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# Financial Reporting in the Furniture Industry

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***Abstract:*** *The furniture industry is one of particular importance to Romania, as the superior valorization of wood represents a strategic objective at country level (Marginean, 2015). The assessment of the financial position and performance of the economic entities belonging to this sector is of particular importance not only to the national economy, but also to the interests pursued by management, shareholders, commercial partners and creditors. This study focuses on investigating and analysing the financial reports of 15 companies in the furniture industry in Romania. The analysis is based on data collected between 2008 and 2016.*

***Key-words:*** *financial statements, performance, financial position, furniture industry*

## 1. Introduction

Financial reports represent tools through which information on how economic entities operated in the past can be obtained.

The financial statement of an entity is highlighted by the accounting information present in the financial statements, namely by reflecting the financial position in the balance sheet and of the financial performance, reflected in the profit and loss account. Any economic decision taken at the level of an entity implies a strict and fair analysis of all the economic and financial events and transactions, as well as of data provided by the financial statements.

## 2. Methodology

The presentation and analysis of the financial position and performance is a widely developed subject at all academic levels and in specialists' practice. The interest in this matter concerns both Romanian and foreign authors, specialists in finance, accounting and financial management.

The present paper presents an analysis of the evolution and dynamics of the financial position and of the financial performance reflected in the financial

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statements of the economic entities in the furniture industry. The analysis is based on a set of 6 indicators: asset liquidity, general solvency, degree of indebtedness, turnover, net result and return on equity.

The selected financial indicators can be used in order to predict the financial health of an economic entity and the attractiveness of an investment, to analyze trends and to compare performance/profitability across industries or companies.

The main objective of this study is to analyse the financial position and the performance of the economic entities in the furniture industry, in terms of their capacity to obtain profit, in the difficult economic context following 2008. The population surveyed consists of 15 furniture manufacturing companies. The first 15 economic entities which registered the highest sales in the year 2016 were chosen. The financial indicators are calculated by the author, based on the information provided by the financial reports of this category of companies, elaborated for the years 2008-2016 and published on the website http://www.firme.info. The analysis required the investigation of the financial statements over several consecutive financial years for a period of 9 years (2008-2016). The examination of the financial statements over several consecutive financial years is assumed to increase the value of the analysis performed.

The information needed to analyse the financial position is mainly provided by the balance sheet. The analysis of the financial position involves an analysis of the evolution and structure of assets, liabilities and equity.

The ratios of the structure of the financial position (assets, liabilities and equity) highlight the entity's financial characteristics such as: the ability of assets to turn into liquidity, the entity's autonomy and financial independence and the quality of financial balances in the short and long term. At the level of the financial position, the financial equilibrium of an economic entity can be quantified using the indicators of liquidity and solvency.

A first way of achieving financial equilibrium of the entity is obtained by permanently ensuring the firm's ability to pay, both in the short and in the long term. In general, financial liquidity and solvency represent the entity's ability to deal with outstanding payments.

A relevant indicator regarding the financial position of an economic entity is represented by the ***asset's liquidity indicator (AL),*** which reflects the ratio of the current assets of the company faced with the total of its assets. The indicator provides information on the degree of liquidity of an entity's assets in the time horizon in which it can settle its debts to its creditors. The evolution of this indicator is presented in Figure 1. The analysed companies did not record significant fluctuations with regard to the assets' liquidity; we can even speak of a relative constancy from one financial exercise to another. Current assets represent (in 4 out of the 15 companies, over the entire period) more than 50% of total assets. This could be a positive sign regarding the possibilities of the economic entities to honor their debts and thus to keep themselves at sufficient distance from the risk of insolvency. The period with the highest liquidity of assets took place between 2013 and 2016. At the same time, the entities present an inappropriate structure of the current asset, in terms of the high share of inventories and receivables, and a low one in terms of cash availability. In this respect, it is necessary to accelerate the speed of stock turnover, but also to rethink the credit policy among customer relations. Increasing receivables may mean granting more comfortable payment terms to customers; however, uncertain claims may arise.

