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THE ANALYSIS OF FINANCIAL STATEMENTS: A TOOL FOR DECISION-MAKING IN MICRO AND SMALL COMPANIES

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SUMMARY

This study starts from the importance of analyzing financial statements as an instrument of financial management. It is proposed to contribute to the management of micro and small companies by offering a tool that allows you to run simulations and assist the manager in planning his business.

Key words: Finance; Cash flow; Small business.

1. INTRODUCTION

The objective that guided the development of this study was to expand knowledge, in relation to the various forms of financial analysis, to lead to the necessary decision in a very effective way.

Thus, this article proposes to develop a work that aims to clarify the methods of analysis, for micro and small companies, so that decisions can be made with minimum risk and maximum efficiency.

2. CONCEPTS AND PRINCIPLES OF FINANCIAL ANALYSIS IN MICRO AND SMALL ENTERPRISES

The analysis of statements emerged and developed within the North American banking system, since the end of the century. XIX, when financial institutions (banks) used this tool to analyze lending to companies. Since then, more and more demonstrations have been developed in order to analyze all financial aspects of all levels of organizations.

The companies, in turn, started to see the statements as instruments of great utility, since the extracted data can become extremely valuable information for the financial development of organizations.

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However, in Brazil, the analysis of statements was an instrument little used until 1968, when SERASA2 was created, which initially operated as a central analysis of balance sheets of commercial banks.

Brazil's backwardness in relation to other countries is explicit with regard to the “culture” of analysis of statements, since it became practically mandatory in the United States in 1915. However, currently, large Brazilian companies have already passed to recognize the importance of a well-formulated analysis, and gradually this importance is also verified by small entrepreneurs, after all, every decision made in the management of a company (regardless of its size) implies costs, losses, gains and expenses. Therefore, it can be said that every decision made in relation to a company is, in reality, a financial decision.

Thus, it is possible to affirm that the use of statements in the financial analysis of small companies establishes solid information and of relevant importance for the survival of such companies in an increasingly competitive market, where the efficiency and effectiveness of the decisions taken are factors that determine the success or failure of companies.

2.1 THE CONTEXT OF MICRO AND SMALL BUSINESS

It is indisputable that micro and small companies are the “pillars” of the Brazilian economy; for the thousands of jobs it generates, for the financial movement in the country through retail, for the taxes paid to the Union, the States and the Municipalities. Not to mention the informal market, which has considerable movement.

Due to its importance for the Brazilian economic system, it is extremely worrying that the mortality rate of small Brazilian companies is so high.

> According to a survey carried out by Sebrae (Brazilian Micro and Small Business Support Service), 49.9% of small Brazilian companies end their activities before completing two years of existence; 56.4% manage to remain in the market for up to three years, while 59.9% close their doors in four years of activities. The main reasons are lack of working capital, high tax burden and lack of customers. However, experts also blame bureaucracy. (CHEMIN apud MARION, 2009, p. 5).

The market experienced by these companies today is extremely competitive and dynamic, which means that opportunities, new products, new trends, and technologies are constantly appearing; and small businesses are by no means unaware of these factors. Whether or not to follow these trends and opportunities is a decision that is exclusively up to each organization. However, the Brazilian reality shows us that, in most cases, decisions are made on impulse, in a hasty manner, without taking into account vital factors for any business activity, and the inevitable destination of companies, in these cases, is the accumulation of useless expenses that can bankrupt them.

Achieving business objectives, while increasing the organization's profits, requires safe and effective financial planning, that is, it is necessary to know how and when to raise funds, manage customer payments, reduce purchase costs, expenses and , still, to deal with the changes of the market.

The problem with micro and small companies in Brazil is that they are often unaware of their own financial capacity, or their availability, or worse, they do not know how to deal with cash and even their inventories, which can lead them to neglect important information. When this happens, it takes a long time to recover the wasted resources, and often these resources are not even recovered.

3. FINANCIAL ADMINISTRATION AND ACCOUNTING

Financial management is mainly based on accounting data to achieve its main objective, thus the two areas have an intrinsic relationship, as it is based on these data that the analysis is made and, consequently, if the company situation is present.

