

USE THE ENTITY'S REVENUE ANALYSIS IN THE DECISION-MAKING PROCESS AND DEVELOPMENT STRATEGY

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Abstract

In view of the current economic environment, characterized by permanent changes, competition and exposure to various risks, we believe that revenue analysis serves as a starting point for entities to prepare various analytical reports for internal and external use, since the size, development, structure and stability of revenues depend on the entity's expenses and financial results. In this article, we intend to analyze the evolution of the income of the Cricova SA Wine Combine, reviewing the theoretical aspects and practical applications in terms of financial analysis, through which any shortcomings in the level or source of the entity's income can be determined, with a view to drawing up proposals for the liquidation of the negative moments detected. The research methodology consists of studying the income from a quantitative and dynamic point of view, using horizontal and vertical analysis methods. The investigation involves objective observation, descriptive method with the application of elements of comparison, analysis and deduction, and the Web of Science search engine was used to identify the performance of international scientific research in the researched field.

Keywords: *Income analysis; Income; sales revenue; IFRS 15; SNC Revenue.*

I. INTRODUCTION

Entity development is one of the necessary conditions for the successful development of the national economy. At the same time, the survival of entities in modern conditions depends largely on the ability of management to realistically assess the financial situation in the entity. This requires knowledge of the methodology of analysis and diagnosis of the entity's activities, as well as the availability of adequate information support and qualified personnel capable of implementing this methodology in practice.

Financial analysis involves some judgements about the financial health of the entity, the strengths and weaknesses of financial management, through which past, present and future performance and risks can be assessed and action taken (Carpenter & Petersen, 2002). The analysis involves repairing the symptoms of dysfunctions, formulating recommendations and measures for the recovery of the economic and financial situation of the entity. Financial analysis is used not only when the entity is in crisis, but also when it wants to achieve better results (Banos-Caballero et al., 2014).

To use the analysis of the entity's revenues in the decision-making process and the elaboration of the development strategy, the information flows of the Cricova Wine Combine SA were used. The company was created by the reorganization of the State Enterprise „Combinatul de champanie e vinuri de „CRICOVA" (registered on 03.12.1992) and is the legal successor of the patrimonial rights obligations according to the balance sheet of 01.04.1999, including those related to the land.

Thus, the main objective of the research is the dynamic and structural study of the income of Cricova Wine Combine SA, from which conclusions can be drawn regarding the possibilities of the company's development. Based on the data provided by the financial analysis, the main sources of income, the actual profile, how diversified the operational activity of the entity is and how stable the sources of income are, as well as the main causes of the change in income can be detected. The significance of the financial analysis is to investigate the economic and financial situation by measuring revenues and assessing vulnerabilities, as well as to identify the causes of the

current situation, determine strengths and weaknesses, assess possible risks and develop measures to increase its economic and financial potential.

II. RESEARCH METHODOLOGY

The research methodology used in the writing of this article is a classical one, based on the study of literature, the collection of data from the website of the Public Property Agency, the calculation of economic and financial analysis indicators used in the assessment of revenues based on the financial statements provided by them, and the interpretation of these indicators.

With the help of methods of analysis and synthesis, as well as by applying elements of comparison, induction and deduction, it was possible to record and highlight the main information relating to the field of research. As a result of this research, the importance of the entity's revenue analysis, its relevance in the decision-making process and the elaboration of the development strategy were highlighted. The research was carried out based on bibliographical sources and information flows of the Cricova SA Wine Combine. To identify scientific research at the international level and to assess the scientific performance in the field of the entity's income analysis, the Web of Science search engine was used. The study of publications on the Web of Science platform was carried out by setting search criteria in order to obtain relevant results for the research.

The analysis identified 145 results published in the period 1975-2023, as shown in Figure 1.

