

**Czech University of Life Sciences Prague**

**Faculty of Economics and Management**

**Department of Economics**



**Bachelor Thesis**

**Financial analysis of the selected company**

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**Supervisor: Ing. Pavel Kotyza Ph.D**

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# CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

Faculty of Economics and Management

## BACHELOR THESIS ASSIGNMENT

Alina Mok

Economics and Management

Thesis title

**Financial analysis of the selected company**

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### Objectives of thesis

The main aim of the theses is to conduct a financial analyses of selected company.

Secondary aims:

- prepare theoretical framework
- use partial methods of financial analyses
- based on the results, formulate recomendations for the enterprise

### Methodology

Methods and indicators of financial analysis

The utilised methods for financial analysis are by default divided into several types

groups of analyses. These are linked to each other and together form a comprehensive overview of the financial

the situation of the company.

Methods of financial analysis:

- 1) Analysis of absolute indicators.
- 2) Analysis of differential indicators.
- 3) Analysis of financial ratios.

**The proposed extent of the thesis**

40 – 50 pages

**Keywords**

financial analysis, sources of business financing; business risks; financial condition; methods of financial analysis; liquidity.

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**Recommended information sources**

Efimov, O. (2014), Economics. Saratov: University education.  
Kovalyov V. (2015), Financial analysis: methods and procedures. Moscow: Finance and statistics.  
Narayan, R. (2006), Financial Accounting. India: A Managerial perspective.  
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Yefimova, O. (2015), Financial analysis: modern tools for adoption of economic decisions. Moscow: Omega-L.

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Prague on 09. 03. 2019

### **Declaration**

I declare that I have worked on my bachelor thesis titled "Financial analysis of the selected company" by myself and I have used only the sources mentioned at the end of the thesis.

As the author of the bachelor thesis, I declare that the thesis does not break copyrights of any their person.

In Prague, March 14<sup>th</sup>, 2019.

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Alina Mok

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# Financial analysis of the selected company

## Summary

The subject of this thesis on the topic "Financial analysis of the selected company" is evaluating the economic performance of the company "Ironcommerceco", and the objective of this work is to assess the company in terms of financial health, performance and future viability. The first part of the work is divided to the approaches to economic analysis and methods, in the second part it is analyzed the economic situation of the selected company. In conclusion are summarized the results of the economic analysis.

**Keywords:** analysis of financial ratios, financial analysis, sources of business financing; business risks; financial condition; methods of financial analysis; liquidity.

# Finanční Analýza společnosti

## Souhrn

Předmětem této diplomové práce na téma "Finanční analýza společnosti" je hodnocení ekonomické výkonnosti společnosti "Ironcommerceco", a cílem této práce je zhodnotit společnost z hlediska finanční způsobilosti, výkonnosti a budoucí životaschopnosti. První část práce je zaměřena na přístupy k ekonomické analýze a metodě, v druhé části je analyzována ekonomická situace vybrané společnosti. V závěru jsou shrnuty výsledky ekonomické analýzy.

**Klíčová slova:** analýza, finanční ukazatele, finanční analýza, zdroje financování podniku; podnikatelská rizika; finanční situace; metody finanční analýzy; likvidity.

## Table of content

<b>1 Introduction</b> .....	<b>9</b>
<b>2 Objectives and Methodology</b> .....	<b>10</b>
2.1 Objectives.....	10
2.2 Methodology.....	10
<b>3 Theoretical part</b> .....	<b>11</b>
3.1 Financial analysis.....	11
3.2 Objectives of Financial Analysis .....	11
3.3 Users of Financial Analysis.....	12
3.4 Characteristics of Financial Statement.....	13
<b>4 Practical part</b> .....	<b>18</b>
4.1 Short characteristics of the company and its financial condition .....	18
4.1.1 Analysis of the financial status of the LLP "Ironcommerceco" .....	21
4.1.2 Competitive analysis .....	26
4.1.3 Development of recommendations for improving the financial situation	34
4.1.4 SWOT analysis of the "Ironcommerceco" .....	35
<b>5 Conclusion</b> .....	<b>36</b>
<b>6 References and Bibliography</b> .....	<b>38</b>
<b>List of tables</b> .....	<b>39</b>
<b>7 Appendix</b> .....	<b>40</b>



# 1 Introduction

The topic of the Bachelor thesis is a “Financial analysis of a selected company”. In the conditions of market relations, the analysis of the financial condition of the enterprise is extremely important. This is due to the fact that enterprises acquire independence, are fully responsible for the results of their production and economic activities to co-owners (shareholders), employees, banks and creditors. The financial condition of the enterprise is characterized by the provision of financial resources necessary for the normal functioning of the enterprise, the feasibility of their placement and efficiency of their use, financial relations with other legal entities and individuals, solvency and financial stability. Financial analysis provides an opportunity to assess:

- property status of the enterprise;
- the degree of business risk, in particular the possibility of repayment of obligations to third parties;
- capital adequacy for current operations and long-term investments;
- need for additional sources of funding;
- capacity to build capital;
- the validity of the policy of profit distribution, etc.

Modern financial analysis has certain differences from the traditional analysis of financial and economic activities. First of all, this is due to the growing influence of the external environment on the work of enterprises. In particular, the dependence of the financial condition of economic entities on inflation processes, the reliability of contractors (suppliers and buyers), complicated organizational and legal forms of functioning have increased.

The objective of the thesis is financial analysis.

The subject of the thesis is the analysis of business activity and the efficiency of the enterprise's activity on the example of LLC "Iron Commerce Company".

## **2 Objectives and Methodology**

### **2.1 Objectives**

The main aim of the thesis is to analyze the business activity and efficiency of the company's activities by the example of the LLP "IRONCOMMERCECO".

To achieve this goal, it is necessary to solve the following objectives:

- reveal the theoretical aspects of financial analysis;
- consider the methodology for analyzing the effectiveness of the enterprise;
- give the organizational and economic characteristics of the enterprise;
- make an analysis of the economic efficiency;
- offer recommendations for the management of company's financial condition.

### **2.2 Methodology**

In this bachelor's thesis the following research methods were used: historical method, content analysis, induction method, comparative analysis method, etc.

The methodological basis also includes the following methods: theoretical, General empirical (comparison, description, system factor analysis), statistical (grouping and comparison, calculation of relative and average values, index and graphical image data). In this paper, important data of theoretical and practical parts were collected. (2016-2018)

In the practical part were used the following methods of research:

- horizontal (time) analysis-comparison of each reporting item with the previous period;
- vertical (structural) analysis-determination of the share of individual articles in the final indicator, taken as 100%;
- SWOT-analysis;
- comparative (spatial) analysis-on the one hand;
- factor analysis-analysis of the impact of individual factors (causes) on the resulting indicator.

## **3 Theoretical part**

### **3.1 Financial analysis**

Review of literature sources showed that the term "financial analysis" consists of two interrelated parts:

Analysis (from Greek "Analysis") – decomposition of financial resources and their flows by indicators of their formation and use.

Synthesis (from the Greek "synthesis") – connection (synthesis) of individual indicators for the identification of the most significant quantitative and qualitative characteristics (generalizing indicators) that determine the financial condition of enterprises.

