

Czech University of Life Sciences Prague
Faculty of Economics and Management
Department of Economics



Diploma Thesis
Economic and Financial Analysis of the Selected
Firm (“Kosmis” Ltd.)

Author: Alina Ivanova, B.Sc.

Supervisor: Ing. Petr Procházka, Ph.D., M.Sc.

Faculty of Economics and Management

Department of Economics

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DIPLOMA THESIS ASSIGNMENT

B.Sc. Bc. Alina Ivanova

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Thesis title

Economic and Financial Analysis of the Selected Firm ("Kosmis" Ltd.)

Objectives of thesis

The goal of this work is studying of evaluation methods of a financial condition and their application for a research of the entity "Kosmis" Ltd.

According to Diploma Thesis structure, aims of this work are following:

- 1) To provide the theoretic-methodical background of fundamental methods of financial analysis.
- 2) To analyze the organization and management of finance of "Kosmis" Ltd., applying fundamental methods of financial analysis.
- 3) To find and offer the ways of profitability increase of the branch "Kosmis" Ltd.

Methodology

Master thesis contains theoretical overview of methods of financial analysis that is conducted using methods of synthesis, induction, deduction and extraction.

Analytical section of this work represents application of fundamental methods of financial analysis on example of «Kosmis» Ltd. The main components of the analysis of financial and economic activity of the enterprise are the analysis of financial statements: "Kosmis" Ltd. balance sheet and financial statement for years 2014 and 2015. The main applied fundamental methods are absolute ratio indicator analysis like horizontal, vertical; analysis of liquidity, profitability and debt ratio indicators.

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Keywords

Kosmis, analysis, finance, management, Kazakhstan, Kostanay

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The Diploma Thesis Supervisor

Ing. Petr Procházka, Ph.D., MSc

Supervising department

Department of Economics

Electronic approval: 3. 3. 2017

prof. Ing. Miroslav Svatoš, CSc.

Head of department

Electronic approval: 3. 3. 2017

Ing. Martin Pelikán, Ph.D.

Dean

Prague on 27. 03. 2017

Declaration

I declare that I have worked on my Master thesis titled “Economic and Financial analysis of selected firm (“Kosmis” Ltd.) by myself and I have used only the sources mentioned at the end of the thesis.

In Prague on date _____

Signature _____

Alina Ivanova

Economic and Financial Analysis of the Selected Firm («Kosmis» Ltd.)

Abstract

This diploma thesis is focused on financial analysis of «Kosmis» Ltd. company and its management of finance. Theoretical part describes the main financial tools and methods that can be used in order to conduct fundamental analysis. Analytical part is divided into three parts:

- Marketing analysis : Porter’s Five Forces, S.W.O.T., and competitors’ analysis;
- Application of financial methods like absolute and relative indicator analysis on «Kosmis» Ltd. balance sheet and income statements of years 2013 - 2015;
- Appropriate recommendations for profitability increase and forecasts.

Keywords

Financial analysis, «Kosmis» Ltd., finance management, Kazakhstan, Kostanay

Ekonomická a finanční analýza vybrané firmy (“Kosmis” s.r.o.)

Abstrakt

Tato diplomová práce je zaměřena na finanční analýzu společnosti «Kosmis» s.r.o. a její finanční management. Teoretická část popisuje hlavní finanční nástroje a metody, které mohou být použity pro provedení základní analýzy. Analytická část je rozdělena do tří částí:

- Marketingová analýza: Porterova analýza pěti sil, S.W.O.T., a konkurenční analýzy;
- Aplikace finančních metod jako absolutní a indikační analýzy na účetní rozvahu «Kosmis» s.r.o. a výkaz zisku a ztrát za roky 2013-2015;
- Příslušná doporučení pro zvýšení ziskovosti a předpovídatelnosti.

Klíčová slova:

Finanční analýza, «Kosmis» s.r.o. finanční management, Kazachstán, Kostanay

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TABLE OF CONTENT

| | |
|---|-----------|
| INTRODUCTION | 10 |
| AIMS | 11 |
| METHODOLOGY..... | 12 |
| I THEORETICAL PART | 13 |
| I.I MANAGEMENT OF THE FINANCES AT THE ENTERPRISE | 13 |
| I.II METHODS OF ECONOMIC - FINANCIAL ACTIVITY ANALYSIS | 16 |
| II. PRACTICAL PART | 29 |
| II.I BRIEF CHARACTERISTIC OF THE COMPANY “KOSMIS” LTD..... | 29 |
| II.II PORTER’S FIVE FORCES AND S.W.O.T. ANALYSIS | 30 |
| II.III “KOSMIS” LTD. ABSOLUTE INDICATOR ANALYSIS..... | 37 |
| II.III.I HORIZONTAL ANALYSIS | 37 |
| II.III.II VERTICAL ANALYSIS | 40 |
| II.III ASSESSMENT OF LIQUIDITY AND PAYING CAPACITY OF THE COMPANY | 43 |
| II.IV ANALYSIS OF THE CAPITAL STRUCTURE AND FINANCIAL STABILITY..... | 45 |
| II.V ASSESSMENT OF BUSINESS ACTIVITY AND ANALYSIS OF THE PROFITABILITY | 46 |
| II.VI CONCLUSIONS | 51 |
| III. RECOMMENDATIONS | 51 |
| III.I ACCOUNTS RECEIVABLE | 51 |
| III.II SALES STRATEGY..... | 57 |
| III.III OPERATING EXPENSES..... | 57 |
| III.IV FORECASTING THE PROFIT FOR THE YEAR 2016 | 59 |
| III.V CONCLUSIONS | 59 |
| IV. CONCLUSIONS | 61 |
| APPENDICES | 65 |

LIST OF TABLES AND FIGURES

| | |
|--|----|
| TABLE 1: FINANCIAL RATIOS | 20 |
| TABLE 2: LIQUIDITY RATIOS | 24 |
| TABLE 3: DEBT MANAGEMENT RATIOS | 25 |
| TABLE 4: FEATURES OF THE INTERNAL AND EXTERNAL FINANCIAL ANALYSIS | 26 |
| TABLE 5: MARKETING ANALYSIS OF COMPETITORS..... | 33 |
| TABLE 6: COMPETITORS ADVANTAGES AND DISADVANTAGES..... | 34 |
| TABLE 7: SWOT ANALYSIS | 35 |
| TABLE 8: HORIZONTAL ANALYSIS OF INCOME STATEMENT FOR YEARS 2013-2015 | 37 |
| TABLE 9: HORIZONTAL ANALYSIS OF BALANCE SHEET FOR YEARS 2013-2015 | 39 |
| TABLE 10: HORIZONTAL ANALYSIS OF BALANCE SHEET FOR YEARS 2013-2015 (CONTINUED) | 39 |
| TABLE 11: VERTICAL ANALYSIS OF BALANCE SHEET FOR YEARS 2013-2015..... | 41 |
| TABLE 12: VERTICAL ANALYSIS OF BALANCE SHEET FOR YEARS 2013-2015 (CONTINUED)..... | 42 |
| TABLE 13 INVENTORY COVER RATIO..... | 44 |
| TABLE 14 DYNAMICS OF LIQUIDITY COEFFICIENTS | 44 |
| TABLE 15 DYNAMICS OF DEBT MANAGEMENT COEFFICIENTS..... | 45 |
| TABLE 16 : RATIOS OF CAPITAL TURNOVER..... | 47 |
| TABLE 17: PROFITABILITY RATIOS..... | 48 |
| TABLE 18 : CALCULATION OF SALES PROFITABILITY..... | 49 |
| TABLE 19: FINANCIAL SAFETY MARGIN | 50 |
| TABLE 20 :RECEIVABLE'S TURNOVER ANALYSIS..... | 53 |
| TABLE 21 : RECEIVABLES DURATION ANALYSIS JANUARY 31, YEAR 2015 | 53 |
| TABLE 22 : RECEIVABLES' DURATION ANALYSIS FOR FEBRUARY 2015..... | 54 |
| TABLE 23 : COMPANY POLICIES TOWARD NON-COVERED RECEIVABLES | 55 |
| TABLE 24 : CALCULATION OF GROSS PROFIT | 57 |
| TABLE 25: ANALYSIS OF EXPENSES..... | 58 |
| TABLE 26 : PROFIT FORECAST FOR THE YEAR 2016 | 59 |
| | |
| FIGURE 1: DECISION-MAKING PROCESS IN THE SYSTEM OF FINANCE | 27 |
| FIGURE 2: ORGANIZATIONAL STRUCTURE OF THE PLANT | 30 |
| FIGURE 3: ANALYSIS OF THE COMPETITORS UNDER M. PORTER'S MODEL..... | 31 |

Introduction

Relevance of the chosen subject is caused by realities of the current economy. One or other consequences of financial crisis have continually an effect, and it will effect still quite long time. Success of overcoming and recovery from the crisis and further existence of the entity depends on ability to accept and take active actions in adoption of the correct decisions. Before adoption of the main decisions it is necessary not only to make careful analysis of important aspects of activities, but also to estimate efficiency of activities of the entity in general. It is necessary reconsider and regulate accurately the plan for improvement of financial activities, the practical action plan.

As a result of analysis of financial activities the management of the entity receives a picture of its valid condition, and the parties, directly not working at this entity, but interested in its financial condition (for example, creditors who want to be sure that they will get return, auditors who need to distinguish financial cunningings of the clients, investors, etc.) will get the data necessary for impartial judgment (for example, about rationality of use of the additional investments enclosed in the entity, etc.).

In this case will be given the example of final activities of the entity - balance and the report on financial results where all resulting effects of work on different articles will be collected. Analyzing different indicators of balance, the researcher will approach calculation of analytical coefficients of a financial position of the entity, analyzing each of which separately, it is possible to draw the corresponding conclusions. Detailed consideration of these coefficients as it was stated in more general form above, will lead to an overall picture of work of the entity.

State of financial parameters is the most important characteristic of economic activity of the entity. It determines competitiveness, potential in business cooperation, estimates in what degree economic interests of the entity and its partners in the financial and production relation are guaranteed. However, only the ability to estimate a financial condition isn't enough for successful functioning of the entity and achievement by it of an effective goal.

Aims

The goal of this work is studying of evaluation methods of a financial condition and their application for a research of the entity “Kosmis Branch of RG Brands Kazakhstan Kostanay” Ltd.

Object of a research is financial activities of the entity “Kosmis Branch of RG Brands Kazakhstan Kostanay” Ltd. Object of the research is the technique of assessment of financial activities and practice of its application in a management activity of the entity “Kosmis Branch of RG Brands Kazakhstan Kostanay” LLP.

