

UDC 336.77:303.62(496.5)  
336.77:303.62(73)

## FINANCIAL STATEMENT ANALYSIS IN ALBANIA - A SURVEY OF ITS APPLICABILITY AMONG DIFFERENT USERS' CLASS AND THE DIFFERENCES FROM THE DEVELOPED COUNTRIES.

Rezarta Perri <sup>8</sup>

Ingrid Shuli <sup>9</sup>

---

### Abstract

*This paper focuses in the use of the financial ratios by different groups of users. Using questionnaires and based on a comparative analysis among four different groups of users and similarities and differences between Albania and USA we find that the variability among the different groups is much higher than that across countries. We find similarities in the interests of the credit analysts and the Certified Public Accountants on one hand and financial consultants and financial directors/employees on the other, arguing that this could be explained by the proximity of their professional focus on the financial ratios. Nevertheless, the credit analysts, the CPAs and the financial employees demonstrate quite similar interests on the financial ratios, respectively on the capital structure, the liquidity and the profitability ratios, regardless of the country in which they work.*

**Key words:** financial ratio, financial statement analysis.

JEL classification code: G20, G29

---

*A draft version of this paper was presented in the International Conference, "Transition in East Europe" in Tetovo, Macedonia, December 2008. We thank you the participants of the conference for their comments and feedback.*

---

8) Rezarta Perri is a full time lecturer in the University of Tirana, Department of Accounting since 2000. She holds a PhD degree and teaches classes in Financial Statement Accounting and Accounting Information Systems. Email: rezarta.perri@unitir.edu.al, rezartaperri@gmail.com.

9) Ingrid Shuli is a full time Assistant Professor in the University of Tirana, Department of Accounting since 1992. She holds a PhD degree and teaches classes in Financial Statement Accounting. Email: ingrid.shuli@unitir.edu.al.

## Introduction

Accounting and financial reporting has been one of the more rapidly evolving areas in the global and the Albanian economic environments after the 90's. On a global context the International Financial Standards and International Financial Reporting Standards - IAS/IFRS, represent a real revolution in accounting and finance. After having reached its aim to make the IAS/IFRS the only required financial reporting framework in many countries (almost 100 countries by end of 2008), the International Accounting Standard Board (IASB) has currently committed itself to work on a Convergence Project with the Financial Accounting Standards Board (FASB) in USA under a joint aspiration to ultimately unify the global accounting framework.

A lot of profound reformations with regard to the accounting field have also been undertaken in Albania. In 2004 the Parliament of Albania approved the new Law on Accounting and during years 2005/2006 the National Accounting Council of Albania published the National Accounting Standards (NAS) which were prepared in compliance with the IAS/IFRS. The small and medium enterprises in Albania are required to report their financial information in accordance with the NAS, whereas the big companies and the financial institutions are required to report under the full IAS/IFRS framework. The first financial statements prepared under the NAS framework were reported in 2009 for years 2008 and 2007.

Some of the benefits of implementing NAS that comply with the IAS/IFRS framework are: (1) enhanced public awareness on economic and financial development of listed companies; (2) facilitation of the capital movement and greater market efficiency; and (3) standardization in financial reporting and greater comparability across companies, countries and capital markets making it easier for the experts to effectively analyze the businesses and entities from different industries. The last issue represents a considerable concern for the financial analysts all over the world because of the difficulties often encountered during comparative studies. Many expect that the financial reporting standardization process will open the door to worldwide financial analysis practices.

Even though Albania has made huge steps toward convergence of its financial reporting framework with that of the European Union, we do not observe the same tendency with regard to the use of the financial information. It should be noted that by the time of this study (first half of 2009), the financial information analysis has a very limited usage in Albania. While there may be different explanations concerning this issue, we find that there has been no prior systematic study trying to uncover the underlying motives of this phenomenon in Albania. We try to address this void by focusing on the usage of financial information by four different groups in Albania and comparing the findings with results reported in similar studies done in developed countries. Namely, we narrow our study to focus on the credit analysts in banks, financial consultants, certified public accountants and financial directors/employees in enterprises as four primary groups of interest and we limit the financial analysis only in the financial ratios, to avoid the use of non-comparative information among these four groups.