MAIN INFORMATION ABOUT DATA		editorial material	3	Keywords Plus (ID)	288
Timespan	1975:2023	letter	4	Author's Keywords (DE)	435
Sources (Journals, Books, etc)	123	meeting abstract	2	AUTHORS	
Documents	145	proceedings paper	25	Authors	485
Average years from publication	10.2	review	4	Author Appearances	513
Average citations per documents	7	DOCUMENT CONTENTS		Authors of single-authored documents	28
Average citations per year per doc	0.9213	Keywords Plus (ID)	288	Authors of multi-authored documents	457
References	3979	Author's Keywords (DE)	435	AUTHORS COLLABORATION	
DOCUMENT TYPES		AUTHORS		Single-authored documents	30
article	97	Authors	485	Documents per Author	0.299
article; book chapter	1	Author Appearances	513	Authors per Document	3.34
article; early access	2	Authors of single-authored documents	28	Co-Authors per Documents	3.54
article; proceedings paper	4	Authors of multi-authored documents	457	Collaboration Index	3.97
book review	2	AUTHORS COLLABORATION			
correction	1	Single-authored documents	30		
				Showing 1 to 35 of 35 entries	

Figure 1. Overview of papers identified on the Web of Science for the term „income analysis"
Source: own interpretation via Biblioshiny

The results indicate the total number of scientific papers published during the period analyzed in 123 sources (journals, books, etc.), based on 3 979 bibliographic references. From a structural point of view, more than 65% of all scientific papers were published as articles, i.e. 97 scientific papers. In terms of the content of the scientific papers, 435 author keywords were identified, summarized by the WoS platform according to frequency of use, and 288 plus keywords were identified because of frequent use by the authors of the scientific papers, not set as keywords from the outset. Overall, the 145 published scientific papers were written by 485 authors, with an average of 0.299 papers/author and 3.34 authors/paper, resulting in at least three authors contributing to each scientific paper. The collaboration of authors shows that there are at least 3 authors per scientific paper, i.e. 3.54 co-authors/paper.

An analysis of the variation in the number of scientific papers published between 1975 and 2023 shows that the annual growth rate of publications is 6.48%, which indicates a steady increase in the number of papers in this research area, Figure 2. Thus, the most publications are attested in 2021, i.e. 16 publications. Also, in 2020 and 2019, there is a significant number of publications, mainly 15 and 12 publications. As a result, it is possible to highlight the growing interest of the authors of scientific papers in the subject matter.

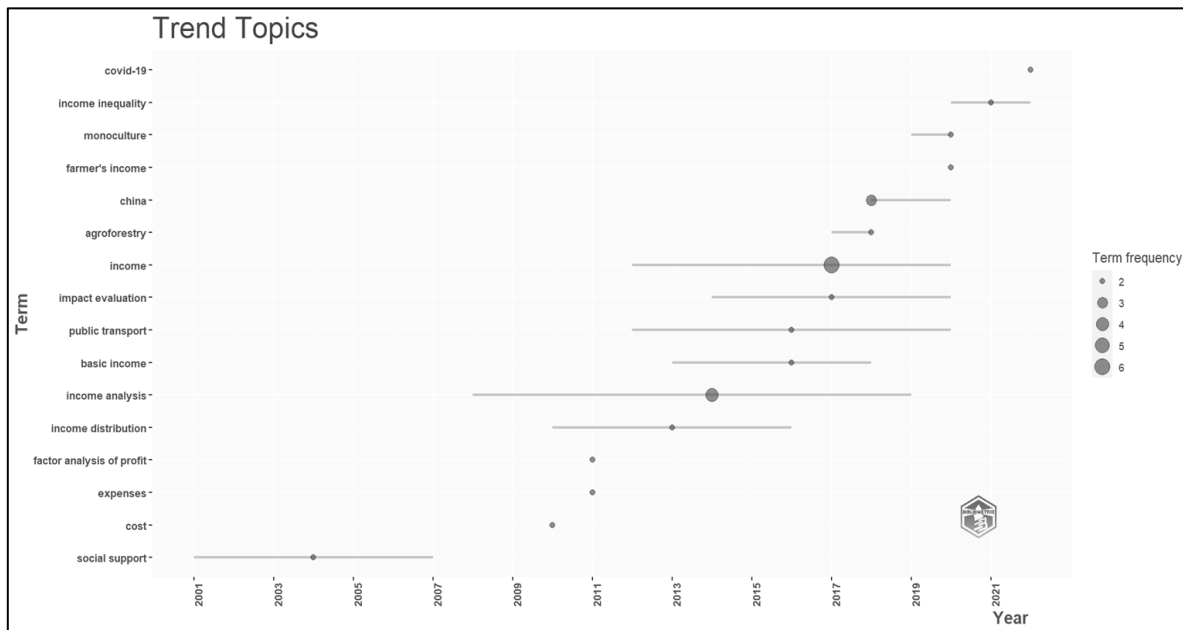


Figure 4. Most relevant keywords used by authors of scientific papers containing the phrase „income analysis"
Source: own interpretation via Biblioshiny

As can be seen, the topics frequently addressed in research on income analysis are income - 6 appearances, income analysis - 4 appearances, cost, expenses, basic income, impact evaluation - 2 appearances. As a result, the mentioned topics indicate the authors' concern for income analysis, income distribution, sources of income, impact evaluation, profit analysis, etc.