Aims of this work are following:

- To provide the theoretic-methodical background of fundamental methods of financial analysis.
- To provide company brief characteristic and marketing analysis with the help of Porter’s Five Forces, S.W.O.T. and competitors analysis.
- To analyze the organization and management of finance of “Kosmis” Ltd., applying fundamental methods of financial analysis.
- To find and offer the ways of profitability increase of the branch “Kosmis” Ltd.

Methodology

Master thesis contains theoretical overview of methods of financial analysis that is conducted using methods of synthesis, induction, deduction and extraction.

Analytical section of this work represents application of marketing analysis tools like Porter's Five Forces and S.W.O.T.; application of methods of financial analysis on example of «Kosmis» Ltd. company. The main components of the analysis of financial and economic activity of the enterprise are the analysis of accounting reports: absolute indicators like horizontal, vertical; calculation of liquidity, profitability and debt ratio indicators. «Kosmis» Ltd. balance sheet and financial statement for years 2013 - 2015 were chosen for conducting the financial analysis.

I Theoretical part

I.1 Management of the finances at the enterprise

Finances of the enterprises exist due to the presence of trade relations between enterprises, and also between the enterprise and the state. Selling goods or any service for a money equivalent, they reflect the cost of goods or service, but money isn't actually finances. Finances means the economic relations, to be more exact – monetary relations.

Any enterprise is the independently managed unit in the general system of finances of the whole country, having at the same time the rights of the legal entity, manufacturing products, goods or rendering services, performing works, being engaged in different types of economic activities, setting as the purpose ensuring public demands, generation of a profit and augmenting its capital.

Finances of the state cover the monetary relations of the enterprises at the same time, forming, distributing and using financial resources of the enterprises, controlling their cash flows.

Finances of the enterprises has such public values as:

- The financial resources of the state, formed at the expense of finances of the enterprises for financing of different public requirements.
- Demand of goods and services is also formed at the expense of finances of the enterprises.
- Finances of the organizations are used for regulation of branch proportions in economics.

There are several functions of finances of the enterprises:

- Providing function, this function consists in systematic formation of sufficient amount of money from different sources including credit ones, forming necessary quantity for conducting business activity of resources volume.

- Distributive function is closely connected with the providing function. It distributes and redistributes the total amount of the created financial resources of the enterprise, through various funds.
- Control function, it presupposes financial control for results of financial and economic activity of the enterprise, and also for process of formation, distribution and use of financial resources.

Classification of finances of the enterprises depends from their legal organizational form (closed joint stock company, Ltd company, joint stock company, limited liability partnership, state enterprises, etc.), finances are divided also under branch accessory of the enterprise (industrial, agricultural, transport, trade, design, construction, etc.), finances also can be distinguished by the sizes of the enterprise (small, medium, large), also they are distinguished depending on the subject of legal property (commercial enterprises, which property is a property of citizens and legal entities of the State, foreign citizens).

The process of finances organization can't exist without observing the following principles:

- Financial independence - the enterprise independently defines what to do and where and what to make the investments for receiving the greatest profit.
- Self-sufficiency – the enterprise assets, invested by it, would pay off, cover all cost and get profit.
- Self-financing - full economic return on production and product sales, carrying out reproduction of fixed assets and current assets.
- Material responsibility – responsibility of the enterprises for maintaining and results of the financial and economic activity, distinguishing individual and collective responsibility.
- Interest on result – certain measures of stimulation and encouragement of employees of the enterprise for the purpose of increase in efficiency of their work, and respectively and the enterprises in general.

- Financial planning as an enterprise management system. At the correct planning there is a stabilization of profit, due to application of planned reference points and indicators.

Management of financial streams is the most important part of administrative activity of the enterprise. Management of finance works within the existing regulatory base, starting with state laws and decrees of the President and finishing with interdepartmental instructions and regulations.

Only full use of tools and methods of the analysis of financial activity allows to solve effectively strategic objectives and the current problems of the enterprise. For realization of tasks of financial management the corresponding mechanism is used.

The analysis of financial activity is carried out on the basis of indicators of annual accounting reports.

Results of the financial analysis of the reporting of the enterprise - it is far not only documentation for the tax inspection, departments of statistics or off-budget funds. The received conclusions will be useful, first of all, to the management of the enterprise:

- assessment of financial wellbeing of the enterprise and, therefore, appeal to investors;
- characteristic of a state, structure and placement of property, and also prospects of development.

The financial condition of the enterprise is the important characteristic of its activity. The financial state defines competitiveness of the firm, its potential in business cooperation, is a guarantor of effective activity of the enterprise and its partners. In modern market conditions the reality of assessment of a financial state has very important value not only for the enterprises, but also for shareholders and investors.

Analytical work has a serious value, connecting studying and forecasting of a financial condition of the enterprise. Timely and full identification of painful points of financing of the organization allows carrying out actions to prevent bankruptcy. The structure of balance acquires relevance as on an unsatisfactory condition of the balance and its structure the decision on insolvency of the firm as economic entity is made.

I.II Methods of economic - financial activity analysis

There are several methods of carrying out the analysis of financial activity of the company:

- Cost Plus method
- Discounted Cash Flow method
- Comparative method

The Cost Plus method is applied on only newly created enterprises, and also for the companies the main activity of which is operation of fixed assets. It is based on the Replacement Asset Value or Replacement Cost minus all types of wear. And the received figures often are used as a basis for calculation by other methods.

Discounted Cash Flow method assumes calculation of cost of business proceeding from cash flows. Among its models of approach it is used models of Constant Growth, i.e. a free cash flow on the share capital and a free cash flow of the enterprise. In total in world practice more than tens of models are used.

Comparative method - financial performance of the reporting period is compared either with planned ones, or to indicators for the previous period (basic). In a Comparative method certain methods of the analysis are also used:

Grouping method - indicators are grouped and tabulated that gives the chance of carrying out analytical calculations, identifications of tendencies of development of the separate phenomena and their interrelation, identification of the factors influencing change of indicators.

The Method of Chain Substitutions consists in replacement of a separate reporting indicator with a basic indicator, all other indicators remain invariable. This method gives the chance to define influence of separate factors on cumulative financial indicator.

One of the purposes of the analysis of a financial state is identification of signs of bankruptcy. Bankruptcy is connected with insolvency of the enterprise in general.

Main objective of the analysis of financial and economic activity is obtaining accurate and objective information on a financial condition of the firm. Thus several methods of work with financial reporting of the enterprise are allocated:

Finances Management is an analysis, forecast, planning and, eventually, elaboration of the strategy of financing.

The analysis of financial activity includes:

- Structural analysis of assets and liabilities.
- The analysis of the financial stability, which is characterized by satisfactory and unsatisfactory structure of balance and reflecting financial results of economic activity.
- The analysis of liquidity of the enterprise, which is understood as degree of a covering of obligations of the enterprise by its assets, which term of transformation into money (liquidity of assets) corresponds to a repayment period of obligations.
- The analysis of solvency, that is ability of the enterprise in time to meet payment requirements of suppliers, to return the credits and loans (solvency) and other payments.
- The analysis of profitability is assessment of overall effectiveness of investment of capital in this enterprise.

The tool for carrying out the financial analysis is financial statement (the balance sheet and income statement results).

The analysis of a financial and economic condition of the enterprise doesn't represent complexity in the presence of all necessary data and assumes small expenses of time for a research of tactical aspects of activity of the enterprise.

The attention in the analysis of financial and economic activity of the company has to be paid not only on methods of the financial analysis, but also a research of the received results and development of administrative decisions.

The main components of the analysis of financial and economic activity of the enterprise are the analysis of accounting reports: horizontal, vertical, trend analysis of the balance sheet, and calculation of financial coefficients.

The analysis is carried out by studying of the absolute measures presented in Accounting Reports with the purpose to define structure of property, a financial position of the enterprise, sources of formation of own means, and also loan, estimates of size of proceeds from sales of production. The actual indicators of the reporting are compared with planned, etc.

On the basis of the analysis of financial and economic activity financial analysts of the enterprise collect and generalize the obtained information which reflects all processes happening in the organization.

Only full use of tools and methods of the analysis of financial and economic activity allows solving effectively strategic objectives and the current problems of the enterprise. For realization of tasks of financial management the corresponding mechanism is used.

The analysis of financial and economic activity is carried out on the basis of indicators of quarter and annual Accounting Reports. The preliminary analysis of financial and economic activity is carried out before drawing up accounting and financial statements when still there is an opportunity to change a number of articles of balance, and also for drawing up the explanatory note to the Annual Report. Data of the final analysis form a basis for development of almost all key aspects of financial policy of the organization. From that, how qualitatively it is carried out, efficiency of the made administrative decisions depends. And quality of the most financial analysis depends on the applied technique, reliability of data of the reporting, and also on competence of the person making the administrative decision in the field of financial policy. Basic elements of the analysis of financial and economic activity of the enterprise are, as it has been already told, the analysis of Accounting Reports; studying of indicators of financial stability, indicators of liquidity and business activity and profitability indicators.

The financial condition of the enterprise is the important characteristic of its activity. The financial state defines competitiveness of the company, its potential in

business cooperation, is a guarantor of effective activity of the enterprise and its partners. In modern market conditions the reality of assessment of a financial state has an important value not only for the enterprises, but also for shareholders with investors. Analytical work has serious value, connecting studying and forecasting of a financial condition of the enterprise. Timely and full identification of painful points of financing of the organization allows to carry out actions, on prevention of its bankruptcy. The structure of balance acquires relevance as an unsatisfactory condition of the balance and its structure the decision on insolvency of firm as economic entity is made.

As it was already told, a main objective of the financial analysis is to obtain accurate and objective information on a financial condition of the enterprise. At the same time, it is possible to consider the current financial position, and on prospect. It is possible to distinguish some methods from variety of methods of work with Financial Reporting:

- The Horizontal Analysis represents comparison of each position of the reporting with the previous period.
- The Vertical (Structural) Analysis defining structure of total financial performance.
- The Method of Financial Coefficients (relative indicators) represents definition of the relations and interrelations of indicators.
- The Comparative (Dimensional) Analysis - it can be intra-company comparison on separate indicators, and also inter-company comparison of indicators of this enterprise with other subjects or with the industry average economic data.
- The Factorial Analysis is an analysis of influence of separate factors on a resultant indicator by means of the determined or stochastic means of a research. It can be as the direct, consisting in dividing of the main indicator to components, and also the return (synthesis) when separate elements unite in a productive indicator.

Financial coefficients characterize proportions between various items of the financial reports. Advantages of financial coefficients are simplicity of calculations and elimination of influence of inflation.

It is considered that if the level of the actual financial coefficients is worse than base of comparison, then it indicates the weakest places in activity of the enterprise needing the additional analysis. However, the additional analysis cannot confirm negative assessment owing to specificity of conditions and features of business policy of the enterprise. Financial coefficients don't catch distinctions in accounting methods; don't reflect quality of the making components. At last, they have static character. It is necessary to understand restrictions, which impose their use, and treat them as to the analysis tool.