Russian researcher V.V. Kovalev gives such interpretation to the term “financial analysis”: Identification, systematization and analytical processing of available financial information that provides the user with recommendations - basis for making managerial decisions. (Kovalev, 2015)

Some authors write that "financial analysis" - accumulation, transformation and use of financial information for the purpose of assessing current and prospective financial condition, possible and expedient rates of enterprises' development; identification of available sources of funds; prediction of the company's position in the market (Romanova, Romanova, Belousova, 2002).

### **3.2 Objectives of Financial Analysis**

The central element of the economic management system in the marketplace is the quality of development and adoption of management decisions to ensure profitability and financial stability of the company's economic activities. Domestic and foreign experience shows that it is possible to perform this work qualitatively with the help of financial analysis as a method of estimating and forecasting the financial position of the enterprise.

The main goal of financial activity is to decide where, when and how to properly use financial resources for effective development of production and maximizing profit.

The author O. Efimova thinks that the notion of financial analysis is a broader concept that includes not only the financial condition of the enterprise (based on annual financial statements) but also enables:

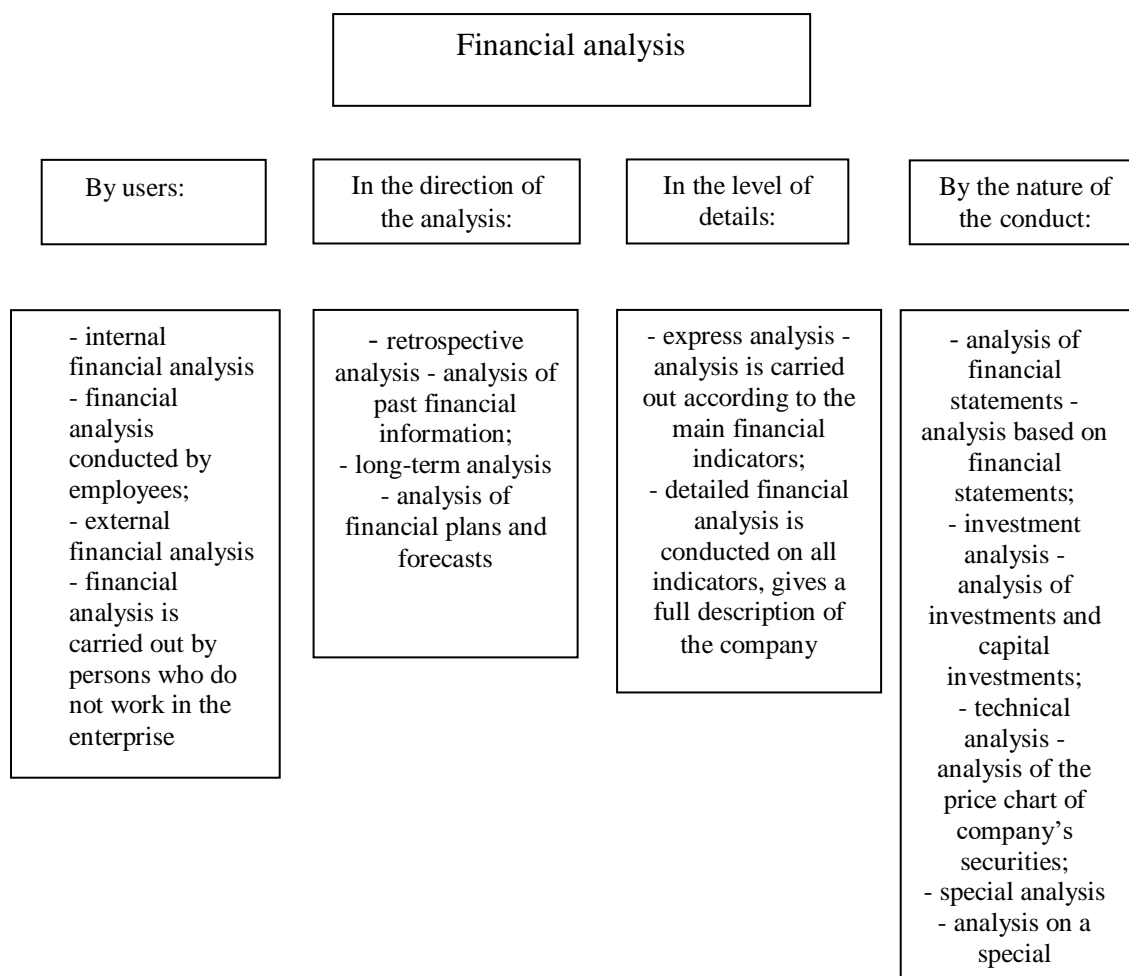
- assess not only the financial condition of an enterprise, but also risks, negatively affecting this state;
- calculate the adequacy of cash and other funds for the implementation of current activities and long-term investments, as well as for the payment of dividends;
- find ways to optimize the sources of financing;
- find ways to preserve and increase capital;
- determine and achieve efficiency of investment and financial decisions in perspective directions. ( Efimova, 2015)

### **3.3 Users of Financial Analysis**

A. Sheremet, E. Nenashev, believe that the analysis is formed on the basis of data of accounting reports and accounting registers. They divide financial analysis into:

- external (source of information for analysis - financial reporting, for external users);
- internal (accounting registers are used for analysis). (Sheremet, 2014)

There are several types and subspecies of financial analysis, which are presented in the next figure.



**Figure 1: Types and subspecies of financial analysis**  
Source: Sheremet, 2014.

### 3.4 Characteristics of Financial Statement

Analysis of the financial status allows you to determine the location of each analyzed company in the market and estimate the overall economic situation in the country, region or industry.

There are three basic financial statements:

- Balance sheet
- Income statement
- Cash Flow statement

**Balance sheet** of the enterprise is the basic source of the information about its activity. A careful study of accounting data contributes to understanding the reasons for the achieved success or failure and helps to find ways to improve the company's operations. Is a summary of the assets, liabilities, and equity of a business at a particular point in time - usually the end of the firm's

fiscal year. The values shown for the different accounts on the balance sheet are not purported to reflect current market values; rather, they reflect historical costs. Assets are the resources of the business enterprise, such as plant and equipment that are used to generate future benefits. If a company owns plant and equipment that will be used to produce goods for sale in the future, the company can expect these assets (the plant and equipment) to generate cash inflows in the future. (Abrutina, 2001)

The balance sheet usually includes the value (monetary expression) of property, materials, finance, educational capital, funds, profits, loans, loans and other debts and liabilities.

