

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



**Bachelor Thesis**  
**Financial Analysis of Roshen Company**

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# CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

Faculty of Economics and Management

## BACHELOR THESIS ASSIGNMENT

Tetiana Kalinichenko

Business Administration

Thesis title

**Financial analysis of Roshen company**

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### Objectives of thesis

Process financial analysis of Roshen company using the key performance indicators, such as, liquidity solvency, profitability as well as the efficiency of operations of a business entity. Short term and long term prospects of a business are evaluated based on Roshen dataset. Main objective is to identify the weakness, the goal of conducted study is to formulate recommendations as well as forecasts for the future of a business entity. Objective – to explore the analysis of the financial position of the enterprise.

To achieve this goal the following objectives have been identified:

1. To consider the concept, essence and purpose of the financial analysis
2. To study the methods and techniques of financial analysis
3. Consider financial statements of the company as an information base of financial analysis
4. Analyze the organizational characteristics of the corporation "Roshen"
5. To analyze the financial condition of the confectionary corporation "Roshen" in Lipetsk
6. Develop strategies to improve the financial performance of the confectionary factory "Roshen" in Lipetsk.

Object of research – analysis of the financial state of the organization.

Subject of research- Confectionary factory "ROSHEN" in Lipetsk.

### Methodology

Financial analysis of Roshen Company is divided into two subsections: Practical and Theoretical part.

Theoretical Part is based on literature research of specified inquiry, which in following thesis will be focused on financial analysis in general. Crucial role of theoretical research is to identify tools and generate methods based on the overview of current available literature.

Methods: extraction, fusion and synthesis.

In practical part primer source of information (financial reports of Roshen company) is analyzed using accounting methods, graphical techniques as well as statistical methods to gain indicators that show full and detailed overview of current state of business.

Methods used: Horizontal analysis, Vertical analysis, Factor analysis, Deductive method, Inductive method.

**The proposed extent of the thesis**

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**Keywords**

financial analysis, financial condition, Roshen, food industry, confectionery business, analysis of financial stability, Lipetsk confectionery factory Roshen

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**Recommended information sources**

Fabozzi, F. and Peterson, P. (2013). Analysis of financial statements. 1st ed. Hoboken, N.J.: Wiley.  
Friedlob, G. and Schleifer, L. (2003). Essentials of financial analysis. 1st ed. Hoboken, N.J.: Wiley.  
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Porter, G., Norton, C. and Porter, G. (2010). Using financial accounting information. 1st ed. Mason, OH: Thomson/South-Western.

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## **Declaration**

I hereby confirm that bachelor thesis called «Financial Analysis of Roshen Company» is result of my own research with support of listed sources. In every case, where I refer to work of others, sources are credited in order not to break copyrights of any third party.

In Prague on

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Tetiana Kalinichenko

## **Acknowledgement**

I would like to express my gratitude to my thesis supervisor Ing. Petr Procházka, M.Sc., Ph.D., whose advice and support was vital for my bachelor thesis. Moreover, I want to thank all my professors that “opened horizons” for us as young professionals.

Summary: Modern economic conditions make the performance of every business entity a subject of attention of a vast range of market participants, interested in its results and functioning. Almost all users of financial reporting rely on methods of financial analysis for decision-making process, aimed at optimizing their portfolios and furthering their interests.

The study was conducted with the aim of analysing financial activity of confectionery corporation Roshen, which is one of the largest producers of confectionery products in the world. The company is ranked on the Top-100 list of Global Candy Companies, occupying the 22th place.

Based on financial models, the structure of the organization's assets at the end of the reporting period can be attributed to a compromise model

Using the analysis of the type of enterprise financial stability in absolute terms and based on indicator of financial stability, dynamics imply the improved financial situation of the company. Analysis of financial stability in relative terms, suggest that compared with the base period (31.12.2014) the situation on the Lipetsk Roshen confectionery factory remained overall at the same level.

Key words: financial analysis, financial condition, Roshen, food industry, confectionery business, analysis of financial stability, Lipetsk confectionery factory Roshen.

