THE EFFECT OF USING THE FINANCIAL ANALYSIS OF PROFITS ON THE QUALITY OF THE FINANCIAL DATA

Layth Ali Hammadi Al-Furat, AL-Awsat Technical University

ABSTRACT

This research aims to identify the profits announced in the financial data and their impact on the quality of the financial data, what is the role of financial analysis on the quality of financial statements and future investment decisions. The most important conclusion reached by the researcher's mechanism notes that there is an increase in the bank's capital in a significant way, however, the bank's administration seeks to address financial problems through increased investment. The researcher recommends that bank management not rely solely on increasing the capital. In addressing the decline in the market formation and lower share prices Rather, it should review borrowing policies and extend credit and interest.

Keywords: Financial Analysis, Profitability Ratios, Profits, The Quality of the Financial Data

INTRODUCTION

The analysis of financial statements is the process of estimating risks and profits for a particular economic unit, by analyzing the financial information recorded in the financial statements using accounting tools.

The use of financial analysis to predict future profits by using profitability ratios in financial analysis, Predict future earnings by analyzing return on investment, equity, and earnings per share.

As the success or failure of the decisions taken by the banking administration depends on the data provided by the financial analysis, financial analysis is an important tool in providing accounting information and data for decision-makers, by providing reliable, objective and timely information that reflects the true reality of the financial statements provided on the economic unit.

RESEARCH METHODOLOGY

Research Problem

The use of financial analysis of profits is an important and influencing role in the quality of financial statements, which is the ability to predict the profits of the future economic unit.

The research problem can be formulated by asking:

Is the use of financial analysis of profits through which investment decision-makers can evaluate the quality of profits in the financial statements, And its measurement to identify the nature of these profits that are shown in the financial statements and whether they express honestly and fairly the reality of economic units, Which has an impact on users of financial statements to make appropriate decisions using profitability analysis ratios.

The Importance of the Research

The importance of the research stems from the importance of profits for users of financial data and its reflection on the quality of their investment decisions, and therefore whenever the information expresses honestly and fairly, it was of good quality and these financial reports must be able to communicate financial information effectively and reliably, in a timely and appropriate manner.

Research Objective: This Research Aims to

1-Knowing the concept of financial analysis.
2-Knowing the profits declared in the financial statements and their effect on the quality of the financial statements.
3-What is the role of financial analysis on the quality of financial statements and future investment decisions?

Research Hypothesis

The use of financial analysis of profits has an impact on the quality of financial data by expressing honestly and fairly the reality of economic unity.

Practical Side

Depends on:
1. Information gathered through research.
2. Official data.
3. Personal interviews.

The Research Sample

The practical aspect of the research was applied to the Babel Bank, which is one of the private banks listed on the Iraq Stock Exchange.

THE THEORETICAL ASPECT OF THE RESEARCH

First: The Concept of Financial Analysis

The financial analysis is used to study the financial statements of the economic unit about the data for previous and current years to make a future decision.

Financial analysis is defined as the study of financial statements after tabulating the appropriate tab, with some tools to reach certain results that help in assessing performance and making future decisions (Saada, 2009).

It is also known as: "a procedural method for an accounting information system aimed at providing information and data from the reality of the published financial statements and other financial and non-financial data to assist in making economic decisions (Al-Muntaranah, 2006).

Financial analysis can be defined as a group of ways and methods that help in assessing the financial situation the past and present of economic unity, which enables the best financial decisions to be taken.

Second: The Objectives of Financial Analysis

Financial analysis has several goals, some of which are related to economic unity, including those related to external parties (Karajeh et al., 2000).

1- Knowing the financial position of the economic unit.
2- Knowing the ability of an economic unit to pay off its debts and loan
3- Evaluating the applied financial policies
4- Evaluating the efficiency of the administration.
5- Evaluating the feasibility of investing in the economic unit

(Kuban et al., 2018) believe that financial analysis is used for many purposes and goals and in a way that contributes to meeting the goals of the economic unit, whether in the case of making financial decisions in terms of obtaining funds to grant credit.

We see that one of the most important goals of financial analysis.

1. Determining the financial position of the economic unit.
2. Comparing the financial position of the economic unit with that of other economic units operating in the same section.
3. Knowing the rate of success of the economic unit in achieving its goals and profits.