Procedure of payments and the economic characteristic of the main coefficients characterizing a financial position of the organization it is presented in Table 1.

Table 1: Financial Ratios

| Ratio | Calculating formula | Interpretation |
|---|-------------------------------------|---|
| Current assets to equity ratio | Current Assets / Equity | Shows what share occupies own capital invested in current assets, in total amount own capital of the organization or what part of own means the enterprises is in mobile form allowing relatively free to maneuver these means. Optimum size - 0,5 |
| Share of own sources financing current assets | Own Current Assets / Current assets | Characterizes existence of own current assets necessary for financial stability of the organization; shows what part of reverse assets is financed for the account of own sources. Growth in it is considered to dynamics positive. Standard value of coefficient - 0,1 . Own Current Assets is the difference between Equity and Fixed Assets. |

| | | |
|--|---|--|
| Inventories of own source of finance ratio | Own Current Assets / Inventories | Shows in what degree material stocks are covered by own current assets also don't need in attraction of loan sources. Standard value makes 0,6 -0,8 |
| Fixed to Current Assets ratio | Fixed Assets/ Current Assets | Shows in what degree fixed assets exceed current; value of this coefficient in big to measure depends on branch features of the enterprise |
| Fixed assets coverage ratio | (Equity + Long-term Liabilities) / Fixed Assets | Characterizes the relation of own sources of formation of property and long-term liabilities to fixed assets. Change coefficient depends on branch features of the organization. |

Source: Investopedia

While reading the balance sheet the one can find out: nature of change of a result of balance and its separate sections of articles, correctness of investment of funds of the enterprise, its current solvency, etc. Reading balance, usually, begins with setting the amount of change for balance size of analyzed time period. For this purpose the balance result for the beginning of year is compared to a balance result for the end of the period.

The horizontal analysis means comparison of articles of balance and the indicators estimated under them for the beginning and the end of one or several reporting periods; it helps to reveal the deviations demanding further studying. In the horizontal analysis we should estimate absolute and relative changes of indicators. Comparison allows defining the movement of balance. In usual conditions increase in results of balance is estimated positively, and reduction –negatively. After assessment of dynamics change of balance, is expedient to establish the compliance of balance dynamics with dynamics of volume of product sales and services, as well as profit of the enterprises.

More quick growth rate of sales volume and profit in comparison with growth rate of the sum of balance indicates improvement in use of funds.

Indicators of profit, finished and sold products, works and services counting on one tenge of cost of property it is expedient to estimate and compare with data of last years, and also with similar indicators of other enterprises.

Besides clarification of an orientation of change of all balance, it is necessary to find out the nature of change of its separate articles and sections, and to carry out the further analysis. Positive assessment deserves increase in an asset of balance of money, securities, short-term and long-term financial investments and, as a rule, fixed assets, capital investments, intangible assets and production stocks, and in a passive – a result of the first section and especially the sum of profit, reserve fund, funds of a special purpose. As a rule, negative assessment is deserved by the sharp growth of receivables and payables in an asset and in a balance passive. In all cases negatively is estimated existence and increase under the articles "losses" and "reserves on doubtful debts".

Analysis of balance sheet content helps to make conclusions of financial condition of the enterprises. So, existence of losses testifies to unprofitability of this enterprise. If the enterprise is according to plan – unprofitable, then the sum of a loss should be compared with planned size and with the sum of a loss of the previous balance. It reveals the developed tendency.

Continuing the further analysis of balance sheet, study structure of the enterprises and sources of their creation (vertical analysis) should be provided. The Vertical Analysis is an expression of indicator through a certain percentage ratio to the relevant basic indicator. By means of the Vertical Analysis the main tendencies and changes in activity of the enterprise could be revealed. The structure of the assets side of the balance sheet consists of the following indicators: property of the enterprise; capital assets and other fixed assets (as a percentage to all means); material current assets (as a percentage to current assets to means); money and short-term financial investments (as a percentage to reverse).

First of all, by these indicators are determined the tendencies for the change of turnover of all means of property of the enterprise of its production potential.

When determining a tendency of change in turnover of enterprise assets, besides assessment of change of an indicator of the general turnover of enterprise assets (a ratio of sales proceeds and the average cost of balance is calculated), we should study a dynamics

ratio of non-current assets and current assets, and also use indicators of mobility of all enterprise assets and current assets.

The financial condition of the enterprise is considerably caused by its direct activity. Therefore in the analysis of a financial condition of the enterprise (especially for the forthcoming period) it is necessary to give an assessment of its financial potential. The structure of sources of enterprise assets (passive) includes the following indicators: sources of assets – only; sources of own means; borrowed funds; credits and borrowed funds; accounts payable; income and reserves of the enterprise.

Data on structure of sources of economic means are used, first of all, for assessment of financial stability of the enterprise and its liquidity and under solvency. Financial stability of the enterprise is characterized by coefficients: property, borrowed funds, a ratio of borrowed and own funds, mobility of own means, a ratio of non-current assets the sum of own means and long-term liabilities.

Liquidity is a possibility for realization of material and other values and their transformation into money. Under degree of property liquidity the enterprises could be divided into four groups:

- first -class liquid assets (money and short-term financial investments);
- the easily sold assets (receivables, finished products and goods);
- poor-selling or illiquid assets (intangible assets, capital assets and the equipment to installation, capital long-term financial investments).

Liquidity of balance is estimated by means of the special indicators expressing ratios of certain assets and a balance passive or structure of balance asset. To a large extent in the international practice the following indicators of liquidity are used: absolute liquidity index; intermediate covering ratio and general covering ratio. At calculation of all these indicators we should use a common denominator – current liabilities, which are estimated as the cumulative size of the short-term credits, short-term loans, accounts payable. Table 2 presents common liquidity ratio and their interpretations.

Table 2: Liquidity Ratios

| Liquidity Ratios | Formula | Interpretation |
|--|---|--|
| Current Ratio (Working capital Ratio) | $\frac{\text{Current Assets}}{\text{Current Liabilities}}$ | It shows whether company can settle short-term loans on time. Optimum interval is 1,2 – 2,0. |
| Cash Ratio | $\frac{\text{Cash \& Equivalentst}}{\text{Current Liabilities}}$ | Measure if the most liquid asset can cover current debts right now. Optimum size : 1,0 -2,0. |
| Quick Ratio | $\frac{\text{Current Assets} - \text{Inventories}}{\text{Current Liabilities}}$ | Similar to current assets, but excludes inventories. It measures whether company can pay off current liabilities, not relying on sold inventories. |

Source: Investopedia

Balance liquidity of the enterprise is closely connected with its solvency, which is understand as ability to respond for the obligations in due terms and in full. There are current and expected solvency. The current solvency is defined on the day of drawing up the balance. The enterprise is considered solvent if it has no arrears to suppliers, according to bank loans and other calculations. The expected solvency is defined on a certain forthcoming date by comparison of means of payment and prime obligations for this date.

There are several methods of fundamental analysis how to find out whether company can settle down its debts, and, moreover, how company manages its debts. Table 3 below represents ratios that identify the degree borrowed capital is utilized.

Table 3: Debt management ratios

| Debt Management Ratios | Formula | Interpretation |
|------------------------|--|--|
| Debt to Equity Ratio | $\frac{\text{Total Liabilities}}{\text{Total Equity}}$ | Shows in what degree the assets used by the organization are created at the expense of own capital. Characterizes independence the enterprises from loan sources. Its growth in dynamics testifies about increase in financial independence, decrease in risk financial difficulties that from a position creditors raises guarantees repayments with the enterprise of the obligations. Standard value coefficient is less than 1,0 |
| Equity Ratio | $\frac{\text{Total Equity}}{\text{Total Assets}}$ | Characterizes a share of own means in the general structure of cumulative capital, dependence degree of the company from external sources financings. Standard value has to be more than 0,5 |
| Debt Ratio | $\frac{\text{Total Liabilities}}{\text{Total Assets}}$ | Debt ratio measures the percentage of borrowed sources that are invested in total assets. Optimum is less than 0,5. |

Source: Investopedia

As it was already mentioned, solvency of the enterprise strongly depends on liquidity of balance. At the same time on solvency of the enterprise considerable impact is exerted also by other factors - a political and economic situation in the country, a condition of the monetary market, existence and perfection of the tax and banking legislation, security with own capital, a financial condition of the enterprises – debtors and others.

The analysis of financial and economic activity of the enterprise is finished with its complex assessment. In the analysis of a financial condition of the enterprise after complex assessment it is possible to develop actions for improvement of a financial state, paying special attention to development of financial strategy of the enterprise to prospect and during the next periods.

The main distinctions of the internal and external financial analysis are shown in Table 4 though in practice these two types of analytical work are quite often crossed over.

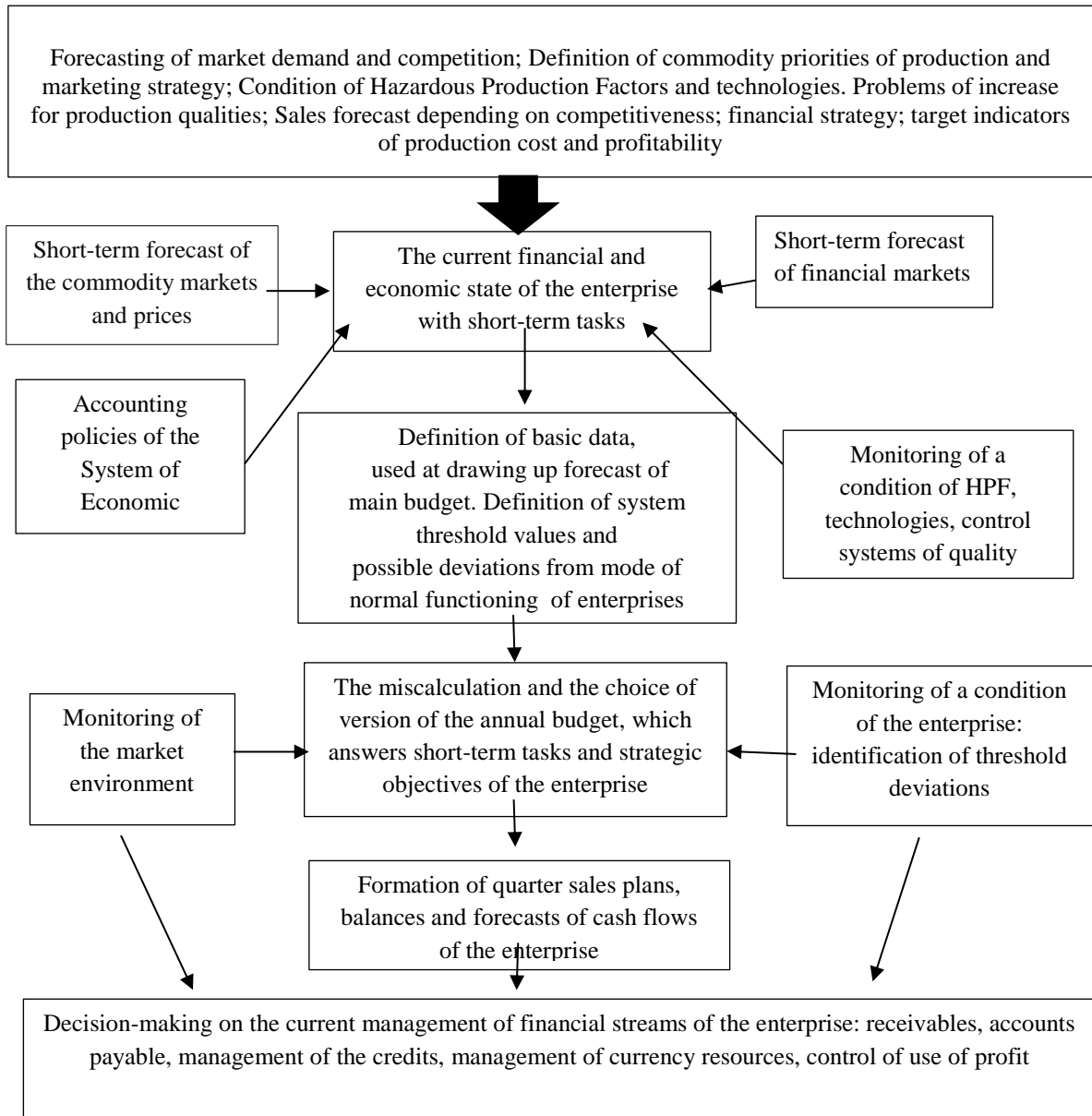
Table 4: Features of the internal and external financial analysis