### Finanční analýza společnosti Roshen

Shrnutí: Moderní ekonomické podmínky utváří výkon každého podnikatelského subjektu, jenž je předmětem pozornosti pro širokou škálu účastníků trhu, kteří projevují zájem o jeho výsledky a funkčnost. Téměř všichni uživatelé finančních analýz spoléhají na její metody při rozhodovacích procesech, jejichž cílem je optimalizování portfolia a prosazování svých zájmů.

Studie byla provedena s cílem analyzovat finanční aktivity korporace zabývající se výrobou cukrovinek Roshen, která je jedním z největších výrobců cukrovinek na světě. Společnost se umístila na 22. místě na seznamu Top-100 Global Candy Companies. Na základě finančních modelů, vycházejících ze struktury aktiv organizace na konci sledovaného období, lze organizaci přiřadit ke kompromisnímu modelu.

Použitím analýzy finanční stability organizace v absolutních hodnotách a na základě ukazatelů finanční stability, dynamika směřuje ke zlepšení finanční situace podniku.

Analýza finanční stability v srovnávaném období naznačuje, že ve srovnání se základním obdobím (31.12.2014) finanční stabilita v továrně na výrobu cukrovinek Lipetsk Roshen zůstala celkově na stejné úrovni.

Klíčová slova: finanční analýza, finanční podmínky, Roshen, potravinářský průmysl, obchod s cukrovinkami, analýza finanční stability, továrna na výrobu cukrovinek Roshen Lipetsk.

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## **Introduction**

Modern economic conditions make the performance of every business entity a subject of attention of a vast range of market participants, interested in its results and functioning. Almost all users of financial reporting rely on methods of financial analysis for decision-making process, aimed at optimizing their portfolios and furthering their interests.

Range of factors which determine competitiveness of food industry and which have proven to be significant and unique, have become indispensable for processing and identification of competition intensity level within the market. Food industry of any country is one of the major industries, including dozens of sub-sectors integrated into four blocks: flavoring, dairy and meat, fishing and flour and cereal products.

In order to have a clear view of how efficient the company operates in the food industry's competitive environment, it is necessary to apply the methodology of financial analysis.

The main goal of financial analysis therefore is to get a small number of key, most informative parameters, giving an objective and complete picture of the company's financial condition: its profits and losses, changes in the structure of assets and liabilities, and settlements with debtors and creditors. At the same time, we are also interested in projections for the near and more distant future, which are closely determined by company's immediate financial environment.

One of the most important aspects of financial analysis is to analyze the financial condition of the enterprise in terms of liquidity and solvency, as well as its financial stability. Analysis of financial state of an enterprise is under control of company's management, and is used to efficiently allocate resources within a company, increase profitability of invested capital, and secure a stable market position for the company.

The quality of financial decisions depends primarily on the quality of their analytical validity. To ensure the viability of the enterprise in modern conditions, management personnel needs to be able to realistically assess the financial conditions of the enterprise, as well as the existing and potential competitors.

The theme of this work is relevant, since analysis of company's financial condition plays a crucial role in company's financial decisions and its market relations and position. As such, they are fully responsible for the results of their production and business activities to

the owners (shareholders), employees and potential creditors. Subject of the research is confectionary factory “Roshen” in Lipetsk.

## **Thesis objectives and methodology**

Further below, objectives and methodology, which guide this study, are listed.

### **2.1 Objectives**

Process financial analysis of Roshen company using the key performance indicators, such as, liquidity solvency, profitability as well as the efficiency of operations of a business entity. Short-term and long-term prospects of a business are evaluated based on Roshen dataset. The main objective is to identify weakness, and formulate recommendations as well as forecasts for the future of a business entity. Objective is to explore the analysis of the financial position of the enterprise.

To achieve this goal the following objectives have been identified:

1. To consider the concept, essence and purpose of the financial analysis
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Object of research is analysis of the financial state of the organization.  
Subject of research is confectionary factory "Roshen" in Lipetsk.

### **2.2 Methodology**

Financial analysis of Roshen Company is divided into two sections: Practical and Theoretical part.

Theoretical Part is based on literature research of specified inquiry, which in following thesis will be focused on financial analysis in general. Crucial role of theoretical research

is to identify tools and generate methods based on the overview of current available literature.

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In practical part, primer source of information (financial reports of Roshen company) is analyzed using accounting methods, graphical techniques as well as statistical methods to gain indicators that show full and detailed overview of current state of business.