Third: The Importance of Financial Analysis

The importance of financial analysis is as follows: (Irshad & Mahfouz, 1999)

1. Determine the unit's credit capacity of the company.
2. Determine the revenue capacity of the company and determine the efficiency of the activity carried out by the company.
3. Determine the optimal financing structure and financial planning for the company.
4. Determining the appropriate sales volume through break-even analysis and operational analysis.
5. Determine the company's net value and an indication of the company's true financial position.
6. Determining the company's cost structure
7. Evaluating the performance of senior management.

Fourth: Financial Analysis Steps

Financial analysis has several steps that a financial analyst uses, which he sees (Aqel, 2006).

1. Determine the purpose or goal of the analysis of the management's decision about what work you want. Is the decision related to performance evaluation, or analyze the project's ability to fulfill the obligations or do a work productivity analysis.
2. Collecting the required information according to the type of analysis. If the goal is to evaluate performance, then data on revenues and expenses are collected.
3. Defining the tools of financial analysis.
4. Analyzing the indicators obtained to know the direction of these indicators in the future.

Fifth: The Areas of Financial Analysis

Financial analysis has several purposes, including (Al-Shanti & Shaker, 2007):

1. For credit analysis: To know the risks that the lender will be exposed to in his relationship with the debtor, he will evaluate it and make a decision regarding this relationship based on the results of this evaluation.

2. Investment analysis: This analysis is considered one of the best practical applications of financial analysis, and this importance lies for investors, whether individuals or companies, whose focus is on the soundness of their investment and the adequacy of its returns.
3. Mergers and acquisitions analysis: This merger and acquisition analysis results (the formation of one economic unit as a result of joining two or more units together, and the disappearance of the personality of each or both of them, This type of analysis is used during mergers between the two companies. The evaluation process is carried out to the company's current value.
4. Performance appraisal analysis: it is concerned with most of the parties involved in the economic unit, such as management, investors and lenders.

Sixthly: The Concept of Profits

The term profit refers to the ability of the economic unit to realize profits and it denotes the ability to invest money (Monico, 2014).

While revenue defined as, the unit's cash flows or an increase in its assets or a decrease in its liabilities the result of the activity of the economic unit during the accounting period (Al-Tamimi et al., 2019).

Profit is defined as the increase in assets arising from the normal operations of the project that measure management efforts, and the concept of profit in it is limited to the normal activity of the project only (Al-Dabbagh, 2000).

Profit was defined as (the increase in the capital after covering costs because of investment in various commercial and industrial activities (Al-Qaisi, 2012).

Profit was also known as (the difference between revenues and expenses and is obtained through the income statement (Schroeder et al., 2001).

Others believe that high-quality profits are achieved when they conform to generally accepted rules, standards and principles (Strand & Dechow, 2004).

Seven: Profits Quality Characteristics

For-profits to be of high quality, they must have some features (Dichev et al., 2012):

1. Those profits are continuous and thus are the best way to predict future profits
2. Be able to predict the best profits in the future
3. That it does not change over time.
4. To be based on conservative accounting rules
5. It is supported by cash flow
6. It is characterized by the least amount of changes

Eighth: Factors Affecting the Quality of Accounting Profits

Many factors affect the quality of profits, the most important of which are: (Morcos, 2017); (Mansour, 2015):

1. Characteristics of the economic unit: The relationship of the quality of profits varies with the properties of the enterprise, according to the experimental study environment, as well as the quality of the characteristics chosen, and the industrial sector.
2. Financial reporting numbers practices: that the accounting methods used and the associated estimates it contains interim financial reports and methods that are based on accounting rules and principles. Features of financial reporting numbers that have an impact on the quality of profits.
3. Companies: The relationship between corporate governance and the quality of profits is positive, the corporate governance and the rules and mechanisms that depend on it represent a basic determinant for the opportunistic management behavior in the practice of profit management.

4. Auditors: The quality of the external audit leads to the accuracy and objectivity of the financial reports and provides high-quality accounting information and the achievement of quality earnings.

Ninth: The Concept of Quality of Finance Data

Financial or accounting data are of great importance, as they are considered inputs to the accounting system and the main source for obtaining information, The quality and quality of accounting data has a significant impact on the reliability and quality of information, and all information production processes must collect data, Data storage, and the use of data to work properly to achieve high quality information (Peter & H, 2015).

(Al-Dayeh, 2009) believes that the company's commitment to improving transparency by taking additional procedures other than the established rules can also lead to an increase in the quality of the financial reports.