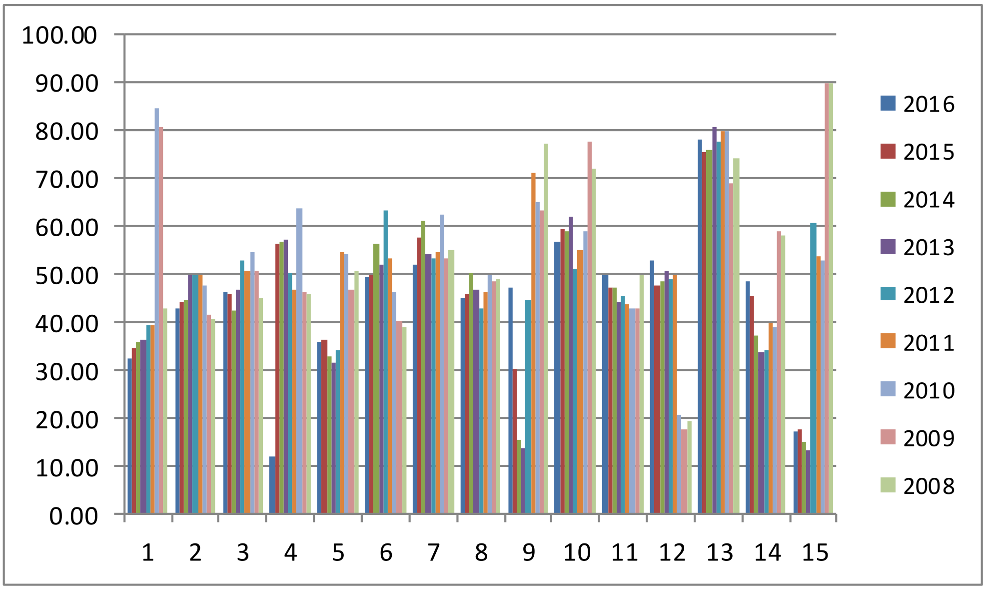


Fig. 1. *Assets liquidity*

The indicators that can signal the insolvency of economic entities and a possible bankruptcy risk are: general solvency and the degree of indebtedness. ***General Solvency (GS)*** is another economic-financial indicator that is analyzed in this paper in order to provide an overview of the ability of the entity to honor its creditors' payments, both in the short and long term. This indicator could signal the risk of insolvency of the economic entities. It expresses the extent to which the assets of the company contribute to financing its total debts, calculated as a ratio between total assets and total liabilities. Its evolution is shown in Figure 2. If the general solvency ratio is higher than 1, the overall financial situation of the entities shall be better. The analysis shows that 70% of the entities, recorded values are above the accepted minimum value. The lowest level is 0.3 and the highest level is 10.9. The companies included in this sample have a good general solvency. The highest level of solvency was recorded over the period 2013-2016.

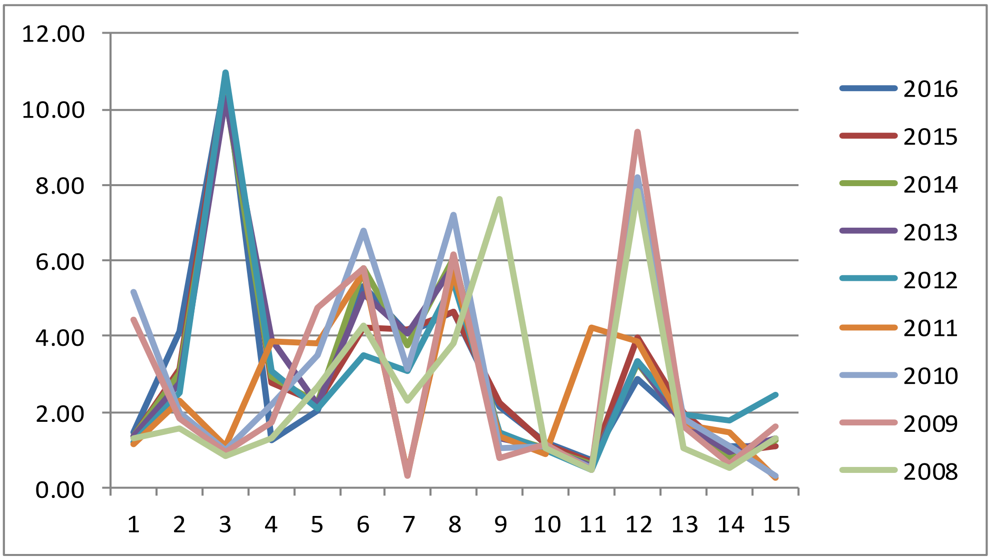


Fig. 2. *General solvency*

An indicator that can quantify the amount of external financing in relation to the possibility of self-sustaining of an economic entity is the ***degree of indebtedness (DI).*** This indicator is calculated as the ratio between total debt and equity.

