}$ (Al-Zubaidi, (2004), Op.Cit) ¹⁸.

The asset turnover rate is usually positive whenever the ratio increases, which is a positive case in favor of the company, and the minimum acceptable value for this indicator is (1). (Knapkova, 2013, P.104) ¹⁹. The formula to asset turnover is:

$\text{Asset Turnover} = \text{revenue} / \text{average asset value}$.

5- Profitability Indicators:

This indicator is designed as a percentage of the final effect achieved by the company's activity (outputs) for some types of inputs as a comparison, which could be on the assets side and on the liabilities side. These indicators show the positive or negative impact of asset management or company financing and the impact of liquidity on profitability. The profitability indicators determine the amount of (1) dinar of revenue (the numerator) for each dinar of the indicator mentioned in the denominator. Because there are many indicators of profitability ratios, the research will deal with the most important indicators (Baran, et.al (2016), Op. Cit.) ²⁰. The equations which may be used to calculate this indicator is: $\text{Return on Sales} = \text{Net Income} / \text{Revenue} \times 100$

$\text{Operating Return on Sales} = \text{Operating Profit} / \text{Revenue} \times 100$

$\text{Share of value added in revenue} = \text{value added} / \text{revenue} \times 100$

To measure the profitability indicator, i.e. the total profit return, the result achieved by a company is compared with the invested capital. The equation that governs the rate of return on assets is: $\text{Return on Assets (ROA)} = \text{Net Profit} / \text{Assets} \times 100$.

Return on equity is also essential for business owners and for lenders, which can be measured by the equation: $\text{Return on Equity (ROE)} = \text{Net Profit} / \text{Equity} \times 100$.

The level of return on equity depends on the return on assets and on the rate of interest on borrowed capital while the increase in the return on equity of the index depends mostly on the level of profit determined by the company (Mubark, (2004), PP.51-52.)²¹

6- Debt Indicators:

The concept of indebtedness expresses the fact that the company finances part of its assets from external (debt) sources. This method, however, may lead to affecting the profitability of shareholders. It is also incorrect for the company to rely on external sources to finance its activities, even if the cost of these sources is less than the cost of its capital, and it also reduces the return on the capital invested within the company. The use of foreign sources in financing the company can reduce the costs of using the company's capital, though that some share holders prefer this source of finance (Mubark, (2004), Op. Cit.) ²².

The total indebtedness indicator, which is expressed as a ratio of foreign sources to the company's assets, shows the total assets and to what extent the company's assets include foreign funding sources. The optimal value of this indicator for production companies is 40% to 60%. The formula for measuring the total debt index is: $\text{Total Debt Index} = \text{Total Debt} / \text{Total Assets} \times 100$

indebtedness = foreign funding sources/assets x 100. To measure indebtedness, the ratio of equity to total assets is used (Al Zubaidi, (2004), OP. Cit.P104)23.

The self-financing coefficient, which is a complementary indicator, and it should be given with the total indebtedness at 100%, expresses the percentage of financing of the company's assets from the shareholders' funds, and it is considered one of the most important ratios of indebtedness to assess the general financial situation, the relationship with the profitability indicator is important again. The equation for the self-financing plant is: Self-financing coefficient = Equity / Assets x 100.

Another indicator is insolvency, which refers to the relationship between assets and liabilities, and the value of (1) reflects what is called primary insolvency, but if the value is less than (1), it is called secondary insolvency (Farkasova, 2007,)24. The equation for measuring the bankruptcy is: Bankruptcy = short-term liabilities / short-term debtors x 100.

Another indicator related to this aspect is the ability to cover interest, which is the number of times the profit is higher than the interest paid. Therefore, the company uses this indicator to determine whether the debt constitutes a burden or not.

Interest coverage = the company's economic result before tax + interest expense / interest expense X 100%. This usually requires the debt repayment period not to exceed 3 years. The equation for measuring debt flow is: Indebtedness flow = foreign sources / financial flow.

The Empirical Part

The empirical Part of the study discusses the application of financial analysis methods in a selected company (X) located in Al-Basrah City -Iraq. The company was established in 1992 with 150 Million of Iraqi Dinars which is equivalent to 50000 USD at that time.