From the above, the financial data can be defined as the final product of the accounting information system, If these lists are prepared to know the results of the business of the economic unit during a specific financial period, And its financial position at a given moment, and it is considered the main tool to indicate the financial position of beneficiaries to help them in making sound economic decisions.

Tenth: Factors Affecting the Quality of the Financial Data

There are many factors and influences on the quality of the financial statements, including (Center job Audit quality, 2010):

1. Error or fraud can be in good or bad times, as these factors can motivate fraud, as the pressure can have a negative or positive effect when the goals are positive, Pressure contributes to creativity, efficiency, and competitiveness, relying on the company's experiences in preventing fraud and stimulating the quality of financial data.
2. The opportunity for fraud and manipulation of accounts through the nature of the company’s work, as well as wide and large estimates of assets, liabilities, profits, and expenses. Some large operations, especially at the end of the financial year, can facilitate the process of manipulating financial reports.
3. Credibility is represented by the employees understanding the strength of creativity with the company when they see that the administration is highly ethical when these things are available, it will be difficult for the financial statements to include a kind of fraud and manipulation.
4. We consider that one of the most important factors that can affect the quality of accounting data is the intended errors, which is intentionally by the administration to mislead the financial statements and reflect a good image of the economic unit and therefore the information will be inappropriate and not reliable for users.

THE APPLIED SIDE OF THE RESEARCH

The practical aspect of the research was carried out at the Babel Bank, which is one of the banks listed in the Iraq Stock Exchange and the following is an overview of the bank.

Babel Bank is one of the Iraqi private banks, which was established in 1999 with a capital of 500,000,000 five hundred million Iraqi dinars, And the capital was increased to 250,000,000,000 two hundred and fifty billion Iraqi dinars after the approval of the General Assembly on the fifteenth of February of 2014, And that was preceded by a capital increase of 150,000,000,000 one hundred and fifty billion Iraqi dinars on February 27, 2013.

The following are the most important ratios used in the profitability analysis:

1-Coverage ratio and interest rate extraction rate=net profit before interest and tax/interest.

2- The rate of return on equity=net profit/equity.

3- The rate of return on investment=$\frac{Net\ profit\ after\ tax}{Total\ assets}$

4- The rate of return on equity=$\frac{Net\ profit\ after\ tax}{Equity}$

5- Return on stock= $\frac{The\ return\ available\ to\ common\ stockholders}{The\ number\ of\ ordinary\ shares}$

The following are the financial statements of Babel Bank for three years. What is a helmet from the data published on the Iraq Stock Exchange according to the Iraqi standards and rules?

Table 1
ACCOUNT OF PROFITS AND LOSSES AMOUNTS IN IRAQI DINARS

The details	2013	2014	2015
Revenue of the current activity			
Income from banking operations	216197242410	19028158938	23154429588
Revenue for investment	2065555540	1105561949	62553987
Total current activity revenue	236872983550	20133770887	23166983575
Current activity expenses			
Banking expenses	134160115936	80688880948	1283127554
Explosions and firefighters	9347765216	1014079032	1011245430
Administrative expenses	3719740997	50660064065	4045509074
Total current activity expenses	**180704952449**	**14143024045**	**53294004317**
Surplus of ongoing operations	5616803011	590746682	5329004317
Transfer and other revenue			
Transfer revenue	-	-	-
Other revenue	723557966	118011468	425080356
Total transfer revenue and another	**723557966**	**118011468425080356**	**425080356**
Transfer and other expenses			
Transfer expenses	723557966	3644143420	426122387
Distributable surplus	4901084536	5744444890	5327962286
Distributable surplus distributed			
Tax allocations	1347309349	891182849	1748609938
Legal capital reserve	177688765	24658102	178967617
Undistributed profits	3376086537	4610503939	3400384731
Surplus activity	4901845366	4853162041	35779352348
Net profit for the year	**3553775302**	**4853162041**	**35739352348**

Through the above profit and loss account showing the bank income accruing to the bank if we will use profitability ratios analysis the bank's financial statements, Babel Bank was chosen as a sample for the research as it is one of the banks that face financial problems Consequently, the bank deliberately increased the capital to meet what almost led to its bankruptcy.