We find that the group of credit analysts and the group of Certified Public Accountants in Albania have quite similar preferences regarding the use of the financial ratios, probably due to their focus on evaluation of financial soundness of both the published information and the enterprise activity. Another finding is that the group of financial consultants and financial directors/employees show similar interests in the financial ratios usage owing this to the fact that being held directly or indirectly responsible for the profitability of the enterprise they mainly focus on profitability ratios. Comparing the use of the financial ratios between two countries, Albania and USA, we find that the variability across countries is much lower than the variability across groups. Regardless of the country in which they work, the credit analysts, the CPAs and the financial employees demonstrate quite similar interest on the financial ratios, respectively on the capital structure, the liquidity and the profitability ratios.

The rest of the paper is organized as follows. In the first section we present a brief literature review of the financial analysis. In the second section we give an overview of the methodology and the data that are used in this study. In the third section a detailed analysis of the questionnaires is performed. In the fourth section we conclude.

## 1. A brief literature review.

Financial ratios' theory and use dates back since the end of the XIX century (Horrigan, 1968). Nevertheless these first studies were very limited in scope and were performed mainly inside a qualitative framework rather than a systematic and thorough quantitative analysis. The broad use of the financial ratios as we know it today was facilitated only in the 60s because of two important developments: (1) the electronic data processing techniques that began to be conceptualized exactly in this period and, (2) the creation of enormous financial information databases that centralized data across many companies, industries, countries, and periods.

Recently the financial ratios have been in the focus of many theoretical and empirical studies. Trying to streamline the many areas of financial ratios usage in literature Salmi and Martikainen (1994), distinguished the following main categories:

- The functional form of financial ratios.
- Distribution characteristics of financial ratios.
- Classification of financial ratios.
- Comparability of financial ratios among different industries.
- Use of financial ratios by different disciplines.
- Methodology of calculating average industry ratios.
- Financial ratios in bankruptcy prediction and credit default prediction.
- Predictive ability of financial ratios versus predictive ability of financial analysts.
- Estimating internal rate of return from the financial statements.

Within this framework of financial ratios research our paper tries to contribute in the comparative stream by evaluating the interest of several groups of professionals on specific financial ratios. Given the lack of such studies in Albania, the analysis that we present does not aim to be exhaustive but rather to open the doors of discussion and debate.

## 2. The methodology and data used in this study.

In this study we use questionnaires to assess the interest and the focus of four different groups of professional users of financial information. The questionnaire content was divided in two main sections. In the first section several questions were included to find out more about the professional background of the individual interviewed. Question such as age, education background, professional seniority and job turnover history were all part of the first section of the questionnaire. In the second section of the questionnaire ten different financial ratios were included demanding from the interviewed individuals to rank these ratios according to their perceived importance level.

The four groups of the study sample were delivered the same type of questionnaire to allow for a certain level of comparability of results among groups. As such a wide range of financial ratios, from liquidity variables to activity variables were included in the predefined list that was supplied to the interviewed individuals. Nonetheless, to allow for possible variations in the needs and practices of the different groups a last blank option was given to the participants in the survey so as they could mention one or more financial ratios that they did use but that were not included in the list. The interviewed individuals were asked to put a grade from "one" (minimum) to "ten" (maximum) to ten pre-specified financial ratios according to their 'perception' of ratio importance. They could put only one grade to one ratio and they could not use a certain grade more than once, i.e. if they graded a certain ratio with "eight" they could not grade "eight" any of the nine ratios remaining in the list. In case the interviewed professionals did not use the ratio, or simply did not know of it, they had the option to answer "I do not use it" or "I do not know it".

The methodology that we have used is simple descriptive statistics of the sample, using the average values for each group and presenting results in a ranking fashion. We have focused on a comparative analysis both among groups and between the results of the Albanian study and the results of a similar study made in USA in the beginning of 2000 (Gibson 2005).

The target group of the questionnaire consisted of professionals who use financial ratios in their everyday work. A three months period, June - August 2008, was allowed for the distribution and return of the questionnaires. The methods used to distribute and fill the questionnaire were via email, personal contact, regular mail and telephone interviewing.

The sample included in the study was divided in four groups as was better perceived given the job description of the interviewed individuals. These four groups are the credit analysts in banks, financial consultants, certified public accountants and financial directors/employees in enterprises. These individuals were asked to complete a questionnaire whose main purpose was to reveal their interests on specific financial ratios and to compare these interests among the different groups. In total there were 200 questionnaires delivered and they were divided in equal amounts (50 questionnaires), for each sample group.