Methods used: horizontal analysis, hertical analysis, hactor analysis, heductive method, and inductive method.

### **3. Theoretical basis of analysis of company's financial conditions**

#### **3.1 Financial analysis and its specifics**

In this chapter, financial analysis is depicted as a complex system of financial indicators, networks and graphs. Financial analysis, so called monetary investigation, is utilized to assess financial patterns, set budgetary strategy, manufacture long haul gets ready for business action, and recognize ventures or organizations for speculation. This is done through the combination of monetary numbers and information, analyzed meticulously in paragraphs below.

##### **3.1.1 Concept, essence and purpose of financial analysis**

Food industry of Ukraine is one of the main branches of economy, industry that produces food products.

In Ukraine there are more than 40 braches of food manufacturing enterprises. 12,8% of working population of the country is employed in the food industry (2003). The range of products includes more than 3000 items. More than 95% of food products, that are sold on a domestic market, are products of Ukrainian production.

One of the fundamental factors of competitiveness of the food industry is to maintain a stable financial position.<sup>1</sup>

Financial position appears to be a complex concept, the economic content of which arises from the presence and flow of financial resources of the economic entity, which is reflected in the balance sheet. These basic conditions might not always be sustained in the research of economists, who analyze the nature and objectives of financial analysis.

Indicators of financial condition reflect availability, disposition and use of financial resources. The position of the enterprise in the field of finance to a large extent determines its competitiveness and potential in business cooperation assess the extent to guarantee economic, especially financial, interests of the enterprise and its partners. The results of the financial analysis directly influence the choice of assessment methods, forecasting revenues and expenses of the enterprise, to determine the discount rate used in the discounted cash flow method, the value of the multiplier used in a comparative approach.<sup>2</sup>

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<sup>1</sup> Friedlob, G. and Schleifer, L. (2003). *Essentials of financial analysis*. 1st ed. Hoboken, N.J.: Wiley.

Analysis of the financial condition of the company includes the analysis of the balance sheets and statements of income in regard to financial flow of the evaluated company for past periods to identify trends in its activities and determine the key financial indicators:

1. Analysis of the property
2. Analysis of financial results
3. Analysis of financial condition<sup>3</sup>

Financial position of the enterprise is formed in the process of its cooperation with suppliers, customers, tax authorities, banks and other partners. Economic perspectives depend on possibility to advance its financial condition. Financial satiation of the company reflects the results of its industrial, commercial and financial activities.<sup>4</sup>

If production and financial plans successfully carried out, it has a positive effect on the financial position of the company. Conversely, as a result of underperformance of the plan, for the production and sale of products, leads to an increase in its cost, a reduction in revenue, as well as the amount of income and as a consequence - the deterioration of the financial condition of the company and of its solvency.<sup>5</sup>

Financial condition is the most important characteristic of the economic activity of the enterprise. Financial condition of the enterprise (FCE) is the ability of a business entity to finance its activities and to pay for its obligations. It determines the competitiveness, potential for business cooperation, assess the extent to which the economic interests of the company and its partners are guaranteed in the financial and industrial relations<sup>6</sup>.

However, the ability to realistically assess one's financial condition is not sufficient enough for the successful operation of the business and achievement of set goals. The competitiveness of enterprises can only provide proper control of movement of financial resources and capital at its disposal.<sup>7</sup>

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<sup>2</sup> Friedlob, G. and Schleifer, L. (2003). *Essentials of financial analysis*. 1st ed. Hoboken, N.J.: Wiley. [book]

<sup>3</sup> Kobyletskii, P. and Sakevych, A. (n.d.). *An Introduction to the Financial Statement Analysis*. 1st ed.