Table 2 THE FINANCIAL RATIOS AND TRADING INDICATORS, AS A HELMET FROM THE PUBLISHED DATA OF THE BANK IN THE IRAQ STOCK EXCHANGE			
Financial ratios	**2013**	**2014**	**2015**
Share turnover ratio (%)	61.76	3.74	2.77
Earnings per share	0.024	0.027	0.015
Ownership rate	49.04	60.49	68.23
Interest repetition	29.17	14.44	19.19
Trade rate (%)	1.71	1.063	1.033
Working capital	119223072317	120104425270	170283298891
Market value(Million)	105000	697551	686891

Through the above table, we notice a decrease in the turnover ratio due to the problems that the bank was facing, as the rate was during the year 2013 (61.76%), while during 2014 is reached (3.74) and during the year 2015 (2.77), and this represented a sharp decline in the demand for bank shares.

The bank's administration increased the bank's capital, as the percentage of ownership during 2013 reached (49.04) during 2014 (60.49) and 2015 (68.23) this is a clear indication of the direction of the bank's management to cover losses and compensate for them...

We note that the working capital increased during the three years of Azan during 2013 (119223072317), during 2014 (120104425270) and 2015 (170283298891) It is an attempt by the bank's administration to expand investment and improve the informational content of the financial statements.

The market value of the bank's shares decreased if during 2013 (105,000) and 2014

In addition, during 2015(686891) which is an indication of the gradual decline and not an (686891) establishment of the market.

Table 3 THREE-YEAR TRADING INDICATORS			
Trading indicators	**2013**	**2014**	**2015**
The number of shares traded	92643463154	6686268761	6553146658
The traded value	67307961335	3416037763	26359515
Annual closing price	0.700	0.390	0.290

From the above table data, we notice a decrease in the number of shares traded, as they were during 2013(92643463154) as they decreased significantly during the year 2014 and 2015.

It reached (6553146658) (6686268761) respectively, and this reflects a loss of investor confidence in the bank due to the fluctuation in the financial statements of the bank.

The trading value of shares decreased significantly, as they were for three years in a row (26359515) (3416037763) (67307961335) and this decrease is a result of the decrease in the market value of the bank's shares.

Table 4 THE BALANCE SHEET OF BABEL BANK FOR THREE YEARS			
Current assets	**2013**	**2014**	**2015**
Cash on hand and at banks	90126687745	59459872321	76572149449
Investments	2984978110	1670296946	1685519384
Debtors	2844046676	6013698314	59642924634
Total cash credit	19050264618	17484333332	146357623470
Total current assets	**286457777149**	**241987200913**	**284258216937**

fixed assets			
Fixed assets at book value	23355940406	24900316868	24410581765
Deferred revenue, Expenditure	3647249653	3232895163	3242585956
Projects under Implementation	12705962466	41907022916	46787545953
Total assets	**328166929674**	**312027435860**	**358698930611**
Short-term financing sources			
Current accounts and deposits	165532372462	112649874913	99943500282
Customizations	1347309234	1838492083	2441394787
The creditors	355023136	7394408647	11590022977
Total sources of short-term financing Sources of financing are long-term	**167234704832**	**121882775643**	**113974918046**
Nominal and paid capital	150000000000	178859273334	236859273334
Reserves	10932224842	11285386883	7864739231
Total financing sources are long term	**160932224842**	**19014466217**	**244724012565**

Using profitability ratios to analyze balance sheet data through the following equations

Table 5
THE RATE OF RETURN ON INVESTMENT AND RETURNS ON EQUITY

	2013	**2014**	**2015**
The rate of return on investment	0.01	0.015	0.099
The rate of return on equity	0.002	o.26	0.15

Through the profitability analysis table, we note that the rate of return on investment has reached. (0.01) (0.015) (0.099) for three years. The average return on equity for three years (0.002) (o.26) (0.15) It is an indication of the fluctuation in profits of the bank or its decline, and this decrease is caused by a loss of confidence in the financial data.

From the above, it is clear that the use of financial analysis to analyze the profit data in economic units, It has a major impact on the quality of the financial statements by providing a detailed analysis of the return on investment, And the return on the right of ownership, which is influential in the decisions of the current and future investment.

CONCLUSIONS AND RECOMMENDATIONS

First: The Conclusions

Through the theoretical and practical side, the researcher concluded several things, the most important of them.