III. BASIC CONTENT

With globalization, intense competition, high costs, exchange rates imposed by the market economy, the complexity of economic activities increases the role of income-related information in decision-making. Thus, entities need to continuously demonstrate viability, competitiveness and accommodation, financial performance. The assessment of an entity's financial condition usually starts with the analysis of its revenues. Revenue is usually considered to be the most significant element of the statement of comprehensive income, followed by expenses incurred. Therefore, revenue is an important indicator in entities' financial statements that characterize financial performance. The total revenue recorded from the sale of production and goods in each period can be defined as turnover. Turnover is thus the fundamental indicator of any entity's business, ranking at the top of performance indicators so far as it determines the size of profit and rate of return. In a survey of 400 finance executives, revenue was ranked as the second most important indicator after profit (Graham et al., 2005). The importance and quality of revenue information is a key determinant of the quality of current and strategic decisions and, directly, the future performance of the entity.

Based on the study carried out, we deduce that revenue measurement from an IFRS perspective is a complex process that requires going through several steps and analyzing all the factors that influence both directly and indirectly the revenue measurement process of the entity. Thus, revenue measurement is based on the provisions of IFRS 15, "Revenue from Contracts with Customers". From a national perspective, revenue is recognized and accounted for in accordance with the provisions of the SNC, "Revenue".

Some authors have investigated the actual effects of a new accounting through the lens of IFRS 15 „Revenue from Contracts with Customers (Napier & Stadler, 2020; Grosu, 2022). Others conducted an exploratory study in the telecommunications and construction sectors on the degree of compliance with IFRS 15 mandatory disclosures (Boujelben & Kobbi-Fakhfakh, 2020).

Thus, revenue is defined as the increase in economic benefits during the accounting period in the form of inflows or increases in assets or decreases in liabilities that result in increases in equity, other than those related to equity participants' contributions. Most of the revenue is generated by the normal activities of the business through the sale of goods and services.

From a national perspective, income represents increases in economic benefits recorded during the reporting period in the form of asset inflows or increases in the value of assets or decreases in liabilities resulting in increases in equity, excluding those related to owners' contributions (SNC Income, item 5).

Nishikawa, Kamiya and Kawanishi (2016) believe that income should represent the irreversible results of an entity's business activities.

As a result of conducting business activity, the entity may earn income characteristic of both activities, Figure 5.

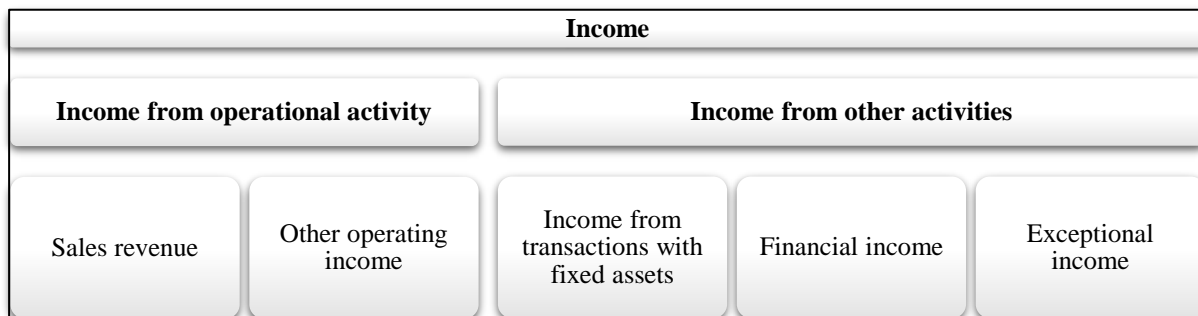


Figure 5. Classification of income according to national provisions
Source: own interpretation after SNC „Revenues”

