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Are we Able to Predict the Financial Status of the Company via. the CCB Module?

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Abstract: Most of the bankruptcy and solvency, modules, therefore, work with all the financial data of the analysed subject more or less the same, eventually, the main activities are taken into account only at the minimum level. The above stated, therefore, becomes a big weakness in the design of the mentioned bankruptcy and solvency modules as the integrated market today cannot cope without a closer market specification of the subject. This is the activity which should be considered in the conversion of the current financial modules, which are difficult to apply. The application of the CCB module (Come Clean Bankruptcy) is one of the options for how to confront this problem. It would be good to emphasise that just as with the existing various specific financial modules and analysis (for financial, government, global institutions), the design of the CCB modules output cannot be implemented for any analysed subject. The currently related work on this module now mainly includes the area of those companies which operate in the textile and fashion industry (OKEC 17, 18). The module design stems from the stochastic basics and it is therefore possible to apply the CCB module for the subjects with various types of economic activities providing the module will be specifically, corrected.

Key words: CCB model, financial analysis, data, financial techniques and models, prediction of financial health, activity

INTRODUCTION

Today, there is quite enough attention paid to the issue of design and processing a financial analysis. There are many modules, techniques and methods for how to analyse recorded financial data. The fact that these methodology processes are not able to absorb the primary information data regarding the main business activity is the big disadvantage of most of these modules. The application of the CCB module (Come Clean Bankruptcy) is one of the options for how to confront this problem. The module design stems from the stochastic basics and it is therefore possible to apply the CCB module for the subjects with various types of economic activities providing the module will be specifically corrected.

Performance as a standard gauge: The activity of the business subjects is currently influenced by many circumstances from the area of business activity, tax load and legislation framework for business activities through personnel, supplier-customer relationships up to the specific requirements of various groups (share holders, employees, management, financial office, etc.). Their requirements cannot be unambiguously merged or summarized and therefore this domain, where their requirements, wishes and demands would meet cannot be identified. On the other hand such phenomenon as the company performance stands slightly apart.

If we open the business finance text books, we will soon find out that after the interpretation of the general rules of the economic company activities, almost every time the focus is on the company performance, production and other economic and business performances. (Neumaierova, 2002) The fact that the company "performs well" gives the chance for the occurrence of such groups as specified above, the share holders, employees, management. This leads to judgment that it is the company performance that merger the participating parties of the company economic activity. This gives us a good reason to focus on the performance.

Financial analysis and business: If the performance itself represents the "importance" for the existence of business activity, then it is possible to assume that this is what has to be properly secured. How to secure something that is not concretely specified? (Sedlacek, 2007).

This domain needs the useful utilization of various methods how to permanently secure the future performance. If we go even further, we will soon find out that securing the future performance must and has to be and is dependent on the current performance. This means that the methods for the future depend on the current reality of the company. In order to secure later performance, it is necessary to effectively and exactly monitor the current performance. This is the right time for the well-known financial analysis or its various modifications such as dynamic financial analysis, balance sheet analysis, performance analysis, etc. The context as mentioned above does not bear new findings, however, they do explain the reason why the financial analysis receives so much attention and becomes a well discussed

and analysed topic. I believe that the number of views on the financial analysis equals the number of currently successful businessmen or those whose business activities are sentenced to future liquidation. (It may be worth to consider the quality of the financial analysis according to business results that the provider of the analysis has already achieved.)

In similar way, we can conclude that there is no financial analysis that can be accepted or refused totally (providing that its basic logical structure is at an adequate level) (Zalai *et al*., 2000). It is a fact that a successful company differentiates from an unsuccessful company by different views on similar matters. At the beginning of the business activity, 90% of all companies have a very similar primary position concerning world competition. The following different view and method that they use to deal with the market obstacles determines which businessmen will achieve a "better" performance.

MATERIALS AND METHODS

Adapting methods of financial analysis: There are many methods of financial analysis. We can offer various statistical and non-statistical elaboration of various economic data recorded by the company (in the form of elementary and higher level methods). Practically, various analyses of the status indicators are often applied either in the form of vertical or horizontal analysis. The differentiation is determined by the time in which the analysis is carried out or by the mutual comparison of various sums at a specific time. Subsequently, from this point of view, the dynamic or statistical analyses are then applied. The most commonly used super-structure is the analysis of the differential, respectively flow indicators including the cash flow analysis. Such analysis offers a clear picture of the company financial situation, however, the results cannot be mutually compared and no definite conclusions can be drawn.