**Current assets** consist of cash, marketable securities, accounts receivable, and inventories. (Study.com)

**Noncurrent assets** are include ( plant assets, intangibles, and investments). selling the candy to retailers. (Study.com)

**Liabilities** are obligations of the business. They represent commitments to creditors in the form of future cash outflows. (Study.com)

**Equity**, also called shareholders equity or stockholders equity, reflects ownership. equity is the difference between what the firms owns - its assets - and what it owes its creditors - its liabilities. (Study.com)

$$\text{Assets} = \text{Liabilities} + \text{Shareholders' equity}$$

**Income statement** a report that contains information about the profit received by an economic unit for a certain time. In accordance with international accounting standards, net income is measured by the accumulation method. (Study.com)

$$\text{Net income} = (\text{Income} + \text{Receipts}) - (\text{Costs} + \text{Losses}).$$

**Cash flow** this is the movement of money on accounts or cash through the cash register in one project or enterprise in different directions. The statement of cash flows is prepared in order to clearly see the impact of the current, investment and financial activities of the organization on

the state of its cash for a certain period and allows you to explain the changes in cash for this period. (Study.com)

**Accounts receivable turnover** - measures how quickly an organization receives payment for goods (works, services) sold from its customers. (Study.com)

$$\text{Accounts receivable turnover} = \text{Net credit sales} / \text{Accounts Receivable}$$

**Total Asset turnover** - this is an indicator that reflects the efficiency of the use of assets.

$$\text{Asset turnover} = \text{Revenues} / \text{Total assets}$$

**Fixed assets turnover** - purchased for use in the activities of the enterprise, the useful life of more than one year. (Study.com)

$$\text{Fixed assets turnover} = \text{Revenues} / \text{Fixed Assets}$$

**Investments** in marketable securities are simply viewed as a short-term place to store funds; marketable securities do not include those investments in other companies' stock that are intended to be long term. Some financial reports combine cash and marketable securities into one account referred to as cash and cash equivalents or cash and marketable securities. Inventories represent the total value of the firm's raw materials, work in process, and finished (but as yet unsold) goods. A manufacturer of toy trucks would likely have plastic and steel on hand as raw materials, work-in-process consisting of truck parts and partly completed trucks, and finished goods consisting of trucks packaged and ready for shipping. There are three basic methods of accounting for inventory, including:

- FIFO (first in, first out), which assumes that the first items purchased are the first items sold,
- LIFO (last in, first out), which assumes that the last items purchased are the first items sold, and
- Average cost, which assumes that the cost of items sold, is the average of the cost of all items purchased.

One of the purposes of the financial analysis is not only to establish and assess the financial condition of the enterprise, but also to improve it continuously. The analysis of the firm's financial position specifies on the basic parties of conducting of work. Potentially, the organization can identify the most significant areas and, conversely, vulnerabilities in the financial state. (Swamy, 2006)

<b>Principles</b>	<b>Characteristic</b>
<b>Completeness</b>	the need to reflect in the accounting all facts of economic activity
<b>Timeliness</b>	the need for timely reporting in the accounting and financial statements the facts of economic activities
<b>Discretion (caution)</b>	a greater willingness to take into account losses (costs) and liabilities possible incomes and assets (not allowing hidden reserves)
<b>Priority of content</b>	in accounting statements economic activity must be reflected not only from its legal form, but also from the economic content of facts and conditions of management. For example, the fact of issuing large amounts of loans to the heads of the organization is not illegal. However, if the issuance of these amounts is carried out during the period of unsustainable financial condition of the organization, especially when payment of accrued wages is delayed due to lack of funds, this business transaction should be recognized as unlawful
<b>Consistency</b>	the need for the identity of the analytical accounting data with turnover and balances on synthetic accounts on the first of each month
<b>Rationality</b>	the need for rational and economical accounting based on the conditions of economic activity and the size of the organization

**Table 1: Principles of accounting reporting requirement**  
**Source: (Kovalev, 2000).**

Thus, we can say that it is necessary to use all possible sources of information for economic analysis and management decision-making.

(R. Mukhametzyanov, F. Nugaev 2015)

The key place among the information needed for the analysis is taken by accounting data and financial statements of a company as they contain the most important and reliable information about the activities of an economic entity.



<b>Composition of the financial results report</b>
- revenue (net) from the sale of products / services; - cost of sales; - gross profitio
- commercial expenses; - management costs; - profit (loss) from sales.
- income from participation in other organizations; - interest receivable; - percentage to be paid;
- the amount of income tax, the amount of changes in deferred tax liabilities, assets, and the amount of permanent tax liabilities (assets); - net profit.

**Table 2. Composition of the financial results report**  
**Source: Efimova, 2015**

Thus, the report on financial results is the most important source of information for analyzing the financial performance indicators, the profitability of products sold, the profitability of production, determining the amount of net profit remaining at the disposal of the enterprise, and other indicators. Knowledge of relations between the accounting records and the relationships between the accounting entries allows you to know the factors that affect the financial stability of the company. At the same time, they provide the basis for assessment of the cost and pricing. The growth of divergences between them means not only decrease of the efficiency of fixed assets, but also a change in the structure of current assets. Any change of these parameters is reflected in the increase of financial dependence and in delaying of turnover commitments. So, accounting and management reporting should provide a reliable and complete picture of the financial position of the enterprise, financial results of its activities and changes in its financial condition.

## **4 Practical part**

### **4.1 Short characteristics of the company and its financial condition**

In the framework of this study, we set the task to analyze the activities of the LLP "Ironcommerceco".

The LLP "Ironcommerceco" is engaged in wholesale and retail sale of metal and metal products. The form of the economic organization of this company is LLP (Limited Liability Partnership), this company has the following legal address: Republic of Kazakhstan, 050004, Almaty, st. Abylay Khan, 115/60, ap. 37. Head of company Vuta.V. The company is privately owned (site of the LLP "Ironcommerceco").

Activity of Iron Commerce Company includes:

1. Wholesale and retail trade of metal;
2. Wholesale and retail trade in other goods;
3. foreign economic activity;
4. manufacturing of metal structures;
5. implementation of the protection of life, health of its employees and their own property, including during its transportation.

The history of the company. The LLP "Ironcommerceco" was established in 2008 and today is one of the most successful Kazakhstani companies operating in the metal trading industry. Currently, constantly gaining momentum, it is expanding among its divisions:

1. headquarters / metal warehouse in Almaty, st. Ryskulova, 61G;
2. office / metal base in Almaty, st. Youth, 32;
3. production base in the town of Boraldai;
4. office / metal base in Aktau, rn industrial zones;
5. office / metal base in Atyrau, Elevatorny passage, 7/1.

Since 2009, the company has been tasked with the supply of metal not only in Almaty, Aktau and Atyrau, but throughout the territory of Kazakhstan. This task was quite successfully implemented.

In 2010, the management of the company decided to engage not only in the sale of metal, but also in its production. So, in December 2010, two pipe rolling mills were launched, operating in parallel, which are capable of producing up to 90 tons of shaped pipe per day.

In 2012, the base, located in Almaty launched the production of the following products:

1. round pipe with a diameter of 15 mm (wall 2-2.5 mm);
2. round pipe with a diameter of 20 mm (wall 2-2.5 mm);
3. profile pipe 15x15, 20x20 (wall 0.9-2 mm);
4. galvanized corrugated flooring, size to order.

In 2013, the production of masonry mesh, 3-5 mm thick, began with the ability to produce cells from 5-10 mm (mesh for reinforcement, as well as cell 12x36, 17x36, 10x35 - masonry mesh).

In addition, in the same years, at the base located on Molodezhnaya Street 32, the production of a masonry grid was started according to the parameters of a quality grid.

**Marketing department.** The main responsibility of this unit is to manage the perceived value of LLP products. The perceived value of goods directly affects the ability to make high profits from the sale of goods, being the simplest operating indicator for evaluating the effectiveness of the marketing department. The LLP "Ironcommerceco" marketing team consists of three young, but at the same time experienced professionals who, thanks to their creativity and skills, are actively conquering the Almaty market.