<sup>4</sup> Kobyletskii, P. and Sakevych, A. (n.d.). *An Introduction to the Financial Statement Analysis*. 1st ed. [book]

<sup>5</sup> Bank, V.P., Bank, S.V. and Taraskina, A.V. (2016). *Financial analysis*. 1<sup>st</sup> edition. Moscow: Prospekt. [book]

<sup>6</sup> Bank, V.P., Bank, S.V. and Taraskina, A.V. (2016). *Financial analysis*. 1<sup>st</sup> edition. Moscow: Prospekt. [book]

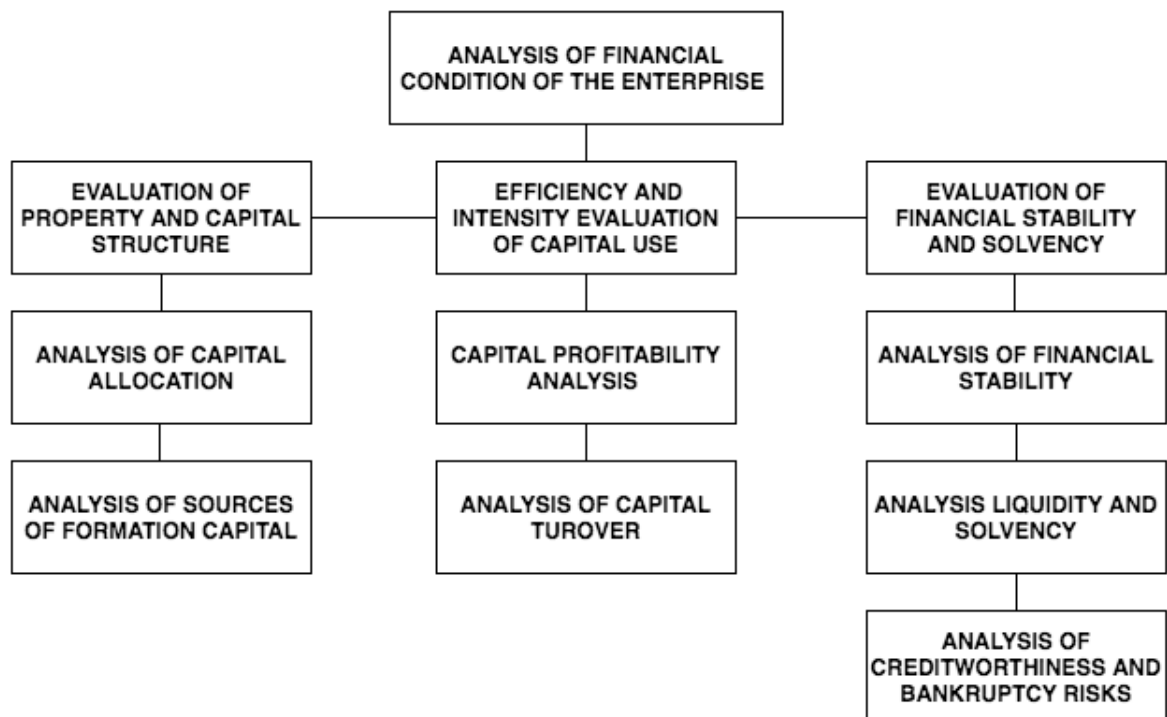
<sup>7</sup> Wang, X. (2015). *Financial management in the public sector*. 1st ed. Abingdon, OX [u.a.]: Routledge.[book]



Financial condition is characterized by a system of indicators that reflect the actual and potential financial capacity of the economic entity as an object of business, capital investment object and taxpayer.<sup>8</sup>

Good financial status - is an effective use of resources, the ability to completely and within the time frame to pay off its obligations, the adequacy of own funds to avoid high-risk, good perspectives for profit. Poor financial situation is reflected in inadequate solvency, in low resource efficiency, inefficient allocation of resources, their immobilization. The limit of bad financial state of the enterprise is a state of bankruptcy, i. e. the inability of the company to meet its obligations.<sup>9</sup>

**Figure 1** - Components of financial condition analysis of the enterprise



Source: Wang, 2015

With the help of financial condition analysis of business entities, following risks can be predicted:

1. Objective assessment of financial stability
2. Timely identification of possible bankruptcy

<sup>8</sup> Wang, X. (2015). *Financial management in the public sector*. 1st ed. Abingdon, OX [u.a.]: Routledge.[book]

<sup>9</sup> Wang, X. (2015). *Financial management in the public sector*. 1st ed. Abingdon, OX [u.a.]: Routledge.[book]