The Company is one of the Iraqi private sector companies that produce small and medium-size electrical equipment and materials of various types and operate in Iraqi market. The company's production attracts constant need in Iraqi market because of constant need of electrical products. Two years ago, the company purchased a second small company working in the same field. The company is trying to identify its financial position in a scientific manner, and therefore it has provided the information required for the purposes of financial analysis.

Discussion of the results:

After collecting the information through the company's records, it was classified according to the indicators that lead to the results that the research seeks to analyze, measure and evaluate. In the following, a discussion of the results of the analysis of the company's activities for the years 2011-2016.

1- Liquidity Ratios of the Company:

Table (1) explains the sample company indicators, where the first line in the figure refers to the indicators of the first level of liquidity, the second line refers to the indicators of the second level of liquidity, and the third represents the liquidity indicator of the third level.

Table No. (1) - Liquidity indicators for levels 1-3

Levels Indicator		2011	2012	2013	2014	2015	2016
Liquidity (1)	Factor	0.18	0.17	0.37	0.28	0.05	0.08
Liquidity (2)	Factor	0.83	1.16	2	0.6	0.6	0.62
Liquidity (3)	Factor	2	2.4	3.42	1.68	1.68	1.068

The table values are also expressed by the following figure

According to the professional standards of liquidity levels, the first liquidity level must be within the range (0.2) to (0.6). Looking at the aforementioned table, it is clear that the liquidity values of the first level in the company were generally below the value specified by standards except for 2013-2014. This means that the company is unable to pay back its short-term obligations on time. A minimum was recorded in the last two years when the values reached 0.05 in 2015 and 0.08% in 2016. One of the reasons for this decline is mainly the increase in liabilities resulting from business and the increase in obligations towards owners. The table indicates two exceptions in 2013 and 2014, where the liquidity coefficient was 0.37 and 0.28, respectively.

As for the second level liquidity criterion, it requires that it range between 1-1.5 during the period, while it is noted from the table that only one year, 2013, the indicator gave a value of (2) which is higher than the required, while the rest of the indicators fell below the required level except for the year 2012, where the range was close to the minimum level, and the lowest value was in 2014 and 2015, when it recorded a liquidity coefficient of 0.6, where this value was greatly affected by the receivables, and more precisely, it was affected by the short-term deferred short-term revenues, which amounted to (30102342) ID. Through these values we can assume that the company did not have the continuing ability to return the short-term obligations taking into account its short-term receivables.

As for the third level liquidity, which is necessary for the company's imports, its value according to professional standards should be in the range of 2-2.5. Within this range, the values reflected in Table (1) that are appropriate for this level are in 2011 where it was (2), in 2012 it was (2.4), and in 2013 it was (3.42), which represents a positive case, which means that the company has liquidity from the third level it exceeds the value of (2). This creates a situation in which the company can pay off its short-term obligations with its current assets.

As for the third level of liquidity, which is necessary for the company's imports, its value according to professional standards should be in the range of 2-2.5. Within this range, the values referenced in Table No. (1) that are appropriate for this level are in 2011 where it was (2), in 2012 it was (2.4), and in 2013 it was (3.42), which represents a positive case, which means that the company has liquidity from the third level exceeds the value of (2), which creates a situation in which the company can pay off its short-term obligations with its current assets. In 2016, the company indicated a drop in liquidity from the third level, where it was 1,068, and this came due to changes in many elements of production, inventory and receivables, in addition to the increase in other current reserves and liabilities towards partners.

1.1: Horizontal liquidity of The Company:

As regards the ideal golden rule aforementioned, the financing of any type of asset should be through the interrelated assets. Table No. (2) shows the values of the company's golden statistical base for each of the years.

Table No. (2) - Golden Statistical Rule Index (ID)

Items	ID	2011	2012	2013	2014	2015	2016
Long Term Assets (LA)	ID	14709127.78	15466337	14917048	15431221	15492882	36706296
Long Term Obligations (LO)	ID	28242751.7	39644301	34972656	33969555	22886853	32906162
Golden Rule (LA- LO)	ID	-13533623.9	-2417796	-2005560	-1853833	-7393972	3800134

As it is obvious from Table (2) and the related Chart, in all the years analyzed, except for the last year, the company was more than funded, which indicates that the company has more long-term resources such as fixed assets owned by it. It can be seen in the table that the highest negative value was reached by the company in 2012 due to the long-term deferred earnings component. In this year, the value of the Golden Statistical Base rose slightly. Last year, the index value reached a negative value as a result of the company's merging with a small secondary project, which mostly led to a high growth of fixed assets in the form of buildings and non-fixed assets.

