

**International Journal of Experimental Research and Review (IJERR)**

**©Copyright by International Academic Publishing House (IAPH)**

**ISSN: 2455-4855 (Online)**

**Original Article**

**Received:** 5<sup>th</sup> November, 2018; **Accepted:** 7<sup>th</sup> November, 2018; **Published:** 30<sup>th</sup> December, 2018

---

DOI: <https://doi.org/10.52756/ijerr.2018.v17.004>

### **The importance of financial liquidity analysis in an enterprise**

**Aleksandra Skrzypek**

Faculty of Management, University of Economics in Cracow,  
Rakowicka 27 St., 31- 510 Cracow, Poland

**Author's E-mail:** [aleksandra.skrzypek97@onet.pl](mailto:aleksandra.skrzypek97@onet.pl)

#### **Abstract**

The article attempts to present the importance of financial liquidity analysis and its impact on financial condition of an enterprise. It introduces financial analysis tools and effects of losing of financial liquidity in the enterprise.

**Keywords:** financial analysis, financial condition of an enterprise, financial liquidity.

#### **Introduction**

The assessment of the financial condition of an enterprise is an important tool for managing the finances of an enterprise and for making quick and effective decisions. Nowadays, in the conditions of high variability of the business environment and continuous development of science and technology, the information obtained from the financial analysis is necessary to ensure the company's smooth operation in the future (Dynus et al., 2005).

#### **The importance of financial liquidity analysis**

According to the research carried out by the Central Economic Information Center in 2013-2018, about 700 enterprises a year on average fall down in Poland. The most common cause of the collapse of these enterprises is the loss of financial liquidity, leading to insolvency. Therefore, knowledge of tools and methods of

financial liquidity analysis is an indispensable tool for effective business management.

The financial liquidity analysis answers the question whether a given company has the ability to settle its current liabilities. If the financial liquidity of an enterprise is too small, there is a risk that it will become insolvent and go bankrupt. We are talking about losing financial liquidity. The opposite of loss of financial liquidity by the company is excess liquidity, that is excessive financial liquidity, which limits the development opportunities of the company, because it reduces its profit, which is usually financed by the company (Wędzki, 2003). To prevent this, the company should plan and manage its financial liquidity both in the short and long-term. Financial liquidity management consists in controlling expenses and inflows in such a way that they offset each other, and the possible shortage

of cash is replenished by provisions (Kubusiewicz, 2005).

The most often used for the analysis of financial liquidity ratio in an enterprise are (Gołębiowski, 2014):

- current indicator,
- fast indicator,
- cash indicator.

However, when conducting a financial analysis, it should be remembered that not only the value of the calculated ratio is important, but above all the interpretation and explanation of the reasons for its change. The figures included in the financial statements only show how the value of individual components has changed, but they do not explain the reasons for this change (Sikorski, 2013).

The first indicator of financial liquidity is the current ratio. The higher the value of this indicator, the greater is the financial security of the unit.

$$\text{current ratio} = \frac{\text{current assets}}{\text{current liabilities}}$$

The value of this indicator is considered to be between 1.5 and 2. This means a surplus from 50% to 100% of the value of assets over liabilities. An index value lower than 1.5 indicates a threat to the financial security of enterprises (Machała, 2004). On the other hand, the value of the index greater than 2 on one side will see a high financial liquidity of the enterprise, and on the other hand it may mean excessive stocks or un-invested cash (Gabrusiewicz, 1997).

The second indicator is the fast indicator. This indicator informs about the extent to which short-term liabilities are covered by investments and short-term receivables.

$$\text{fast indicator} = \frac{\text{short-term investments} + \text{short-term receivables}}{\text{current liabilities}}$$

The value of this indicator should be greater than or equal to 1. If the value of this indicator is less than 1, it indicates the payment difficulties in the enterprise and the imbalance in the financial economy of the enterprise. On the other hand, too high value of this indicator may mean too large collection of cash in the enterprise (Sikorski, 2013).

The last indicator is the cash indicator. This indicator shows the coverage of short-term liabilities with cash.

$$\text{cash indicator} = \frac{\text{cash}}{\text{current liabilities}}$$

Using this indicator, we examine the company's payment capability. It is the ratio of the value of the most liquid assets, i.e. cash to the value of short-term liabilities. However, it does not decide on the solvency of a given enterprise, but only on its payment efficiency (Sikorski, 2013).

## Conclusions

To sum up, nowadays the analysis of the company's financial liquidity is extremely important because of continuous dynamic changes in the market. It answers one of the most important question whether the company is able to settle its obligations on time and whether the company will be able to continue its operations in the future.

## References

- Dynus, M., Kołosowska, B. and Prewysz-Kwinto, P. (2005). Analiza finansowa przedsiębiorstwa, TNOiK, Toruń. Pp. 9-11.

Gabrusewicz, W. (1997). Analiza finansowa przedsiębiorstwa, Oficyna Wydawnicza „SAMI SOBIE”, Poznań. Pp. 164- 165.

Gołębiowski, G. (2014). Analiza finansowa przedsiębiorstwa, Difin, Warszawa. Pp. 11-119.

Kubusiewicz, B. (2005). Zarządzanie finansami i analiza finansowa przedsiębiorstw, Wydawnictwo Forum Naukowe, Poznań.

Machała, R. (2004). Praktyczne zarządzanie finansami firmy, Wydawnictwo Naukowe PWN, Warszawa.

Sikorski, J. (2013). Analiza finansowa w zarządzaniu przedsiębiorstwem., Wydawnictwo SIGMA, Suwałki. Pp. 3 - 28.

Wędzki, D. (2003). Strategie płynności finansowej przedsiębiorstwa, przepływy pieniężne, a wartość dla właścicieli, Oficyna Ekonomiczna, Kraków. Pp. 32- 34.