

Financial Statement Analysis in Transport Construction Enterprises

PhD. Pham Thi Van Anh, AOF

E-mail: phamthivananh@hvtc.edu.vn

Prof. Nguyen Le Cuong, AOF

E-mail: nguyenlecuong@hvtc.edu.vn

Lam Cao Khanh

University of Virginia, America

E-mail: Caolam210@gmail.com

Received: September 22, 2024 Accepted: October 29, 2024 Published: November 8, 2024

doi:10.5296/ber.v14i4.22380

URL: <https://doi.org/10.5296/ber.v14i4.22380>

Abstract

Financial statement analysis is the process of using appropriate analytical tools and techniques to review and evaluate data reflected in financial statements, along with the correlations between various indicators in the financial statements and other related data, in order to provide useful information that meets the informational needs of various users. Through the research process at transportation construction enterprises, the author assesses the current state of financial statement analysis and the use of analytical information compared to industry average indicators and proposes four specific solutions for utilizing financial statement analysis information in the enterprise.

Keywords: Financial report analysis, Transport construction enterprises

1. Problem Statement

Financial statement analysis is an essential task not only for business owners but also for all entities outside the business having economic and legal relations with the business. By accurately assessing the financial situation, business owners will make appropriate economic decisions, and use capital with resources economically and effectively. Additionally, investors will make the right decisions with their investment choices; creditors will be assured of the

business's ability to pay for loans; suppliers and customers will be assured that the business can fulfill its commitments; state management agencies will have suitable policies to facilitate and support business activities, and control business activities by law simultaneously. Enterprises have been struggling to cope with the development of the epidemic situation that has had detrimental impact. The financial situation of many businesses is assessed to be severely affected. Analyzing and evaluating the financial situation of a business is crucial for managers to orient production and business activities in the upcoming time.

The fluctuation of domestic consulting and construction investment enterprises has witnessed many changes in recent times. This has significantly affected the development and scale of enterprises. Consulting and construction enterprises are increasingly hoping to affirm their position by making great contributions to the economy or creating jobs for workers, etc.

According to the Financial Statement Analysis Textbook (2017) of the Academy of Finance: *“Financial statement analysis is the process of using appropriate analytical tools and techniques to review and evaluate data reflected in financial statements, along with the correlations between indicators on financial statements and other related data. This aims to provide useful information that meets the needs of users' information from various sides”*.

Luong The Quang (2022), Academy of Finance "analysis of financial statements of Song Da Construction and Construction Joint Stock Company". This work has systematized the analysis of financial statements in enterprises. Then, describe the current financial situation through the analysis of financial statements at the company: discuss and evaluate the advantages and limitations in analyzing financial statements at research units, thereby proposing some solutions and recommendations to complete the analysis of financial statements.

Pham Thi Phuong (2018), the Academy of Finance "analyzing the financial statements of Hanoi Housing Construction and Investment Development Joint Stock Company", has systematized the basic theoretical issues of analyzing the financial situation through financial statements, covering in depth the methods and contents of analyzing the financial situation of enterprises.

Phan Thi Hai Hang (2018), Academy of Finance "analysis of financial statements of Phuc Hung Holdings Construction Joint Stock Company (PHC)", has systematized scientific theories on.

In the author's opinion, financial statement analysis is the process of reviewing and analyzing a business's financial statements to make comments, assessments, and better economic decisions to generate income and promote the future development of the businesses as well as meet the needs of users' information from various sides.

2. Current Situation of Financial Statement Analysis in Transport Construction Enterprises

In the process of analyzing the Business Performance Report in the transport construction

enterprises, the group of authors found that the current situation of transport enterprises is mainly analyzed by the comparison method: Calculating the indicators on the business performance report, the cost ratio and profit ratio indicators, then comparing the absolute and relative numbers between the analysis period and the previous periods. Based on that, the factors influencing the increase or decrease in the after-tax profit of the enterprise are determined. Besides, several ratios reflecting the level of costs and business results are used to analyze, evaluate and explain the causes.