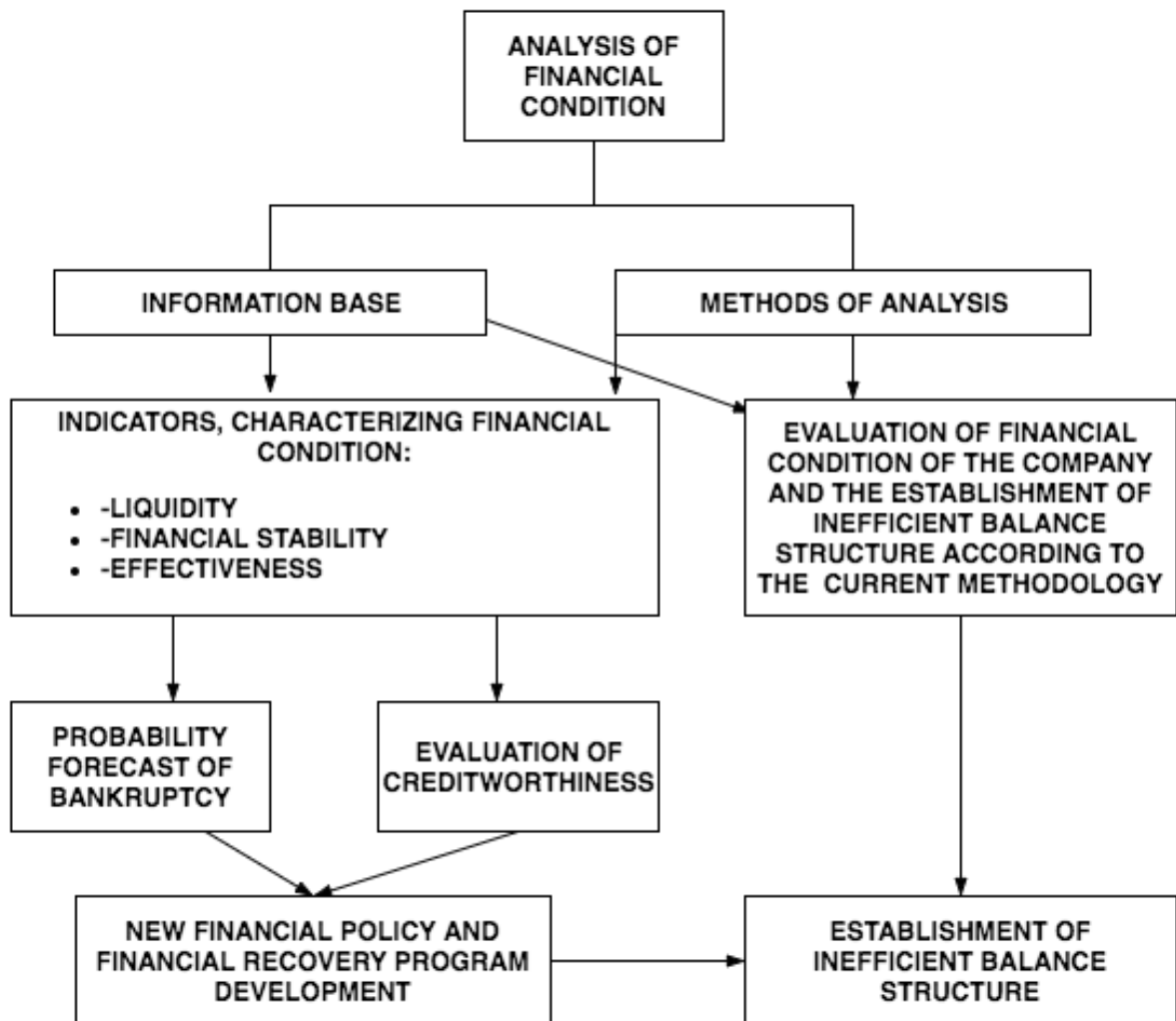
3. Efficient use of financial resources<sup>10</sup>

The main purpose of financial analysis is to improve functioning of businesses and search for funds of such an increase.