The main functions and tasks of the marketing department are the next:

- Study of the market and market trends;
- Study of consumer behavior;
- Choosing a target market;
- Development of competitive advantage;
- Approval of the product development strategy;
- Tactical management of the company;
- Customer Relationship Management;
- Monitoring and analysis of the results of work.

**Sales department.** In contrast to the marketing department, is engaged in the direct promotion of the product to the markets, providing quality service and preparing information for marketers about sales and consumer preferences.

The functions of this department are:

Selling products;

- Research buyers, wholesalers and distributors;
- Organization of feedback for planning production and sales activities;
- Reception and processing of promotions;

- Organizing feedback from intermediaries and preparing information for the marketing department.

**Technical department.** The value of this department is also quite large, since it is the one that keeps the activity of the whole enterprise, ensures the work of all technical means and equipment necessary for effective work. This department provides timely and high-quality solution of technical issues and tasks of the company's management, constantly maintaining the fleet of technical equipment in perfect condition for effective work.

Functions:

Technical equipment of the enterprise;

- Analysis of the need for new tools and equipment;
- Warehousing, storage and accounting equipment;
- Distribution of equipment at the request of other departments of the enterprise;
- Planning and carrying out maintenance work;
- Monitoring compliance with technological discipline, rules and regulations on labor protection, safety and other.

**Accounting department.** One of the main tasks of the employees of this division is the implementation of the LLP "Ironcommerceco" financial strategy and financial policy, as well as the organization of financial activities in order to efficiently use financial resources. In addition, the accounting department develops forecasts for the economic development of the company and participates in the formation of key performance indicators of the enterprise, in developing business plans, in drawing up prospective and current financial plans and budgets, carrying out operational control over their implementation. Thanks to this department, a comprehensive analysis of the company's activities takes place and all the necessary operational and analytical information is regularly provided.

Main functions:

- Conducting management accounting activities, reporting;
- Development and implementation of corporate standards, standards for management accounting. Formation of accounting policies;
- Management of cash flows, control of payments in cash and non-cash form, management of the company's loan portfolio;
- Operational control over financial resources;
- Control over the timely and complete fulfillment of contractual obligations, expenses and revenue receipts.

Thus, the accounting department actually performs the functions of the financial and economic department, which is simply absent in the LLP "Ironcommerceco".

**Logistics Department.** It is known that logistics is important both for production and for the commercial activities of any company.

The logistics department of the LLP "Ironcommerceco" solves the following tasks:

- Collection, processing and analysis of organizational, technical and financial information about the activities of Kazakhstani organizations working in the field of rolled metal and related areas, in particular the provision of transport services;
- Planning, organization, control and management of tangible and intangible operations performed in the process.
- Development of rational proposals for the organization of the activities of the departments of the enterprise, in order to optimize costs in bringing material flows to the buyer;
- Ensuring fulfillment of obligations for the supply of products and goods in accordance with the concluded agreements;
- Implementation of the organization, planning, accounting and reporting in warehouses.

The main growth factors of the LLP "Ironcommerceco" are investments in production, the introduction of modern technologies in the production of steel structures. All these actions are aimed at maintaining a successful position in the market of Kazakhstan and maintaining competitiveness, as well as at maximum customer satisfaction.

Based on the general characteristics, it is clear that the company has extensive experience in production management, has a competent selection of the organizational structure, successfully carries out activities according to the established scheme, has advanced technologies in the field of production. However, there are a number of drawbacks associated with the flow of documents, the relationship between departments.

#### 4.1.1 Analysis of the financial status of the LLP "Ironcommerceco"

	01.01.13	01.01.14	01.01.15	In %	In %
Own capital thousand tenge	30,880,690	33,378,785	38,173,302	108.1	114.4

Borrowed capital thousand tenge	19,498,862	18,722,134	21,638,129	96.0	115.6
Indicators (borrowed capital over own capital)	26%	29%	31%	102	115

**Table 3. Growth rates of own and borrowed capital for 2013-2015**  
**Source: Annual reports of the "Ironcommerceco" 2013-2015**

Indicators name	2016	2017	2018	Deviations 2016-2017	Deviations 2017-2018
1. Proceeds from the sale of marketable products, mln.	31,560,000	38584	45,880,000	-7,024,000	7,296,000
2. Balance profit, mln.	11,010,000	10,542,000	13,982,000	-4,680,000	3,440,000
3. Profit from product sales,%	4,2	3,5	3,8	-0,7	0,3
4. Cost of marketable products, mln.	20,580,000	25,177,000	26,823,000	4,597,000	1,646,000
5. Expenses for 1 tenge of commodity products, kop. (p. 4 / p. 1 * 100)	65,209,000	65,711,000	72,286	0,502	6,575
6. The average number of employees, people.	84	96	98	12	2
7. The wage fund of workers, mln. tg.	8,458,525	10,944,231	12,936,725	2485706	1992494
8. The average wage per employee, th.tg / month.	100,696	114,002	132,007	13,306	18,005
9. The financial stability ratio ( $\geq 0.7$ ), coeff.	0,021	0,026	0,032	0,005	0,006
10. The current liquidity ratio ( $\geq 2$ , opt not $< 1$ ), coeff.	1,012	1,021	1,035	0,009	0,014

**Table 4. The main economic indicators of the LLP "Ironcommerceco" for 2016-2018**  
**Source: Own processing based on annual report**

As you see from the analysis, the company grows and develops. Within three years, revenue increased by 14%, profit by 0.3%, profitability increased by 45% based on this ratio, can conclude that the company for three years has reduced its own costs, found more profitable suppliers, which reduced the cost of goods and increase profits. The number of workers increased, the company began to use the work of more highly specialized workers. Stocks in warehouses practically did not change in dynamics for 3 years. Accounts payable decreased by 98.39%, borrowed funds decreased by 8.6% and capital increased by 39.91%, which indicates that the company is developing and improving its performance. The wage fund of workers for three years has increased and today the average wage of an employee has increased to 130 207 tenge.

<b>Indicator</b>	<b>On 01.01. 2017</b>	<b>On 01.01. 2018</b>	<b>Deviation +; -</b>	<b>Rates of growth at %</b>
Revenue from the sale of services (excluding VAT)	38,584,626	45, 880, 679	7 ,296 ,000	118.9
Cost of goods sold (works of services)	25, 177, 000	26, 823, 000	1, 646 ,000	106.5
Gross income	13, 407, 538	19 ,057, 287	5, 649,749	142.1
Period expenses	8 ,539 ,575	7 ,296 ,713	-1, 242,862	85.4
Profit (loss) from operating activities	4, 867 963	11 760 574	6 , 892, 611	241.6
Result from non-core business	899, 024	481, 371	- 417 ,653	53.5
Income tax from a legal entity	- 2, 908, 308	- 3, 600, 874	- 692, 566	1238
Income (loss) from ordinary activities after taxation	28 ,586 ,79	8,641,071	5,782,392	3023
Income (loss) from emergencies	-	-1705	- 1705	-
Adjustment of retained earnings (uncovered loss)	-	3 058 399	30 58 399	-
Retained earnings (uncovered loss)	2,858,679	11, 697, 765	8, 839 ,086	409.2

**Table 5: The level and indicators of the financial performance of “IronCommerceco” 2017-2018**  
**Source: Own processing based on annual report**

The data in the table show that in the reporting period the company achieved high results. Gross income grew by 42.1% and retained earnings grew 4 times. A positive factor in the growth of retained earnings was an increase in gross income due to an increase in sales volume and a relative decrease in the cost of producing services. With the growth of sales income by 18.9%, the growth in the cost of services rendered was 6.5% and expenses of the period were reduced compared to the base period by 14.6%.