Therefore, the analysis and evaluation of the entity's revenues allows the identification of the entity's strengths, weaknesses, opportunities and risks. On the basis of revenues, it is possible to maintain an appropriate level of self-financing and the entity's ability to repay debts and reinvest in technology. The quantification of revenues is significant because it allows managers to choose the main directions of business development for both the current and planned period. The need for revenue analysis arises from the importance of analytical information for decision-making by the management of the entity and by external users of the information in the Financial Statements, which in fact gives them the opportunity to assess the following aspects:

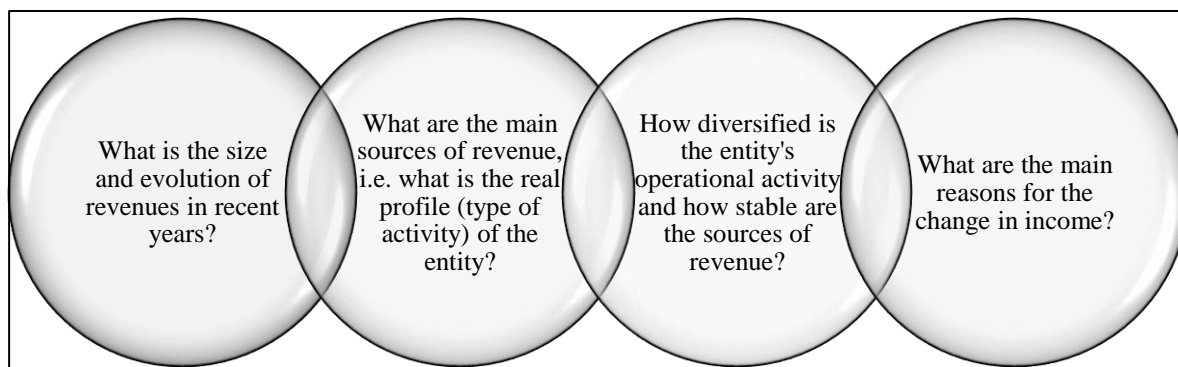


Figure 6. Possible ways of estimating the income presented in the financial statements
Source: own interpretation

Therefore, the analysis of the entity's revenues provides us with information for management decision-making, as well as for determining and developing strategies for the development and conduct of the entity's business.

Monitoring the dynamics of revenues and their balanced structure, as well as developing a policy to adjust to the current economic environment becomes an essential development requirement.

Revenue analysis is of interest to both internal and external users and involves comparing revenue dynamics and planned indicators as well as structural and factor analysis. The information contained in the Financial Statements, the analytical accounting data in the revenue accounts and the trial balance of the summary accounts serve as a source of information for revenue analysis.

The general assessment of the size and evolution of revenues is intended to examine their absolute and relative size in comparison with the achievements of previous years, the objectives set out in the Business Plan (Morosan, 2006). The research of revenues in dynamics allows the assessment of the volume of economic activity and the study of changes in this volume in recent years. This direction of analysis is carried out on the basis of the data of the Profit and Loss Statement and the Analytical and Synthetic Record of Income Accounts.

In this context, the analysis of the size and evolution of revenues determines the absolute deviation of revenues (from the previous period and the Business Plan), the growth rate, the growth rate increase, the percentage of plan fulfilment and the percentage of deviation from the plan.

The absolute deviation is the difference between the actual and baseline (previous year or planned data) size of an indicator, taking into account -with mathematical sign: „+“ or „-“ and demonstrates by how much the indicator has changed (Muntean & Solomon, 2015). For example,

$$\text{Absolute income deviation } (\Delta V) = V_1 - V_0, (1)$$

Where,

V_1 - current year's income (actual)

V_0 can be: previous year's income or planned income

The growth rate shows the evolution of the actual indicator compared to the indicator of the previous period (which is 100%), expressed in % (Moroşan, 2006).

$$V = \frac{v_1}{v_0} \times 100\% \quad (2)$$

Where,

V_1 - current year income (actual)

V_0 can be: previous year's income, or planned income

The growth surplus represents the change in any indicator, which is established as the difference between the growth rate and its reference value, taken as a basis for comparison (100%).