1. The use of financial analysis of financial statements has an important and influential role in the quality of financial statements by providing an analytical description of the bank's data.
2. The absence of the real role or the true disclosure of the bank's financial statements, which was reflected in the weakness or loss of investor confidence.
3. The use of financial analysis of financial statements has an important role in forecasting future profits.
4. The rate of return on shares has gradually decreased, which is an indication of the bank indicating the presence of faltering in financial policies.
5. It is noted that there is an increase in the bank's capital in a way that indicates that the bank's administration seeks to address financial problems through increased investment.

Second: Recommendations: The Researcher Recommends Several Things, the Most Important of Them

1. The necessity of using the financial analysis of the financial statements to indicate the true position of the bank and reflect a future perception of the financial statements of the bank.
2. There should be real disclosure of the bank's financial statements and future or expected profits to help decision-makers.
3. The bank's management should review the financial policies used about profit indicators, as it has an impact on investment decisions.
4. The management of the bank should not rely solely on increasing the capital only in dealing with the decrease in market formation, and lower share prices, but it should review borrowing policies and grant credit and interest.

REFERENCES

Al-Muntaranah, M.R.K.F. (2006). *Financial statements analysis, theoretical, and applied introduction*. Al-Maisarah Publishing House, Distribution and Printing House. Amman, Jordan.

Abdel-Hakim, K. (2000). *Administration and Financial Analysis, (first edition).* Amman, Dar Al-Safa for publication and distribution.

Irshad, A.M.R., & Jouda, M.A. (1999). *Credit Administration, I 1*. Amman: Wael Publishing.

Aqel, Md. (2006). *Introduction to financial management and financial analysis*. Oman, Arab Society Library for Publishing.

Al-Shanti, A., & Abdullah, S.A. (2007). *Introduction to financial analysis and financial management*, (*First Edition*). Oman, Dar Al-Bidaya.

Al-Qaisi, K.S. (2008). Profit criteria and controls in Islamic legislation. *Islamic affairs and charitable activities department, (First Edition)*, Dubai.

Schroeder, R., & Clark, M. (2001). *Accounting theory and analysis*. John Wiley & Sons, Inc.

IIia, D., John, G., & Shiva, R. (2012). *Earnings Quality, 8.*

Karim, A.K., Hassan, A.R.Md., & Jassem, M. (2018). An analytical study of credit risks using the statement of cash flows and explaining their effect on capital adequacy for the period from 2010-2015. *Al-Muthanna Journal of Administrative and Economic Sciences*.

MonicoTulsian. (2014). Profitability analysis, comparative study of sall &tata steel. *IOSR Journal Economic and finance*.

Al-Tamimi, L.A.H., Abbas, A.S., & Mortada, S.Md. (2019). Recognition of revenue in mobile phone companies under IFRS 15. *Restaurant Business, 118*(10).

Patricia, D., & Catherine, S. (2004). *Earnings quality*. The Research Foundation of CFA Institute, USA.

Daw, H., & Peter, S. (2015). Efficiency of accounting information system and performance literature review. *International Journal of Multidisciplinary and Current Research*, 2321-3124.

Center for Audit Quality. (2010). *Deterring and detecting financial reporting fraud*. A plat form for Action.

Tanui, P.J., & Serebemuom, B.M. (2021). Corporate diversification and financial performance of listed firms in Kenya: Does firm size matter? *Journal of Advanced Research in Economics and Administrative Sciences, 2*(2), 65-77.

Alyamin, S. (2009). *Using financial analysis to evaluate the performance of economic institutions and rationalizing their decisions: A case study of the National institution for measurement and control instruments*.

Yasmine, A. (2000). Problems of measuring revenue and the basis for its achievement in the accounting systems applied to selected companies in Nineveh Governorate. Unpublished research submitted to the College of Administration and Economics, University of Mosul.

Akram, M.S. (2017). *The impact of compliance with International Financial Reporting Standards "IFRS" on information discrepancy and capital cost to improve quality of accounting profits*. An Applied study, master thesis, unpublished, faculty of commerce, department of accounting, Sadat City University.

Mansour, S.Md. (2015). *Measuring and interpreting the relationship between the accounting policies used and the quality of profits and their implications on securities prices*. An applied study, master thesis in accounting, faculty of commerce, Ain Shams University.

Munther-Yahya, A. (2009). *The effect of using accounting information systems on the quality of financial data in the services sector in the Gaza Strip*. Unpublished research, Islamic University, College of Commerce.