There were 96 completed questionnaires that were returned and found to have been filled in a complete and consistent manner with no data or information missing. The other partly-completed questionnaires were not taken into consideration. 96 fully completed questionnaires represent a total average response rate of 45% for the whole sample in the study. The specific rate of response varies for each group in the sample, from a maximum level of 66% for the financial directors/employees group to a 50% level for the credit analysts and certified accountants, and down to a minimum level of 26% for the financial consultants group. The average rate of return for the completed questionnaires returned is considered satisfying and representative of the respective classes of professionals.

### **3. The analysis of the questionnaires.**

After presenting the methodology and the data used in this study we will analyze in some details the results of the questionnaires first for each individual group included in the survey and next drawing some similarities and differences among them in a comparative analysis. Last we also compare the results of this study with the results of a similar study performed in USA in beginning of 2000s.

#### ***3.1 Results of the questionnaire with the credit analysts group.***

The first studied group is the credit analysts working in banks. The logics behind involving the credit analysts in this study is that quite often they use financial data, mainly financial ratios, derived from the financial statements of the credit applicants, in order to take a sound credit decision. With regard to this group we distributed questionnaires not only in banks in the city of Tirana, but in *Durres*, *Fier* and *Vlora* as well, which are big cities with an extensive credit activity. In Table 1 we give the average point scoring of the ten pre-specified financial ratios as given by the credit analysts.

**Table 1.** Credit analysts' questionnaire results in Albania.

<b>CREDIT ANALYSTS IN BANKS</b>		
<b>Financial Ratio:</b>	<b>Average Point Scoring</b>	<b>Percentage of usage</b>
Financial Leverage (Liabilities / Assets)	7.9	100%
Return on Assets ROA	6.7	100%
Return on Equity ROE	6.3	100%
Net Profit Margin	5.0	67%
Cash Ratio (Cash Flow Operating / Liabilities)	4.8	88%
Operative Profit Margin	4.7	88%
Working Capital	4.6	100%
Current Ratio	4.0	88%
Quick Ratio	2.7	100%
Total Assets Turnover	1.0	33%

In the last column of table 1 a percentage of use is given which represents the usage rate of the specific ratio calculated as the ratio of the number of observations who put a grade to the specific ratio (e.g. did not answer neither "do not use it" nor "do not know it") to the total number of observations. We can observe that the financial leverage ratio and the return ratio, in its two most known forms, ROA and ROE are listed in the top three places in the table. The traditional liquidity ratios (current and quick ratio) are listed in the mid or the low part of the table raising serious doubts about their "long believed status" as the most preferred ratios by the credit analysts. We owe this odd result to the specifics of the financial reality of the Albanian entities that can sometimes provide cash from non-official and non-reportable sources.<sup>10</sup> This reality seems to have been already figured out by the credit analysts who rank the ratios that are affected by such "underground cash-transferring" practices as almost the least significant in taking a decision on credit-worthiness of applicants.

### *3.2 Results of the questionnaire with the financial consultants group.*

The financial consultants represent the second interviewed group. The consulting services industry is basically very rich offering different consulting products that vary from financial analysis, cost analysis, fiscal consultation and human resources advisory, to systems analysis or product life cycle analysis. Under this ground we had an expectation that the individuals in this group would know and use more or less every single ratio included in the questionnaire. As a matter of fact this expectation was confirmed because the percentage of use was 100% for all the financial ratios (see last column on the right, table 2). Nevertheless we have to bear in mind that the financial consultants group was the group with the lowest response rate, only 26%. This means that out of 50 questionnaires delivered to financial consultants only 14 were returned fully completed. This may somewhat bias<sup>11</sup> the results commented below concerning financial consultants' interests in financial ratios.

10) That is financing the entity by the personal funds of the owner. This is especially true for the one-owner SME-s.

11) Given that we do not have any rough approximation of the number of financial consultants working in Albania, we can not estimate if this results are statistically representative of the population or not.

**Table 2.** Financial Consultants questionnaire results in Albania.

FINANCIAL CONSULTANTS		
Financial Ratio:	Average Point Scoring	Percentage of usage
Operative Profit Margin	9.7	100%
Net Profit Margin	8.3	100%
Current Ratio	7.7	100%
Return on Equity ROE	7.6	100%
Total Assets Turnover	6.3	100%
Financial Leverage (Liabilities / Assets)	6.0	100%
Return on Assets ROA	5.6	100%
Cash Ratio (Cash Flow Operating / Liabilities)	4.7	100%
Working Capital	4.0	100%
Quick Ratio	3.3	100%

The results in table 2 show that this group is especially interested in profit margins of the entity - they put the operative and net profit margin in the top two positions. Their average point scoring is also high in the level of "9.7" for the most important ratio, and this is the highest score of the most important ratio achieved among the four groups. This shows that the group of financial consultants has given compact answers and has had the highest level of perception convergence among all groups. It seems that out of the four interviewed groups they are the group that has the largest scale of agreement as to the importance of specific financial ratios. From table 2 we can also observe that financial consultants have a certain interest on the liquidity ratios (third position) and return ratio (fourth position). On the other hand, the financial leverage ratios, which were highly important for the credit analysts group, come only sixth in consideration for the financial consultants group.