The following will present a practical application, aimed at examining the evolution of the income of the Cricova Wine Combine SA, based on data from the Financial Statements posted on the official website of the Public Property Agency of the Republic of Moldova: <https://www.app.gov.md/societati-comerciale-3-379>. We note that the Cricova Wine Combine SA keeps double-entry bookkeeping and prepares financial statements in accordance with IFRS.

Table 1. Analysis of the size and evolution of the revenues of the Cricova Wine Combine SA

Crt. no.	Indicators	Year 2021, thousand lei	Year 2022, thousand lei	Absolute deviation, thousand lei (±)	Growth rate, %
A	1	2	3	$4 = 3-2$	$5 = \frac{3}{2} \times 100$
1.	Sales revenue	295.288	360.192	+64.904	121,98
2.	Total revenue	315.149	398.364	+83.215	126,40
3.	Value of assets	618.602	643.269	+24.667	103,99
4.	Value of debts	529.839	321.981	-207.858	60,77

Source: own interpretation based on data presented in the Statement of Financial Position and Statement of Comprehensive Income for the period ended 31.12.2022

The numerical data can be presented both in tabular form and with the application of graphical methods, which allow a clearer presentation of analytical material in an accessible form (Moroşan, 2006), Figure 7.

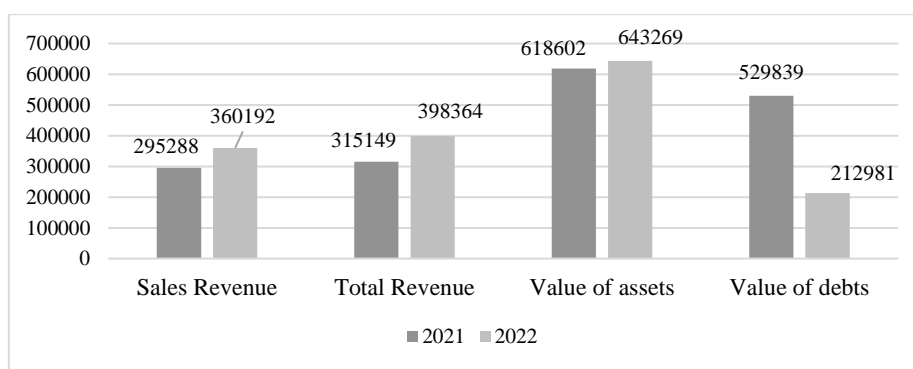


Figure 7. Graphical presentation of the evolution of the revenues of the Cricova Wine Combine SA

Source: own interpretation

As a result of the calculations made, we note an increase in total revenue by 26.40% or 83,215 thousand lei. This shows a positive trend of increase in the total amount of revenue. At the same time, the data also show an increase in sales revenue by 21.98% or 64,904 thousand lei. Thus, we can conclude that the situation related to the generation of income within the Cricova SA Wine Combine is positive.

From the data in Table 1 and Figure 7, a positive trend of growth of the assets at the disposal of the Cricova SA Wine Combine can be seen. If at the beginning of the reporting year the assets controlled by the entity amounted to 618,602 thousand lei, then at the end of 2022 they increased by 3.99% and amounted to 643,269 thousand lei. Thus, we can characterize successful management of the assets, because with the increase of the assets (+3.99%) controlled by the Cricova Wine Combine SA, there is a considerable increase in the total income obtained (+26.40%) from their use in entrepreneurial activity. This is also characteristic of the sales revenues (+21.98%).

As can be seen from the data in Table 1 and Figure 7, at the end of the reporting year the total debts of the Cricova Wine Combine SA amounted to 212,981 thousand lei. The evolution of the borrowed sources of financing has a decreasing character: during the reporting year their value decreased by 207,858 thousand MDL or by 39.23%. The pace of increase of the entity's debts does not exceed the indices related to assets and sales revenues. This phenomenon means that the indebtedness of the Cricova SA Wine Combine is constant and not increasing.

From the point of view of the calculation technique, the analysis of the composition or structure of income consists in determining the share of each type of income in the total amount of income. As a rule, a competitively strong entity seeks to develop side activities to its core business, which contributes, on the one hand, to improving its core business and, on the other hand, to strengthening its image among customers.

