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EVALUATION OF THE ORGANIZATION'S PERFORMANCE IN CONNECTION WITH THE CREATION OF FINANCIAL STATEMENTS

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Abstract

The presented article is a summary of theoretical approaches for evaluating the results of the organization in accordance with the reflection of performance and performance measurement, as well as its reporting in financial statements, which are in the sense of Slovak legislation, the final reflection of the organization. The company has its attributes, and all the attributes affect individual indicators of financial analysis and they are the following: production program, the technology used, the complexity of products, participation of nature, technology and man, the composition of products, method and all operate in a three-balance system: cash-flow-balance sheet- profit and loss statements. In this context, it is necessary to monitor the performance in the organization, which has a direct impact on sales and revenues and then on the overall economic result, which is the main indicator of the successful operation of the company. The transformation process indicates the process and transformation of inputs into a process towards its results, and the interconnection of the three-balance system points to the importance of three types of statements, as follows: profit because of management from the profit and loss statement is also a source in the balance sheet, the result from the cash flow statement represents assets in the form of cash in the balance sheet. All three statements provide relevant data for the financial analysis of the organization.

Keywords: *transformation process, balance sheet, profit, loss statement*

1 THE COMPANY AND ITS BASIC ATTRIBUTES

We define a company as a combination of production factors through which the owners plan to achieve set goals (for example, maximizing their

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income, improving social status, achieving economic power, etc.). Companies exist to produce and distribute products, provide services to their customers. It is their basic mission. However, their success is influenced by the high dynamics of changes in the environment in which they operate. The future state of the company (its products, production factors, transformation process, financial resources) is indicated by the company's goals. The goal of the company is a measure of the future, it expresses the future results of the company. It can be said that the goals of the company represent the endpoints to which the fulfillment of the company's mission is directed. The mission of the company creates in itself a set of specific, realistic, and achievable goals of the company. In business practice, a set of goals is monitored and created, we speak of a target system, which is proof that not only owners or managers are involved in creating goals, but also other entities are considered, such as employees, customers, etc. (Synek, M. 2007).

The production company and its activity can be characterized as a creative process, the function of which is the creation of utility values and represents the main activity of the company. The basic characteristics of its operation include:

- production program
- technology used
- complexity of products
- participation of nature, technology, and man
- composition of products, method, and degree of repeatability of production.

During business activities, the company undergoes a transformation process. It is divided into three basic activities, which are:

- procurement of production factors,
- production of products and services
- sales

In the procurement phase of production factors, various types of costs arise in the organization. In the production process, inputs are converted into outputs, and outputs are created. Revenues are generated in the sales phase. A business process can be defined as a dynamic system whose basic elements are activities. It has three parts that are interconnected and intersect. In mutual combination, they form a dynamic system - a business process.

Parts of the transformation process:

- material, which is reflected in the concept of "business transformation process" and in the narrower sense represents the process of material transformation of business inputs into outputs,
- value, which is reflected in the concept of "corporate reproduction process" and in the narrower sense of the word represents the monitoring and appreciation of invested funds (or capital), i.e. value relationship between inputs and outputs,
- organizational, which is reflected in the concept of "business combination process", which monitors the organization of transformation activities (transformation of inputs to outputs), mutual combinations of production factors, financial and information flows.

The company as a transformation system has basic characteristics.

It focuses on the creation of outputs, i.e. to prepare products for the market and customers in general, without specific direction to pre-known customers.

On this basis, the following model of the material and value course of the business transformation process was formed. Both spheres complement each other and overlap each other.

TRANSFORMATION PROCESS		
INPUT	TRANSFORMATION	OUTPUT
short - term assets	cost generation	return
long - term assets	consumption	economic result
employees	depreciation	

Fig. 1 Model of the course of the company's transformation process

2 PERFORMANCE AND EFFICIENCY OF THE COMPANY

Performance represents the finished item (i.e., manufactured products, served customers, etc.). Performance can be defined in a general sense as the result of a certain activity. It can have both tangible and intangible forms. However, if we consider performance in the economic sense, we can perceive it as the performance of the employee (the degree of performance of his tasks forming the content of his work, the performance of the company, which can be imagined as several results over time, i.e. what the company produces and provides). The monetary expression of external performance is the revenue recorded by the accounting system, which is one of the basic monetary (or rather cash) economic categories. (Sedlak, M. 2010) .