| Classification feature | Analyses type | |
|---|---|---|
| | external | internal |
| Purpose | General assessment of property and financial state | Search of reserves for increase of profit and activity efficiency |
| Executors and users | Owners, participants of securities market, tax administrations, creditors, investors etc. | Administrative personnel of enterprises (heads and experts) |
| Basic information providing | Accountant reporting | Regulated and unregulated information sources |
| Character of provided information | Generally accessible analytical information | Detailed analytical information of confidential character |
| Extent of unification analysis techniques | Rather high possibility of unification procedures and algorithms | Individual developments |
| Timing aspect of the analysis | Retrospective and perspective | Operational |

Source: “Complex economic analysis of economic activity”, Alekseyeva ,A.I. (2013).

On the basis of the conducted financial and economic analysis of the enterprise the one is able to develop, and to accept a number of measures in a system and management of its financial resources. The approximate scheme of decision-making in a system of finance management:

Figure 1: Decision-making process in the system of finance



Source: “Economics of the enterprise”, Abryutina, M.S. (2009).

I.IV Conclusions

Chapter I has been considered with the following results:

- Financial statements act as a source for financial diagnostics. According to the balance sheet it is possible to judge, what the enterprise has for disposal, how much it owes the creditors and in turn how many debtors owe the enterprise, and also activity direction of the organization and sources of its financing.
- For successful existence of the enterprise it is necessary to be able to put into practice certain methods for diagnostics of a financial and economic condition of economic entity.

II. Practical Part

II.I Brief characteristic of the company “Kosmis” LTD.

Name of the company: Kosmis branch Ltd. of RG Brands Kazakhstan Kostanay city. The company is engaged in production of milk and natural juice in aseptic packing on technology of the Swedish firm "TETRA PAK".

The plant is founded in 1995, and in 2000 was transformed to joint venture. It is created for implementation of business activity by association of the capitals of its founders. The enterprise formed as the Kazakh-Turkish joint venture (49% of possession of the enterprise belongs to Turkey), in year 2000 it has been acquired by the Swiss company "Nestle". Last year the volume of “Kosmis” Ltd. product sales has exceeded 6 000 tons of high-quality milk, and these are 30 % from the total amount of the Kazakhstan market. Director General of JV Kosmis LLP is Asylbek Altai.

The address of the company – 110000, the Republic of Kazakhstan, Kostanay, Lermontov St., 32/2.

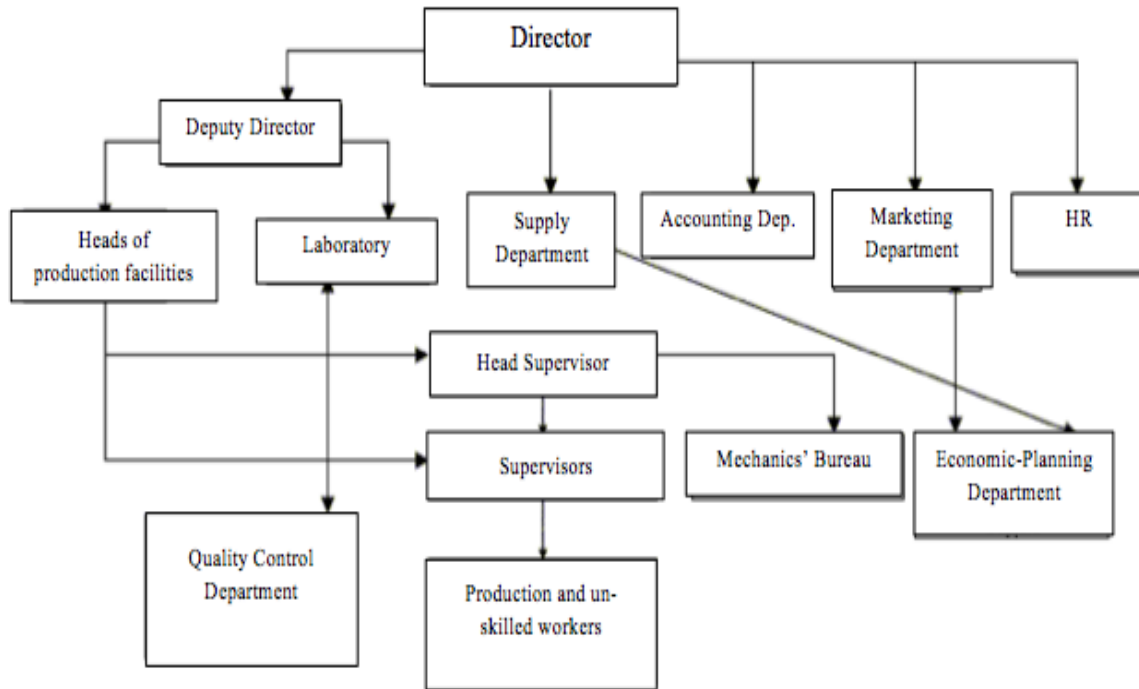
The main suppliers of “Kosmis” Ltd. for production are farmers, and purchase of raw materials is performed, directly passing middlemen, that let to minimize of costs of production, that influences the selling price of goods.

Milk is produced under the trademark “Moyo” (“Mine”), with a line of fat content 1,5%, 2,5%, 3,2%, 6%. Selling price from the plant makes from 175 tenges to 251 tenges depending on fat content. Natural juice is produced under the brand “Da-Da” (“Yes-Yes”), selling price for 0,2 liters -58 tenge, 1,5 liters – 248 tenges, nectar “Solnechnyi” (“Sunny”) 0,2 liters – 41 tenges, 1,5 liters – 175 tenges.

The company sells the products through large grocery shops, such as Astykzhan, TOT, Mercury, Norma, Tamasha, and also through a number of small shops, by the conclusion of contracts on deliveries of the production for realization.

The average number of employees in 2015 has made 156 people. Figure 4 shows the organizational structure of the plant.

Figure 2: Organizational structure of the plant



Source: Company internal data

II.II Porter’s Five Forces and S.W.O.T. analysis

Administrative subdivisions are aimed to assist General Manager, who unite the experts who are performing certain functions and are not responsible for decision-making process and results. Such structure competently allows to solve problems of management.

Linear functional structure of management provides development of specialization of administrative activity, keeping at the same time authority of the linear heads who are responsible for results of production. Due to its advantages this structure of management was widely adopted in Kazakhstan.

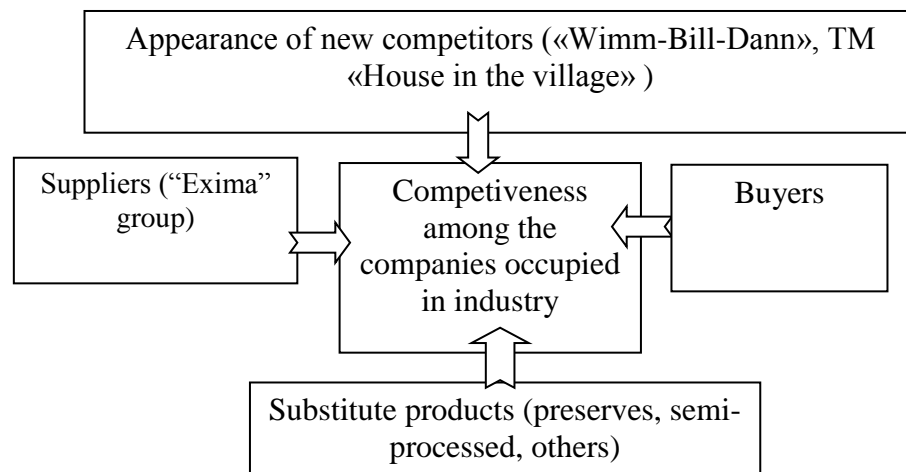
“Kosmis” Ltd. has own network for sales of products. The company sells the production through own company shops, has branch of kiosks, also has wholesale warehouses, both in the city of Kostanay, and in other cities of Kazakhstan. Besides

product sales through own channels the company deals with the enterprises and the organizations, business owners, etc. Level of the industry competition depends on action of five competitive forces of Porter's model, external in relation to the organization:

- the competition between companies within the industry;
- attempt of the companies from other industries to increase consumers with substitutive goods;
- threat of appearance of new competitors;
- the market power of suppliers of raw materials and levers used by them;
- the market power of consumers of production and levers used by them.

These five forces of the competition of Porter's model (Figure 5) defines profitability of business as they influence the prices, which can dictate firms, on expenses, which they should bear, on the amount of the capital investments necessary for competitive fight in this industry.

Figure 3: Analysis of the competitors under M. Porter's model



Source: Author's analysis

- Substitute products. Existence of products substitutes, tendency of consumers to which can increase owing to the change in price (elasticity of demand). Existence in the market of semi-finished products will reduce the level of the income of the enterprise.