2- Company Activity Indicators:

First, we will discuss how the company manages its assets effectively. Table No. (3) and the related chart show the exact values of the analyzed indicators and the development that took place in them.

Table No. (3): Activity Indicators in The Company

Indicator	Measure	2011	2012	2013	2014	2015	2016
Period of Turn Over Inventory	Day	153.615	131.535	195.99	158.04	125.625	135.24
Period of Short term Debtors	Day	133.155	114.015	147.3	136.98	108.9	117.24
Due Short Term Obligations	Day	152.025	130.185	168.195	156.405	124.335	133.86
Ratio of Fixed Assets Turnover	Day	5.775	6.75	5.22	5.61	7.065	6.5565
Ratio of Total Assets	Day	1.77	2.07	1.605	1.725	2.16	2.01

It is noted from the above-mentioned table and figure that the assets turn over values are fluctuated by increase and decrease during the analyzed period. The highest value recorded in 2015 is 2.16, while the record in 2013 was 1.605. This result was mostly affected by the company producing a new product and semi-finished products with a value of 591,832 ID, which entered the following year with a higher value estimated at 3,5336,862 ID with a decrease in production in progress. This led to a decrease in profits as well, which in 2013 was the lowest during reporting period. This means that the company had contractual problems during this time, and this was also proven by the decrease in employment from (48) workers to (36) workers, where the index decreased slightly last year due to the growth of long-term fixed assets.

The same development is also observed about the long-term fixed asset turnover as the total asset turnover, as it is shown by Table (1) -is fluctuated but with different figures. The fixed assets had almost the same value, but it is noted that the value in 2015 amounted to 15084003 ID and in 2016 the value amounted to 46255053 ID. The reason of this difference is the unilaterally transferred constructions and assets and groups of movable assets, which arose from the merger of the company with a second company. The index reaches its lowest level in 2013 at 5.22. In this year, there was a decline in profits from sales of the company's products and services.

As for the indicator of the period of inventory turnover, it shows fluctuating values during the six-month period, as it is noted that it reached a peak in the length of the period in 2013 with a period of 195.99 days. This length in turnover period was due to the deviation of materials, production under operation and semi-finished products. Therefore, in this year (2013), we find that the revenues have decreased by about 18962,463 ID. While the ideal situation is what happened in 2015 where this indicator decreased to 125.625 days inventory turnover.

Accounts receivable and the time period for inventory turnover show similar trends, reaching the lowest value in 2015, when the collection period of short-term receivables was (108.9) days and the maturity of short-term liabilities (124.335) days. Also, in each year included in the analysis, we can see that in the short term, as the value of the collection of receivables was less than the maturity of the short-term liabilities.

3- Profitability Indicators :

Profitability indicators are designed as an average of the results of the company's economic activity (outputs) relative to the comparative element (inputs). These indicators show the level of activity that is capable of making profit with the help of capital employed. Table No. (4) presents the values of profitability indicators, and the subsequent chart displays depicting the values of each of the indicators measured in percentages.

Table No. (4) Profitability indicators –(%)

Indicator	2011	2012	2013	2014	2015	2016
Return on Sales	2.124	3.06	5.448	16.776	13.416	14.016
Operational Return on Sales	3.024	5.208	8.124	21.18	16.68	16.488
Value Added On Sales	23.88	26.448	29.844	43.08	31.968	36.9
Return On Assets	3.18	4.032	7.752	14.58	19.8	16.836
Return on Equity	7.776	12.216	15.528	36.036	54.708	37.368

Through Table (4), we find that the profitability index shows the return on sales, which indicates that the company has achieved an increase in profits. The table also shows that the company's profits were the highest in 2014 with a value of 16.77%. This was due to the increase in the quantity of orders and thus the increase in supplies during the analysis period. During the following two years, this value decreased due to a slight change in sales returns to settle at the level of 13.41% and 14.06%.