Table 1. Analysis table of fluctuations in indicators on the business performance report in transport construction enterprises

Unit: VND

Target	Year			Difference between 2023 and			
	2021	2022	2023	2021		2022	
				Amount	Proportion	Amount	Proportion
1. Net revenue	30,573,529,677	30,486,551,630	20,738,945,398	(9,834,584,279)	-32.17%	(9,747,606,232)	-31.97%
2. Cost of goods sold	20,084,657,952	20,200,599,400	14,844,615,779	(5,240,042,173)	-26.09%	(5,355,981,211)	-26.51%
3. Gross profit from services	10,488,871,725	10,285,952,230	5,894,329,619	(4,594,542,106)	-43.80%	(4,391,622,611)	-42.69%
4. Financial operating revenue	1,856,972	1,984,613	2,705,318	848,346	45.68%	720,705	36.31%
5. Financial costs	83,902,083	21,380,417	74,739,727	(162,356)	-10.92%	53,359,310	249.57%
6. Business management costs	9,017,884,782	8,862,252,407	5,550,519,435	(3,467,365,347)	-38.45%	(3,311,732,972)	-37.37%
7. Current corporate income tax expense	277,416,972	199,317,975	37,669,864	(239,747,108)	-86.42%	(161,648,111)	-81.10%
8. Profit after tax	1,093,021,391	1,065,021,391	193,015,506	(900,005,885)	-82.34%	(872,005,885)	-81.88%

Source: Company's financial report for the period 2021 - 2023

From Table 1, the company's net revenue from sales and service provision in 2023 reached VND 20,738,945,398, a decline of VND 9,747,606,232 and equivalent to 31.97% compared to 2022. The main reason is due to the severe impact of the COVID-19 epidemic, current construction projects are temporarily suspended and new projects are fewer, causing revenue from consulting, surveying, and designing projects to decrease. Revenue in 2023 even minimized compared to 2021 (a reduction of VND 9,834,584,279, equivalent to 32.17%). Below is the figure showing the relationship between revenue, cost of goods sold, and gross profit.

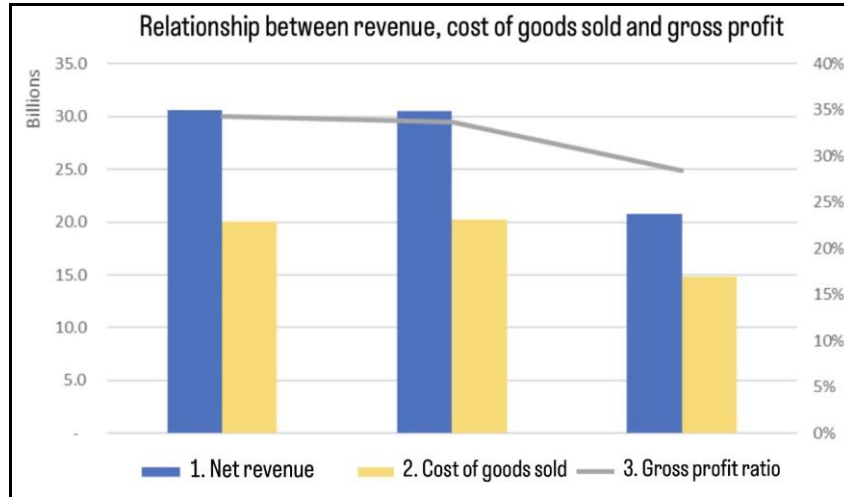


Figure 1. showing the relationship between revenue, cost of goods sold and gross profit

Source: Company's financial statement for the period 2021 - 2023

The cost of goods sold in 2023 decreased by VND 5,355,98121 compared to 2022, equivalent to 26.51%, and compared to 2021, decreased by VND 5,240,042,173, equivalent to 26.09%. This is mainly due to the decrease in the number of construction projects, and prolonged social distancing, leading to a significant decrease in costs, mainly employee salaries. However, the rate of decrease in cost of goods sold was less than the rate of decrease in revenue because most of the cost of goods sold included a large amount of fixed costs, depreciation of fixed assets, and a part of fixed employee salaries. Meanwhile, revenue did not arise during a long period of social distancing. This led to a decrease in gross profit in 2023 compared to 2022 and 2021. Gross profit in 2023 is VND 5,894,329,619, down VND 4,391,622,611, equivalent to 42.69% compared to 2022 and down VND 4,391,622,611, equivalent to 43.8% compared to 2021. The gross profit scale decreased, and the company's gross profit margin on net revenue decreased from 34% in 2021 and 2022 to 28% in 2023. This shows that although the company's business activities have achieved certain achievements, the inevitable risks come from economic and social conditions in 2023. However, the epidemic situation is gradually controlled from the first half of 2022, the economic recovery would be an opportunity for the Company to seize potential, opportunities, improve capacity, and expand business activities.

