STUDY OF COMPANIES’ BALANCE SHEETS AND FINANCIAL INDICATORS IN LATVIA DURING PERIOD OF THE ECONOMICAL CRISIS

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The national economy of Latvia, including private sector, had experienced financial crisis, which had leave an impact not only to GDP indicators but also to the amount, value and financial situation of enterprises. Enterprises whether bigger or smaller losses survived this time period continue to function. But their economical indicators, including balance sheet items absolute indicators and financial indicators, had fundamentally change in absolute numbers as well as has change overall balance sheet structure. The purpose of research is to find out interrelations between financial indicators of companies and macro-economical indicators of the state, to indicate tendencies of changes of financial indicators of companies and macro-economical indicators of the state in the general economic crisis period in Latvia. As a result of this analysis were made conclusions about changes in structure and dynamics of balance sheet items as well as evaluated interrelationship of changes between GDP, singular balance sheet items and financial indicators.

Keywords: assets, balance sheet, liabilities, profit, ratio.
JEL codes: G30, M21.

Introduction

Private sector in Latvia and general economical indicators in 2011 and 2012 show economical growth which indicates the end of economical crisis in context of changes in the economical indicators. Comparing to the beginning of crisis in 2008, GDP decline in national economy of Latvia had decrease, e.g. GDP decline in 2008 comparing to previous year was 3,3 %, in 2009 – 17,7 % but in 2010 only 0,3 %. Just in 2011 were observed positive changes in GDP when this indicator grew for 5,5 % comparing to 2010 (2.). Still is necessary to mention that period of 2008–2010 was critical for many enterprises which in mentioned period stopped their economical activity. The amount of registered enterprises in 2009 was the smallest during last five years – 9228 (in comparison with 2006 when were registered 13404 enterprises) but in 2010 grew amount of liquidated enterprises comparing with 2009 (accordingly in 2010 were liquidated 8835 enterprises, but in 2009 – 5715). Enterprises which survived this period with bigger or smaller losses continue to function. But their economical indicators, including balance sheet items absolute indicators and financial indicators, had fundamentally change in absolute numbers as well as has change the overall balance sheet structure.

The purpose of research is to find out interrelations between financial indicators of companies and macro-economical indicators of the state, to indicate tendencies of changes of financial indicators of companies and macro-economical indicators of the state in the general economic crisis period in Latvia.
Before it the impact of the economic crisis was primarily analysed as overall macroeconomic indicators (GDP, price level, income level, unemployment) changes. In scientific literature the studies on macroeconomic changes are represented well, so the author does not mention the authors of the study, taking into account volume limits. In turn, the business finances as a research area is frequently associated with research in accounting and enterprises solvency, which are sufficiently detailed, but not describe financial indicators of the enterprise in macroeconomic context. Macroeconomic and financial business interactions are updated in D. F. Gray and M. R. Stone studies:

Traditionally, central banks and finance ministries have set their sights mainly on macroeconomic indicators and, to a lesser extent, on the financial sector. Today, new challenges to macroeconomic and structural policies are being posed in many countries by the combination of heavily indebted corporations and volatile capital flows, and by corporate restructuring. What analytical and operational tools can policymakers use to gauge the dimensions of the corporate sector problems that their countries face and, where necessary, to devise appropriate policies to prevent crises or resolve problems following them? The links between the corporate sector and the macroeconomy are two-way. First, macroeconomic developments can affect the health of the corporate sector, especially if corporations are highly leveraged (that is, if they carry large amounts of debt relative to equity) and do business in an environment that does not promote sound corporate governance.

Second, the corporate sector can affect the macroeconomy through the following links:
- the restructuring of overleveraged corporations struggling to stay afloat financially can magnify an economic downturn by triggering the rapid disposal of assets at "firesale" prices and prompting large investment contractions;
- a squeeze on credit to corporations arising from a shortfall of bank capital can force governments to divert their fiscal resources to bank recapitalization;
- if the corporate sector is tipped into insolvency, lower investment and the prolonged period needed for corporate restructuring can significantly impair growth. However, the authors of these studies in this area have been used Asian countries.

The research methodology is based on the analysis of absolute numerical indicators dynamics series, taking into account the primary aspect, i.e., to update financial indicators of the enterprise (book value, assets value, equity and income level) and macroeconomic indicators (GDP) interactions.

In the study are used generally accepted methods of economical and statistical analysis, logically – constructive method, qualitative research method: monographic method, content analysis of sector literature, scientific publications and legislation statues and analysis of special cases research; quantitative research methods: economic statistical methods, including time – series method, graphic display of data and analysis methods, using Microsoft Excel program.
Results

Financial statements are a structured representation of financial situation and results of financial performance of enterprise. The aim of overall financial statement is provide information about financial situation of enterprise, results of financial performance and cash – flow, which could be useful for wide range of users for making economical decisions. Financial statements demonstrate to management results of administrating entrusted funds. To reach this target, financial statements are providing information about the enterprises:

- assets;
- liabilities;
- own capital;
- incomes and expenses, including gains and losses;
- other changes un own capital;
- cash – flow.

Balance sheet is one of the financial statement elements which are giving information about financial situation of enterprise in a certain date. Total sum of balance sheet and dynamic of change of particular item are serving as characteristically indicators. Dynamic of total sum of balance sheet of enterprises in Latvia is showed in Figure 1.