Performance increases the value of the organization's assets and the condition for its recording in accounting is its monetary expression. We call this money revenue in a broader sense, and mostly the main component of an organization's revenue is sales of goods, products, and services. Besides, the organization may report e.g. sales of materials, fixed assets, or securities.

In a business environment, this quantity is well and accurately measurable. Internal services are then the results of the activities of internal departments, which are sold to internal customers - individual departments and their tasks are to ensure comprehensive conditions for the creation of external services.

In general, we can express the capacity of a production unit because of its performance and the time during which it is in operation. The performance of the production equipment is always considered as the maximum productivity per unit of time, usually one hour, with annotated quality and strict adherence to the technological process and product quality. Their determination is based on the label (rated) power, considering specific conditions. The performance of production equipment must be expressed in products, just as the production capacity is expressed, it can only be expressed in technical units. The performance of a production facility shall be determined based on production capacity standards, which determine the maximum quantity of products that can be produced per unit of production at a given production facility.

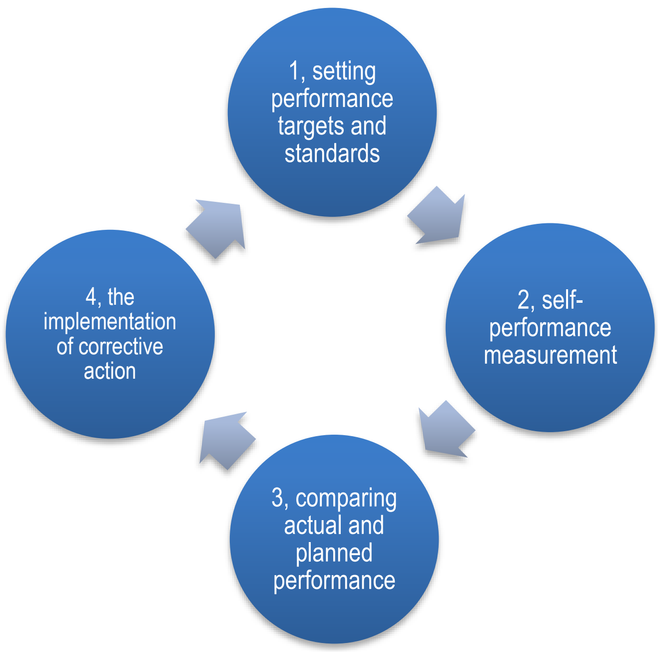

Fig. 2 Steps of the control process focused on evaluation of the efficiency of the company

The efficiency of the company is a measure of achieving the results of an organization or its processes. The relationship between performance and the efficiency of the company can be described, to some extent, in a simplified way as the relationship between the result and the course of the activity carried out, so that:

- performance is the final state, resp. the result of this activity,
- efficiency of the company is a characteristic (description) of the achieved result or its course.1

Figure 2 shows the process for evaluating the efficiency of the company.

3 PERFORMANCE REFLECTION IN THE FINAL REPORTS

The basic financial statements according to the valid Slovak legislation consist of the balance sheet, profit, and loss statement (income statement) and cash flow statement.

Figure 3 shows the basic link between the company's financial statements, through profit and cash.

Cash flow		Balance sheet		Profit and loss statements
Final cash	⟶	Assets include cash	⟵	Profit

Fig. 3 Bindings in the statements of the company

Assets	The Structure of the Balance Sheet		Liabilities
the value of all items in which the company has invested	Long - term assets (fixed assets)	all sources, from which the assets were obtained	Own capital
	- long - term tangible assets		- basic capital
	- long - term intangible assets		- funds
	- long - term financial assets		- retained earnings from previous years
			- profit from the current year (+, -)
	Current assets		Other sources
	- inventories		- long - term liabilities and loans
	- receivables		
	- investments (short - term assets)		- short - term liabilities and loans
	- money		

Fig. 4 Basic structure of the balance sheet

Source: Authors’ processing

3.1 Balance sheet

The balance sheet is a transparent and arranged form of monetary comparison of assets and liabilities and findings of equity in accounting form as of a certain date. Its basic function is to provide the organization with an overview of its financial situation in the company on a certain day. Therefore, the balance sheet is compiled at least once a year at the end of the accounting period, but organizations also make the balance sheet more frequently, on a quarterly or monthly basis (as required) (Basincova, A. 2007).

