

EVALUATING CORPORATE FINANCIAL STABILITY AND IMPLEMENTING SAFEGUARDS AGAINST INSOLVENCY RISKS

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Abstract: Assessing companies' financial position is key to understanding its stability and detecting early signs of insolvency. Insolvency can lead to serious financial and reputational damage. This study highlights key methods such as financial statement analysis, ratio analysis, and cash flow review to evaluate financial health. It also outlines practical steps to prevent insolvency, including clear financial planning, effective risk management, and regular monitoring. By taking a structured and proactive approach, organizations can strengthen their resilience and improve their chances of long-term success in a changing economic environment.

Key words: Financial condition, financial stability, insolvency prevention, ratio analysis, cash flow analysis, risk management, financial strategy, resource optimization, financial monitoring.

The assessment of an organization's financial condition is a crucial tool for determining its financial stability and potential risks. Corporate insolvency can lead to serious consequences, including reputational damage, financial losses, and even bankruptcy. This article examines the key methods for evaluating an organization's financial condition and explores approaches to preventing insolvency.

Methods for assessing the financial condition of an organization.

1. Analysis of financial reports

Analysis of financial statements is the main method for assessing the financial condition of an organization. Financial statements include balance sheet, profit and loss statement, cash flow statement, and equity statement. Analysis of these reports allows for assessing the financial stability of the organization, identifying potential risks, and determining areas for improvement.

2. Ratio analysis

Ratio (coefficient) analysis is a method for assessing the financial condition of an organization based on calculating various coefficients, such as:

- Solvency ratios:
- * $\text{Current Liquidity Ratio} = \text{Current Assets} / \text{Current Liabilities}$
- * $\text{Quick ratio (or Acid-test ratio)} = (\text{Current assets} - \text{Inventories}) / \text{Current liabilities}$

- * Long-term Solvency Ratio = (Non-current Assets + Equity) / Non-current Liabilities
- Profitability ratios:
 - * Net profit margin = (Net profit / Revenue) * 100%
 - * Return on assets (ROA) = (Net profit / Average total assets) * 100%
 - * Return on equity (ROE) = (Net profit / Average equity) * 100%
- Financial stability ratios:
 - * Equity (Autonomy) ratio = Equity / Total asset
 - * Debt-to-equity ratio = Total liabilities / Equity
 - * Financial stability ratio = Net assets / Total asset

These ratios help assess an organization's financial stability, operational efficiency, and ability to meet both short-term and long-term obligations, thereby identifying areas of potential financial risk.

3. *Analysis of cash flows*

Analysis of cash flows is a method for assessing the financial condition of an organization based on the analysis of cash flow. This analysis allows for assessing the organization's ability to generate cash and identifying potential risks.

Ways to prevent corporate insolvency:

Financial and operational management must be proactive and comprehensive in order to prevent business insolvency. For organizations to identify early warning indicators of financial difficulty, they must regularly evaluate their liquidity, profitability, and solvency ratios. Insolvency prevention requires cost reduction, timely debt servicing, efficient cash flow management, and upholding an ideal capital structure. Furthermore, enhancing financial resilience requires effective business governance, risk assessment, and strategic planning. Businesses can improve their long-term sustainability and competitiveness in a changing economic climate by putting these strategies into practice, which will also reduce the probability of insolvency. The following Figure 1 illustrates the descriptions given below regarding the ways to prevent insolvency.



Figure 1. Steps to prevent insolvency

1. Development of a financial strategy

Developing a financial strategy is a crucial step in preventing the organization's insolvency. Financial strategy should be based on the analysis of the organization's financial condition and the definition of goals and objectives.

- Definition of goals and objectives

Defining goals and objectives is the first step in developing a financial strategy. The organization must define its financial goals and objectives, such as increasing profits, reducing costs, and improving financial stability.

- Analysis of financial condition

Analysis of the financial condition is the second step in developing a financial strategy. The organization must analyze its financial condition, including financial statements, ratios, and cash flows.

- Developing a financial plan

Developing a financial plan is the third step in developing a financial strategy. The organization should develop a financial plan that includes specific measures to achieve financial goals and objectives.

2. *Risk management*

Risk management is a crucial aspect of preventing organizational insolvency. The organization must identify potential risks and develop strategies to minimize them.

- Risk Detection

Risk identification is the first step in risk management. The organization must identify potential risks, such as the risk of changing market conditions, the risk of changing legislation, and the risk of changing technology.

- Risk analysis

Risk analysis is the second step in risk management. The organization must analyze the identified risks and determine their probability and potential impact on the organization's financial condition.

- Develop strategies for minimizing risks

Developing risk minimization strategies is the third step in risk management. The organization should develop strategies to minimize identified risks, such as diversification, hedging, and insurance.

3. *Optimization of financial resources*

Optimizing financial resources is a crucial step in preventing the organization's insolvency. The organization must optimize the use of financial resources to maximize its financial stability.

- Determination of financial resources

Defining financial resources is the first step in optimizing financial resources. The organization must determine its financial resources, such as cash, inventory, and equipment.

- Analysis of the use of financial resources

Analysis of the use of financial resources is the second step in optimizing financial resources. The organization must analyze the use of its financial resources and identify areas for improvement.

- Development of strategies for optimizing financial resources

the third step in optimizing financial resources. The organization should develop strategies for optimizing the use of financial resources, such as cost reduction, inventory management improvement, and equipment utilization optimization.

4. *Monitoring of financial condition*

Monitoring the financial condition is an important aspect of preventing the organization's insolvency. The organization should regularly monitor its financial condition to identify potential risks and take measures to minimize them.

- Regular analysis of financial statements

Regular analysis of financial statements is the first step in monitoring the financial condition. The organization should regularly analyze its financial statements to identify potential risks and identify areas for improvement.

- Coefficient monitoring

Coefficient monitoring is the second step in monitoring the financial condition. The organization should regularly monitor its coefficients to identify potential risks and identify areas for improvement.

- Cash flow monitoring

Monitoring cash flows is the third step in monitoring the financial condition. The organization should regularly monitor its cash flows to identify potential risks and identify areas for improvement.

Conclusion. Assessing the financial condition of an organization and ways to prevent its bankruptcy are crucial aspects of financial management. The organization should regularly assess its financial condition to identify potential risks and take measures to minimize them. Developing a financial strategy, risk management, optimizing financial resources, and monitoring the financial condition are crucial steps in preventing organizational failure

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