The operating return on sales shows a similar trend to the return on sales, as until 2014, the operating return on sales showed a clear increase, as the indicator reached nearly 21.18%, mainly due to the low return on sales of products and services, and because of the high profit from business operations. In the past two years, the income from operations led to the stability of revenues after their increase, which led to the decline of the index to 16.68% and to 16.48%.

As for the value-added share of revenue, again, in 2014, this share showed the highest value at 43.08%, and is the most successful for the business topic over the past six years. However, a decrease in this value occurred within the following two years, mainly due to the change in the volume of revenues from the sale, as indicated by the indicator, which shows the general positive progress.

As for the return on assets indicator, it reflects the positive profitability of the total capital, which represents the productive power. The indicator provides details about the effective use of the company's assets. The index is increasing every year until it reached its highest value in 2015, representing 19.8%. In the following year, there was a slight decline as the index fell to only 16.83% due, mainly, to the merger of the company with a small company, which led to the increase in fixed assets of land, buildings and non-fixed assets.

The last indicator in the table (return on equity) invested by the owners also indicates a positive value, which is a good sign for the owners of the company. It is worth noting that in 2015, the return on shareholders' equity reached the level of 54.71%. This was due to reduced dividend retention, which means that profits are redistributed among the owners of the company by paying dividends. However, in the following year, i.e. 2016, it is noted that the return on equity decreased to 37.36% due to the subsidies provided by capital funds.

4- Net Working Capital:

Table No. (4) indicates the values of the net working capital index by the company for each year of study, and the subsequent chart shows the relationships between the company's net capital clauses.

Table No. (5) - Net working capital

Items	ID	2011	2012	2013	2014	2015	2015
Current Assets (CA)	ID	33568293.74	48474612	30919316	65382198	44356723	31570132
Short term Obligations (SO)	ID	20034669.82	24296648	10863708	46843864	36962751	35370265
Current Assets- Short -Term Obligation (CA-SO)	ID	13533623.92	24177964	20055608	18538334	7393972	-3800134

From the point of view of comparison with net working capital, we can say that net working capital has a natural inverse correlation with the golden statistical rule. In the company under study, until 2014, we find that current assets exceeded short-term liabilities. From the company's point of view, this fact is evaluated by the company as positive, because in case of necessity, the company will be able to pay its obligations through current assets, which indicates a good financial position.

According to Chart (4) we can conclude that this value from 2012 is decreasing due to decrease in incomplete production and empty stock. In 2014, 2015 and 2016 the decline was also due to an increase in business commitments. In the year 2014, included in the analysis, the net working capital reached negative values. Because of this, a little unfunded debt will arise and it constitutes a warning sign for the owners of the company because it includes a short-term obligation and needs to be paid, which will force them to sell part of their fixed assets, which affects the company's activity fundamentally.

5- Indicators of the Company's Indebtedness:

The company can use these indicators to see the financial structure as well as its ability to repay the indebtedness. Table No. (6) reflects these results, as it shows that the total indebtedness of assets during the reporting period, which is 6 years, has a volatile nature, with values ranging from 50.08 to 67.01. And to get the optimum total indebtedness, it represents the value 50%. The company closest to this point in 2013 was 50.08 in value. The *largest* debt was in 2014 with a value of 67.01 mainly due to the increase in time differences or expected profits from long-term periods ahead.

The coefficient of self-financing is directly related to the total assets indebtedness of the company, which should be evaluated.

From the point of view of the owners of the company it is a total of 100%. Thus, its development is the reverse and inverted indebtedness of the total assets.