At this point, the attention will probably move to the domain of the ratio indicators. It can be alleged that such indicators are the most commonly used however, their application is often disputable. I will try to explain the reasons further on. Here, within the ratio indicators, the many times analysed indicators of profitability activity, insolvency, financial structure, liquidity or the stock market come into play. The actual results, acquired as a ratio of two selected values are often a dimensionless quantity which does not mean anything. Various intervals and recommended values are often added to these values. This is the reason behind their often misunderstood implications and the results draw not at all exact conclusions. What is the standard procedure? The provider of the financial analysis finds out which two items within the selected frame of indicators need to be measured. These are divided and then compared with the recommended values found in the recommended "professional literature". This procedure could be accepted if the values of the recommended intervals were based on data that are valid at the same time and place as the financial analysis that was just provided. Not only that this is often not the case but the main deficiency of such constructed processes can be particularly seen in the fact that recommended intervals do not carry the information on the type (subject) of economic activity of the analysed company. If they do carry the information, then it is fairly limited. Accepting these intervals leads to a comparison of the companies that are under normal conditions totally incomparable. How would it be possible to assess the liquidity or the activity of a local small joinery, a large company operating on the market of legal services or a multinational company using the same key? It would probably be very difficult! This often leads to the situation that analysed economic relations result from the actual values and recommendations rather than the relative values and recommendations.

To remove this insufficiency, the development of the ratio indicators continued and various bankruptcy and solvency modules emerged. It may seem that these methodology processes provide more exact information regarding the company financial situation. However, if we look at their design, we will see that they are based on the stated ratio indicators mentioned above and that even more various coefficients whose origin could be a matter for discussion have been added. The indefinability of these coefficients and disputable application of the ratio indicators makes the bankruptcy and solvency modules appear good on the outside the indefinite procedures that offer indefinite outputs. From the available literature, it can be estimated that there are more than one hundred various applications of these modules up to now. These are mostly non-applicable for the needs of domestic companies.

The current disagreement with these concepts allowed a new form of data processing to be discovered and that is: statistical data processing. The statistics is trying to deal with the economic data using a new method. It does not see the economic links but the values that are used in more or less complicated calculations. From the statistical point of view, definite outputs are further offered for various financial conclusions and decisions. Is not this approach the main problem when applying the statistical method? How is it possible to compare value and process the same data using a single statistical method (at the same level) that indicates the income of a large company once and the assets of a smaller company for the second time? Despite the fact that the financial analysis is mainly working with numbers, these numbers have a specific identification and furthermore, economic relations can be found between them that cannot always be achieved using statistics. We should not damage the statistics reputation;

this issue is mainly obvious in the case of the application of the factor or discrimination analysis or analysis of variance. The practical application of the regressive and autoregressive modelling that allows implementation of extrapolation is also problematic in the future.

The correlation coefficients, autocorrelation or observation of relations between monitored parameters are often used. (The correlation coefficients besides their main benefit-assessment of the degree of mutual dependence of indicators-also serve for the application of regressive and autoregressive indicators). We can also mention the actual foundation of the statistical methods for the financial analysis that are the point estimates. These however, hit a well known problem in the event that certain statistical assumptions are not valid (very typical in the economic reality), the application of the point estimates is not therefore, suitable due to their sensitivity to outliers which often appear between the financial data.

The treatment for the sensitivity to outliers is an application of the point estimates from a different class, the, so called sequential statistics. This brings into play other robust mathematical statistical methods. The last mentioned methods represent the last (top) possibility from the group of higher statistical methods.

The present description of the statistical methods focuses on work with information and data. The individual outputs are, however, dependent on an applied analytical module. The module is a mental, rationale matter even when it is applied in a mathematical manner or in the form of computer algorithms. Nevertheless, the responsibility for the creation of such a module lies with its creator who can be further confronted. The most important character of all the used modules is their robustness. The calculations of the multi-range financial analyses can be solved with the help of robust modules. The aim of such analysis is to assess the relations between several financial indicators (or well-known financial ratios) in terms of the further applicable quantity for the financial position assessment of the selected subject.

The above stated general characteristics of the methods for preparation of the financial analysis share one quality. It is possible to place them within the group of elementary methods, higher statistical methods or higher non-statistical methods. For completeness sake, it would be good to mention the recently developing theory of fuzzy sets, fractal geometry and various expert systems. The theory of the fuzzy sets is in mathematic modelling logic, inseparable from the terms used in the verbal descriptions. This is why the theory is also very important for the financial analysis as it is basically trying "to rewrite" verbally definable economic relations into a number form. The number values have however the advantage, respectively the disadvantage that they are definite. Verbal definitions unfortunately are not. Due to this it is not possible to exactly determine, when is the joinery unprofitable, when exactly the company operating on the market with legal services appeared to have problems with liquidity or in which exact moment is the capital of a multinational company strong.

Terms such as unprofitable, liquidity or strong capital can be generally determined however they cannot be established four-square. This for example, means that it cannot be exactly determined from which financial value, time or ratio formulation is a specific company unprofitable. The given is not quite possible. The uncertainty connected with these terms is not however of a stochastic or random type. For its description, the mathematic operations for working with fuzzy are naturally different than operations with random events and magnitudes. This was the purpose behind the fuzzy sets theory. The significant part of this theory is connected with the optimisation of decision making and the assessment of the fuzzy data files. For the classic deterministic sets it applies that it can be unambiguously defined for each object that it is part of the given set (rentable joinery, liquidity level of the company, capital strong company). The fuzzy sets can be used for the objects (see above) for which pertinence cannot be definitely determined. Application of the fractal geometry or neuron nets would be a separate chapter.