### 3.3 Results of the questionnaire with the Certified Public Accountants group.

The next target group was the Certified Public Accountants, CPAs. This group also seems to be interested in the financial analysis even though this is not their primary professional focus. Sometimes their clients demand from the CPAs to perform analysis of the financial statement they prepare thus acting as financial consultants. In table 3 we give the results for this third group. The first feature we may notice is that none of the financial ratios is used in the level of 100% by the CPAs. Actually the highest usage rate is only 80%, meaning that the specific ratio is used by only 80% of the sample of the CPAs interviewed. The least used ratio is the Cash Ratio, put in use by only 40% of the sample. There are even CPAs who answered they do not use even one single financial ratio.<sup>12</sup> Another observed feature in the CPAs' questionnaire was that the senior CPAs (professionally and in age as well) were the less financial ratios they used. Nevertheless this is not a statistically tested conclusion, but just a simple observation of the author. On the other hand the less senior CPAs were more likely to use the financial ratios in their everyday work. We argue that this observation may be linked with the fact that the financial ratios are a new reality in financial analysis discipline in Albania and thus are mostly embraced by the young professionals, in this case the recently licensed CPAs, or by the recently graduated individuals.

12) As a matter of fact it was only in one case that a CPA answered he did not use any of financial ratios provided to him in the list in the questionnaire, or any other, even though he certainly possessed proper knowledge about those ratios. Asked about the reason he answered that "this was because of the informality he could sense in the prepared and reported financial statements in Albania and because of the bias between these statements and the financial reality of the entity" (cited with the permission of the interviewed CPA). This statement gives us reason to imply that the low usage rate of financial ratios by the CPAs (in average the lowest among the four groups interviewed) is caused by their knowledge of the deep informality in the financial statements prepared by Albanian entities (author's opinion).

**Table 3.** Certified Public Accountants questionnaire results in Albania.

<b>CERTIFIED PUBLIC ACCOUNTANTS, CPA</b>		
<b>Financial Ratio:</b>	<b>Average Point Scoring</b>	<b>Percentage of usage</b>
Financial Leverage (Liabilities / Assets)	8.75	80%
Current Ratio	8.1	80%
Return on Assets ROA	8.0	60%
Return on Equity ROE	7.3	80%
Net Profit Margin	7.0	80%
Operative Profit Margin	6.7	60%
Total Assets Turnover	5.7	80%
Working Capital	3.7	60%
Quick Ratio	2.3	60%
Cash Ratio (Cash Flow Operating / Liabilities)	2.0	40%

Interpreting the results obtained from questionnaires with CPAs there are several points worth to comment. First the highest ranked ratio by CPAs is a capital structure one - the financial leverage ratio which is given an average point scoring of 8.75. The second is a liquidity ratio - the current ratio with an average point scoring of 8.1 and the third happens to be a return ratio - the ROA with an average result of 8.0 points. What we can observe from the first three places in CPAs' choice is a rich and diverse combination of ratios from the three most important groups of financial ratios - those of capital structure, liquidity and profitability. Further more, the interest of the CPAs on the ratios of financial leverage and current ratio (both of them ratios purely derived from the balance sheet) could be explained by their professional focus on the balance sheet construction.

#### *3.4 Results of the questionnaire with the financial directors/employees group.*

The last interviewed group we combined the financial directors of enterprises and the professionally independent financial employees (such as Approved Accountants - Albanian, *Kontabilistet e Miratuar, KM*). We also included in this group all those interviewed individuals who did not identify themselves within any of the first three groups. Questionnaires were delivered for financial employees in *Tirana, Durrës, Vlora, Kruja* and *Fier*.