For the structural analysis of the revenues of the Cricova SA Wine Combine it is proposed to go through the following two steps:

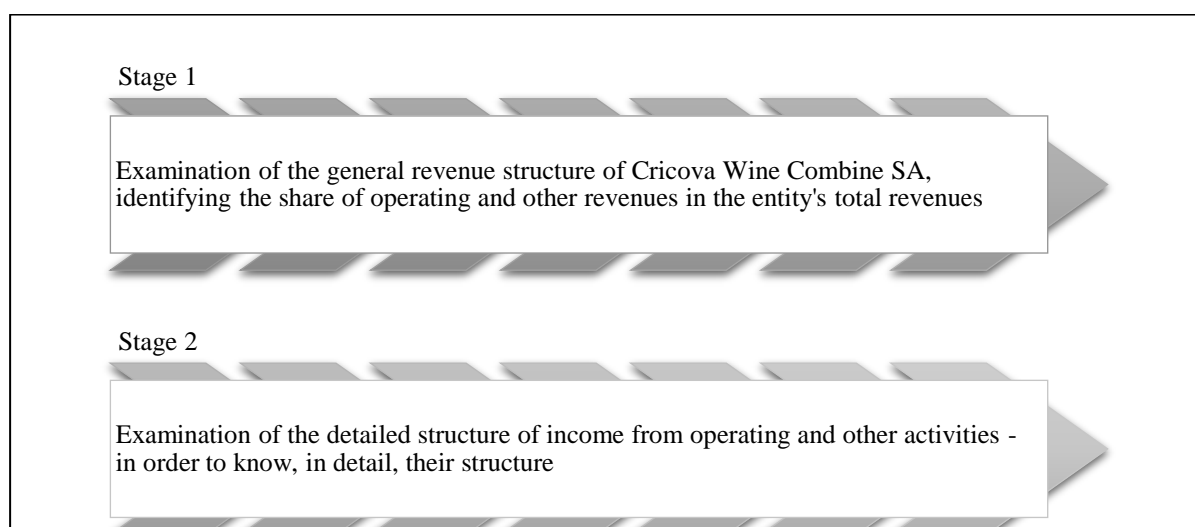


Figure 8. Stages of the structural analysis of the revenues of the Cricova SA wine company
Source: own interpretation

The example of the structural analysis of revenue will be carried out in dynamics, using data taken from the Statement of Comprehensive Income for 2 consecutive years.

Table 2. Assessment of the revenue structure of the Cricova SA wine company

Types of income	Amount of revenue, thousand lei		Growth rate compared to 2021, %	Share, %		Deviation of share, %
	Year 2021	Year 2022		Year 2021	Year 2022	
<i>1</i>	<i>2</i>	<i>3</i>	$5 = \frac{3}{2} \times 100$	<i>6</i>	<i>7</i>	$8 = 7-6$
I. Income from operating activities, including:	305.842	379.166	123,97	97,05	95,18	-1,87
Sales revenue	295.288	360.192	121,98	93,70	90,42	-3,28
Other operating income	10.554	18.974	179,78	3,35	4,76	+1,41
II. Income from other activities, including:	9.307	19.198	206,27	2,95	4,82	+1,87
<i>Financial income</i>	9.307	19.198	206,27	2,95	4,82	+1,87

<i>Income from transactions with fixed and exceptional assets</i>	-	-	-	-	-	-
III. Total income - entity	315.149	398.364	126,40	100,00	100,00	X

Source: own interpretation based on data presented in the Statement of Comprehensive Income for the period ended 31.12.2022

The numerical data presented in tabular form, can be presented by applying graphical methods, which allow a clearer presentation of analytical material in an accessible form, Figure 9.