- Appearance of new competitors. The markets making high profit attract new players. As a result there are numerous new players significantly reducing profit. If not to take actions for blocking or difficulty of an entrance of new players, the profit will consistently decrease with growth of level of the competition (the perfect competition). The enterprise possesses a large number of consumers and large market share, that is why appearance of new competitors in the market doesn't fluctuate company's concerns.
- Suppliers. Suppliers of raw materials, components, labour and services can influence activity of the company. The level of the income of the company completely depends on raw materials and time delivery.
- Consumers. Ability of consumers to influence the company, and also reaction of sensitivity of the consumer to the change in price. Involvement of new consumers of production of "Kosmis" Ltd. will allow to raise profit.
- Level of competitive fight. For most industries, it is the defining factor influencing competition level in industry. Sometimes players compete aggressively; sometimes there are no price, innovations, and marketing, business models competitions. For further competitors' analysis, below, Table 5 and 6 provides detailed description of competitors' advantages and disadvantages.

It is possible to conclude the company feels weak pressure from competitors; assessment of buyers shows that on "Kosmis" Ltd. it is necessary to carry out regular monitoring of a situation; assessment of suppliers shows that the dependence of raw materials supplier at the enterprise is observed. 80% of the general deliveries are the share of the "Exima" group; assessment of goods substitutes shows that at the enterprise there is a possibility of realization of these goods.

Due to trending healthy lifestyle, demand of milk grows. According to data of the Agency on Statistic of RK 28% of the population buy milk every day, 54% - 1–2 times a week. As demand for dairy products grows, and in the Kostanay market the serious competition is observed, the analysis and improvement of competitiveness of production of the dairy plants are very actual.

Table 5: Marketing analysis of competitors

| Competitors | Packaging | Market Share | Products range | Prices | Informative connection with the consumers |
|---------------------|---|--------------|---|--|---|
| DEP LLC | Finnpack, tetrapack, purpack, thermoplastic film, parchment, foil | 33% | Wide range of production, except baby food, about 50 positions | The lowest prices at the market | web-site and feedback form for the customers, publications in magazines |
| «New day» LLC | Thermoplastic film, plastic bottles | 10% | Wide range of traditional products | Average level of prices | No web-site, not enough information about the company |
| Wimm-Bill-Dann TM | Finnpack, plastic, parchment, foil, thermoplastic film | 20% | Wide range of products, including baby food and innovative products | The prices are higher, than at the considered producers, in the most part of goods | Web-site, call-centre, publications in magazines and other |
| “Forest village” TM | Mainly tetrapack, plastic bottles | 9% | Relatively wide range, about 30 positions | High level of prices | Web-site with basic information, not enough publications |
| Prostokvashino JSC | Mainly tetrapack, plastic bottles | 7% | Absence of genetically modified products, wide range of products | Average level of prices | Web-site with detailed information |
| Foodmaster TM | Finnpack, parchment, film, foil | 5% | Wide range, about 50 positions | Production has rather average cost in comparison with competitors | Web-site, call-centre for feedback, publications and other |

Source: Author’s analysis

Table 6: Competitors advantages and disadvantages

| Name | Advantages | Disadvantages |
|---------------------|--|---|
| DEP LLC | Long story of existence in the market; Big production capacities; wide range ; Popular brands; High financial opportunities; Wide dealer network; Low prices | Production of rather poor quality. Conservative management. Big wear of the equipment Low level of advertising support |
| «New day» LLC | Long story of existence in the market; Big production capacities; Popular brands; High financial opportunities; | Low quality of the products; Small range; The worsening quality of production; Low level of advertising support |
| “Forest village” TM | Available prices, Big production capacities ; Wide retail net; Promotion events | Low range of products; Advance of popular brands |
| Wimm-Bill-Dann TM | Aggressive price policy; Modern management; Wide range; High financial opportunities; Popular brands; Exclusive suppliers; Own source of raw materials; Powerful advertising company; High diversification; Modern high-performance equipment | High prices; Big number of subsidiary companies complicate the management of the company; bad work of distributors |
| Prostokvashino JSC | Available prices; Popular brands | Limited capacity in distribution; Small range of production |
| Foodmaster TM | Modern management; Wide range; High financial opportunities; Popular brands; | High prices; Low advertisement support |

Source: Author’s analysis

From the research conducted above, it is visible that the competitive environment in the market of dairy products is extremely aggressive. These industries include operators, whose possibilities many times overcome the possibilities of “Kosmis” Ltd.. In this regard, the competition to them in scales of all Kazakhstan or even the Northern region, obviously, is inexpedient and in principle is impossible at the existing level of resources.

Therefore, it is probably the most rational to consider the production at the regional level, where advantages of the big companies are minimized by the low income and the settled preferences of consumers.

Besides, considering rather low production capabilities and high level of technologies and qualification of company employees, it is important to pay attention on consumers having the high level of the income, and, showing the increased demand for quality and an exclusivity of the offered goods.

Table 7: SWOT analysis

| <i>THREATS</i> | <i>STRENGTHS</i> |
|--|--|
| <ul style="list-style-type: none"> • Big number of competitors • High risks at assessment of paying capacity in different segments of the market. • Low paying capacity of the wholesale clients • Business tax regulations • Uncertainty in assessment of dynamics of macroeconomic indicators and investment activity • Weak business insurance • Unstable political atmosphere | <ul style="list-style-type: none"> • Good response from the consumers concerning quality • Popular brand • Experience in work with different forms of payments • Good connections with main suppliers in long-term perspective. • Personnel is trained and constantly is trained to adopt new technologies • Experience in sales and own client’s data base • Reserve of production capacities • High professional level of managerial staff |

| | |
|--|---|
| <p><i>OPPORTUNITIES</i></p> <ul style="list-style-type: none"> • Launching of new products • Expansion of the market • A tendency to increase in clearness and distinctness of state policy, improvement of the tax law towards simplification and optimization. | <p><i>WEAKNESSES</i></p> <ul style="list-style-type: none"> • Insufficient market research • Not enough experience in advertisement • Insufficient financing of the marketing • Insufficiency of working capital for rapid response to changes of market conditions • Inefficient planning system • Insufficient technical equipment • Underexploitation of production capacities • Absence of regional representative offices |
|--|---|

Source: Author's analysis

Based on the analysis of strength and weaknesses of competitors, the predicted market conditions and financial opportunities of the enterprise, it is possible to propose the complex strategy of development of production and management, designed to provide achievement of standard level of financial performance during the predicted period.

One of fundamental, basic component of the accepted strategy is the marketing plan.

Basics:

- Orientation to the client;
- Flexible system of discounts;
- Individual approach;
- Rendering consulting services to strategic clients in the relation of development of recommendations about promotion of goods on the market and the organizations of business;
- Establishment of personal contacts;
- Expansion of the product range;
- Active introduction of the new positions focused on consumers with high income level;
- Active advertising company;
- Continuous monitoring of the market environment;

- Short-term and medium-term forecasting;
- Analysis of competitors' activity.

II.III “Kosmis” Ltd. Absolute Indicator Analysis

Let's consider financial and economic indicators of work of the enterprise for 2014-2015 according to the balance sheet (Appendix I), the report on financial results (Appendix II) and conduct the comparative analysis.

II.III.I Horizontal Analysis

Table 8: Horizontal analysis of income statement for years 2013-2015

| Indicators | 2013 in thousand tenge | 2014 in thousand tenge | 2015 in thousand tenge | Change in % 2013 – 100% | Change in % 2014 -100% |
|---------------------|------------------------------|------------------------------|------------------------------|----------------------------|---------------------------|
| Sales revenue | 41230 | 37208 | 21230 | -10,8 | - 42,9 |
| Cost of Goods Sold | 35046 | 34000 | 20194 | -3 | - 40,6 |
| Gross Profit | 6184 | 3208 | 1036 | -92 | +67,7 |
| Operating Expenses | (10500) | (10470) | (6532) | +(0,02) | -(37,6) |
| EBIT | (4316) | (7262) | (5496) | +(68,2) | -(24,3) |
| Interest Expenses | N/A | (22) | (367) | N/A | +1500 |
| Other profit (loss) | N/A | 6563 | 7915 | N/A | +20,6 |
| Other expenses | N/A | (12626) | (5550) | N/A | -(56,04) |

| | | | | | |
|-------------------|--------|---------|--------|-------|---------|
| EBT | N/A | (13347) | (3498) | N/A | -(73,7) |
| Taxation Expenses | N/A | (813) | (43) | N/A | -(94) |
| Deferred Taxes | N/A | 1859 | 656 | N/A | - 64,7 |
| Other | N/A | - | (164) | N/A | - |
| Net Profit | (3825) | (11490) | (3006) | +(66) | -(73,8) |

Source: Author's calculations

As a result of the comparative analysis on financial - economic indicators it is visible that the sales revenues have decreased by the end of 2014 by 10 % and in 2015 by 15978 thousand tenges i.e. by 42,9%.

The loss of the enterprise has decreased by 1766 thousand tenges, respectively for 24,3%. Cost of goods sold at the same time in 2015 has decreased by 13806 thousand tenges or for 40,6% that it is less than in previous. The company experienced net losses of 3825 thousand tenge in 2013, where in 2014 it got worse – dramatic drop by 66% more, whereas by the end of 2015 losses decreased by 73%.

The analysis of financial activity of the enterprise during 2013-2015 is carried out according to the balance sheet (Appednix I), the report on financial results and their use (Appendix II).

The economic analysis can be presented from 2 parties: positions of a property status and from a position of its financial position. Both of these sides of financial and economic activity are interconnected. The structure of cost of property gives a general idea about a financial condition of the enterprise. It shows a share of each element in assets and a ratio of the borrowed and own funds covering them in liabilities.