The analysis of the financial statements is one of the most important studies of financial management, as these statements provide a series of data about the company, according to accounting rules. The analysis transforms, by means of tools, data into information and considering the quality and reliability of this information, it is possible to measure the efficiency of this relationship between financial management and accounting.

For Matarazzo (2008), the objective of financial management is to maximize shareholders' equity, since the role of the financial administrator is to guide investment and financing decisions to be made by company directors, and the role of the accountant is peculiar, as it is to prepare and provide the financial statements to shareholders, financial administrators and managers, so that they can transform the data contained in the statements into information.

This data is generated by the records of transactions carried out such as: purchase, sale, payment, receipt, expenses, depreciation, inventory, etc. All transactions generate numbers (data) that are organized by the accountant with accounting tools and techniques.

Although theories related to the financial area are applicable to every type and size of organization, the reality of the small Brazilian company leads us to another big problem: how

to apply these theories in an environment where tax evasion is widely practiced, sometimes with in order to maximize gains, sometimes because the high tax burden in certain sectors of activity is really noticeable.

We can affirm that the tax reality in Brazil often "pushes" the small entrepreneur to the practice of evasion or evasion, which is not a good thing when looking for accurate information for the composition of reliable statements.

4. FINANCIAL ANALYSIS OF DEMONSTRATIVES AND THE DECISORIAL PROCESS

The financial analysis of statements is of great use when looking for a managerial approach, as it serves as an information base for decision making by the administrator. The more the information filtered from the statements, the greater the possibility of preparing financial planning, giving the company greater competitiveness in relation to its competitors, contributing to a better development and economic growth of the company.

It is necessary to analyze not only the quantity of information, but also its quality, because information in exaggerated quantity can become useless, since the tool of analysis of demonstrations aims at agility in the decision making. Therefore, objective information is of greater value to micro and small entrepreneurs, as it is considered that, taking an analyst role, they know the company, its objectives, its perspectives, that is, the necessary factors to know how and what is in the analysis of the statements.

> The analysis of the financial statements requires knowledge of what each account represented in them represents. There are a multitude of accounts resulting from innumerable operations carried out by companies of the most different activities. Even examining the operations of a simple commercial company reveals an enormous profusion of accounts, and without a sense of what they represent, the interpretation of the financial statements is impaired. Balance sheet analysis aims to extract information for decision making. The perfect knowledge of the meaning of each account facilitates the search for accurate information. (MATARAZZO, 2008, p. 39).

The management of a company's financial operations involves many different activities, such as planning, financial operations and analysis, treasury operations (fundraising and cash management), tax planning and several others that, as can be seen, involve decision making constant. Therefore, it is important to know the most diverse forms of analysis, so that the administrator can define and adapt the most appropriate form to the reality of his company.

5. ANALYSIS TECHNIQUES

Not only is there a variety of information that can be obtained from the analysis of statements, but there are also many ways to obtain such information, that is, there are several analysis techniques that are used for each situation and for each group of information that is sought in financial statements.

Some of these techniques are more relevant to small business owners and others are not so important, as some analyzes require certain statements that are only possible to be formulated, or only bring important information, when there is a large financial flow in the organization; what is believed not to happen in a small business.

In order to have a good financial analysis on the part of the small business owner, he will basically use three statements, which are: Balance Sheet, Statement of Income for the Year (DRE) and Cash Flow Statement.

These statements are simple to formulate and offer basic but very important information for any organization, regardless of size or billing. From them will also emerge the most relevant information for the micro and small business owner, who will be able to use several analysis techniques to arrive at the most opportune decision to the reality of the company.

5.1 ANALYSIS OF INDICATORS

The indicators are obtained through calculations and comparisons involving two quantities, according to Gitman (2008, p. 42): “the analysis of indices does not include only the calculation of a given index. More important than that is the interpretation of the value of this index ”.

The analysis of the indices is of such importance for the small business owner, that he can, in a few moments, determine the economic situation of the company. One of these indices is that of dry liquidity, which determines the ability to pay in the short term by looking only at cash, without considering inventories. Take table 1 as an example.