![Figure 1. Balance sheet value of businessmen (associations) in Latvia in the end of year 2006–2010, million LVL](image)

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total assets</td>
<td>230821</td>
<td>319397</td>
<td>357519</td>
<td>340427</td>
<td>348789</td>
</tr>
<tr>
<td>% of last year</td>
<td>38.4</td>
<td>11.9</td>
<td>-4.8</td>
<td>2.46</td>
<td></td>
</tr>
<tr>
<td>% of 2006</td>
<td>38.4</td>
<td>54.9</td>
<td>47.9</td>
<td>51.1</td>
<td></td>
</tr>
</tbody>
</table>

Characterizing changes in balance sheet value in context of changes of GDP is possible to reach conclusion that GDP decrease is not correlating with balance sheet value changes of enterprises (Table 1).
Table 1. Changes in GDP and enterprises balance sheet value comparing to previous year, 2007–2010, %

<table>
<thead>
<tr>
<th>Year</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP changes</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>comparing to</td>
<td>+ 1</td>
<td>-3.3</td>
<td>- 17.7</td>
<td>- 0.3</td>
</tr>
<tr>
<td>previous year</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance sheet</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>value change</td>
<td>+ 38.4</td>
<td>+ 11.9</td>
<td>- 4.78</td>
<td>+ 2.46</td>
</tr>
<tr>
<td>comparing to</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>previous year</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Characterizing changes of particular balance items (Figure 2) is possible to conclude that in mentioned period is observed progressive grow of long – term investments – 71,11 % (in 2006 total sum of long – term investments was 12897,9 millions LVL, in the end of 2010 – 22070.1 million LVL). But in the same time grow of current assets was insignificant – from 10184.2 million LVL in the end of 2006 until 12808.8 million LVL in 2010, grow had been 25,78 %. So is obvious that overall increase of balance sheet value of businessmen if Latvia in 2006–2010 was 51,1 % (Figure 1) had happen mainly because of increase of long – term investments.

Growth of liabilities in 2006-2010 period overall was 9474.1 million LVL (Figure 2). Important growth of liabilities was observed in 2007 – 41.3 %. In 2008 growth of liabilities comparing to previous year was 14.4 % but in following years (2009, 2010) credit liabilities of enterprises stayed constant and even slightly decrease. In period of cited 5 years has change structure of liabilities – relationship between short – term and long – term liabilities. In 2006–2008 long – term liabilities were dominating but 2009 and 2010 specific weight of short – term liabilities is only a little bit higher than specific weight of long – term liabilities.

Figure 2. Dynamic of balance items 2006–2010, million LVL
Changes of own capital in analyzed period had been fluctuating (Figure 3).

**Figure 3. Dynamic of changes of own capital 2006–2010, million LVL**

Amount and changes in own capital are affected by movement of stock capital, management decisions about dividing profit in dividends, adjustment of long-–term investments, as well as profit in the accounting year. Change of own capital do not correlate with dynamic of GDP changes in analyzed period.

**Table 2. Dynamic of change in the net turnover and profit for accounting years of 2007–2010 in Latvia**

<table>
<thead>
<tr>
<th>Year</th>
<th>Net turnover in absolute numbers, million LVL</th>
<th>Changes of net turnover comparing to previous year, %</th>
<th>Profit or loose during accounting year, million LVL</th>
<th>Changes in profit or loose during accounting year comparing to previous year, %</th>
<th>GDP change comparing to previous year, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>27858.0</td>
<td>x</td>
<td>1427.8</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>2007</td>
<td>34066.7</td>
<td>+ 22.3</td>
<td>1690.0</td>
<td>+ 18.4</td>
<td>+ 1</td>
</tr>
<tr>
<td>2008</td>
<td>32743.2</td>
<td>- 3.9</td>
<td>484.8</td>
<td>- 71.3</td>
<td>- 3.3</td>
</tr>
<tr>
<td>2009</td>
<td>25500.0</td>
<td>- 22.1</td>
<td>-754.0</td>
<td>- 255.5</td>
<td>- 17.7</td>
</tr>
<tr>
<td>2010</td>
<td>28108.2</td>
<td>10.2</td>
<td>-3.4</td>
<td>+ 99.5</td>
<td>- 0.3</td>
</tr>
</tbody>
</table>

But changes of net turnover and absolute indicator of profit of businessmen relatively are correlated with changes in GDP during 2007–2010.

**Conclusions**

2. In spite of huge GDP decrease in 2009 (17.7 %) decrease of enterprises balance sheet value was relatively small (4.8 %).
3. In period before crisis from 2006 to 2008 enterprises balance sheet values grow for ~ 55 % but decrease during crisis period was still not recover at the end of 2010.
4. Despite the period of crisis long-–term investments of enterprises has grown which is indicating that enterprises managements happened mainly on base of enterprise current assets.
5. During analyzed period had changed structures of enterprises liabilities, decreasing long–term liabilities and increasing short–term liabilities.
6. Changes of enterprises net turnover and profit of year of account are subordinated to GDP changes but GDP changes do not reduce in amount of enterprises own capital which is connected with management decisions (for example politic of dividends) and decisions of financial bookkeeping policy (for example adjustment of long term investments).

7. The problems specified in the paper which in interconnection show that during the economic crisis GDP decreases significantly, but in this period financial main indicators of the enterprise (balance value, assets, equity) was not decreased significantly, is the basis for further detailed studies on the enterprise balance indicators and the macroeconomic interactions.

**Literature**