Stability of a financial position of the enterprise substantially depends on expediency and correctness of an investment of financial resources in assets. Assets are dynamic by the nature. According to the balance given in the appendix, dynamics of a property status of the enterprise can be characterized as follows:

Table 9: Horizontal analysis of balance sheet for years 2013-2015

| Indicators | 2013 | 2014 | 2015 | Change in | |
|-------------------------|-----------------------------|-----------------------------|-----------------------------|----------------|--------------------|
| | Amount thousand tenge | Amount thousand tenge | Amount thousand tenge | 2013-2014 % | 2014- 2015 % |
| Fixed Assets | 1901 | 3688 | 4421 | +94 | +19,8 |
| Current Assets | 25249 | 27397 | 20628 | +8 | -24,7 |
| Inventories | 18647 | 13512 | 7583 | -38 | -43,9 |
| Accounts Receivable | 5811 | 12874 | 11947 | +121 | -7,2 |
| Cash and equivalents | 69 | 55 | 131 | -25 | 0,3 |
| Other assets | - | 947 | 953 | - | 0,6 |
| Total Assets | 27150 | 31085 | 25049 | +14 | -19,4 |

Table 10: Horizontal analysis of balance sheet for years 2013-2015 (continued)

| Indicators | 2013 | 2014 | 2015 | Change in | |
|---------------------|-----------------------------|-----------------------------|-----------------------------|----------------|----------------|
| | Amount thousand tenge | Amount thousand tenge | Amount thousand tenge | 2013-2014 % | 2014-2015 % |
| Total Equity | (6650) | (18144) | (21149) | +(170) | +(26,1) |
| Capital | 2000 | 2000 | 2000 | 0 | 0 |
| Profit (loss) | (8652) | (20144) | (23149) | +(132) | +(14) |
| Long – term | 3 | 7288 | 7240 | - | +5,5 |

| | | | | | |
|-------------------------------------|--------------|--------------|--------------|------------|--------------|
| liabilities: | | | | | |
| Bank Loans | 0 | 7285 | 7237 | - | -6 |
| Deferred Tax | 3 | 3 | 3 | 0 | 0 |
| Short – term liabilities | 33800 | 41941 | 38958 | +24 | +20,6 |
| Accounts payable | 33799 | 41940 | 38958 | +24 | -8 |
| Other short-term debts | 1 | 1 | 0 | 0 | -100 |
| Total Equity and Liabilities | 27150 | 31085 | 25049 | +14 | -19,4 |

Source: Author's calculations

Comparing financial results, the enterprise had had a change of structure of balance. Total assets of the enterprise have decreased by the sum of 6036 thousand tenges that is 19,4% less in comparison with 2014, where in previous year it was by 14% more. But inventories have decreased by 38% and then, by 43,9% that means increase in sales and reduction of stocks. Cash has increased the value by 25 %, but then it is insignificant - only 0,3%.

II.III.II Vertical Analysis

Further the vertical analysis of balance because is carried out in the course of functioning of the enterprise and size of assets, their structures undergo the constructed changes. The vertical analysis shows structure of means of the enterprises and their sources.

Table 11: Vertical analysis of balance sheet for years 2013-2015

| Indicators | 2013 | | 2014 | | 2015 | |
|-----------------------|-----------------------|--------------|-----------------------|--------------|-----------------------|-------------|
| | Amount thousand tenge | Share in % | Amount thousand tenge | Share in % | Amount thousand tenge | Share in % |
| Fixed Assets | 1901 | 7 | 3688 | 11,86 | 4421 | 17,6 |
| Current Assets | 25249 | 92,99 | 27397 | 88,13 | 20628 | 82,4 |
| Inventories | 18647 | 68,6 | 13512 | 43,5 | 7583 | 30,3 |
| Accounts Receivable | 5811 | 21,4 | 12874 | 41,42 | 11947 | 47,7 |
| Cash and equivalents | 69 | 0,254 | 55 | 0,18 | 131 | 0,52 |
| Other assets | - | - | 947 | 3,01 | 953 | 3,8 |
| Total Assets | 27150 | 100% | 31085 | 100% | 25049 | 100% |

Source: Author's calculations

Table 12: Vertical analysis of balance sheet for years 2013-2015 (continued)

| Balance sheet items | 2013 | | 2014 | | 2015 | |
|-------------------------------------|-----------------------|---------------|-----------------------|---------------|-----------------------|---------------|
| | Amount thousand tenge | Share in % | Amount thousand tenge | Share in % | Amount thousand tenge | Share in % |
| Equity | (6650) | (24,4) | (18144) | (58,3) | (21149) | (84,4) |
| Long – term liabilities | 3 | 0,01 | 7288 | 23,4 | 7240 | 28,9 |
| Bank Loans | 0 | 0 | 7285 | | 7237 | |
| Deferred Tax | 3 | 0,01 | 3 | | 3 | |
| Short –term liabilities: | 33800 | 124,49 | 41941 | 134,9 | 38958 | 155,5 |
| Accounts payable | 33799 | 124,48 | 41940 | 134,08 | 38958 | 155,5 |
| Other short-term debts | 1 | 0,003 | 1 | 0,003 | 0 | 0 |
| Total Equity and Liabilities | 27150 | 100% | 31085 | 100% | 25049 | 100% |

Source: Author's calculations

According to the data of the balance sheet and generalized indicators, the following conclusions are :

- Current assets of the enterprise have decreased generally due to reduction of inventories.

- More liquid assets - receivables and money have in total increased in assets of the enterprise, having made 48,22% in year 2015
- The analysis of a passive part of the enterprise shows increase in a share of accounts payable, in the general liability structure attracts attention.

II.III Assessment of liquidity and paying capacity of the company

The purpose of this analysis – to define ability of the enterprise within a year to pay the short-term liabilities. The detailed analysis of liquidity and solvency of the enterprise can be carried out with the use of absolute and relative measures.

The indicator of size of own current assets, which characterizes that part of own capital of the enterprise, which is a source of a covering of the current assets is important for calculations of a number of analytical coefficients. The size of own current assets is in number equal to excess of the current assets over the current liabilities therefore any changes in structure of its components directly or indirectly influence the size and quality of this size. As a rule, the reasonable growth of own working capital is considered as a positive tendency, however there can be exceptions. For example, growth of this indicator due to increase in hopeless debtors hardly improves qualitative structure of own current assets.

According to previous absolute indicator analysis, the enterprise has practically no own capital, and uses borrowed one. Depending on what source of assets is used for a covering of stocks and expenses, it is possible to judge with a certain share of convention the level of solvency of economic entity.

Table 13 Inventory cover ratio

| Indicators | 2013 thousand tenge | 2014 thousand tenge | 2015 thousand tenge | Formula |
|--------------------------------|---------------------------|---------------------------|---------------------------|--------------------------------|
| Own current assets (OCA) | (4751) | (14456) | (16728) | Total Equity – Fixed Assets |
| Long-term Liabilities (LTL) | 3 | 7288 | 7240 | |
| Inventories (I) | 18647 | 13512 | 7583 | |
| Inventory cover ratio (ICR) | 0 | 0,54 | 0,95 | LTL / Inventories |

Source: Author's calculations.

Types of current financial stability and liquidity

- Absolute financial stability $I < OCA$
- Normal financial stability $OCA < I < LTL$
- Unstable financial state $I > LTL$

The considered enterprise has unstable financial position. The analysis confirms the enterprise conducts unreasonable financial policy, or really experiences the difficulties connected with primary activity.

For further financial analysis number of analytical indicators – liquidity coefficients were calculated below in Table 14.

Table 14 Dynamics of liquidity coefficients

| Liquidity Ratios | 2013 (%) | 2014 (%) | 2015 (%) |
|------------------|----------|----------|----------|
| Current ratio | 0,75 | 0,65 | 0,53 |
| Quick Ratio | 0,19 | 0,33 | 0,33 |
| Cash Ratio | 0,002 | 0,0013 | 0,0033 |

Source : Author's calculations

Standard values of current ratio is ranging from 1 to 2. This enterprise has not enough current assets for repayment of short-term obligations, and it once again confirms Current ratio. Cash ratio and Quick ratio are also lower than the standard value.

II.IV Analysis of the capital structure and financial stability

The current financial stability, as well as in the long-term plan, is characterized by a ratio of own and borrowed funds. It is necessary to notice that this indicator gives only the general assessment to financial stability. Therefore we will carry out the analysis on the following expanded system of indicators:

Table 15 Dynamics of debt management coefficients

| Debt Management Ratios | 2013 | 2014 | 2015 |
|------------------------|---------|--------|--------|
| Equity ratio | (0,245) | (0,58) | (0,84) |
| Debt ratio. | 1,25 | 1,6 | 1,84 |

| | | | |
|----------------------|--------|-------|--------|
| Debt to equity ratio | (5,08) | (2.7) | (2.18) |
|----------------------|--------|-------|--------|

Source: Author's calculation

On the basis of the results given in above table (Table 15) there are following conclusions:

- Own current capital is negative and its negative value at the beginning of the period was 24% of assets, at the end of the period– 84% of assets.
- Debt to equity ratio indicates that the share of borrowed funds in financing of the enterprise has decreased in the considered dynamics. But still it remains rather high and negative.
- Debt ratio of borrowed and own assets correlation in dynamics demonstrates increase in dependence of the enterprise on external investors and creditors, i.e. speaks about some decrease in financial stability of this enterprise. Still, it's been negative.

II.V Assessment of business activity and analysis of the profitability

Indicators of this group characterize results and efficiency of the current core business of the entity, such analysis can be carried out both at the high-quality level, and by means of quantitative criteria. In the first case informal criteria is the width of the rendered services and the markets for products sale, availability of the progressive forms of government and reputation of the entity, conditions for work and rest of workers, up to availability of car park and convenient sidings.

Table 16 : Ratios of capital turnover

| Indicators | Formula | 2013 % | 2014 % | 2015 % |
|----------------------------|---------------------------------|-----------|-----------|-----------|
| Asset Turnover | Sales Revenue / Total Assets | 151% | 120% | 85% |
| Return on assets (loss) | Net Profit / Total Assets | (11)% | (37)% | (12)% |
| Equity Turnover | Sales Revenue / Equity | (61,9)% | (205)% | 100% |
| Return on Equity (loss) | Net Profit / Equity | (57)% | (63)% | (14)% |

Source: Investopedia; Author's calculations

- According to calculations, decrease in assets turnover of the entity is observed. Turnover of an equity also decreased.
- From the considered table it is visible that profitability of total assets of the entity by the end of 2015 decreased. It is possible to tell that in reporting year the entity became worse to use the property. Company ,out of 100% of invested assets, got 120% sales revenue in year 2014, whereas in 2014 – only 85 %.
- The indicator of profitability of an equity shows how many tenge of profit is the share of one tenge of own capital. Results of calculations of this indicator show decrease in loss (net profit) got from each unit of the money made by owners of the entity. In 2014, from 1 invested tenge in equity, company lost 0,63 tenge, whereas in 2015 – lost 0,14 tenge.

Having generalized comparative data, it is possible to conclude that if a management of this entity intentionally increases the potential for the purpose of a growth in volumes of sales, it is necessary to change financial policy. For example, due to decrease in turnover, cost reduction, or reduction of a share of the raised funds in the total amount of the advanced capital.

Relative indicators are less affected to inflation influence since they represent various ratios of profit and the invested capital, or profit and production costs.

Calculations of the main profitability indicators of the analyzed entity are followed in Table 17.