**Table 4.** The financial employees' questionnaire results in Albania.

<b>FINANCIAL DIRECTORS/EMPLOYEES, KM AND OTHERS</b>		
<b>Financial Ratio:</b>	<b>Average Point Scoring</b>	<b>Percentage of usage</b>
Net Profit Margin	8.5	100%
Return on Equity ROE	8.2	100%
Operative Profit Margin	7.6	100%
Cash Ratio (Cash Flow Operating / Liabilities)	6.4	100%
Total Assets Turnover	6.3	69%
Return on Assets ROA	6.1	100%
Current Ratio	5.4	81%
Financial Leverage (Liabilities / Assets)	5.0	81%
Quick Ratio	4.0	81%
Working Capital	3.6	81%

From the results in table 4 we notice that the usage rate of financial ratios by this last target group is not low. Except the "Total Assets Turnover" ratio with the lowest percentage of use (69%), the other ratios are used in more than 80% of cases (varying from 81% to 100%). In the first top three positions are listed the



profitability ratios - the two profit margins and the ROE ratio. We may explain the huge importance placed on the profitability ratios with the fact that these indicators represent a measure of the financial directors' own performance because they are established as targets they should achieve. This is why the majority of the professionals of this group always keep an eye in any (or sometimes the three) of these profitability ratios. We also notice in table 4 that the Cash Ratio is in the fourth position and it is the highest ranked ratio among all the liquidity ratios, (it has a distinctively higher score, 6.4 in average, than the other next liquidity ratio in the classification, the current ratio, 5.4 in average). This could be explained with the fact that the financial employees always want to have information about the sufficiency of cash reserves and this information is better captured by the cash ratio rather than by the traditional liquidity ratios.

### 3.5 Comparative results among the four groups.

In table 5 we present the comparative results of this study which focused in four groups of professionals in Albania. Only the five most important ratios of each group are included in the summarized table 5, regardless of the specific average point scoring of each ratio. We can observe that there are similarities in the preferences for financial ratios between the group of the credit analysts and the CPAs. The first five ratios for these two groups are almost the same, except with some differences in ranking. The only significant difference is the specific liquidity ratio preferred by each group - the credit analysts prefer the cash ratio but they nevertheless place it only in the fifth place. On the other hand the CPAs mostly prefer the current ratio and regard it as the second most important ratio in which they focus their analysis of an entity.

**Table 5.** Comparison of results for the five most used ratios among the four groups of professionals in the study in Albania.

<b>The studied groups with professionals in Albania</b>				
<b>Ranking</b>	<b>Credit analysts</b>	<b>Financial consultants</b>	<b>Certified Public Accountants - CPA</b>	<b>Financial directors/employees, etc.</b>
<b>1</b>	Financial Leverage	Operative Profit Margin	Financial Leverage	Net Profit Margin
<b>2</b>	Return on Assets ROA	Net Profit Margin	Current Ratio	Return on Equity ROE
<b>3</b>	Return on Equity ROE	Current Ratio	Return on Assets ROA	Operative Profit Margin
<b>4</b>	Net Profit Margin	Return on Equity ROE	Return on Equity ROE	Cash Ratio
<b>5</b>	Cash Ratio	Total Assets Turnover	Net Profit Margin	Total Assets Turnover

The same lines of similarities can be drawn between the groups of financial consultants and financial employees. They also prefer basically the same ratios but they rank them differently. There is also a different preference for the specific liquidity ratio. The financial consultants focus on the current ratio and place it the third in the overall ranking while the financial directors/employees and others prefer most the cash ratio and rank it as the fourth.

All the similarities between the groups can be best presented visually if we put closely the "related groups" making two pairs: credit analysts - certified public accountants pair on one hand and the financial consultants - financial directors pair on the other. Table 6 represents these arrangements. We have marked with an asterisk - \* those financial ratios that are exactly the same between the compared groups and have the same ranking; with two asterisks - \*\* those financial ratios that are the same in the top five ratios but with differences in ranking between two groups; with three asterisks - \*\*\* those financial ratios that are different in two groups, even though they may be of the same financial ratio classification group e.g. liquidity ratios category or capital structure category.



**Table 6.** Links between preferences for financial ratios in the target professional groups in Albania.

<b>The studied groups with professionals in Albania</b>				
<b>Ranking</b>	<b>Credit analysts</b>	<b>Certified Public Accountants</b>	<b>Financial consultants</b>	<b>Financial directors/employees, etc.</b>
<b>1</b>	<b>Financial Leverage *</b>	<b>Financial Leverage *</b>	Operative Profit Margin **	Net Profit Margin **
<b>2</b>	Return on Assets ROA **	Current Ratio ***	Net Profit Margin **	Return on Equity ROE **
<b>3</b>	Return on Equity ROE **	Return on Assets ROA **	Current Ratio ***	Operative Profit Margin **
<b>4</b>	Net Profit Margin **	Return on Equity ROE **	Return on Equity ROE **	Cash Ratio ***
<b>5</b>	Cash Ratio ***	Net Profit Margin **	<b>Total Assets Turnover *</b>	<b>Total Assets Turnover *</b>

