AMERICAN JOURNALS
Open Access, Peer Reviewed Journals

American Journal of Business Management, Economics and Banking
ISSN (E): 2832-8078 Volume 43, December - 2025

QUANTITATIVE AND QUALITATIVE ANALYSIS OF ACCOUNTING INFORMATION IN ASSESSING THE FINANCIAL POSITION OF BUSINESS ENTITIES

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ABSTRACT

This article analyzes the issues of assessing the financial stability of business entities. In particular, it highlights the importance of classifying assets according to their degree of liquidity and grouping liabilities based on maturity when determining solvency. Special emphasis is placed on the significance of properly structuring accounting information during the analysis process. Furthermore, it is scientifically substantiated that the presence of hard-to-liquidate resources within assets and the existence of short-term liabilities requiring prompt settlement may lead to misinterpretations, even in cases where the current solvency ratio indicates a relatively high value.

KEYWORDS

Solvency, liquidity, financial condition, accounting information, current assets, current liabilities.

Introduction

The assessment of the financial condition of business entities, particularly their solvency, requires the classification of assets by liquidity and liabilities by maturity. Evaluating solvency solely on the basis of the ratio of current assets to current liabilities may be misleading. A high proportion of receivables within assets, despite yielding a relatively high current ratio, can distort the actual solvency position. Hence, differentiating assets and liabilities by maturity provides a more accurate basis for evaluating the financial condition of enterprises.

Literature Review

The concepts of solvency and liquidity have been examined in numerous academic studies. According to Udoka and Anyingang (2012), banks are considered liquid when convertible assets can be immediately transferred without loss of capital whenever the need arises. Regardless of the nature of the assets, they must be easily converted into cash at satisfactory prices when funds are required.

A perspective on lender liquidity was also presented by Emmanuel (1997), who emphasized that commercial banks should provide only short-term productive loans to business entities. Loans intended

to finance the production and evolution processes through the successive stages of manufacturing, storage, transportation, and distribution are regarded as self-liquidating loans. This theory further asserts that when commercial banks extend short-term productive loans, the central bank should rediscount such loans for them. This principle ensures an adequate level of liquidity for each bank and an appropriate money supply for the economy as a whole.

As can be seen from these researchers' conclusions, the discussion primarily concerns the liquidity of commercial banks. In other words, commercial banks must maintain a constant flow of funds to cover their current liabilities and possess the capacity to repay short-term obligations promptly as they mature.

At the same time, a number of scholars have attempted to link solvency to a company's profitability. For instance, Kanaan and Saud (2018) argue that profitability represents the fundamental objective that ensures a company's viability and continuity. Enhancing a company's profitability depends on its ability to optimally manage its sources of funds.

According to Dahiyat (2016), in order for companies to achieve their desired performance indicators, they must maintain an optimal level of liquidity and ensure a balance between internal and external sources of financing. Furthermore, to guarantee the smooth operation and continuity of their business, firms must reinvest funds into income-generating projects and work toward maintaining a competitive position. The author emphasizes that to preserve continuous solvency, companies must avoid the loss of monetary resources and direct investments toward profitable sectors and areas.

Yusoff (2017) argues that liquidity is one of the essential elements ensuring the continuity of a company's operations. Firms lacking sufficient liquidity may fail to meet their short-term obligations to suppliers and be unable to deliver goods and services on time, which could damage their reputation. Inefficient management of company assets may, in turn, lead to bankruptcy.

From this author's perspective, liquidity and profitability are interrelated concepts. He stresses the importance of maintaining liquidity and the ability to settle current liabilities promptly.

Soenen (1993) places emphasis on current assets and current liabilities, considering current assets as near-cash and highly liquid elements. The adequacy of such assets to cover current liabilities serves as a key indicator of liquidity.

Abryutina (2000), in turn, notes that under modern economic conditions, maintaining both long-term and short-term liquidity (i.e., solvency) has become increasingly important for the existence and functioning of enterprises. She recognizes that ensuring liquidity is now one of the most critical conditions for a company's survival and a principal criterion characterizing its capacity for development and management effectiveness.

One important aspect that makes this author's view more comprehensive than the preceding opinions is the argument that an enterprise's financial management strategy should not be limited solely to achieving short-term solvency. At the same time, it is advisable for the enterprise to regularly assess its long-term solvency, draw appropriate conclusions, and make corresponding managerial decisions based on these assessments.

In recent years, among domestic researchers addressing this issue, Mavlanov (2019) has emphasized that certain types of assets within current assets cannot serve as resources for debt repayment. He argues that when calculating credit solvency, the following items should be excluded from accounts receivable: overdue receivables (line 211), advances to employees (line 250), advance payments to the budget for taxes and fees (line 270), advance payments to targeted state funds and insurance

contributions (line 280), and receivables from founders for their contributions to the authorized capital (line 290).