Table 17: Profitability ratios

| Profitability ratios | Formulas | 2013 tenge | 2014 tenge | 2015 tenge | Change in % (2014-100%) |
|--------------------------|--|---------------|---------------|---------------|----------------------------|
| Return on Assets | Net Profit (loss) / Total Assets | (0,14) | (0,37) | (0,12) | -67,6 |
| Return on Current Assets | Net Profit (loss) / Current Assets | (0,15) | (0,49) | (0,17) | -34,9 |
| Return on Sales | Net Profit / Sales revenue | (0,09) | (0,3) | (0,14) | -54 |
| Return on Margin | EBIT(Loss) / Cost of Goods Sold | (0,12) | (0,21) | (0,27) | +27,1 |
| Return on expenses | Cost of Goods Sold / Sales Revenue | 0,85 | 0,91 | 0,95 | +4,4 |

Source: Author's calculations

Based on results of this table, observed decrease in gross profit, most likely, happened because of increase in costs of the entity in general. The cost level at the entity grew, but is insignificant though it was so too high – for 4% that found the reflection in decrease in level of profitability in general and influenced the level of the profit.

Profitability of the current assets considerably increased from 2014 to 2015 and made 14,9% that is 55,9% less of loss, than in previous year. Profitability of sales still negative, but less by 54% than in 2014. It is possible to draw a conclusion that costs of one tenge of sales revenue have made 0,95 tenges in 2015 that is 4,4% more, than in 2014, i.e. there was a rise in price of expenses.

The calculated profit ratios testify to need of radical review of policy of economic management. Further the entity needs to increase sales volume not due to drop in prices on goods and the performed works, and due to cost reduction, improvement of quality, i.e. expansion of a range of the offered services, and also inventory turnover accelerations.

Table 18 : Calculation of sales profitability

| Indicator | 2013 | 2014 | 2015 |
|--|---------|-----------|----------|
| Sales Revenue (thousand tenge) | 41230 | 37208 | 21230 |
| Gross Profit (thousand tenge) | 6184 | 3208 | 1036 |
| Operating profit (loss) (thousand tenge) | (10500) | (7262) | (5496) |
| Gross Margin Ratio (Sales Revenue / Gross profit ratio) | 14,9% | 8,62% | 4,88% |
| Sales profitability (loss) according to Operating profit (loss) (%) | (25,4)% | (19,52) % | (25,89)% |

Source: Authour's calculations

Analyzing this table, there were changes in profitability indicators in 2015 comparison with previous year towards reduction. It means that the entity is on a threshold of bankruptcy and it is necessary to undertake urgently measures for increase in profitability and reduction of debts.

Let's try to find a profitability threshold, to determine an inventory of financial durability of the analyzed entity. The difference between the reached actual proceeds from sales and a threshold of profitability will also constitute an inventory of financial durability.

Table 19: Financial safety margin

| | | |
|--------------------------------|-------------|---|
| R (Revenue) | | 21230 thousand tenge |
| BP (Break Even Point) | $R*(FC/MI)$ | $=(21230*9554) / 3058$ $=66328$ thousand tenge |
| FC (fixed costs) | | $= 6532 + 0,1*20194 =9554$ thousand tenge |
| MI-marginal income | $R - VC$ | $= 21230 - 18172 = 3058$ thousand tenge |
| VC – variable costs | | $= 20194 * 0,9 = 18172$ thousand tenge. |
| FSM (Financial Safety Margin) | $R - BP$ | $= 21230- 66328 = -45 098$ thousand tenge |
| FSM (Financial Safety Margin) | BP / R | $= 66328/ 21230 = 3,1$ |

Source: Author's calculations

«Kosmis» Ltd. has to at least increase sales revenue by 3 times to cover all expenses and start generating profit.

II.VI Conclusions

Conducted analysis showed that the entity has no financial safety margin, and it is worth thinking of possibility to declare a bankrupt with the purpose to pay off according to the liabilities or to go for merge to larger company.

Also incorrect management of finance of the entity is observed. It is important to suggest to work with receivables, to plan a goods turnover, to predict distribution costs, to predict profit of the entity. All these measures will also be developed in the Chapter III.

III. Recommendations

III.I Accounts receivable

For stabilization of the company work, the support of the necessary volume of free money during this period, becomes a vital task. Cash flows arrive from buyers and for many companies it is the main source for financing. For example, sufficient amount of money gives the chance to pay the salary to employees of the enterprise without delay, and also to repay accounts payable.

Even the most profitable company can become the bankrupt if it isn't provided with a necessary cash flow and if doesn't repay in due time the obligations.

Therefore, existence of receivables leads to withdrawal of money from a turn that is followed by losses. Example: paid interest rate on the credit, which the company takes because of a lack of liquidity, loss of profitability. But in its turn receivables can be some kind of commercial credit, but without interest rate for clients of the company. Such mechanism is used by contractors, crediting themselves at the suppliers in case of a lack of money.

Therefore, such facts shouldn't become a rule at contractors and the manager needs to take measures, on their elimination, making contracts of deliveries, in advance having secured himself against a payment delay.

An effective operating of receivables is possible at designing the provision on policy and the procedure of credit control.

There is such a concept as planned level of receivables – it is the most admissible size of debt, which is expressed in an absolute value (interests to revenue or the number of credit clients).

For example: the company has the fixed receivables level - 50 thousand tenges.

It is supposed to increase it to 100 thousand tenges. At the same time the planned sales volume is - 1500 thousand tenges. A rate of bank on credit resources is 15%. Profitability of sales is 10%.

Below is the calculation of the cost of the contents of receivables, in case of increase in their fixed level:

$(100 \text{ thousand tenge} - 50 \text{ thousand tenge}) \times 15\% = 7,5 \text{ thousand tenge}.$

Let's determine the sales volume, which is necessary for a covering of expenses on replenishment of current assets:

$7,5 \text{ thousand tenge} : 10\% = 75 \text{ thousand tenge}.$

Total planned sales volume in case of increase in the fixed level of receivables will make:

$1500 \text{ thousand tenge} + 75 \text{ thousand tenge} = 1575 \text{ thousand tenge}.$

Further it is necessary to develop conditions of granting such credit to partners. It is necessary to set conditions in the bilateral contract, where the client meets the criteria of granting the credit:

- The debtor, who constantly fulfils the obligations and places big orders;
- The debtor with relatively low debt, but also fulfilling the obligations;
- New debtor.

It is necessary to set the procedure of granting the credit and to define a credit limit.

In order to know how quickly the company will receive the payment, it is possible to calculate the coefficient of turnover of receivables. It defines, how fast the company will receive payment for the services, and it is calculated as correlation of revenues from sales on credit terms to the average balance of receivables for a certain period.

The coefficient of the receivables' turnover in days shows a certain term, in which the repayment of debt occurs.

The coefficient of the receivables' turnover = average balance of receivables * 365/revenue
Analyses of the coefficient of the receivables' turnover for the years 2014 and 2015 and present the data in the Table 20.

Table 20 :Receivable's turnover analysis

| The coefficient of the receivable turnover 2014 | The coefficient of the receivable turnover 2015 | Changes |
|---|---|---------|
| 126 | 205 | +79% |

Source: Internal company data, Author's calculations

The table shows, that the coefficient of the receivables' turnover has grown significantly in comparison with 2014, but for company it isn't enough. Further it is necessary to make the analysis of receivables under the periods of their emergence. The data under some contractors with receivables are shown in Table 21.

Table 21 : Receivables duration analysis January 31, year 2015

| № | Debtor | Balance, thousand tenge | Less 15 days, thousand tenge | Less 30 days, thousand tenge | Less 60 days, thousand tenge | Over 60 days, thousand tenge |
|---|---------------|-------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| 1 | «Veta» LLC | 155 | 65 | 80 | 10 | 0 |
| 2 | «LTD» JSC | 90 | 30 | 40 | 20 | 0 |
| 3 | IE «Gerboldt» | 40 | 0 | 0 | 15 | 25 |

| | | | | | | |
|---------------|--------------|-----|------|------|------|------|
| 4 | «Vector» LLC | 107 | 50 | 50 | 0 | 7 |
| 5 | «Inter» LLC | 15 | 0 | 0 | 0 | 15 |
| Total (tenge) | | 407 | 145 | 170 | 45 | 47 |
| Total (%) | | - | 35,6 | 41,8 | 11,1 | 11,5 |

Source: Internal company data, Author's calculations

This report shows, that clients make payment by deadlines or even earlier. At the same time there is quite considerable sum of debt exceeding 60 days. Further, Table 22 shows the report for the next month.

Table 22 : Receivables' duration analysis for February 2015.

| № | Debtor | Balance thousand tenge | Less 15 day thousand tenge | Less 30 day thousand tenge | Less 60 days thousand tenge | Over 60 days, thousand tenge |
|---------------|---------------|------------------------|----------------------------|----------------------------|-----------------------------|------------------------------|
| 1 | «Vist» LLC | 150 | 30 | 65 | 55 | 0 |
| 2 | «Citymet» LLC | 90 | 30 | 35 | 25 | 0 |
| 3 | «Alfa» LLC | 40 | 0 | 0 | 0 | 40 |
| 4 | «ZhSA» LLC | 100 | 25 | 50 | 25 | 0 |
| 5 | «Vera» LLC | 0 | 0 | 0 | 0 | 0 |
| Total (tenge) | | 380 | 85 | 150 | 105 | 40 |
| Total in % | | - | 22,4 | 39,5 | 27,6 | 10,5 |

Source: Internal company data, Author's calculations

On the basis of comparison of the first report to the similar report for the following reporting date it is possible to reveal the disturbing signs. In particular, decrease in a share of early payments and gradual shift of usual practice from 30 days to a mark in 60 days can speak about perversity of practice of oral arrangements, vigilance loss by clients and need to urgently take some measures.

In case the term of payment of receivables has already expired, the procedure of claims activities, which consists of the following stages , (Table 23) begins. But before its beginning, the manager has to be convinced, that actions of the company aren't a reason of violation of payment terms, in particular:

- the client is completely informed on the debt;
- the manager has processed all documents correctly and has sent them on time.

Table 23 : Company policies toward non-covered receivables

| Stage | Step |
|--|--|
| The date of debt payment hasn't come yet | Conclusion of the agreement |
| | Shipment control |
| | Billings |
| | Notification of shipment |
| | Notification of the amount and terms of payment of receivables |
| | In several days before the payment date – notification about the end of the period via E-mail. In case of the absence of the reaction – telephone personal call. |

| | |
|---|--|
| Receivables with a period of 15-30 days | In case of non-payment in time - notification via E-mail with report about delivery and reading (possibly with the copy for the Manager of the officer, responsible for payment scheduler). In case of the reaction absence – telephone call with clarifying of the reasons. |
| | Official notifying letter about concrete measures, which will be executed in case of non-payment |
| | Interruption of sales, payment of counter claims |
| Receivables with a period of 30 - 60 days | Pre-arbitral warning |
| | Daily reminding calls |
| | Negotiations with responsible persons |
| Receivables with a period of over 60 days | Personal visit of the responsible officer, execution of the measures to pre-court settling |
| | Official claim-notification about beginning of the procedure of collection (by registered post) |
| | Filing of a statement of claim to court |

Source: Internal company data

The first thing, that the responsible officer has to make, is just to call or send the message about the violation of the payment terms by E-mail and to remind. Sometimes it happens to be enough. Other corrective action is a personal visit to the company-debtor.