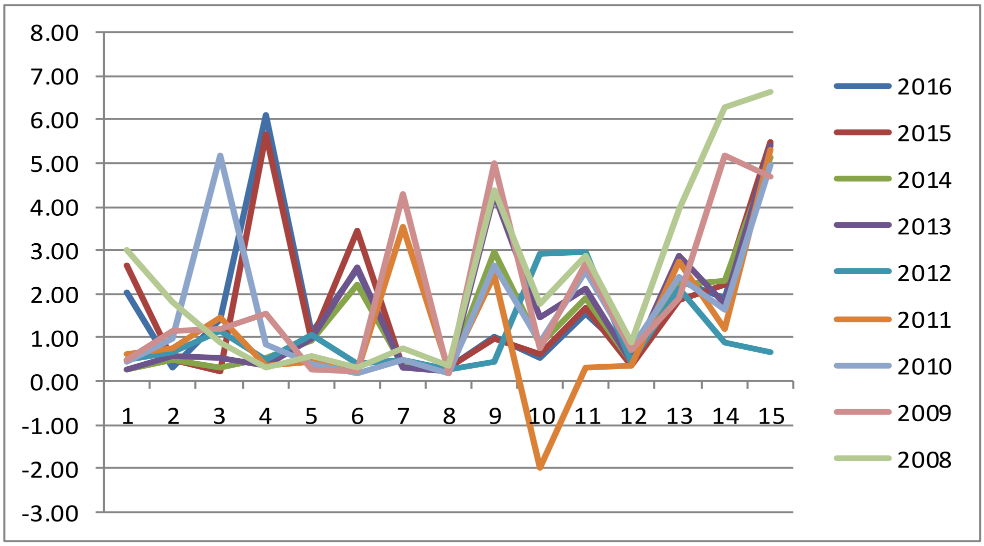


Fig. 3. *Degree of indebtedness*

The evolution of the degree of indebtedness is presented in Figure 3. The higher the value of this indicator, the more an economic entity depends on borrowings or on commercial debt. A reasonable situation requires that this indicator does not exceed the threshold of 0.5. The degree of indebtedness of the analyzed entities ranges from 0.2 to 6.65. The economic entities recorded a high level of the degree of indebtedness to their creditors, especially between 2008 and 2011. The high level of indebtedness degree shows that their financing depends less on their own sources and more on borrowed sources (usually bank loans). This may also be a barometer of the entity's independence towards its creditors (Anton, 2009). The named entities faced the danger of insolvency in 2008-2011, this being a period of dependency on external sources.

The paper also presents an analysis of the evolution and dynamics of the financial performance reflected in the financial statements of the economic entities from the furniture industry. The study addresses the financial performance from the perspective of the profit and loss account, analysing the indicators: turnover, net result and return in equity (ROE). Performance not only implies the ability of an entity to achieve profit, but also its ability to pay off its long and short-term debt.

An indicator that measures company performance, used as a criterion for ranking them according to their economic importance, is the ***turnover indicator (T).*** Turnover represents the total value of sales made over a period of time by an economic entity. This indicator enables the company's assessment in its field of business, its market position, its ability to launch and develop profitable activities. At the same time, the change in turnover is reflected in the main economic and financial indicators, as well as in the efficiency of the economic entities' activity. In the productive sector, net turnover expresses the total volume of business and includes the total revenue made from the sale of the obtained products.

Turnover has registered an upward trend over the period under review; this trend is largely due to the increase in the sale of the obtained goods but also due to the increase in the number of employees. The evolution of the number of employees (NE) of the last three years of analysis is presented in Table 1.

| **NE [Thousand employees]** | **Furniture manufacturing economic entities** | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Years** | **1** | **2** | **3** | **4** | **5** | **6** | **7** | **8** | **9** | **10** | **11** | **12** | **13** | **14** | **15** |
| **2016** | 4 | 4 | 1 | 6 | 1 | 1 | 2 | 8 | 6 | 4 | 4 | 4 | 2 | 4 | 2 |
| **2015** | 3 | 5 | 9 | 5 | 1 | 1 | 3 | 6 | 6 | 4 | 4 | 5 | 2 | 4 | 1 |
| **2014** | 2 | 6 | 8 | 4 | 1 | 1 | 4 | 5 | 7 | 5 | 4 | 6 | 2 | 5 | 1 |

Table 1. *Number of employees in the furniture producing companies*

The dynamics of the turnover for the 15 furniture manufacturing entities is outlined in Table 2. The companies presented in Table 2 are the top 15 furniture companies in Romania with the highest sales in 2016.