Table No. (6)- Debt Indicators

Items	Indicator	2011	2012	2013	2014	2015	2016		
Gross of Debit Assets	%	59.12	67.01	50.08	59.54	63.8	54.94		
Self Finance Indicator	%	40.88	32.99	49.92	40.46	36.2	45.06		
Solvency Indicator	Factor	1.12	0.99	0.76	1.16	1.18	1.98		

Credit Indebtedness	%	19.14	9.54	1.92	0.8	1.22	3.27		
Interest Cover Rate	Factor	3.94	9.97	32.78	105.71	244.3	92.55		
Indebtedness Ratio	Year	10.51	11.5	4.94	4.22	3.31	3.36		

The table values are also expressed by the following figure :

It is noted from the above-mentioned table and figure that:

That there is an increase and decrease in the asset turnover values during the analyzed period. Asset turnover recorded the highest value recorded by the company in 2015, which is 2.16, and the weakest use of assets was in 2013, which was 1.605. This result was mostly affected by the fact that the company produced a new product and semi-finished products with a value of 591,832 dinars, which entered the following year with a higher value estimated at 3,533,686 dinars. With the decline in production in progress which led to a decline in profits as well, which in 2013 was the lowest during the reporting period. This means that the company had problems with contracts during this time, and this was also proven by the decrease in employment from (48) workers to (36) workers, where the index decreased slightly last year due to the growth of long-term fixed assets.

Also, Table (6) above indicates that the long-term (fixed) asset turnover has the same development (with different numbers) as the total asset turnover, although the differences between the values are greater. The fixed assets had almost the same value, but it is noted that the value in 2015 amounted to 15084003 dinars and in 2016 the value amounted to 46255053 dinars.

The reason for the difference between them is the unilaterally transferred constructions and assets and groups of movable assets, which arose from the merger of the company with a second company. The index reaches its lowest level in 2013 at 5.22 in this year, and as mentioned there is a decline in profits from sales of the company's products and services.

As for the indicator of the period of time for inventory turnover, it shows fluctuating values during the six-month period, as it is noted that it reached a peak in the length of the period in 2013 with a period of 195.99 days, and this length in the turnover period was due to the deviation of materials, production under operation and semi-finished products. Therefore, in this year (2013), we find that the revenues have decreased by about 18962,463 dinars. While the ideal situation is what happened in 2015 where this indicator decreased to 125.625 days inventory turnover.

Accounts receivable and the time period for inventory turnover show similar trends, reaching the lowest value in 2015, when the short-term receivables collection period was (108.9) days and their maturity date was 108.9 days. Short-term liabilities (124.335) days. And in each year included in the analysis, we can see that in the short term, as the value of the collection of receivables was less than the maturity of the short-term liabilities.

The operating return on sales shows a similar trend to the return on sales, as until 2014, the operating return on sales showed a clear increase, as the indicator reached nearly 21.18%, mainly due to the low return on sales of products and services, and because of the high profit from business operations. In the past two years, the income from operations led to the stability of revenues after their increase, which led to the decline of the index to 16.68% and to 16.48%.

Testing The Hypothesis:

Through the discussion made about the different parts of the financial analysis of the sample company activities, it is obvious that there are many point in which the company can benefit from the results. Thus, research hypothesis which indicates "The use of financial analysis techniques and tools helps the company under study (and industrial economic units in general) in evaluating the strengths and weaknesses aspects of its financial and administrative activities, and enables it to take the necessary corrective actions for improvement" is positively demonstrated and proved.

Conclusion and Recommendation

Conclusion:

Financial analysis is an essential means for assessing the activities of companies, especially in light of the current environment of business activities, which is characterized by competition and instability. The comprehensive and accurate financial analysis provides good information about the factors of weakness and strength the company suffers from and the financial and economic situation it is going through. The current research was able by proving the hypothesis on which it was based that the company is able to predict future development and the possibilities of bankruptcy through the use of financial and economic analysis models that focus on the majority of the important activities of the company and determine the extent of the safety of its path, including indicators of profitability, liquidity and indebtedness itself. Also, the improvement proposals were discussed in the previous pages, which constitute a framework for how the company can benefit from the results of the analysis and the methods of applying the financial analysis and obtaining the necessary results to benefit from its results.

Recommendations:

The previous discussion has proved the extent to which the sample company and other similar companies can benefit from the results of the financial analysis of the various activities in the company. So it is evident that the application of the method of analysis can provide the advantages to recognize the shortcomings, and inefficient points in the company operations and in the area of using its financial resources, and thus it can take corrective actions. The company is, thus, advised to apply the methods and applications used by this study to achieve high efficiency and productivity in its financial and operational activities.

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