The accounting standard does not show exactly what the individual balance sheet items should look like but presents their minimum scope. Each company then expands them in more detailed way, as needed, and adds additional information.

It also remains up to the company to decide whether to report the items of assets and liabilities as short-term and long-term, or to decide to report them according to the degree of their liquidity.

The vertical structure of the balance sheet expresses the relationship between individual items of assets and liabilities in one period (evaluates the structure of assets and liabilities).

The horizontal structure of the balance sheet allows us to compare indicators over time, i.e. for two accounting periods. On the assets side, it consists of four columns, on the liabilities side, no adjustment is made.

The form of the balance sheet tells what the company owns, i.e. what is the structure of the company's assets, from what sources did it get its assets, i.e. the structure of capital, such as its financial situation, the degree of its indebtedness and liquidity, and others. By comparing two balance sheets for two consecutive years (periods), it is possible to find out how the financial situation develops and to take the necessary long-term and short-term measures, accordingly, leading to the effective development of the company. (Grasseova, M., 2008)

3.2 Profit and loss statement (income statement)

The profit and loss statement, it is a statement that provides information about income and expenses of the company. Their difference results in the result of the company's management (profit or loss) for the analyzed (accounting) period. Revenues and costs, as well as the economic result, are divided in the profit and loss statement into three areas – economic, financial, and extraordinary. The data presented in the profit and loss account are streams, i.e. accumulated.

The recognition of costs and revenues within the financial statements is made in this statement (Income Statement).

The profit and loss statement – company

TOTAL COSTS :	TOTAL REVENUES :
I. Costs of the economic activity**:**	I .Revenues of the economic activity:
- Costs incurred for the acquisition of goods	- Revenues from sale of goods
- Consumption of energy material and other non-storable supplies	- Revenues from sales of own products
- Services	- Revenues from sales of services
- Personnel costs	- Revenues from the sale of fixed assets
- Taxes and fees	- Other income from economic activity
- Depreciation and provisions	II Income from financial activities:
- Residual value of sold property	- Revenues from the sale of securities and shares
- Other costs of economic activity	- Income from short - term financial assets
II .Costs of financial activity:	- Interest income
- Securities and shares sold	- Foreign exchange gains
- Interest expense	
- Foreign exchange losses	
- Other financial expenses	Other income from financial activities
Profit before tax	
- Income tax	
Profit after tax	

Fig. 5 Form of profit and loss statement - simplified

The income statement is causally linked to the balance sheet, in the item profit or loss in the current accounting period, which is part of the equity recognized in the balance sheet and in the profit and loss statement is calculated as the difference between income and expenses for the accounting period.

The rule is that line 100 of the balance sheet = line 61 of the profit and loss account.

The profit and loss statement is compiled in the so-called stepped form. A single item in the income statement is referred to as the income statement (we distinguish between cost and revenue). In this context, the term income statement is also used to refer to the income statement. (Stangova, N., 2012)

The economic result is the basic indicator assessing whether the activities in the company are performed successfully. It represents the difference between revenues and costs. This is even though the assessment of a company's value and changes is based more on discounted net cash flows expected in the future. These are the primary cause of investors' interest in the company. Ideally, however, profit is the best expression of how the potential to generate positive cash resources has changed in the future.