Retained earnings are influenced by such factors as: operating income, income from non-operating activities, corporate income tax amounts, income from emergencies and other activities. As can be seen from the table, retained income in 2018 increased in comparison with 2017 by 8 839 076 tenge. This increase was mainly influenced by the increase in operating income and income from non-operating transactions, and due to a decrease in income from non-operating activities, in general, the result decreased by KZT 417,653 thousand.

In turn, the following factors can affect the change in income from operating activities: sales volume; reduce production costs; selling prices for services; level of costs of material and labor resources.

Calculation of the total change in income (loss) (P) from the main activity:

$$P = P1 - P0 = 11\,760\,574 - 4\,867\,963 = 6\,892\,611; \text{ Where}$$

P1 - income (loss) from the main activity of the reporting year;

P0 - income (loss) from the main activity of the base year.

Income from the main activities of Ironcommerceco in 2018 in absolute terms increased compared to 2017 by 6,892,611 thousand tenge.

The most important in assessing the financial condition of the company is the study of balance sheet data. The balance sheet gives a rough estimate of the amount of funds that can be earned for the property, for example, in the event of the liquidation of an enterprise.

Below are tables on the financial status of Ironcommerceco in the period from 2017-2018.

1	Business operation	Sum, tenge
2	Accrued wages	12, 740 ,000
3	Accrued insurance premiums on extrabudgetary funds	378, 939
4	The cost of rent, utilities, transportation costs	2 ,535 ,500
5	Account is closed, costs charged	3 ,327, 500

**Table 6: Accounting entries for the account "The cost of sales" 2018.**

Source: <https://ironcc.kz>

Consider an example of payroll. Let's calculate the salary for December 2018.



The salary for staffing amounted to - 150 000 tenge. According to the production calendar, the accountant worked 175 hours with a 40-hour working week, so he was supposed to work 175 hours. Salary is divided by the number of hours in the norm, multiplied by the number of hours worked,  $150,000 / 175 \times 175 = 150,000$  tenge. Thus, the salary will be equal to 150,000 tenge, the employee will receive a salary minus personal income tax (13%). This employee's standard deduction is not available because the employee has no children. The employee worked for the whole month, which means that the salary is equal to 150,000 tenge minus the income tax of 13%.  $150000 \times 13\% = 19,500$ . The salary for extradition is 130,500. Were reviewed the determination of the amount of tax paid at the expense of the employee himself. But there are other taxes which are paid by the employer at their own expense.

Financial results and their use are recorded in the "Profits and Losses" account. During the year, the amount of profit, and its use are reflected in the corresponding accounting register deployed. The credit of the account shows a cumulative profit, and the debit of the account. At the end of the year on the date of the financial statements, the balance sheet is reformed. The amounts of profit or loss are reflected in the "Retained earnings" account and the unallocated amount of profit of the reporting year or uncovered loss of the reporting year is reflected in the financial statements.

Calculate the tax. In December 2018 revenue amounted to 1 980 000 tenge; Of these, from wholesale trade amounted to 895,400 tenge, which is 45% ( $895,400 / 1,980,00 \times 100$ ); From retail trade 1 089 033 tenge., Which is 55% ( $1\ 089\ 033 / 1\ 980\ 000 \times 100$ ); loan interest 692,340 tenge. And so, we distribute as a percentage of  $692,340 \times 45\% = 311,553$  tenge in the expense and in the book of sales. Further, all income and expenses are summarized, and the tax is calculated. The tax calculation is simple income - expenses  $\times 15\%$ .

The annual reporting of the organization is not subject to mandatory audit, and consists of:

- the balance sheet;
- Report on financial results. Annual financial statements are submitted to the tax office.

Financial and other current assets. This balance sheet is intended to reflect information about current assets, with the exception of stocks, cash and cash equivalents. It reflects the receivables of customers, the amount of VAT on acquired assets, cash and short-term financial investments (with a maturity not exceeding 12 months), as well as other current assets of the company.

The IronCommerce organization has a debit account balance:

- "Financial investments" - 1 406 840 tenge
- "Settlements with suppliers and contractors" - 3 547 500 tenge

- "Settlements with buyers and customers" - 13,439,000 tenge
- "Calculations with staff on payment" - 5 351 500 tenge
- "Settlements with accountable persons" - 1,122,000 tenge

Unlike the balance sheet, which describes only the state of assets (property structure) and liabilities (liability structure) on a certain date, which does not provide data on profitability, it reflects only retained earnings, and no profit can be seen in the balance sheet on the basis of turnover and reflects information about the income and expenses of the organization, thereby it becomes clear the formation of profit. The statement of financial performance is also a "lightweight" option. In its six lines it will be necessary to reflect:

- Revenue;
- Expenses for ordinary activities;
- Percentage to be paid;
- Other expenses;

Working capital: current assets increased in the context of three years by 2.9%, this is not a significant increase more likely indicates an increase in the cost of goods due to inflation. But at the same time, receivables increased, which may indicate deterioration, but in this embodiment, the company began to trust contractors, which allows you to buy goods by installments, which is much more profitable for the organization. The cash balance is almost unchanged.

**Horizontal analysis** is an analysis that is based on the study of the dynamics of individual financial indicators over time. More common in the company's profit and loss statements.

**Vertical analysis** is an analysis that determines the structure of financial indicators and identifies the impact of each on the overall result of economic activity.

#### **4.1.2 Competitive analysis**

1. Module-A LLP, the main advantages of which is a large authorized capital, the production of a broaching sheet and masonry grid, as well as large archives, which allows you to make a maximum

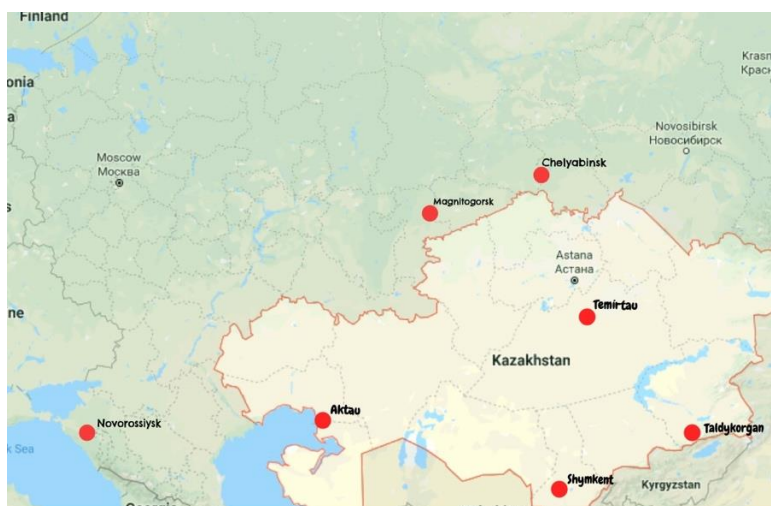
discount on products to the final consumer (the metal volume in Almaty reaches 10,000 tons), but this

company has not branches in other cities of the Republic of Kazakhstan;

2. RealMashSnab LLP, ranks second in turnover and sales in Almaty, the main advantage of which is the Russian quality of goods, and the minus is the absence of any production;
3. Lider-Metall, Sharif-Metall LLP, Sonic group of companies, a number of companies with narrow production specifics, for example — Almaty bent profiles plant, Alm Pro Met, LLP PromKomplekt-B have the same positions in the metal-roll market.