Financial statement analysis has been widely used for comparative purposes. Different factors like the size, accounting methodology, inflation and particular characteristics of an industry or service sector may affect the output of an expert analysis. Ratio analysis is the most common used technique of financial statement comparison. Research topics regarding functional form and distributional properties of the different ratios are far from being concluded but in general they point out the same assumptions of the other techniques, i.e., the conclusions tend to be more decisive with similar firm size and activity and shorter periods of analysis (Rodriguez, 1996; Ruckova, 2007).

RESULTS AND DISCUSSION

Own suggestions and application of the CCB module: It would not be beneficial if the described relations of the financial analyses were only criticized and no solution would be offered how to deal with the partial problems. As stated earlier there are many methods how to analyse the financial site of the business activity of any business subject. Each methodological procedure gives reasons for its application that is correct and the only one possible.

The apparent solution would be a setup of such a financial analysis that could be adapted accordingly, changed and modified for various users as well as modified for various aspects. Here, would be probably used so called dynamic or flexible analysis. This would

not offer a unique procedure that must be strictly observed but it would offer an approach that could have been changed in many ways. (Of course, considering that certain rules and processes would be observed.) In the end, such concept could state which variables will be used and how to work with them and which facts have to be taken into account and which facts have to be included. The actual content of individual domains would not be directive.

In the case mentioned above, it would be clearly up to the joinery, consultancy company or the multinational company which aspects of the financial analysis in particular decision making would be included in the final outputs. Such a constructed module would then correspond to mutual comparison of an otherwise totally incomparable firm, company or group of companies. The performance would become the main success point of view as stated in opening paragraphs of this text.

Just to clarify such a module would correspond with common solvency and bankruptcy modules in terms of design; however it would not clearly specify the specific items for the balance sheet that should be compared. The applied coefficients would not have been definitely specified either. Such a module would hold the assessment of various business activities, economic activities and functions. However, there should be a certain criteria. A module designed in such a manner would not have been applied in practice.

The CCB (Come Clean Bankruptcy) is becoming the financial stability criteria in its own concept. This criteria is designed as a methodological formula which consists of partial parameters. The chosen parameters result from the needs and determinants of the analysed company. This is the domain where the CCB appears to be a better solution in case of analysis of various types of companies. What is assumption of the CCB? The answer may be familiar, however, in reality it is not so, respected and it is curious that further stated relations are not usually taken into account in the financial analysis. The commonly used modules are designed in such a way that after the calculation stage the assessment stage is applied and that unambiguously determines the situation of the assessed subject.

To simplify the matter for better understanding, let's consider three companies A1, B2 and C3 that operate on the same market at the same and in the same business field. The financial analysis offers only information about the situation of company A1 or company B2. Let's say, that the situation of company A1 is not totally satisfactory from the financial point of view. Furthermore, B2 and C3 companies are in situation when serious problems related to the further perspective operation of the companies on the market can be expected in the future. The financial analysis basically gives the same information regarding a bad financial stability of the A1, B2, C3 companies. However, from this point of view is it possible that the situation in the company A1 is financially good? The verbal characteristic cannot be unambiguously defined via numbers (see the application of the fuzzy sets) and that is why a simple note regarding a bad financial situation of all companies cannot be satisfactorily accepted. Business life would not be able to exist based on the statement that company A1 is in a bad situation but relatively good and so, generally, the situation could be assessed as satisfactory.

CONCLUSION

Let's turn this problem and look at these companies (A1, B2 and C3) in the event of their business growth. If B2 and C3 companies will show a very good financial status and company A1 only a good status, it can be concluded that from the financial point of view the situation of company A1 is not quite positive. The relations mentioned above therefore become a foundation stone of the CCB module which do not only follow the data and statements of the analysed company, but analyses these information entries in a wider context. Financial stability, respectively performance is a fairly relative term.

The description of the own design of the flexible module with application of the financial stability criteria CCB is much more important, however, the possibilities of this report are limited. It can be noted that the CCB sign of the financial stability results from measuring of various financial but also non-financial determinants. These are subsequently compared with the data provided by the Czech Statistical Office to record the relativity of the company "performance" on the market. Basically, the CCB indicator can be described as a bankruptcy module as it tries to forecast the financial instability and problems of the analysed subject (company).

The act on property valuation defines the term standard price as the price that has been at the sale of the same, possibly similar property or at providing the same or similar service in the standard business contact in this country to the date of valuation under the condition that no market contingencies, personal involvement or special favour have an impact on this price.

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