From an external perspective, particularly that of commercial banks, Mavlanov's reasoning can be considered valid. The items he recommends excluding are, in fact, recorded as accounts receivable for the enterprise itself, but commercial banks cannot directly claim these receivables in order to recover their loans. Therefore, his recommendations are of particular relevance from a banking standpoint. However, for the business entity, it should also be taken into account that these receivables may be settled through the performance of work or the provision of services.

Another domestic researcher, Turdieva (2019), defines creditworthiness from the perspective of commercial banks as follows: "Creditworthiness is a set of legal, financial, and non-financial characteristics of an enterprise reflected in its financial and non-financial indicators, which enables the assessment of its ability to meet its obligations to creditors fully and on time as stipulated in the credit agreement, as well as to determine the level of risk for the bank when granting a loan to a particular business entity."

It is clear from this definition that Turdieva presents her proposals not from the standpoint of the business entity itself, but from the perspective of the commercial bank.

In general, both of the above-mentioned recent studies have been conducted primarily from the standpoint of commercial banks and are based on the positions typically adopted by them.

In addition, the research conducted by Adashaliev (2024) is of particular importance. According to his findings, the accurate and realistic assessment of an enterprise's solvency should be based on its accounting balance sheet and, more broadly, on financial statement data, with special attention given to the specific reporting period under examination. He emphasizes that if solvency is being assessed using the previous year's financial statements, it is advisable to take into account not only the current assets and current liabilities as of the period under review—including the current month or quarter—but also the portion of long-term receivables expected to be converted into current receivables, as well as the portion of long-term liabilities expected to become current.

Research Methodology

In this article, the methods of observation, induction, deduction, and comparative analysis were employed to ensure the effective use of accounting information in assessing the financial condition of an enterprise.

Analysis and Discussion of Results

As noted above, the solvency of business entities is generally assessed based on accounting data derived from their balance sheets, and the corresponding coefficients are calculated and evaluated accordingly. The literature emphasizes that rather than merely comparing current assets and current liabilities, it is essential to classify assets according to their degree of liquidity and, at the same time, categorize liabilities by maturity, followed by a comparative analysis of these groups to draw accurate conclusions (see Table 1).

Table 1 Classification of Accounting Balance Sheet Modules by Liquidity

Balance Sheet Assets		**Balance Sheet Liabilities**	
Pardaev (2007)			
A1	Highly liquid assets	П1	Most urgent liabilities
A2	Quickly realizable assets	П2	Short-term liabilities
A3	Slowly realizable assets	П3	Long-term liabilities
A4	Hard-to-realize assets	П4	Equity (capital) liabilities
Rakhimov, Kalandarova (2019)			
A1	Current non-financial assets	П1	Liabilities due for payment
A2	Quickly convertible current assets	П2	Short-term payable obligations
A3	Slowly convertible current assets	П3	Long-term payable obligations
A4	Hard-to-convert current assets	П4	Equity liabilities
Akramov (2010)			
A1	Current non-financial assets	П1	Accounts payable
A2	Fast-moving assets	П2	Short-term loans and borrowings
A3	Slowly moving assets	П3	Long-term loans and borrowings
A4	Non-current assets	П4	Equity liabilities

From this classification, it can be observed that assets are divided into four groups. The composition of these groups, from A1 to A4, is organized according to the speed with which balance sheet assets can be converted into cash, and each group is accompanied by explanatory notes.

According to economist Pardayev (2007), in his textbook, A1 refers to the most liquid assets, P1 denotes the most urgent liabilities, and P2 represents short-term liabilities. This classification differs slightly from others primarily in the terminology used.

In this classification as well, various recommendations have been presented in academic research. According to Adashaliev, the distinction between “quickly” and “slowly” realizable assets is somewhat debatable. He argues that including accounts receivable among quickly realizable assets is questionable, since the conversion of accounts receivable or inventories into cash depends on the maturity of receivables and the sales period of inventories. Furthermore, he points out that cash and short-term investments, while often classified as actively circulating assets, are not always readily realizable. Short-term investments may consist of securities or other instruments with maturities of three, six, or twelve months, and their liquidity is not guaranteed. In some cases, short-term investments may even take longer to convert into cash than accounts receivable (Adashaliev, 2024).

The review of existing studies shows that authors use varying terminology when classifying balance sheet items according to liquidity. Since most of these classifications are presented in textbooks and manuals used in higher education institutions, they serve as reference materials for academic purposes. Therefore, it is advisable that the classification and terminology used to describe balance sheet liquidity be presented in a manner that is clear and easily understandable for all users.

In the reviewed sources, the balance sheet items are explained by line numbers. The most liquid assets are represented by lines 320 and 370 of the balance sheet, which include cash and short-term financial

investments. Quickly realizable assets correspond to line 210, slowly realizable assets to line 140, and hard-to-sell assets are reflected in line 190.