The main advantage of the LLP "Ironcommerceco" activity is not only the material side, namely, obtaining additional capital and profits, but also the respect of competitors.

**The competitors of the company are the following:**



Source: google map

1. Mechel AO (Chelyabinsk, Russia); 2288 km
2. ZSMK(Novorossiysk, Russia); 4257 km
3. MMK (Magnetogorsk, Russia); 2225 km
4. Arcelor (Temirtau, Kazakhstan); 1033 km
5. ALZ (Aktau, Kazakhstan); 2885 km
6. FerrumTorg (Shymkent, Kazakhstan); 684 km
7. MAA (Taldykorgan, Kazakhstan); 6111 km

**The largest customers are the following:**

1. Basis-A (construction)- the largest construction organization and developer of Kazakhstan. Has international experience in Russia and Canada.

2. Aman-Holding (construction)- engaged in construction and repair of civil and industrial objects on the territory of Kazakhstan.
3. Flamingo 9 (heating) - construction and production company in Kazakhstan.
4. AO Bent (plumbing) - it operates in Kazakhstan in Almaty.

<b>Factors characterizing production</b>				
1	The average price of fittings * 8 (Bay)	58 tg / m	55 tg / m	57 tg / m
2	Structure expansion	partial	significant	partial
3	Assortment	the average	the average	high
4	Product quality	periodic	constant	time from
5	Quality control	high	high	of time
6	The effectiveness of the transition to new equipment	36	25	average

**Table 7: Factors characterizing production**

Source: <https://ironcc.kz>

№	Indicators	The LLP «Ironcommerceco»	Competitors	
			Module-A	RealMashSnab
<b>3. Factors characterizing customer structure</b>				
3.1.	Share of municipal organizations, %	43	59	36
3.2.	Share of corporate clients, %	35	48	32
<b>4. Factors characterizing the marketing policy</b>				
4.1.	Marketing strategy	under development	under development	under development
4.2.	Sales channels	work with corporate and private clients, distributors	work with corporate and private individuals	work with distributors
4.3.	Advertising	insufficient	active advertising	insufficient

**Table 8: Comparative characteristics of competitors**

Source: authors own table

As can see from the table above – the main competitors of the Ironcommerceco – are Module-A and RealMashSnab. The highest rates has Module-A, which the company works longer on the market and use advertising tools more effectively than other companies. At the same time Ironcommerceco has the broader Sales channels – it works with work with corporate and private clients, distributors, when Module-A only with corporate and private individuals, and RealMashSnab only wirh dictributors. The table shows that at the moment Module-A is one of the most famous in the market, bur the LLP " Ironcommerceco" has all chances to expand their business due to its corporate strategy and effective anagement.

In 2016, the LLP "Ironcommerceco" carried out cost-cutting measures, including:

- modernization and innovation, raising the technical level of production;
- improvement of working conditions and organization of production;
- changes in the structure and volume of goods produced;
- energy saving and energy efficiency;
- optimization of production areas;
- decrease in the list number.

Short-term planning of the company - reducing the cost of products (by increasing production – the increase in production is the most obvious and effective way to reduce production costs), long-term -improving the quality of goods. According to the short-term plan to prevent a decline in production at the company and the annual business plan, also LLP managers took measures to reduce costs, including staffing, which accounts for about 30% of total costs, by reducing the number of employees. The cumulative result of these activities was a reduction in the cost of production.

<b>Indicators</b>	<b>Code line</b>	<b>At the end of reporting period "</b>	<b>"At the beginning of reporting period</b>
I. Short-term assets	01	78, 399, 977	38, 293, 612
Cash and cash equivalents	02	72, 620 ,492	37, 690 ,254
Short-term receivables	04	3 ,312, 842	390, 000
Stocks	05	1, 165, 140	184, 206
Current tax assets	06	351	-
Other current assets	08	1 ,301 ,152	29 ,152
ii. Long-term assets	09	93, 676	129, 857
Fixed assets	15	93, 676	129 ,857
BALANCE (line 01 + line 09)	21	78, 493, 653	38, 423, 468

**Table 9: Statement of Financial Position (Balance Sheet) as of December 31, 2017**  
Source: <https://ironcc.kz>

<b>Indicators</b>	<b>Code line</b>	<b>"At the end of reporting period "</b>	<b>"At the beginning of reporting period</b>
I. Short-term assets	<b>01</b>	<b>86 ,082, 131</b>	63, 357, 868
Cash and cash equivalents	02	20 ,000 ,800	16, 917, 748
Short-term receivables	04	15, 415, 133	23, 136, 218
Stocks	05	9 ,430, 398	158, 121
Current tax assets	06	441 ,298	193, 962
Other current assets	08	30 318 502	22 951 819
ii. Long-term assets	<b>09</b>	<b>5 613 097</b>	608 534
Fixed assets	15	5 084 184	608 534
Deferred tax assets	19	528 913	-
BALANCE (line 01 + line 09)	<b>21</b>	<b>90 695 228</b>	63 966 403
Liabilities	<b>22</b>	<b>79 836 880</b>	55 795 494
iii. Short-term liabilities	<b>23</b>	<b>79 836 880</b>	55 795 494
Tax liabilities	25	3 335 898	1 383 045
Obligations for other mandatory and voluntary payments	26	56 721	31 701
Short-term payables	27	34 943 194	19 879 379
Short-term estimated liabilities	28	-	-
Other current liabilities	29	31 501 067	34 501 369
V. Capital	<b>36</b>	<b>10 858 348</b>	8 170 909
Authorized capital	37	200 000	200 000
Retained earnings (uncovered loss)	42	11 658 348	7 970 909
BALANCE (line 22 + line 36)	<b>43</b>	<b>90 695 228</b>	63 966 403

**Table 10:Statement of Financial Position (Balance Sheet) as of December 31, 2018**  
**Source: <https://ironcc.kz>**

As can be seen, by the end of the reporting year, the liquidity ratio of the balance increased and amounted to 26, 729,000 tg, which indicates good growth rate of the company. Thus, after analyzing the solvency, liquidity and financial stability, we can conclude that the company as a whole is financially stable as well as solvent, due to the fact that the company does not attract long-term borrowed funds.

The company has enough reserves and has accounts receivable, which indicates solvency and liquidity in the long term.