In table 6 there are also marked with bold letters those financial ratios which are exactly the same between groups; there is only one in each pair, the financial leverage ratio for the first pair (ranked first) and the total assets turnover ratio in the second pair (ranked last). Also the order of ratios in the first pair is basically the same (except the current ratio which is found in the second place of the CPAs group). There is not such a close similarity in ratios order in the second pair. The financial ratios seem to have a more disorganized distribution compared with the first pair.

Given the results of this comparison we may conclude that most closely related pair is that between the credit analysts and CPAs. Less related but comparable to a certain extent is the pair of financial consultants and financial employees. We could rationally expect such an association between the different groups to form these pairs. To elaborate on that: the credit analysts' preferences resemble those of the CPAs because these two groups of professionals observe the financial statements trying to determine their reliability and share their efforts almost equally among different aspects of entity performance. This fact is confirmed because of the presence of ratios from all the three categories, capital structure, profitability and liquidity, in the first five places of these groups' classification. On the other hand, the similarity of interests of the financial consultants and financial directors/employees groups is also expected. This last pair is more interested in assisting the company achieving its objectives or directly involved in achieving these objectives rather than taking time to evaluate its performance based in financial statements indicators solely. This is why the profitability ratios basically occupy the top five places in the classification.

### 3.6 Comparative results between Albania and USA.

A similar study has been made in the USA in the beginning of 2000 (Gibson, 2005). It was addressed to the same four different groups of users - credit analysts in the commercial banks, controllers, certified public accountants and the certified financial analysts that are analogous to the groups of study in Albania. Table 7 briefly presents these results.

**Table 7.** Results of the questionnaire with credit analysts in USA.

Commercial loans analysts		
Ratio	Point scoring	Category
Debt / Capital	8.71	Debt
Current Ratio	8.25	Liquidity
CFO / Current maturity of long-term debt	8.08	Debt
Fixed costs coverage	7.58	Debt
Net Profit margin after tax	7.56	Profitability
Times interest earned	7.50	Debt
Net Profit margin before tax	7.43	Profitability
Financial leverage	7.33	Debt
Days in inventory	7.25	Liquidity
Days in receivables	7.08	Liquidity

In table 8 the results of a similar study performed with the corporate controllers of selective industries in the *Fortune 500* are presented. These professionals were asked only to point which financial ratio(s) was(ere) part of corporate objectives.

**Table 8.** Results of the questionnaire with corporate controllers in USA.

Corporate controllers		
Ratio	Percentage	Category
Earning per share	80.6	Profitability
Debt / Capital	68.8	Debt
Return on equity (after tax)	68.5	Profitability
Current Ratio	62.0	Likuiditeti
Net Profit margin (after tax)	60.9	Profitability
Dividends paid ratio	54.3	Other
Return on total capital invested (after tax)	53.3	Profitability
Net Profit margin before tax	52.2	Profitability
Days in receivables	47.3	Liquidity
Return on assets	47.3	Profitability

\* Percentage of firms that showed the specific ratio was included in the corporate objective

The next studied group consisted of the certified public accountants, CPAs, whose results are presented in table 9.

**Table 9.** Results of the questionnaire with the CPA-s in USA.

Certified public accountants, CPA-s		
Ratio	Point scoring	Category
Current Ratio	7.10	Liquidity
Days in receivables	6.94	Liquidity
Return on equity (after tax)	6.79	Profitability
Debt / Capital	6.78	Debt
Quick ratio	6.77	Liquidity
Net Profit margin after tax	6.67	Profitability
Net Profit margin before tax	6.63	Profitability
Return on assets (after tax)	6.39	Profitability
Return on total capital invested (after tax)	6.30	Profitability
Days in inventory	6.09	Liquidity

The last studied group consisted of the certified financial analysts, CFAs. The results of their perception on ratio importance is given in table 10.