Below mentioned steps are held to achieve this goal:

1. Assessment results of past periods
2. Development of operational control procedures for production performance
3. Development of measures to prevent negative phenomena in the enterprise
4. Opening of the reserves for increasing effectiveness of activities and development of well-grounded plans and specifications.<sup>11</sup>

**Figure 2 - Stages of financial analysis**



Source: Barngolz and Melnik, 2015

<sup>10</sup> Barngolz, S.B. and Melnik, M.V. (2015). *Methodology of the economic analysis of a business entity*. 1st edition. Moscow: Finance and Statistics [book]

<sup>11</sup> Barngolz, S.B. and Melnik, M.V. (2015). *Methodology of the economic analysis of a business entity*. 1st edition. Moscow: Finance and Statistics [book]

### 3.1.2. Techniques and methods of financial analysis

In order to survive in a market economy and to prevent the bankruptcy of the company, one must know how to manage its finances, what should be the composition of capital, sources of formation, at what proportion should own funds and loans be held. One should also know concepts of the market economy, as business activity, liquidity, solvency, creditworthiness of the food industry, the threshold of profitability, the stock of financial stability (safety zone), as well as the method of technical analysis.<sup>12</sup>

The main purpose of the analysis is identification and elimination of defects in the financial sector and to find the reserves to improve the financial condition of the company and of its solvency.<sup>13</sup>

Method of financial analysis consists of three steps:

- Based on the study of the causal relationship between various indicators of industrial, commercial and financial activities to assess the implementation of the plan on the flow of financial resources and their utilization from the perspective of improving the financial condition of the enterprise.
- Forecasting possible economic viability of financial results, based on the actual conditions of economic activity and the availability of own and debt resources, development of models of financial condition with a variety of options for resource use.
- Development of specific measures aimed at the more efficient use of financial resources and strengthening of the financial condition of enterprise.<sup>14</sup>

Analytical procedures done by top managers and financial managers are very diverse. However, in the system of financial analysis there is a block, the value of which is mandatory for almost any economist; this unit - is analysis of the financial condition of the company. The elements of the block in a particular combination, as well as the analysis of results are among the main arguments in making a wide variety of administrative decisions

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<sup>12</sup> Friedlob, G. and Schleifer, L. (2003). *Essentials of financial analysis*. 1st ed. Hoboken, N.J.: Wiley. [book]

<sup>13</sup> Friedlob, G. and Schleifer, L. (2003). *Essentials of financial analysis*. 1st ed. Hoboken, N.J.: Wiley. [book]

<sup>14</sup> Friedlob, G. and Schleifer, L. (2003). *Essentials of financial analysis*. 1st ed. Hoboken, N.J.: Wiley. [book]

in respect to their own businesses and other enterprises, market segments, relationships with lending institutions and so on.<sup>15</sup>

Such an analysis is carried out according to public financial statements and therefore is well structured. However, the situation is not uncommon, when the analysis is done haphazardly, for example, "analyst" calculated some analytical ratios that he/she is not able to interpret and does not know what to do with it. Such statements rarely lead to positive results - certain systematic approach is required in the analysis.<sup>16</sup>

Indicators of the availability, distribution and use of financial resources estimate the financial condition of the organization. These figures reflect the economic performance of the enterprise, determine its competitiveness, business potential, and allow calculating the extent of economic interest guarantees for a company and its partners in financial and other relationships.<sup>17</sup>

Financial condition forms in the course of economic activities of the organization, and is determined by the relationship with suppliers, customers, tax and financial authorities, banks, shareholders and other potential partners. According to the analysis of each of the partners can evaluate the profitability of economic cooperation, as a set of indicators of financial analysis provides a fairly complete characterization of the capabilities of the enterprise to ensure uninterrupted business operations and its investment attractiveness, solvency, financial stability and independence, to determine prospects for development.<sup>18</sup>

External and internal users are interested in financial analysis of a particular enterprise. The internal users include owners and administration of the organization, while external users are lenders, investors, business partners.<sup>19</sup>

Financial analysis, conducted in respect to interest of internal users, aims to identify the weakest positions in the financial activity of the enterprise in order to strengthen them and to identify opportunities, conditions of work of the enterprise, the creation of an information base for management decisions, to ensure efficient operation of the organization.<sup>20</sup>

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<sup>15</sup> Bragg, S. (2013). *Financial analysis*. 1st ed. Hoboken, N.J.: Wiley. [book]

<sup>16</sup> Bragg, S. (2013). *Financial analysis*. 1st ed. Hoboken, N.J.: Wiley. [book]