ASSETS - 2009

CURRENT	Amounts in R $
Available	12,452.20
Duplicates receivable	3,828.50
Stocks	5,497.00
LONG TERM PERFORMANCE	-

PERMANENT	
Vehicles	12,000.00
Buildings	83,000.00
Machinery	15,712.00
Furniture and utensils	12,000.00
Total assets	144,489.70
LIABILITIES + PL - 2009	
CURRENT	
Loans and financing	8,313.20
Providers	5,285.50
LONG-TERM LIABILITIES	
Loans and financing	120,891.00
NET WORTH	
Share capital	10,000.00
Total Liabilities + PL	144,489.70

Table 5.1.1 Balance Sheet

Suppose that the company in question suffered a complete paralysis of its activities, or its stock was lost or became obsolete. What, under these conditions, would be the chances of honoring your debts in the short term?

To answer this question, we can use the analysis of the Dry Liquidity index, which is obtained using the following formula:

$$\frac{\textbf{Current assets - inventory}}{\textbf{Current liabilities}}$$

Applying this formula to the balance sheet presented, we obtain the index 1.20. It is concluded that, for each real of the company's debt, the company has one real and twenty cents for payment, without taking into account the stock. It is obvious that this index is very good, since there is a safety margin of twenty cents for each real due.

Liquidity ratios are indicators of the company's ability to pay, that is, its ability to meet commitments.

There are other liquidity ratios extremely relevant to micro and small companies that can be seen below.

5.1.1 GENERAL LIQUIDITY

General liquidity represents the ability to pay in the long term, taking into account what the company will convert into cash, in the short and long term, and relating to everything that it has already assumed as debt. This index is obtained through the following relationship:

$$\frac{\textbf{Current assets + long-term assets}}{\textbf{Current liabilities + long-term liabilities}}$$

Taking the balance of table 1 as an example, we can verify that the index obtained is 0.16. This means that, for each real debt of the company in the short and long term, it will have as short and long term resources only sixteen cents to honor this debt, which is very bad for the company in question.

5.1.2 CURRENT LIQUIDITY

The current liquidity ratio measures the company's ability to honor its short-term commitments, as it indicates how many times current assets cover current liabilities. This index is obtained using the formula:

$$\frac{\textbf{Current assets}}{\textbf{Current liabilities}}$$

Taking the balance of table 1 as an example again, it appears that the index obtained is 1.60, that is, for each real of short-term debt, a real and sixty cents can be obtained to pay off that debt, which it's good for the company.

5.2 VERTICAL AND HORIZONTAL ANALYSIS

The vertical and horizontal analysis deals fundamentally with the future trends of the company's finances. According to Matarazzo (2008, p. 24), research conducted recently with the insolvency of small and medium-sized companies has highlighted the usefulness of vertical and horizontal analysis as an analysis tool.

The vertical analysis occurs when we divide one quantity by another using data from the same period, making comparisons between them.

Active		V%
Current assets		
banks	R $ 49,879.00	44.14%
Cashier	R $ 25,674.00	22.72%
Active permanent		
immobilized	R $ 37,456.00	33.14%
Total	R $ 113,009.00	100%

Table 5.2.1 Vertical analysis Source: Gitman (2008)

When we compare the indicators for different periods, the trend of the indices is analyzed purely and simply. Therefore, the analysis takes place horizontally.

Active	X1	%	X2	H %
Current assets				
Banks	R $ 35,675.49	100%	R $ 50,259.00	141%
Cashier	R $ 25,674.00	100%	R $ 30,444.00	119%
Active Permanent				
Immobilized	R $ 37,456.00	100%	R $ 35,931.00	96%
Total	R $ 98,805.49	100%	R$ 116,634.00	118%

Table 5.2.2 Horizontal analysis Source: Gitman (2008)

5.3 CASH FLOW ANALYSIS

For the micro and small business, cash flow will be the most important financial statement, because through it information about the company's financial past in a given period is obtained and, knowing the past of cash, a better future projection of available assets. The comparison between these projections will show their variations, allowing each one to be improved to the current level experienced by the company.