The financial stability ratio is growing in dynamics, which is a positive trend, and in 2018 it was 0.032, which is 0.006 higher than in 2017 and 0.011 higher than in 2016. The coefficient of the current liquidity ratio in 2018 also increased and amounted to 0.014, which indicates the company's ability to repay current (short-term) liabilities at the expense of current assets only. The greater the value of the coefficient, the better the solvency of the enterprise. Thus, after analyzing the financial condition, we can draw the following conclusions. Balance currency in 2018 amounted to 90 695 228 thousand tenge, which is 12 201 million tenge more than in 2017, which is a positive trend. Also, positive changes are observed among short-term assets, fixed assets, stocks and liabilities of the enterprise.

The company has sufficient liquidity and solvency in the short term, because the company has enough money, besides the company has enough reserves and receivable accounts, which indicates solvency and liquidity in the long term. In 2016, the company performance was slightly worse, which indicates the instability of financial stability, solvency and liquidity of the company. It is also worth noting that, despite the good performance, they have a tendency to decrease, which is a negative phenomenon and may in the long run affect the operation of the enterprise. According to the analysis of the profitability of the enterprise, it can be noted that almost all indicators grow slowly, and they are low and insufficient for the existence and development of the enterprise. In order to increase the revenue figures in the balance sheet, an organization needs to analyze the products being sold and to study the market for demand; the services of a marketing specialist are relevant in this case. Identify stale types of goods, especially those that have lost their original quality, mark down on some items of goods and hold a campaign for their early sale. What is impossible to sell, must be sent for recycling and scrapped.

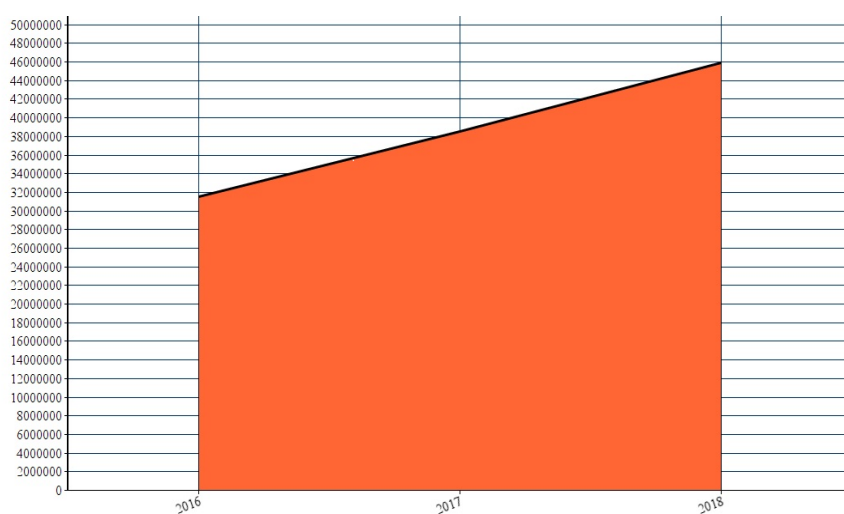
The decrease in management expenses in 2017 in the production cost compared to 2016 in the LLP "Ironcommerceco" was due to the organizational changes in the company related to the



optimization of the number of staff. Also, savings were achieved due to information consulting and corporate expenses, the cost of legal, public relations and advertising services.

The authorized capital is 90 million tenge. The balance of the head office includes a land plot of 2.00 hectares located at the address: Almaty region, Ili district, Boraldai settlement, on which the main production is located.

The company's profitability rate is growing rapidly, largely due to an increase in net profit. The sales volume of the LLP "Ironcommerceco" products also increases in a positive way. In the production and sale of goods for the period of 2016-2018, the figure is relatively increasing, the indicators are steadily increasing, respectively, the profitability indicators are stable. Based on this, we can talk about the effectiveness of the activities of the LLP "Ironcommerceco".



**Figure 2: Profitable rate of the company**  
Source: own processing based on annual report

At this LLP, production is steadily developing, employees are trying to optimize the costs of materials, raw materials, and technologies, due to which a significant portion of the profit goes into circulation, and this contributes to the stable operation of the company in the future. At the same time, the LLP "Ironcommerceco" tries to develop its own methods for improving production efficiency. The level of profitability of the LLP is influenced by many factors, many of which are individually used in production process.

Summarizing the results of this chapter, it is possible to name some factors contributing to an increase in the level of efficiency of activity in this company:

- It is important to properly allocate available resources and use them wisely;
- It is necessary to apply the competently approach in the use of working capital;
- It is important to optimize the costs of the production process;
- To increase sales, it is important to produce high quality products;

- Consideration should be given to production costs;
- It is necessary to introduce new technologies into production;
- It is necessary to accelerate the process of returning working capital;
- It is important to systematically keep financial statements, providing the balance of the organization in order to attract investors;
- It is necessary to competently manage the entire structure of the company, mainly focusing on production.

### **4.1.3 Development of recommendations for improving the financial situation**

The strategic goal of the LLP «Ironcommerceco» is to conquer 30-35% of the Kazakhstan market of metal products and metal products and services by 2020 by producing goods with high consumer properties that will allow the company to retain and expand its presence in the market.

The main objectives of The LLP "Ironcommerceco":

- Striving for maximum profitability, by reducing production costs and logistics, as well as an individual approach to customer requirements;
- Systematic introduction of new technologies and scientific and technical developments in production;
- Professional development of management and production personnel, through advanced training courses, various trainings, and the acquisition of practical skills in the process of working in production.

Efficiency is one of the most important characteristics of the quality of the system, it is an indicator of human activity, which determines the ability to ensure the final result. Most often this term is used in the context of economic activity, i.e. in the field of economics. In general, the assessment of effectiveness is a set of approaches and techniques that allow to assess the level of the system control. It is conditionally possible to distinguish two most important blocks of research on the effectiveness of managerial decisions - analytical methods and survey methods. (Golovacheva, 2015)

The recommendations proposed above will allow the company to control the receivables and payables in a timely manner, track the availability and lack of funds and ultimately increase profits, which will affect the increase in the solvency and financial stability of the enterprise.

#### 4.1.4 SWOT analysis of the "Ironcommerceco"

When analyzing the SWOT, can say that the organization's strategy should be built on strengths, such as:

**Openness.** The company works in close cooperation with customers and openly shares knowledge, both with its customers and within the company.

**Respect.** The company provides leadership through honest cooperation and respect for their customers, colleagues and partners.

**Quality.** Ironcommerceco guarantees the quality and quality control of the delivered goods in accordance with the standards and quality systems associated with it. One of the assets of the company is its staff. This is the daily work of the staff creates a positive reputation for the company, thus creating a basis for long-term partnerships with existing clients, customers and partners).

However, Ironcommerceco should pay attention to the following points:

**Competence.** Competence of a company can be recognized only when it has surpassed its competitors and, therefore, can offer its customers the best solutions.

**Collaboration.** The company should build relationships not on the immediate needs of customers but take into account their long-term strategic interests. Therefore, the purpose of its activity is to create strong trusting relationships not only within the firm, but also with its partners.

**Creativity.** The company must support creative ideas, in whatever area of our activities arise.

**Development and training.** Ironcommerceco should more often conduct training seminars and trainings for its sales force specialists, with the aim of increasing their professionalism and technical competencies, and actively participate in regional and international exhibitions.