Similarly, the most urgent liabilities are determined as the difference between lines 730 and 740 within current liabilities, while short-term liabilities are represented by lines 730 and 740, long-term liabilities by line 190, and permanent liabilities by line 480 of the balance sheet.

Furthermore, the liquidity of the balance sheet is assessed based on the ratio between the totals of assets and liabilities, which then serves as the basis for evaluating the enterprise's financial condition using balance sheet information (see Table 2).

Table 2 Assessment of the Enterprise's Financial Condition Based on Accounting Balance Information

(Rakhimov and Kalandarova, 2019)

Order of Changes	**Variations in Asset–Liability Differences**				**Liquidity Level**
Case 1	A1 ≥ P1	A2 ≥ P2	A3 ≥ P3	A4 ≤ P4	**Absolutely Liquid Balance**
Case 2	A1 < P1	A2 ≥ P2	A3 ≥ P3	A4 ≤ P4	**Liquid Balance**
Case 3	A1 < P1	A2 < P2	A3 ≥ P3	A4 ≤ P4	**Illiquid Balance**
Case 4	A1 < P1	A2 < P2	A3 < P3	A4 ≤ P4	**Critically Illiquid Balance**

In order to develop recommendations for improving the analysis based on the use of existing accounting information, we conducted a financial condition assessment of several business entities. In particular, the analysis of the financial indicators reflecting the condition of **Navoiyazot Joint Stock Company** yielded the following results (see Table 3).

Table 3 Solvency Indicators of "Navoiyazot" Joint-Stock Company, thousand UZS

No	**Indicators**	**2019**	**2020**	**2021**	**2022**	**2023**
1	Current assets	1,126,334,752	909,401,487	1,777,189,363	2,907,117,956	3,298,163,223
2	Current liabilities	1,109,336,002	1,327,191,988	1,312,857,708	2,076,475,666	2,971,439,594
3	Current ratio	1.065323356	0.685207186	1.353680107	1.427524033	1.10995466

Source: Compiled by the author based on the data of the economic entity.

If we interpret the data presented in the table, the entity's current ratio in 2019 amounted to **1.06**, which is **0.14 points below** the recommended benchmark. However, the fact that the ratio exceeds one reduces concerns regarding solvency. In contrast, in 2020 the ratio declined to **0.68**, indicating not only a level below one but also nearly **two times lower** than the recommended norm of **1.2**. In 2021 the situation improved sharply, with the ratio rising to **1.35**, and further to **1.43** in 2022, exceeding the recommended benchmark by **0.15** and **0.23** points, respectively. In 2023, however, the ratio decreased again to **1.11**.

According to preliminary calculations, the entity was considered solvent in 2021 and 2022.

Although the ratios in 2019 and 2023 did not reach the recommended benchmark, they did not indicate a critical situation. However, the sharp decline in the current ratio in 2020, compared both to previous years and to the recommended level, is considered alarming. The analysis shows that this outcome was largely driven by the COVID-19 pandemic and the economic stagnation caused by it.

Next, in accordance with the existing methodology, we will assess the entity's solvency and overall financial condition by analyzing the liquidity of its assets and liabilities. As a first step, we classify the composition of assets according to their liquidity (see Table 4).

Based on the table data and the entity's balance sheet information, assets (A1–A4), liabilities, and equity (P1–P4) were grouped accordingly. This classification follows the categories initially presented in methodological sources. As a result, the situation shown in Table 4 was derived.

Table 4 Liquidity-Based Classification of Assets and Liabilities (2019–2023)

No	Indicators	2019	2020	2021	2022	2023	Group
1	Long-term assets	11155384920	13102673275	16451253926	14672267237	13798476151	A4
2	Inventories, total	690791967	564726832	826356275	1948372703	2365808946	A3
3	Accounts receivable	137230817	125426731	267806696	429767593	487700025	A2
4	Cash and cash equivalents, total	277282474	31152236	561320381	381365028	87438965	A1
5	Long-term liabilities, total	10213161606	11531303336	14576516348	12381537197	11165498163	P3
6	Current liabilities	1107759727	1025615578	425521370	1065826662	1820148427	P2
7	Short-term bank loans	0	0	0	100000000	220795500	P1
8	Short-term borrowings	1576275	301576410	887336338	870649004	930495667	P1
9	Equity	959222064	1153579438	2339069233	3161372330	2959701617	P4

If we examine the results carefully, it becomes evident that the conclusions derived from the balance-sheet liquidity analysis do **not** correspond to the results obtained from the entity's solvency assessment. In particular, when solvency was calculated based on the 2021 balance sheet, the current ratio amounted to **1.35**, indicating solvency; however, the liquidity analysis shows an extremely unfavorable indicator, reflecting a situation close to insolvency or even potential bankruptcy. The same contradiction is observed for 2022 and 2023. Although the numerical results for these years allow classifying the entity as solvent, the balance-sheet liquidity indicators simultaneously suggest a distressed financial position. This inconsistency implies that balance-sheet quantitative indicators do not always provide the expected or accurate reflection of the entity's actual financial state.