	DESCRIPTION OF FLOWS	**PERIOD (R$)**
T H E	Opening cash balance	1,800
B	Estimated cash inflows	
	Sales receipt	10,200
	Capital increase due to payment	1,000
	Receipt of short-term receivables	800
Ç	Total inflows plus opening balance (A + B)	13,800
D	Expected cash outflows	
	Inventory purchases	6,000
	Payment of operating expenses	3,000
	Payment of financial expenses	3,000
A N D	Total exits	12,000
F	Net cash balance (EC)	1,800

Table 5.3.1 Cash Flow Source: Neto (2008)

This statement can be defined as an instrument of management control, with the objective of assisting the decision-making process, always seeking the fulfillment of the objectives expected by the company, in contrast to the uncertainty constantly associated with the flow of receipts and payments.

Cash flow, in its most precise definition, consists of the total inflows (receipts) in the company's cash, subtracting the total outflows (payments) during a given period.

> The cash flow statement summarizes cash inflows and outflows during the period considered. It provides an overview of the company's operating, investment and financing cash flows and reconciles those flows with changes in cash balances and investments in marketable securities in that period. (GITMAN, 2008, p. 40).

It is possible to verify that, in most cases, the problems of insolvency or liquidity of a company are due to the poor management of its cash flow, that is, many companies go bankrupt for neglecting the management of their own cash, hence the importance analysis of this demonstration.

6. ANALYSIS OF DEMONSTRATIVES AS A BASIS FOR DECISION-MAKING

Decision can be defined as a sequence of actions chosen and practiced by a person or company, aiming to achieve the desired objectives, that is, it is a process that develops when a problem is defined to be solved and a solution is reached (taken if a decision). However, before deciding on any path to follow, the administrator must surround himself with information that will provide the basis for his choice to be the best possible, to the detriment of the social, economic and financial contexts of the organization.

As explained above, every decision made in a company can be understood as a decision of a financial scope. Based on this principle, it is possible to state that the first thing to do when starting a decision-making process is the organization's financial analysis.

It is known that there are several analysis techniques, and varied information derived from these analyzes; therefore, it is believed that the choice of statements and analysis techniques that will be used will depend exclusively on the type of decision to be made.

A vertical analysis, for example, can show excessive expenses in a specific activity of the company, therefore, this information can be used for a decision regarding a containment of expenses.

Another example can be given by the cash flow analysis. Suppose an administrator wants to purchase a new computer for his company. Through the cash flow analysis, it is possible to make a forecast on future values available for the acquisition, or this analysis can determine, based on previous periods, whether the moment is opportune or not.

Regardless of the decision to be made, financial analysis will be necessary, and the information obtained through the statements serves as a very useful tool for this analysis to be made in a rational manner, avoiding financial stress in the organization.

The greatest care to be taken in relation to analysis and decision making is that the information obtained should be relevant to the type of decision required.

7. THE IMPORTANCE OF CASH FLOW FOR THE SMALL BUSINESS

The financial statements alone do not represent all the relevant information to make business management really efficient in view of the context in which the micro and small business is inserted.

Globalization has caused, and still causes, changes in the commercial, productive and financial areas of all organizations, which increasingly requires the standardization and simplification of financial statements, in order to make efficient decision making by the administrator.

Based on this principle, it can be said that the cash flow statement is easy to understand and provides conditions for the decision-making process to be extremely effective in relation to the company's resources, in order to become competitive and also to provide an environment suitable for obtaining these resources through financing, for example, both for the present and for the future of the organization.

> Cash flow, the blood of the company, is the theme of the financial manager's basic concern, both in day-to-day finance management and in planning and making strategic decisions aimed at creating shareholder value. (GITMAN, 2008, p. 84).

Cash is one of the most important applications of the company, since this mechanism makes transactions feasible and still serves as a contingency instrument, as it can deal with unforeseen problems, such as the insolvency of a customer.