**Table 10.** Results of the questionnaire with the CFA-s in USA.

<b>Certified Public Accountants, CPA-s</b>		
<b>Ratio</b>	<b>Point scoring</b>	<b>Category</b>
Return on equity (after tax)	8.21	Profitability
Price/Earnings	7.65	Other
Earnings per share	7.58	Profitability
Net Profit margin (before tax)	7.52	Profitability
Return on equity (before tax)	7.41	Profitability
Net Profit margin (after tax)	7.32	Profitability
Fixed costs coverage	7.22	Debt
Quick ratio	7.10	Liquidity
Return on assets (after tax)	7.06	Profitability
Times interest earned	7.06	Borxhi

We have attempted to present some comparative results between the respective groups of financial ratios users in USA and Albania. Focusing on the five most important ratios we give the following results in table 11. The comparison is focused only on three groups that could be perceived as more connected. We are excluding the CFAs and the financial analysts from such a comparison because of the specifics of this profession in Albania, where the financial analysts do not have to be certified to work as such.

**Table 11.** Comparative results of the questionnaire with the in USA and Albania for three groups.

<b>Nr.</b>	<b>Credit analysts (AL)</b>	<b>Credit analysts (USA)</b>	<b>CPA (AL)</b>	<b>CPA (USA)</b>	<b>Financial employees (AL)</b>	<b>Controllers (USA)</b>
<b>1</b>	Financial leverage	Debt / Equity	Financial leverage	Current ratio	Net profit margin	Earnings per share
<b>2</b>	Return on assets, ROA	Current ratio	Current ratio	Days in receivables	Return on Equity, ROE	Debt / Equity
<b>3</b>	Return on Equity, ROE	CFO / Current maturity of long-term debt	Return on assets, ROA	Return on Equity, ROE, after tax	Operativ profit margin	Return on Equity, ROE, after tax
<b>4</b>	Net profit margin	Fixed costs coverage	Return on Equity, ROE	Debt / Equity	Cash ratio	Current ratio
<b>5</b>	Cash ratio	Net profit margin after tax	Net profit margin	Quick ratio	Total assets turnover	Net profit margin after tax

From table 11 we may notice that the credit analysts both in Albania and USA regard the financial leverage ratio as the most important indicator to assess the financial soundness of an entity. We may also find similarities in their interest to use the liquidity and profitability ratios (namely the credit analysts in Albania use the cash ratio and the net profit margin whereas the credit analysts in USA use the CFO to current maturity of long-term debt and the net profit margin). The second across-country comparative group, the CPAs, appear to have three ratios in common: financial leverage, current ratio and the ROE. The other two ratios are different. The CPAs in USA prefer the quick ratio and the days in receivables while the CPAs in Albania prefer two profitability ratios, the net profit margin and the ROA, (we have to bear in mind that the days in receivables ratio was not included in the questionnaire in Albania). The last cross-country comparative group, the financial employees group, also demonstrates some similarities. They have two ratios in common, the

net profit margin and the ROE, even though positioned in different places. The other three ratios are not the same what could very well be explained by the lack of internal consistency in the Albanian group where this group did not include just controllers - chief accountants, but other financial employees as well. In general we may conclude that there are not major differences between the use of financial ratios between the two comparing countries, Albania and USA. The variability of the across-countries results is lower than the variability of the across groups results.

#### **4. Main findings and conclusions.**

This paper focused in the study of financial ratios use by different categories of professionals. While being a much extended field of research in other countries, in Albania we notice a lack of studies with regard of the financial ratios use and the variability of practices and interest of different users. Therefore, one of the objectives of this paper was to open the way for future studies in this discipline.

We studied the differences and similarities in the usage of financial ratios by different classes of professionals in Albania. The sample of the survey was divided into four different users groups - the credit analysts, financial consultants, Certified Public Accountants and financial directors/employees. The data was gathered through a questionnaire with closed questions (questions with defined answers). Out of 200 questionnaires distributed 96 fully completed and usable observations were collected. The total average response rate of the questionnaire was 45%. The descriptive statistics were used to process the data. The results were presented separately for each studied group and also a comparative analysis was performed to discover possible similarities in preferences among groups and between Albania and USA.

We find that the group of credit analysts and the group of Certified Public Accountants in Albania have quite similar preferences regarding the use of the financial ratios. Both these groups top rank the same financial ratio - the leverage ratio - and, with some minor exceptions, they put the same ratios in the top five classifications. This strong resemblance could be explained with the similar point of view that these two classes of professionals adopt toward the financial statements: determining the reliability of the information presented in the face of the published statements. Therefore they both focus on the three main categories of financial ratios - capital structure, profitability and liquidity - having similar ratios in the first five positions of the ranking. By evaluating a company under several different yardsticks they try to complete the picture of an enterprise analysis and to assess the reliability of its financial information as well as the financial and economic soundness of its decisions.