Further there is a sending of the reconciliation statement of mutual settlements, under which the debt is registered for the contractor, he subscribes the document and it will mean, that he recognizes this debt. At the same time the Period of Prescription is interrupted and starts from the very beginning.

The last stage is a sending of the notification to the contractor, that informs him about the beginning of process of collection of debt through court, and, further, juridical department executes the collection of debt.

III.II Sales strategy

In 2015 the company found new channels of sale in the form of large network shops and some individual entrepreneurs, some contracts were signed, that allowed to predict commodity turnover volume for the year 2016. According to forecasts it would increase by 21% that will make 25688 thousand tenges.

It is also possible to introduce a trade extra charge, it will be considered as the type of the price for the services under sales rendered by the company, let it possibly make 16%. The data are presented in the table.

Table 24 : Calculation of gross profit

| Indicator | Amount |
|---|--------|
| Trade mark-up, % | 16 |
| Planning volume of the sales turnover, thousand tenge | 25688 |
| Amount of trade mark-up, thousand tenge | 4110 |
| VAT rate, % | 18 |
| VAT amount, thousand tenge | 740 |
| Gross profit | 3370 |

Source: Internal company data; Author's calculations

The company planned the gross profit in the sum of 3370 thousand tenge, that is 2334 thousand tenge more than in 2015.

III.III Operating expenses

Planning of expenses results in decrease in excess costs. The analysis of operating expenses is necessary because it gives, in case of invariable trade extra charges, ensuring profitability of the enterprise. So, for reduction of transportation costs it is suggested to achieve reduction of an empty run by full load of cars. For reduction of expenses on

storage, it is suggested to increase turnover of goods in warehouses, by planning of volume of purchases and production according to sales volume, which will lead to reduction of rent of warehouses. In turn it is possible to think of a possibility of delivery of the released area of a warehouse under leasing that will bring, some profit.

To reduce expenses on repair of fixed assets by drawing up the estimate of expenses on repair, and also search for their decrease. To carry out the analysis of losses and damage of goods that will also lead to reduction of expenses.

Table 25: Analysis of expenses

| Articles of expenses | 2015 (thousand tenge) | Forecast 2016 (thousand tenge) | Change 2015 (thousand tenge) |
|--|--------------------------|-----------------------------------|---------------------------------|
| 1. Transport costs | 1380 | 850 | -530 |
| 2. Expenses on labour payment and social needs | 2350 | 2350 | 0 |
| 3. Expenses on repair of capital assets | 550 | 450 | -100 |
| 4. Expenses on rent payment | 1000 | 650 | -350 |
| 5. Loss and damage of goods | 302 | 150 | -152 |
| 6. Storage expenses | 950 | 640 | -310 |
| Total | 6532 | 5090 | -1442 |

Source: Internal company data; Author's calculations

III.IV Forecasting the profit for the year 2016

Suppliers with similar goods, but with lower prices, which aren't conceding according to the characteristics to analogues, have been found. Contracts have been signed that has in turn allowed to predict the volume of purchases, what has allowed to predict decrease in cost of sales by 7%

Table 26 : Profit forecast for the year 2016

| Indicators | 2015 | Plan of 2016 | Deviation |
|--------------------------------------|---------|--------------|-----------|
| 1 Sales turnover | 21230 | 25688 | 4458 |
| 2 Production cost | 20194 | 18780 | -1414 |
| 3 Gross income | 1036 | 6909 | +5873 |
| 4. Selling expenses | 6532 | 5090 | -1442 |
| 5 Profit out of sales | (5496) | 1819 | +7315 |
| 6 Cost-effectiveness of the sales, % | (25,89) | 7,1 | +32,99 |

Source: Internal company data; Author's calculations

According to forecast for the year 2016, there had to be increase in profit on sales by 7315 thousand tenge, that affects decrease in costs.

III.V Conclusions

Chapter III of the thesis present the suggested ways of improvement of a crisis situation, which has developed at the enterprise. The carried-out analysis has also shown, that profitability of own capital has decreased in reporting year. It has caused reduction of return from each tenge of invested funds for the last year. The tendency to decrease in financial stability of the enterprise is available. Therefore for stabilization of a financial condition of the enterprise at least to the level of last years it is offered to hold the following events. The tendency to decrease in financial stability of the enterprise is

obvious. Therefore, for stabilization of a financial condition of the enterprise at least to the level of the last years it is suggested to execute the following measures:

- it is necessary to change of the style of management of the enterprise;
- to implement new methods and technology of management;
- to train employees;
- to plan properly pricing policy;
- to increase commodity turnover;
- to reduce expenses;
- to reduce cost of sales;
- to be engaged with planning and forecasting of management of finance of the enterprise.

IV. Conclusions

As a result of the comparative analysis under financial and economic indicators, sales revenue have decreased by 10% in 2014 and in 2015 by 15978 thousand tenge i.e. a 42,9%. Increase in production cost has led to decrease in profitability of the enterprise in general from 30,9 to 14,2 thousand tenge, this is 54% less, than in previous year. Assets of the enterprise have decreased by the sum of 6036 thousand tenge is 19,4% less in comparison with 2014.

Judging by the data of balance sheet and having generalized indicators, it is possible to draw the following conclusions:

- Assets of the enterprise have decreased generally due to reduction of stocks, first of all, warehouse stocks have decreased that affected liquidity of the enterprise.
- More liquid funds - receivables and money on specific weight have in total increased in assets of the enterprise, having made 48,22% for the end of the year 2015.
- In the analysis of a passive part of the enterprise increase in a share of accounts payable, in the general structure of a passive attracts the attention.

By results of the analysis of liquidity and solvency of the enterprise, it has to be said that the enterprise has practically no own capital, but uses the loan one.

The analysis for coverage of stocks and expenses shows that the enterprise conducts an unreasonable policy. Dynamics of liquidity coefficients has shown that this enterprise does not have enough current assets for repayment of short-term obligations. As shows coefficient of the attracted capital, the share of borrowed funds has grown. Growth of an indicator of a ratio between the attracted and own funds in dynamics demonstrates increase in dependence of the enterprise on external investors and creditors, i.e. speaks about some decrease in financial stability of this enterprise.

Observed decrease in profit (losses), has happened because of increase in expenses of the enterprise in general. Level of expenses at the enterprise has grown – by 4% that has found the reflection in decrease in level of profitability in general and has influenced the level of the obtained profit.

The calculated coefficients of profitability testify to need of radical revision of policy of business. Further the enterprise needs to increase sales volume not due to drop in prices on goods and the performed works, but due to decrease in expenses, improvement of quality, i.e. expansion of a range of the offered services, and also accelerations of turnover of stocks.

There were changes in 2015 in profitability indicators, in comparison with the previous year towards reduction. It means, that the enterprise undertakes urgent measures to increase profitability and reduce debts.

The conducted analysis has shown, that the enterprise has no financial safety margin, and it is worth thinking of declaring a bankruptcy, with the purpose to pay off debts or to go for merger with a larger company.

Having carried out the analysis of competitors it becomes clear that competitive fight is very rigid; many enterprises surpass “Kosmis” Ltd. in production capacities and financial opportunities. In this situation there is no opportunity to raise the prices of finished goods though production costs has increased due to increase in purchase prices. To all other, the enterprise has numerous debtors with delay of a covering of debt. All this has also led to losses.

Summing up the recommendations mentioned above, company should properly work with accounts receivable, and strictly proceed enterprise policies regarding debtors. Company should emergently pay attention on opportunities of increasing number of suppliers in case if main supplier increases costs (that what happened to “Kosmis” Ltd.). Reconsider plan of supplying raw materials, planning extra ways of receiving cheaper raw materials. But, however, not only costs of goods should attract attention, but operationing costs also. Decrease in inventories leads not only decrease in losses but also storage expenses and other indirect expenses. Financial analysis shows that decrease in inventories and cost reduction have leaded to tendency in sharp losses decrease, therefore “Kosmis”

Ltd. should keep using these methods in order to cover costs and generate profit. Combination of analysis discussion recommendations described in chapter III may result in surpassing losses in a while and help “ Kosmis” Ltd. avoid bankruptcy.

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Appendices

Appendix I: Balance Sheet for years 2013-2015

| Indicators | 2013, thousand tenge | 2014, thousand tenge | 2015, thousand tenge |
|-------------------------------------|----------------------------|-------------------------|-------------------------|
| Fixed assets | 1 901 | 3688 | 4421 |
| Current assets | 25249 | 27397 | 20628 |
| Accounts receivable | 5811 | 12874 | 11947 |
| Inventories | 18647 | 13512 | 7583 |
| Cash and equivalents | 69 | 55 | 131 |
| Other | 591 | 947 | 953 |
| VAT | 131 | 10 | 13 |
| Total Assets | 27150 | 31085 | 25049 |
| Total Liabilities | 33803 | 49228 | 46198 |
| Short – term liabilities | 33800 | 41941 | 38958 |
| Accounts payable | 33799 | 41940 | 38958 |
| Other short-term liabilities | 1 | 1 | 0 |
| Long - term liabilities | 3 | 7288 | 7240 |
| Bank Loans | - | 7285 | 7237 |
| Deffered Tax | 3 | 3 | 3 |
| Total Equity | (6652) | (18144) | (21149) |
| Capital | 2000 | 2000 | 2000 |
| Profit (loss) | (8 652) | (20144) | (23149) |
| Total Equity and Liabilities | 27150 | 31085 | 25049 |

Appendix II: Income Statement for years 2013-2015

| Indicator | 2013 | 2015 | 2014 |
|--|---------------|----------------|-----------------|
| Revenue | 41230 | 21 230 | 37 208 |
| Production cost of the sold goods | (35046) | (20 194) | (34 000) |
| Gross profit (loss) | 6184 | 1 036 | 3 208 |
| Commercial expenses | (10500) | (6 532) | (10 470) |
| Administrative expenses | N/A | (72 700) | (106 026) |
| Profit (loss) from sales | (4316) | (5 496) | (7 262) |
| Other incomes and losses | | | |
| Participation capital | | - | - |
| Interest receivable | N/A | - | - |
| Interest payable | N/A | (367) | (22) |
| Other incomes | N/A | 7 915 | 6 563 |
| Other expenses | N/A | (5 550) | (12 626) |
| Profit (loss) before taxation | N/A | (3 498) | (13 347) |
| Current income tax | N/A | - | - |
| including constant tax liabilities (assets) | N/A | (43) | (811) |
| Change in deferred tax liabilities | N/A | - | (2) |
| Change in deferred tax assets | N/A | 656 | 1 859 |
| Other | N/A | (164) | - |
| Net profit (loss) of the reporting period | (3825) | (3 006) | (11 490) |