The company's administrative expenses in 2023 were VND 5,550,519,435, down VND 3,311,732,972, or 37.37%, compared to VND 3,467,365,347, or 38.45%, compared to VND 3,467,365,347, or 38.45%, compared to VND 3,467,365,347, or 38.45%, compared to VND 3,467,365,347, or 38.45%, compared to VND 3,550,519, or 3,111,732, in 2022. The decrease in administrative expenses was mainly due to a decrease in staff costs due to a long period of social distancing. In addition, due to the pandemic, the consumption of management services decreased, leading to a decrease in the cost of outsourced services. This significantly reduced administrative expenses. Although revenue did not increase, the company's significant reduction in administrative expenses contributed to improving its operating results.

Financial revenue and financial expenses are quite small compared to the revenue and expense structure in the business performance report. In 2023, the Company increased its capital scale by borrowing more, which increased financial expenses but not significantly. The Company should continue to consider using financial leverage to increase its capacity based on current business conditions to improve its business performance report.

Corporate income tax expense arises based on pre-tax profit and non-deductible expenses. This indicator is calculated in the corporate income tax notes. This expense tends to decrease due to the decrease in the company's after-tax profits.

Compare profitability indicators in transport construction enterprises with average indicators of enterprises in the same industry in 2023.

Table 2. Comparison of profitability indicators in transport construction enterprises

Target	Transport Investment and Construction Consultant Joint Stock Company	Industry average index of construction enterprises	Difference
Return on Sales (ROS)	0.01	0.08	(0.07)
Return on Assets (ROA)	0.01	0.09	(0.08)
Return on equity (ROE)	0.02	0.29	(0.27)
Financial leverage	1.43	2.5	(1.07)

Source: Financial statements of transport construction companies and average construction industry indicators

It can be seen from the table that the figures for profitability on sales, assets and average equity of construction enterprises in the industry are much higher than those in transport construction enterprises. Although revenue has decreased due to the general impact of the economic downturn after the epidemic, due to relatively good cost management, the profit margin on revenue of this company is high. In transport construction enterprises, 1 dong of revenue only generates 0.01 dong of profit after tax, but this figure increases by 0.07 dong in enterprises in the same industry.

Similarly, the profitability ratio of total assets and equity in enterprises in the same industry is also much more positive than that of the company. Under the same conditions, 1 dong of the company's equity only generates 0.02 dong of profit after tax, compared to the similar index in the industry where 1 dong of equity can generate 0.29 dong of profit. When combined with the financial leverage ratio, the higher the ratio, the stronger the use of financial leverage. Enterprises in the industry have a much higher financial leverage ratio than in the transport construction enterprise. This can partly show the efficiency of capital use of enterprises in the transport construction industry. Such capital structure can contribute to supplementing the lack of capital in business, bringing high economic efficiency.

3. Some Solutions to Enhance Financial Capacity in Transportation Construction Enterprises

Throughout the process of reviewing, evaluating, and researching financial statement analysis methods in transportation construction enterprises, the author has found that the business

operations of the company have achieved certain accomplishments in recent times. However, there are also some limitations, such as: not fully leveraging the power of financial leverage to amplify business; not effectively utilizing available resources; not truly optimizing resources; ineffective cost management under unfavorable business conditions; slow capital turnover; and inadequate management of accounts receivable, with lingering overdue debts that cause capital shortages when needed. Therefore, in managing and utilizing business capital, to save costs and increase turnover quickly, the company needs to pay attention to short-term receivables and tightly manage expenses. After researching and analyzing the financial statements of the company, based on personal understanding and knowledge, the author proposes several solutions to address these limitations in order to enhance business effectiveness as well as financial performance at the company.