The company must maintain the level of cash necessary to conduct its normal business, since the more irregular the inflows and outflows of resources, the greater the cash needs. This irregularity can be caused by fluctuations in sales, irregular credit policy for suppliers, irregular credit policy for customers, factors characteristic of the sector itself or even by excessive managerial conservatism. The level of cash resources to meet the company's contingency needs will depend on the ability to forecast cash flow and the possibilities of obtaining resources in the financial market.

One of the biggest problems in controlling the cash flow of a micro and small company in Brazil is the high number of negotiations carried out without the invoice, and consequently without the proper record of these operations. There is no denying this worrying reality, and this makes the composition, control and analysis of cash flow in small Brazilian companies a challenge as great as that of separating the company's cash resources, the entrepreneur's pocket, that is, the challenge to make the entrepreneur aware that one should not use the company's cash resources to cover personal expenses and expenses; another sad reality in Brazilian companies.

These actions are inconsistent with the companies' needs and hinder conclusions when making a decision regarding the organization's finances.

8. CASH FLOW AS A MANAGEMENT INSTRUMENT

Achieving the goals and financial plans in the short and long term established by corporate policy requires efficient financial management, because in the current economic environment, where market competition is increasing, there is no room for doubts regarding what to do financial resources.

Cash flow is directly linked to the financial management of companies' resources, seeking a balance between payments and receipts, thus constituting a fundamental management tool in the financial decision-making process.

Flexibility and the ability to shape according to the needs of each user give cash flow control a prominent role in the business management control process.

However, efficient financial management requires constant monitoring, through its control instruments. Neto and Silva (1997, p.35) emphasize that "in fact, the financial activity of a company requires permanent monitoring of its results, in order to assess its performance, as well as to make the necessary adjustments and corrections". Thus, the improvement in financial performance ends with the continuous analysis of the financial results obtained by the company.

In this context, cash flow is an instrument of management control indicated to analyze the financial performance of the period, as well as to verify the causes of the lags that occurred in what was planned, so that the company remains aligned with the objectives and stipulated goals.

Cash flow, in addition to being essential in the context of small businesses, is an instrument that makes its contribution, especially with regard to the entrepreneur's understanding of the effects of his decisions on the results obtained. The small entrepreneur does not initially have the necessary accounting understanding, which causes him to be disinterested in accounting reports, but the entrepreneur's manipulation of cash flow control improves his understanding of how his venture works, as well as providing him with a path understanding of profit formation.

In this way, it opens the door so that the accounting reports gradually become part of the daily life of the small business owner, who is currently still a long way from this great source of information, which is accounting.

Therefore, it is believed that, in addition to improving the management process of small companies, cash flow control can contribute both to a better understanding of the business environment, by the small entrepreneur, and to the understanding of the essential accounting aspects and its importance in the context of small businesses.

9. FINAL CONSIDERATIONS

The current competitive landscape requires quick and effective responses from organizations. The early identification of needs has made the analysis of statements one of the most

important tools for micro and small business owners. Through this instrument of control and planning, we can see how business decisions are reflected in the company's results and how its cash is impacted.

The general objective of the study, the proposition of analysis of statements for management and decision making was reached.

The proposed resource allows the entrepreneur to simulate situations of increase or decrease in cash inflows or outflows, visualizing his working capital needs, as well as the planning and control of financial resources, facilitating decision making.

What can be observed in this study is that, despite having its use encouraged by several authors, the analysis of statements is still little used as a planning and budgeting tool in companies.

For small businesses, with a family profile, analysis is a very useful tool because of the ease with which it can be understood and developed by the entrepreneur. It is taken into account that most companies have some kind of control, the balance sheet and the income statement for the year are prepared through a survey of the company's assets, rights and obligations.

Based on this data, every organization can prepare its budget, plan its future, project its finances and promote its adjustments, thus being able to revise its budgets as they happen.

The intention was not to say that the budget and planning, as well as the implementation of the analysis of statements in an organization eliminate its financial difficulties, but certainly the visualization of the data obtained through the analysis allows to anticipate the decision of allocation of resources.

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