<sup>17</sup> Bragg, S. (2013). *Financial analysis*. 1st ed. Hoboken, N.J.: Wiley. [book]

<sup>18</sup> Bragg, S. (2013). *Financial analysis*. 1st ed. Hoboken, N.J.: Wiley. [book]

<sup>19</sup> White, G., Sondhi, A. and Fried, D. (1998). *The analysis and use of financial statements*. 1st ed. New York: Wiley. [book]

<sup>20</sup> White, G., Sondhi, A. and Fried, D. (1998). *The analysis and use of financial statements*. 1st ed. New York: Wiley. [book]

A related point to consider that only the company's management can deepen reporting analysis using cost accounting data within the management review conducted for their purposes.<sup>21</sup>

Analysis of financial condition in the interest of external users is performed to provide guarantees for their economic interests - the ability of the enterprise, in a timely manner, to pay off its obligations, to ensure the effective use of funds, etc. This analysis allows us to evaluate the profitability and reliability of cooperation with a particular organization.<sup>22</sup>

Analysis of a financial state can be divided into:

- For a small number of performance indicators, factors - *rapid analysis*
- Multi-step - *accurate analysis*

The goal of rapid analysis is to obtain a rapid, intuitive and easy evaluation of the financial well-being and the dynamics of development of the enterprise. In other words, such an analysis does not take much time, and its implementation does not involve any complex calculations and detailed information base. Appropriate complex of analytical procedures can just be referred to as rapid analysis, or the reading of the report (reporting).

The main procedures of express-analysis are:

- View the formal features of the report
- Familiarization with the auditor's report (if available)
- Identification of "wick" articles in the reporting and assessment of its dynamics
- Introduction to key performance indicators
- Formulation of conclusions of the analysis

Conducting detailed analysis involves the construction of related analytical tables; detailed analysis of balance sheet items; factor analysis of changes in indicators of financial condition.

The results and the quality of financial analysis is largely determined by availability and quality of information base.<sup>23</sup>

The information base of financial analysis are accounting and reporting data, study of which allows you to assess the financial position of the organization. Meanwhile, changes

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<sup>21</sup> White, G., Sondhi, A. and Fried, D. (1998). *The analysis and use of financial statements*. 1st ed. New York: Wiley. [book]

<sup>22</sup> White, G., Sondhi, A. and Fried, D. (1998). *The analysis and use of financial statements*. 1st ed. New York: Wiley. [book]

<sup>23</sup> Shim, J. and Siegel, J. (2007). *Handbook of financial analysis, forecasting, and modeling*. 1st ed. Chicago, IL: Wolters Kluwer/CCH. [book]

in its assets and liabilities provide availability of profits and losses and identify development prospects.

Carrying out any analytical work, including the study of financial statements requires a certain sequence or phasing action, including:

Preparation of information sources for the analysis, verify its reliability

- Reviewing and processing of information - preparation of analytical tables, graphs, etc.
- Establishing and assessing the impact of factors on studied parameters, synthesis and interpretation of analysis results.
- Development of specific measures to improve the studied parameters, assessment of prospects of development, clarification of management decisions.<sup>24</sup>

Analysis of the financial statements requires the use of specific techniques or methods, one of which is "reading" the balance or the study of the absolute values. "Reading" or introduction to the content of balance allows you to set the main sources of funds (equity and debt); the main directions of investment funds; and the ratio of the source, and other characteristics, to assess the financial situation of the company and its security. However, the information presented in absolute terms, is not always helpful to accurately determine the dynamics of indicators and insufficient to interpret decisions. Therefore, various analysis techniques are used in addition to the absolute values in the analysis of financial statements, involving the calculation and assessment of the relative performance. These include horizontal, vertical, trend, factor analysis and calculation of coefficients.<sup>25</sup>

The stability of the financial situation to a large extent depends on the appropriateness and correctness of investing financial resources into assets. Assets are dynamic in nature. During business performance the value an asset as well as its structure is experiencing a constant change. The most general idea of qualitative changes in the structure of funds and their sources, as well as the dynamics of these changes can be obtained by using horizontal and vertical analysis of financial statements.<sup>26</sup>

The point of the horizontal analysis is the construction of one or more analytical tables, in which the absolute figures are complemented by the relative rates of growth (decline). In particular, if horizontal balance analysis is conducted, data at certain date is taken as 100%;