The discrepancy between the liquidity analysis and the solvency assessment persists across the years analyzed. As noted, despite a current ratio of 1.35 in 2021, the liquidity assessment indicates an extremely weak position—one characteristic of financial distress. Similarly, in 2022 and 2023, the entity appears solvent according to classical solvency ratios, yet balance-sheet liquidity results indicate a state of financial instability. This confirms that balance-sheet liquidity indicators may not always yield reliable or conclusive results.

If we consider the entity's financial performance over the analyzed period, retained earnings amounted to **42 billion** in 2019 and increased significantly, reaching **1 trillion 295 billion** in 2023. For comparison: in 2020 retained earnings were **77 billion**, in 2021 — **854 billion**, and in 2022 — **1.6**

trillion. If the entity were truly in a distressed or near-bankrupt state, such strong growth in profitability would be unlikely. Therefore, financial performance indicators alone cannot provide a full or accurate assessment of the entity's financial condition.

Research conducted on this issue supports this conclusion. In particular, in Adashaliev's study, while discussing short-term investments included in the most liquid assets, the author emphasizes that determining the enterprise's short-term solvency solely based on balance-sheet data is relatively complex. He notes that short-term investment accounts include information on investments in other companies' securities (with maturities of no more than one year), government interest-bearing bonds, loans extended to other entities, and other similar instruments, as well as the liquidity and movement of these instruments. He further stresses that, by their nature, such securities cannot be instantly converted into cash on demand, since there is no organization or entity that would immediately repurchase them at face value (Adashaliev, 2024).

Table 5 Analysis of the Enterprise's Financial Position Based on Balance-Sheet Liquidity

No	Comparison Indicators	2019	2020	2021	2022	2023
1	A1 vs. P1 comparison	275 706 199	–270 424 174	–326 015 957	–589 283 976	–1 063 852 202
2	A2 vs. P2 comparison	–970 528 910	–900 188 847	–157 714 674	–636 059 069	–1 332 448 402
3	A3 vs. P3 comparison	–9 522 369 639	–10966576504	–13750160073	–10433164494	–8799689217
4	A4 vs. P4 comparison	10 196 162 856	11 949 093 837	14 112 184 693	11 510 894 907	10 838 774 534

General assessment of liquidity compliance

Year	Result				Assigned assessment
2019	**A1 < P1**	**A2 < P2**	**A3 < P3**	**A4 > P4**	Result not covered by the guideline
2020	**A1 < P1**	**A2 < P2**	**A3 < P3**	**A4 > P4**	*Insolvent balance*
2021	**A1 < P1**	**A2 < P2**	**A3 < P3**	**A4 > P4**	*Insolvent balance*
2022	**A1 < P1**	**A2 < P2**	**A3 < P3**	**A4 > P4**	*Insolvent balance*
2023	**A1 < P1**	**A2 < P2**	**A3 < P3**	**A4 > P4**	*Insolvent balance*

Source: Formed by the author based on the entity's data.

Based on this study, an analysis of Navoi Nitrogen Joint Stock Company's financial statements indicates that the situation has not changed when evaluating the entity's financial position based on balance sheet liquidity. The reason is that the amount of the entity's short-term investments is not significant, and therefore, these investments are transferred not to A1 – the most liquid assets – but to A2. Consequently, this does not lead to any changes in the ratio of assets to liabilities and equity.

Conclusions and Recommendations

Based on the study, the following conclusions were drawn:

1. When classifying the balance sheet composition by liquidity, it is advisable to further detail the composition of current and non-current assets accordingly. This allows for a more accurate assessment of the entity's financial position based on balance sheet indicators.

2. The entity's financial position is evaluated based on accounting balance sheet data. For investors, this information supports economic management decisions regarding the entity's future, while for creditors, it informs decisions on lending, including the terms and amounts of loans, as well as monitoring and forecasting loan repayments. Therefore, the more precise the composition of balance sheet data, the more accurate and complete the analyses, which in turn improves the quality of decisions made.
3. For non-current assets acquired through installment payments from suppliers or contractors, or for non-current assets produced by another contractor where an advance has been paid, such assets should, from the perspective of accounting data analysis, be removed from current assets and fully accounted for as non-current assets.
4. For inventories, it is advisable to include installments provided to suppliers and contractors in the composition of inventories when conducting analyses and applying them to assess liquidity and other economic indicators.

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