Another finding is that the group of financial consultants and financial directors/employees showed similar interests in the financial ratios usage. These two groups put the same financial ratios in their first five places of classification even though their distribution is obviously different for each of the groups. One could also observe that the financial ratios occupying the first five positions are mainly profitability indicators. Trying to explain the underlying reasons for such an observed similarity we can mention at least one point: the two groups - financial consultants and financial directors - are directly or indirectly involved in achieving the main objective of an enterprise, the profit maximization. Hence, the profitability ratios are so important to them, even more than the capital structure or the liquidity ratios.

To summarize the above findings we can argue that the preferences of different users for financial ratios are different and are mainly determined by their professional objectives. Hence, as the working interests vary considerably among different classes of professionals we can not expect uniform use and interest on financial ratios for all users groups. To the extent that the professional objectives are similar between two or more users groups, to that extent we may expect their focus on the financial ratios to be similar. That is why we notice similarities between the credit analysts group and the CPAs group on one side and between the financial consultants and financial directors on the other.

Comparing the use of the financial ratios between two countries Albania and USA, we find that the variability across countries is much lower than the variability across groups. Regardless of the country in which they work, the credit analysts, the CPAs and the financial employees demonstrate quite similar interest on the financial ratios. More specifically: (1) the credit analysts focus mainly on the capital structure of an enterprise trying to understand if further loans could be extended to this specific enterprise; (2) the CPAs focus on liquidity and profitability because they aim to attest the quality of the financial information of an enterprise and quite often the accounting cosmetics yields the first effects upon the liquidity and profitability indicators; and (3) the financial employees focus mainly on the profitability ratios because their performance is quite often evaluated using one form of the profitability indicators. We did not compare the group of financial consultants and analysts because of feature differences: the Certified Financial Analysts in the USA represent a standardized class of certified professionals, whereas the financial analysts and consultants in Albania represent a highly heterogenic class with different backgrounds and different professional scope.

Based solely upon simple descriptive statistics and a modest database we suggest as further extension of this study: (i) the use of more comprehensive statistical tools to assess the significance of the variance of preferences among different classes; (ii) a more complete database with more observations; and, (iii) a study of the over time differences of users' preferences before and after the implementation of the NAS/IAS/IFRS in Albania.

## References

Agca; Actas, "First time application of IFRS and its impact on financial ratios: A study on Turkish listed firms", *Problems and Perspectives in Management*, 2007/2, 99-112.

Basel Committee on Banking Supervision. "Overview of the new Basel Capital Accord". Available online at [www.bis.org](http://www.bis.org).

Beaver, William; McNichols, Maureen; Rhie, Jung-Wu, "Have financial statements become less informative? Evidence from the ability of financial ratios to predict bankruptcy". *Review of Accounting Studies*, volume 10, number 1, March 2005, pp. 93-122(30) 2005.

Chava; Jarrow. "Bankruptcy prediction with industry effects". Available online on [rof.oxfordjournals.org/cgi/reprint/8/4/537](http://rof.oxfordjournals.org/cgi/reprint/8/4/537).

Hajdu; Virag. "A Hungarian model for predicting financial bankruptcy". *Society and Economy in Central and Eastern Europe*, 23(1-2): 28-46

Horrigan, James O. "A short history of financial ratio analysis". *The Accounting Review* 43, pp. 284-294. 1968.

Hunter; Isachenkova "A panel analysis of UK industrial company failure". *Economics and Finance Working Papers*, Brunel University, 03-10. Available online at <http://bura.brunel.ac.uk/handle/2438/930>.

John Stephen Grice Jr; Michael Dugan, "Re-estimations of the Zmijewski and Ohlson bankruptcy prediction models". Available online at [http://www.sciencedirect.com/science?\\_ob=articleurl&\\_ud](http://www.sciencedirect.com/science?_ob=articleurl&_ud).

Raghunandan; Subramanyam. "Market information and predictive accuracy of the going concern opinion". Available online at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=427682](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=427682). 2003.

Timo Salmi; Ilkka Virtanen; Paavo Yli-Olli. "On the classification of financial ratios: A factor and transformation analysis of accrual, cash flow, and market-based ratios". Available online at <http://lipas.uwasa.fi/~ts/sera/sera.html>.

Timo Salmi; Teppo Martikainen, "A review of the theoretical and empirical basis of financial ratio analysis", *The Finnish Journal of Business Economics*, 1994.

Vishny, Robert W; Shleifer, A. "A survey of corporate governance", *Journal of Finance*, 1997, 52(2), pp. 737-83.