The success of Ironcommerceco largely depends not only on the competence and professionalism of the management of the company, but also on the cohesion of the team, their high qualifications and practical experience. Today the company is one of the largest universal suppliers of metal in Almaty.

## 5 Conclusion

A study conducted in the framework of this thesis showed that one of the key factors for improving the competitiveness of any company is effective financial activity, taking into account current market requirements and business processes.

Today, more and more companies to assess the effectiveness of their operation apply innovative indicators, which include: production flexibility, inventory volume, product quality, reliability indicators, production safety indicators, environmental impact of production, efficiency in fulfilling customer orders. In such conditions, leading enterprises have long concluded that the key to successful business and increasing the economic efficiency of their activities is financial analysis.

Due to the relevance of this topic, as well as in the framework of this graduate study, we were:

- the essence of the meaning and role of financial analysis in modern economics is revealed;
- The essence of the financial statements, and the procedure for compiling;
- studied the method of analysis of the main economic indicators of the company;
- given the organizational and economic characteristics and an analysis of the economic efficiency of the activities of Ironcommerceco LLP.

Analysis of the financial and economic activities of the Ironcommerceco enterprise, as well as a review of its organizational structure, allowed us to formulate the main recommendations for improving the management of the supply chain at this LLP. By results of the financial analysis it is possible to draw the conclusion: the company needs to constantly monitor and reduce the costs of transportation and distribution, optimize prices, minimize stocks of poorly marketable goods, reduce costs for their storage.

Today, the Ironcommerceco is one of the most advanced and mobile enterprises in the field of wholesale and retail sales of metal products and metal products not only in Almaty, but also in the country. However, the strategic goal of the Ironcommerceco involves the conquest by 2020 of 30-35% of the Kazakhstan market of products and services of rolled metal and metal products due to the release of goods with high consumer properties that will allow the Ironcommerceco to retain and expand its presence in the market.

During the preparation of financial statements, an organization must proceed from the fact that financial statements must give a reliable and full picture of its financial position, financial results of its activities and changes in its financial position. The organization in question relates to small enterprises. Conducts accounting on a cash basis. It compiles simplified annual financial statements consisting of the balance sheet and the statement of financial results. The feasibility study of Ironcommerceco was reviewed and analyzed based on the balance sheet for 2015-2018.

It showed that the company is growing and developing. In the dynamics of 3 years, revenue increased by 14%, profit by 14 %, profitability increased by 32%. Based on this ratio, we can conclude that the company for 3 years has reduced its own costs, has found more profitable suppliers, which has reduced the cost of goods, which has increased profits. The study showed that efforts aimed at eliminating unnecessary costs in the business operations of companies are of great importance for reducing costs through the use of the practice of managing the economic activities of the company. In today's competitive environment and current market conditions, all companies need to know how this practice can improve the economic efficiency of the enterprise and the quality of customer service in general.

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## List of tables

Table 1: Principles of accounting reporting requirement.....	16
Table 2. Composition of the financial results report .....	17
Table 3. Growth rates of own and borrowed capital for 2013-2015.....	22
Table 4. The main economic indicators of the LLP "Ironcommerceco" for 2016-2018 .....	22
Table 5:The level and indicators of the financial performance of "IronCommerceco" 2017-2018 .....	23
Table 6: Accounting entries for the account "The cost of sales" 2018. ....	24
Table 7: Factors characterizing production .....	28
Table 8:Comparative characteristics of competitors.....	28
Table 9: Statement of Financial Position (Balance Sheet) as of December 31, 2017 .....	30
Table 10:Statement of Financial Position (Balance Sheet) as of December 31, 2018 .....	31

## List of figures

Figure 1: Types and subspecies of financial analysis .....	13
Figure 2: Profitable rate of the company.....	33

## 7 Appendix

### Statement of Financial Position (Balance Sheet) as of December 31,2017

Indicators	Code line	At the end of reporting period "	"At the beginning of reporting period
I. Short-term assets	01	78,399,977	38,293,612
Cash and cash equivalents	02	72,620,492	37,690,254
Short-term financial investments	03	-	-
"Short-term receivables	04	3,312,842	390,000
Stocks	05	1,165,140	184,206
Current tax assets	06	351	-
Long-term assets held for sale	07	-	-
Other current assets	08	1,301,152	29,152
ii. Long-term assets	09	93,676	129,857
Long-term financial investments	10	-	-
Long-term receivables	11	-	-
Investments in jointly controlled entities	12	-	-
Investments in associates	13	-	-
Real estate investment	14	-	-
Fixed assets	15	93,676	129,857
Biological assets	16	-	-
Exploration and appraisal assets	17	-	-
Intangible assets	18	-	-
Deferred tax assets	19	-	-
Other long-term assets	20	-	-
BALANCE (line 01 + line 09)	21	78,493,653	38,423,468



## Statement of Financial Position(Balance Sheet) as of December 31,2018

Indicators	Code line	At the end of reporting period "	"At the beginning of reporting period
I. Short-term assets	<b>01</b>	<b>86 ,082, 131</b>	63, 357, 868
Cash and cash equivalents	02	20 ,000 ,800	16, 917, 748
Short-term financial investments	03	-	-
Short-term receivables	04	15, 415, 133	23, 136, 218
Stocks	05	9 ,430, 398	158, 121
Current tax assets	06	441 ,298	193, 962
Long-term assets held for sale	07	-	-
Other current assets	08	30 318 502	22 951 819
Ii. Long-term assets	<b>09</b>	<b>5 613 097</b>	608 534
Long-term financial investments	10	-	-
Long-term receivables	11	-	-
Investments in jointly controlled entities	12	-	-
Investments in associates	13	-	-
Real estate investment	14	-	-
Fixed assets	15	5 084 184	608 534
Biological assets	16	-	-
Exploration and appraisal assets	17	-	-
Intangible assets	18	-	-
Deferred tax assets	19	528 913	-
Other long-term assets	20	-	-
BALANCE (line 01 + line 09)	<b>21</b>	<b>90 695 228</b>	63 966 403
Liabilities	<b>22</b>	<b>79 836 880</b>	55 795 494
Iii. Short-term liabilities	<b>23</b>	<b>79 836 880</b>	55 795 494
Short-term financial liabilities	24	-	-
Tax liabilities	25	3 335 898	1 383 045
Obligations for other mandatory and voluntary payments	26	56 721	31 701
Short-term payables	27	34 943 194	19 879 379
Short-term estimated liabilities	28	-	-
Other current liabilities	29	31 501 067	34 501 369
Iv. long term duties	<b>30</b>	-	-
Long-term financial liabilities	31	-	-

Long-term payables	32	-	-
Long-term estimated liabilities	33	-	-
Deferred tax liabilities	34	-	-
Other long-term liabilities	35	-	-
<b>V. Capital</b>	<b>36</b>	<b>10 858 348</b>	8 170 909
Authorized capital	37	200 000	200 000
Unpaid capital	38	-	-
Repurchased own equity instruments	39	-	-
Share premium	40	-	-
Reserves	41	-	-
Retained earnings (uncovered loss)	42	11 658 348	7 970 909
<b>BALANCE (line 22 + line 36)</b>	<b>43</b>	<b>90 695 228</b>	63 966 403