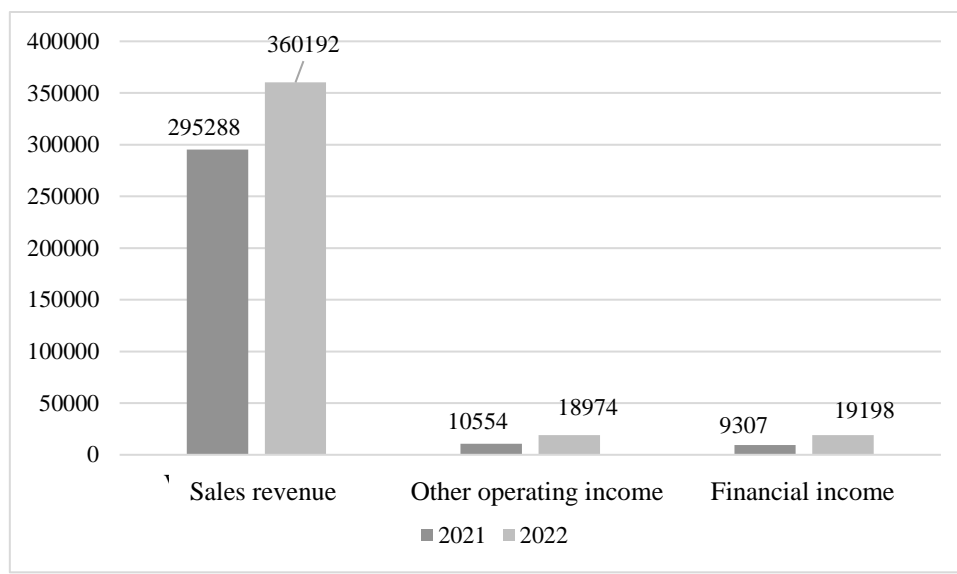


Figure 9. Graphical presentation of the income structure of the Cricova SA Wine Combine
Source: own interpretation

As a result of the calculations made, we observe an increase in the total income of the Cricova SA Wine Combine by 26.40% or 83,215 thousand lei. This shows us a positive trend of increase in the total amount of income. This increase was due to the development of revenues from both activities within the entity: operational and other activities. The highest increase was recorded in financial income with 106.27%, followed by operational income with 23.97%. Table 2 also shows an increase in the sales revenues of the Cricova Wine Combine SA by 21.98% or 64,904 thousand lei. Examining the structure of the revenues recorded by the Cricova SA Wine Combine, we observe that the largest share in the total amount of revenues is due to sales revenues in both periods, although in the dynamics there is a reduction of 3.28%. The other types of revenue have an insignificant share. Thus, we can conclude that the situation regarding the generation of income within the Cricova SA Wine Combine is positive and such a structure can be characterized as corresponding to a normal economic activity.

Since sales and other operating income are the main sources of income of entities, and therefore contribute to the formation of gross profit, profit before tax and net profit, it is necessary to assess their influence on the indicators of efficiency of the economic and financial activity carried out. In this context, we note that sales revenue is a synthetic indicator of prime importance in diagnosing the present state of any entity and predicting its future state. It is reflected in its evolution in most indicators, showing, first and foremost, how the entity's performance indicators have evolved under the influence of the effort to increase or right-size the activity.

At the same time, the structural analysis of sales revenue makes it possible to establish the real profile of the operational activity, i.e. the specialization of the entity in the manufacture of products, the marketing of goods, the provision of services or the execution of construction work, etc. This profile sometimes, but not entirely, corresponds to the nominal one, i.e. the types of activity mentioned in the legal documents (incorporation contract, articles of association). Thus, in the process of structural analysis of sales revenue it is necessary to establish whether the operational activity of the entity is absolutely specialized (one type of activity is practiced) or diversified (multilateral).

In the multilateral case, it is studied whether there is the main (basic, prevailing) type of activity with a share of more than 85% or whether there are different types of activities that have roughly equivalent shares in the total number of sales. Each of these variants has certain advantages.

Specialization allows for an increase in the efficiency of the operational activity due to the acquisition of special equipment, the employment of qualified personnel in the field, the accumulation of appropriate experience,

etc. At the same time, an increase in the degree of diversification ensures a more varied structure of income with the aim of reducing the risks and reducing the conditions of uncertainty that arise in the fields of activity practiced. This means that, in the event of difficulties of various kinds in one area of activity, the entity can exist on income from other types of activity.

At this stage, the stability or variability of the structure of sales revenue by type of operating activity in dynamics is also examined. The structural analysis of sales by type of operating activity may be detailed down to the level of groups or kinds of products, goods, services, as well as by forms of payment and by time of payment and/or delivery to related and unrelated parties. Analysis of sales revenue by type of activity is essential for understanding the entity's strategy and market position.

If the entity carries out its operational activity in more than one market, sales revenues are studied during the analysis in the profile of market areas (segments, sectors). For this purpose, the development of sales in each segment and their contribution to the total sales volume is examined.