| **T (mil lei)** | **Furniture manufacturing economic entities** | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Years/ Comp.** | **1** | **2** | **3** | **4** | **5** | **6** | **7** | **8** | **9** | **10** | **11** | **12** | **13** | **14** | **15** |
| **2016** | 838 | 152 | 339 | 308 | 163 | 183 | 749 | 125 | 127 | 923 | 321 | 290 | 123 | 451 | 191 |
| **2015** | 659 | 179 | 282 | 289 | 181 | 180 | 906 | 107 | 112 | 113 | 346 | 313 | 147 | 452 | 142 |
| **2014** | 567 | 203 | 306 | 234 | 199 | 180 | 112 | 100 | 965 | 109 | 331 | 372 | 172 | 380 | 129 |
| **2013** | 546 | 208 | 299 | 185 | 155 | 160 | 103 | 886 | 801 | 953 | 340 | 465 | 184 | 427 | 162 |
| **2012** | 505 | 200 | 270 | 115 | 130 | 152 | 817 | 809 | 728 | 826 | 366 | 458 | 186 | 417 | 150 |
| **2011** | 462 | 195 | 235 | 136 | 127 | 120 | 882 | 771 | 685 | 603 | 331 | 428 | 212 | 367 | 158 |
| **2010** | 327 | 178 | 298 | 109 | 929 | 993 | 805 | 646 | 565 | 592 | 357 | 367 | 223 | 378 | 162 |
| **2009** | 207 | 162 | 166 | 683 | 104 | 689 | 761 | 612 | 516 | 833 | 276 | 349 | 220 | 451 | 148 |
| **2008** | 198 | 141 | 102 | 650 | 128 | 699 | 747 | 935 | 358 | 507 | 273 | 522 | 197 | 391 | 192 |

Table 2. *Turnover of the furniture producing companies*

Another indicator that shows the financial performance registered by each sector is the ***net result (NR).*** It expresses the efficiency of all the activities carried out by economic entities. Five of the analyzed economic entities experienced losses during the period under review, namely in 2008, 2011 and 2016. The period between 2009 and 2011 was marked by decreases of the net result based on a rise in total expenditures. The increase in the number of employees for the two companies that registered a loss appears to have had a positive effect on turnover, but not on the net result which recorded negative values in the period under review. The other 10 companies recorded positive and rising values of the net result.

Another indicator that expresses the ability of an economic entity to generate profit is the ***return on equity (ROE)***. The rate of financial return is a significant indicator for assessing the economic and financial performance of enterprises both in their internal diagnosis and analyses requested by external partners (Căruntu, 2009). The rate of return on equity expresses the ability of equity to generate profit and the efficiency of using the equity. Depending on the level of the rate, shareholders appreciate whether their investment is warranted and whether they continue to invest. It is calculated by reporting the obtained net result at the value of the equity. Thus, a high rate of the financial return generates consistent earnings for shareholders. The higher the rate of financial return, the more available finances the company has (Vasilache, 2009). If the rate of financial profitability grows at a constant pace, it assumes that the company's management offers shareholders more value for the money they invest. In other words, this indicator shows how well the management uses the capital provided by the company's shareholders.

The rate was negatively influenced by the losses recorded in the period of 2008-2011. The year of 2016 was scarcely affected by losses. The 2009-2011 period encounters five out of the fifteen companies on a negative curve due to the record of losses, but with a return in the following years when positive values were registered. In order to increase the level of the financial return and to stabilize the situation of the economic entities, it is necessary that the net profit increases at a rate higher than the increase of the equity. A company that is highly indebted and that has a low fund from the shareholders, generally has a higher return on equity than one that is funded more by the shareholders. The advantage is represented by the obtainment of a higher return on the same shareholder's share, while the disadvantage is a higher risk given by a high dependency on debt.

## 3. Conclusions

The main objective of the study is to analyse the financial position and performance of the economic entities in the furniture industry, from the perspective of their ability to obtain profit in the difficult economic context of the post-2008 period. The financial position and performance were analysed using the accounting information provided by their financial statements.

The economic entities from the furniture industry managed to overcome the specific difficult moments of the economic crisis, registering an upward trend of the turnover. The entities analyzed in this paper are of large dimensions, with a minimum number of 50 employees and a maximum of 4100. Generally, there exists a growth trend in this sector, with significant benefits for Romania. From an economic point of view, the furniture industry is the most profitable activity in terms of the possibilities of capitalizing wood.

The rate of financial return has registered fluctuating values, with a decreasing trend over the period between 2009 and 2012, but with a strong recovery in the coming years. The diagnostic analysis demonstrated that the furniture industry has also experienced difficult times, especially in the 2008-2012 period. Another finding of this study relates to the rather sensitive position of the degree of indebtedness. For four out of the fifteen surveyed companies, the borrowing rate has registered rather high values, especially in the 2008-2011 period. This points to a relatively low potential for self-financing, meaning that the companies are mainly financed by external sources. In conclusion, we can observe that the economic entities in the furniture industry present, as a whole, a positive financial performance that can generate a significant added value, as evidenced by the level of the calculated indicators. This research also has some limitations inherent to any such scientific approach, which only open up new horizons for future research. A first limit in the performance appraisal refers to the number of companies that were analyzed, and to the time horizon.

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