Building a Reasonable Capital Structure Aligned with the Company's Finances

Given the limitations related to the capital structure (where the equity ratio is always greater than liabilities), the company must make financing decisions using either debt or equity in the most rational way possible to ensure that the cost of capital is minimized while also mitigating potential risks that may arise under inefficient business conditions. On the other hand, consulting, surveying, and designing are conducted through economic contracts signed between the investor and the company after the contractor selection results are available. Depending on the contractor selection methods, in many cases, the bidding documents will require certain competencies, such as capital size and debt situation. This compels the company to pay adequate attention to its strategy for building the asset structure, liabilities, and equity size to consistently ensure the ability to participate in bidding packages.

When constructing the optimal capital structure according to the above model, the company must accurately identify all input data such as information on interest rates and the cost of equity capital, and be cautious in evaluating the calculation results to make the most accurate decision regarding the optimal capital structure.

Enhancing Capital Mobilization Through Banks and Other Credit Institutions

For transportation construction enterprises, bank loans, especially medium-term loans, are crucial for consulting and researching projects that are significant for the company's current business activities. In the context of our country's capital market currently being in a newly developing phase, it can be determined that bank loans will be the primary source of financing. Therefore, the company needs to strengthen and consolidate relationships to increase credit limits. At the same time, it should expand relationships with banks and other credit institutions. This is one of the common solutions used to expand capital and achieve significant effectiveness for certain enterprises, organizations, and localities.

Investing in Human Resources

For a service-oriented business, human resources always play a key role. The quality of the workforce clearly reflects the health and commitment of the business towards sustainable development, aiming for a circular economy. Vietnamese enterprises are increasingly focusing on developing and enhancing the quality of their internal human resources.

Investing in internal training is a strategic investment that helps employees continuously update their knowledge, skills, and new technologies. For new employees, training will help them avoid difficulties and unfamiliarity in their work, allowing them to adapt to the work environment more quickly and achieve better productivity.

In particular, training human resources must go hand in hand with effective utilization of personnel, along with appropriate treatment of employees. There should be a strategy for assigning responsibilities and arranging personnel to ensure the right person is in the right job, thereby enhancing work efficiency and maximizing employee strengths. Furthermore, the structure of salaries, bonuses, and employee benefits must also be ensured to motivate workers and strengthen the bond between employees and employers. Policies regarding salaries, bonuses, and benefits must be clearly stated in regulations, employment contracts, and agreements. It is especially important to minimize wage arrears, which can negatively affect employees' work morale.

Tightly Control Accounts Receivable to Prevent Capital Loss

It is necessary to timely recover the company's overdue debts to ensure that there is a necessary cash flow to help the company carry out effective reproduction. Analysis shows that the average capital recovery period is extending, along with a rapidly increasing proportion of accounts receivable, which leads to a noticeable decline in the company's liquidity and capital efficiency. Therefore, enhancing the company's debt recovery capability and minimizing the situation where customers withhold capital is the most essential measure at this time.

Competing interests

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

Informed consent

Obtained.

Ethics approval

The Publication Ethics Committee of the Macrothink Institute.

The journal's policies adhere to the Core Practices established by the Committee on Publication Ethics (COPE).

Provenance and peer review

Not commissioned; externally double-blind peer reviewed.

Data availability statement

The data that support the findings of this study are available on request from the corresponding author. The data are not publicly available due to privacy or ethical restrictions.

Data sharing statement

No additional data are available.

Open access

This is an open-access article distributed under the terms and conditions of the Creative Commons Attribution license (<http://creativecommons.org/licenses/by/4.0/>).

Copyrights

Copyright for this article is retained by the author(s), with first publication rights granted to the journal.

References

Ministry of Finance. (2008). *Vietnam accounting system - accounting regime for enterprises. Financial reports, documents and accounting books, accounting diagrams*. Statistical Publishing House.

Ministry of Finance. (2011). *Guidelines for analyzing economic and financial activities of enterprises*. Statistical Publishing House.

Co, N. T. (2017). *Analysis of financial statements of joint stock companies and construction* (Thesis). Finance Academy.

Co, N. T., & Tha, N. T. (2017). *Financial analysis textbook*. Finance Academy.

Phuong, P. T. (2020). *Analysis of financial statements of Thang Long construction and investment development joint stock company* (Thesis). National Economics University Publishing House.

Hang, P. T. H. (2021). *Analysis of financial statements of Phuc Hung Holdings joint stock company (PHC)* (Thesis). National Economics University Publishing House.