The profit and loss statement are a source of information about the entity's profitability. The data for the compilation of the statement are drawn from accounting class 5 - Expenses and accounting class 6 - Revenues. It is compiled in a vertical form - items of costs and revenues are presented below each other in the required form. The internal breakdown of accounts in accounting classes 5 and 6 is based on the principle of incompatibility of costs with revenues (the gross principle applies to the accounting of costs and revenues, where each incurred cost is charged to the relevant cost account in accounting class 5 and 6). According to the law, costs and revenues cannot be offset against each other. Costs and revenues are recognized in the entity in the accounting period in which they are incurred, regardless of the date on which they are paid. They are accounted for and reported in the accounting period to which they are temporally and materially related.

The profit and loss statement is a source of information about the entity's profitability. The data for the compilation of the statement are drawn from accounting class 5 - Expenses and accounting class 6 - Revenues. It is compiled in a vertical form - items of costs and revenues are presented below each other in the required form.

3.2.1 Costs

In any type of operation, even if passive, costs arise. Therefore, the relationship of costs to the volume of performance is one of the most important and therefore the most monitored data with respect to the results of management in the organization. The change in the volume of production directly affects the development of costs, while the individual cost types behave differently. In search of the optimal volume of production, we must know the development of costs and determine changes in costs since the change in volume of production. We calculate this using the response coefficient as the ratio of the percentage change in costs and the percentage change in performance. The resulting value can be positive or negative. (Wagner, J., 2009)

3.2.2 Revenues

Revenue is the performance that is expressed in cash and represents an increase in the economic benefits of an entity. They consist mainly of revenues from performed services. They express the amounts of money that have been received by the organization, regardless of when they were collected. Revenues are outputs, expressed in monetary units. From an economic point of view, they represent the reimbursement of costs that have been incurred in the production of services, while increasing by profit. (Kupkovic, M., 1996)

REVENUES = (PRICE of the unit of output or product) x QUANTITY.

Revenues are divided into individual activities according to:

- income from ordinary activities, which includes income from economic activity and
- income from financial activity. This division is shown in Fig. 6.

Division of the revenues in the accounting	
Revenues from ordinary activities	Revenues from the economic activities
	Financial revenues

Fig. 6 Division of the revenues in the accounting

3.2.3 Economic results

An important financial indicator that expresses the success and efficiency of business activities, especially in relation to invested capital, is the economic result. In monetary form, it expresses the effect of the cycle of assets in a given company and expresses whether the assets invested in the business in the form of inputs are less, or greater than the valued results in the form of outputs. (Majtan, S., 2014). It can be identified in the accounts for a certain period (year or month) as a source of increase or decrease in assets. By monitoring the achieved profits or losses over time, analyzing changes in cost and revenue items, comparing the results achieved with the results of similar companies, investors and other users of accounting information can evaluate the success, respectively failure of transactions made during the period and anticipate their future development. The profit or loss is an irreplaceable output that includes financial statements prepared by internationally accepted accounting standards. The result of management can theoretically be determined in accounting in two ways (Vodacek, L., & Vodackova, O., 2006).

The first method is based on the principle of accrual, i.e. the recognition of the financial benefits of transactions at the time they are incurred, not at the time organizations receive or issue funds for them.

The second method is based on cash flows. Using this method, transactions involving income and expenses are reduced to those in which there has been a corresponding change in the amount of cash at the same time.

The legislation of the Slovak Republic specifies the requirements for the classification and method of accounting for costs and revenues so that the reported profit is comparable with the profit reported by the company in the previous period. The creation and structure of the economic result within the accounting legislation of the Slovak Republic is regulated by the Act on Accounting (431/2002 Coll.) And the measures of the Ministry of Finance of the Slovak Republic no. 4455/2003 - 92, which lays down the details of the accounting procedures in the general chart of accounts for entrepreneurs accounting in the double-entry bookkeeping system. Revenues, especially revenues from the sale of products or services and goods, are among the basic factors in generating profit or loss for a given period, so it is important to determine when they were recognized as revenue.

4 SUMMARY

As we outlined in the article, evaluation and measurement of performance requires monitoring of performance in a specific form, i.e. evaluation of individual processes that make up the overall production process, which raises the need to introduce management of individual processes, especially those that make up the highest amount in sales. Process management represents the continuous improvement of the results of the functioning of the organization and is therefore a promising step in improving the results of the organization.

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