



## ANALYSIS OF THE IMPACT OF KEY INDICATORS ON THE FINANCIAL POSITION OF PRODUCERS OF THE AGRICULTURAL SECTOR

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### ABSTRACT

The agrarian sector is of strategic importance to the national economy because it ensures the country's food security and the presence of a significant number of unprofitable agricultural producers has imposed their financial recovery in order to ensure the development of the agrarian sector in the country. In order to improve the economic situation and reduce the number of failed agricultural producers in Bulgaria, government measures have been taken to improve the producers. Legislative acts, state targeted programs and priority national agricultural development projects have been adopted in recent years, all of which are under the European Common Agricultural Policy. As a result, there is a scientific and practical need to study the forms and methods of financial rehabilitation of agricultural organizations that confirm the importance of the article. The subject of a survey of the publication is the state of the finances of the agricultural sector producers and the methods for its improvement. The main objectives of the financial recovery are to prevent liquidation, debt restructuring, restore solvency, ensure long-term financial sustainability of agrarian producers. The objectives of the course are a study of the state of the financing of agriculture and the ways of its improvement.

**Key words:** financing, agrarian sector, agriculture, subsidy, analysis of agrarian producers

### INTRODUCTION

Currently, one of the most important sectors is agriculture, and therefore more and more researchers are directing their efforts into this field of research. In this case, it is very important to determine the factors which are representative for agriculture that have the greatest influence on the financial status of producers. Having studied the features of agriculture, it is important to analyze the influence of the main factors on the financial status of producers.

When we want to effectively manage an agricultural enterprise, it is very important to be able to duly take into account the negative trends in its development. In this case, it is of vital importance to conduct a periodic financial analysis, paying attention to the main indicators that have the greatest impact on the business. The main difficulty is due to the

specifics of the activities of agricultural enterprises.

By key agricultural indicators, we understand those that are most important for the development of enterprises and their economic activity. Due to the serious problems that underlies in most of the financial situation of the agricultural enterprises, and difficulties in financial analysis, it is especially important to find models that improve the conditions for making the right financial decisions. Therefore, we will analyze what impact each factor has on the effective development of the agricultural sector. This analysis will contribute to a more accurate assessment of the results achieved by agricultural producers, as well as more efficient management.

### THE NEED TO ANALYZE THE FINANCIAL SITUATION OF PRODUCERS OF THE AGRICULTURAL SECTOR

Due to the nature of their business, most agribusiness companies have serious financial problems. Problems and features of

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manufacturers have not been investigated by any researcher and have not yet been completely resolved. It reveals that for the proper functioning it is important to conduct a financial analysis of the economic activities of each agricultural enterprise. Financial difficulties are mainly due to the fact that for the majority of agricultural producers FTA is not available, the material base is outdated, and access to financial assistance is extremely difficult. What this means is that the best way to improve the financial situation of producers is to analyze the main factors that influence in a greater way their production activities. Due to the constant aggravation of economic activity in the agricultural sector, reproduction should be continuous, while funding should come from domestic sources (depreciation, non-distribution) and from external sources (bank loans, leasing, subsidies, government assistance).

To improve the financial position of agricultural producers, it is necessary to introduce working models for managing their finances. It comprehends the proper use and mobilization of financial instruments obtained at the enterprise or obtained from an external source by continuously monitoring the state of the capital structure and ensuring long-term solvency. (1)

Once, an agricultural producer set long-term goals to overcome current problems and opportunities for their further development. It is necessary to find the main factors over which the manufacturer has control and monitor their development. The problem arises from the fact that the data used most frequently by agricultural producers are taken from annual reports, which are historical data, which, in turn, limit the level of their use in financial analysis. The peculiarities of agriculture are: the presence of periods of the year, saturated with cash payments due to seasonality of production; a huge variety in the structure of production, which has a great influence on the distribution of money potions; a longer period with a change in working capital and its structure during the year, which indicates the need for additional funding. In order to be able effectively overcome these features, it is necessary to plan and monitor the activities of agricultural producers. Without planning and managing a business, a farmer can easily fall into insolvency at a critical moment. (2)