The substantiation of forecast sales revenue and the preparation of concrete production programs cannot be completed based on internal accounting information alone. In this context, multiple information from market and competition research is needed. As far as the market is concerned, the analysis will be twofold:

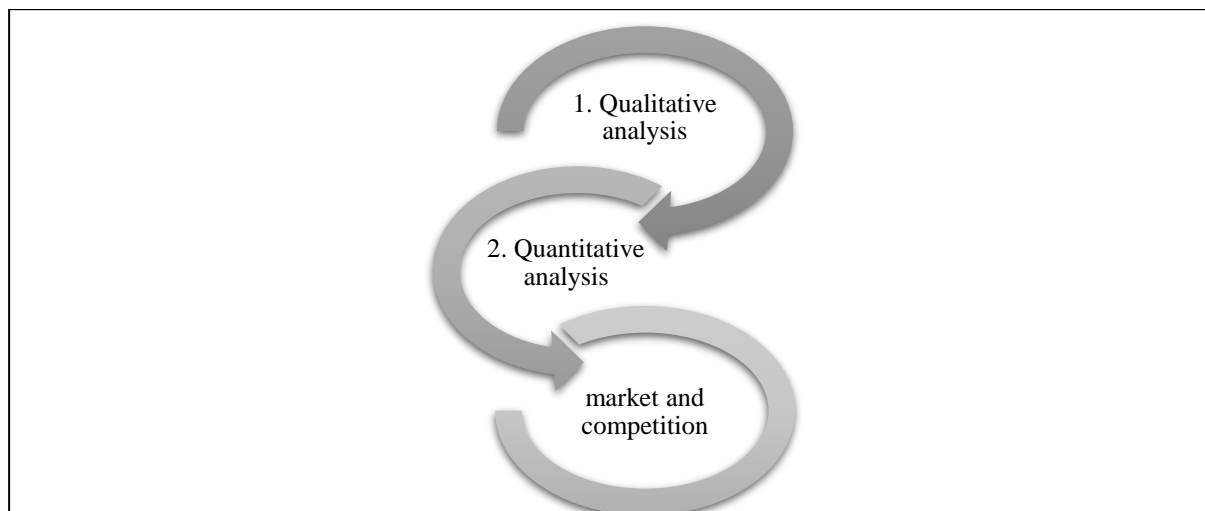


Figure 10. Market and competition investigation directions
Source: own interpretation

Thus, qualitative analysis is designed to match supply and demand, concealing the possibility of market uptake of the entity's products. Quantitative analysis, on the other hand, aims to investigate and obtain information on consumers' tastes, needs and behavior towards the entity's products. Also, for a rigorous market analysis it is necessary to segment the own market according to users. Market segmentation is the determination of the ratio of the sales volume of own products to the total sales volume in a given market. Market segmentation involves the calculation of the absolute or overall market share, which expresses the position of the entity in the market (sector/branch) in which it operates.

The factors that positively influence market share are the dynamics of the sector to which the entity belongs and customer satisfaction. For example, the overall market share may increase if the dynamics of the entity's sales revenue outstrips the dynamics of the sector's sales revenue. In this case, the competitive position of the entity is favorable because it operates in a dynamic market. The absolute market share may also increase when the growth rate of the sector is negative or zero and the growth rate of the entity is positive or when both rates are negative but different (higher for the entity under analysis). In the last two situations there is a risk of losing the market in the future due to decreasing demand.

Therefore, the knowledge of the management of the entity of the results obtained from the revenue analysis will allow it to develop concrete measures to recover its economic and financial situation.

IV. CONCLUSIONS

Every entity has a financial picture which is reflected in the form of financial indicators. Therefore, the most effective tool available to the management of any entity is analysis, the use of which can ensure financial discipline, profitability, development and innovation. The standardized financial reporting document used in financial analysis is the Statement of Comprehensive Income or the Profit and Loss Statement. Using the

information summarized in the financial statements published by the entities at the end of a reporting period, it is possible to calculate a series of financial indicators which, by means of the results provided, make it possible to make a pertinent analysis of the revenues and their position in the hierarchy of the field in which each operates. Studying and analyzing revenues with the help of known indicators, leads to establishing causal relationships between them, to explaining and interpreting past and present economic problems and, more importantly, will support the company's management in making the best decisions on future financial performance and development strategy.

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