## **METHODS FOR STUDYING THE FINANCIAL POSITION OF PRODUCERS IN THE AGRICULTURAL SECTOR**

To achieve proper planning and control of farmers' financial development, it is necessary to examine a set of indicators and ratios. Each of the metrics and relationships must not only be obtained, but must also be properly analyzed. It's a crucial condition for an in-depth analysis of the economic activities of agricultural producers, due to the above-mentioned features. (3)

The first indicator that is calculated when analyzing the financial situation is sales revenue. It allows us to explore the flow of farmers in certain groups, which leads to a change in pace. The most frequent indicator is determined by changes in prices, yield per unit of area or number of animals, climatic conditions, as well as the degree of use of received state and European subsidies. Important conditions for calculating this indicator are: the mode of production, whether it is extensive or intensive; the level of technological development of production; used breeds and varieties. (4)

The second indicator is the profitability of the enterprise, since the expected result at the end of each year for each manufacturer is profit. In turn, the amount of profit determines to what extent and how efficiently resources are used and whether the optimum production potential has been reached. Various studies have found that larger agricultural producers, due to more resources, more experience, knowledge and economies of scale, reported higher yields. Profitability is measured by the profit ratio EBIDA, which takes into account profit before interest, taxes and depreciation in relation to the turnover realized for the corresponding reporting period. (5)

The third indicator is liquidity, which is of great importance for producers in the agricultural sector due to the specifics of production. This factor indicates a manufacturer's ability to serve its current needs. There is a direct dependence on the short-term liquidity and competitiveness of the company. Once an enterprise has good creditworthiness, it can provide the necessary resources in a timely manner, while at the same time covering its current needs, which is the most important condition for the smooth operation of the business. Measurement of total liquidity is carried out as a ratio between

short-term assets and short-term liabilities of an enterprise, whereas in the case of rapid liquidity, short-term assets should be withdrawn from stocks. (6)

The following indicator is related to the measurement of financial autonomy, which takes into account the degree of financial independence of an agricultural producer from financial institutions or attracted capital. When the ratio is less than one, the attracted capital exceeds its own, which, in turn, indicates that the obligations are not hedged enough. If the indicator stays longer under the unit, this in turn can cause problems for a longer period of time. If the ratio is higher than one, this means that the equity capital fully covers the liabilities of the enterprise, indicating that the agricultural producer is autonomous and does not depend on external sources of financing. The ratio itself reflects the ratio between equity and total liabilities of an agrarian enterprise. (3)

Another important indicator of the financial condition of the company is to analyze the trend of long-term and short-term liabilities. This factor shows the structure and size of liabilities in the enterprise. Currently, due to the high dynamics of market relations and easier access to external financing, the debt does not pose a danger to the enterprise if it is within reasonable limits and the funds are used for investment. When funds are invested in the enterprise in order to increase its efficiency in the future or for the needs of working capital, which is associated with covering current expenses for the normal operation of the enterprise. The main risk is associated with improper allocation of funds and the lack of buffers in the case of using more external financing. (7)

When considering the ratios and indicators described above, we should not forget that the main source of the value of an enterprise's assets is capital. It reflects the amount of this part of the assets of the acquired company, but this should have been done without the participation of third parties. Capital increase occurs after deducting all liabilities. Therefore, when considering the financial situation of an agricultural enterprise, an analysis is made of the increase and amount of equity capital. (4)

## CONCLUSION

After we have identified the need to analyze the financial situation and taking into account

the characteristics of the economic activities of producers in the agricultural sector, we have proposed several key indicators to determine the level of development of enterprises. Therefore, we consider it important to analyze the above factors, since they give the best estimation of the current financial situation of an enterprise. In addition, some indicators reflect the development trends of the enterprise, which serve as an indicator of an upcoming issue.

Improving the financial analysis and regularly calculating the proposed indicators, we can guarantee the best functioning of the agricultural enterprise. If we want to improve the financial performance of enterprises in the agricultural sector, it is necessary to constantly monitor the level of liquidity of assets, as well as the level of profitability. Each company should focus its efforts on improving its financial autonomy, this will be done by increasing liquidity in the short term and profitability in the long term.

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