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<sup>24</sup> Shim, J. and Siegel, J. (2007). *Handbook of financial analysis, forecasting, and modeling*. 1st ed. Chicago, IL: Wolters Kluwer/CCH. [book]

<sup>25</sup> Gibson, C. (2003). *Financial reporting & analysis: using financial accounting information, 9e*. 1st ed. Mason, OH: South-Western/Thomson Learning. [book]

<sup>26</sup> Shim, J. and Siegel, J. (2007). *Handbook of financial analysis, forecasting, and modeling*. 1st ed. Chicago, IL: Wolters Kluwer/CCH. [book]

analyst continues to build dynamic series of articles and sections of the balance as a percentage of their basic values. The degree of aggregation is determined by analyst. Generally, the basic rate of growth, for a given number of years, allows us to analyze not only changes in individual indicators, but also to predict their values<sup>27</sup>.

Horizontal analysis is complemented by a vertical analysis, which studies financial indicators.<sup>28</sup>

Vertical analysis of the balance sheet shows the structure of the enterprise funds and their sources, when the sum of individual articles or sections are taken as a percentage with regard to currency.

Vertical analysis can be subjected to any initial reporting or a modified reporting ( with an enlarged or transformed article nomenclature). This type of analysis is very useful when considering the structure of income and expenses.<sup>29</sup>

Relative indicators smooth out the effects of inflation, allowing to objectively estimate current changes.

Trend analysis is a kind of horizontal analysis focused on the future activity. Trend analysis involves examination of indicators at the most available period of time, where each reporting position is compared with values of analyzed parameters in previous periods and determine the trend, basically main repeating trend of the indicator, freed from the influence of random factors and individual characteristics of the periods.

Trend analysis allows evaluating qualitative changes in financial status of the organization and assuming the prospect.<sup>30</sup>

For the factor analysis, studied index is expressed in terms of its forming factors, calculation and assessment is conducted to estimate impact of these factors on the change in index. Factor analysis can be direct, i.e. figure is studied and decomposed into its component parts or reverse (synthesis) ,separate elements (components) are combined into a common studied parameter.<sup>31</sup>

Comparative analysis is comparison and evaluation of performance parameters with equivalent of competing organizations acknowledging the average economic index, standards and others.

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<sup>27</sup> Doncova, L.V. (2016). *Analysis of financial statements*. Moskow: Finance and Statistics. [book]

<sup>28</sup> Doncova, L.V. (2016). *Analysis of financial statements*. Moskow: Finance and Statistics.

<sup>29</sup> Doncova, L.V. (2016). *Analysis of financial statements*. Moskow: Finance and Statistics. [book]

<sup>30</sup> Doncova, L.V. (2016). *Analysis of financial statements*. Moskow: Finance and Statistics.

<sup>31</sup> Bragg, S. (2013). *Financial analysis*. 1st ed. Hoboken, N.J.: Wiley. [book]

Analysis of coefficients presumes calculation and evaluation of ratios of different types of funds and sources, indicators of efficient use of organization's resources, types of profitability. Study of relative indicators helps to evaluate relationship between indicators. It is also applicable in the study of financial stability and solvency of the company, the liquidity of its balance sheet, as well as the profitability of the enterprise.

Simultaneous use of all the techniques (methods) makes it possible to objectively assess the financial position of the organization, its reliability as a business partner and development perspective.

For the financial manager financial ratios are of particular importance because they are the basis for the evaluation of its activities for external users of reporting, particularly for shareholders and creditors. Therefore, making any decision, the financial manager is evaluating the impact of this decision on the most important financial ratios.<sup>32</sup>

Before making a decision financial manager must have information about activities of the enterprise in the past periods, allowing estimating the potential financial capacity of the company for the coming periods.<sup>33</sup>

Such information shall contain information that is necessary to assess current financial position of the company: its assets, liabilities and equity, as well as assessment of changes in these articles within a certain period; estimation of cash flows of the enterprise, their amount, period of cash inflows and outflows and the associated risk factor; adopting investment and lending decisions<sup>34</sup>.

The most important feature of the company's financial status is its stability in the long-term operation. It is related to the overall financial structure of the enterprise and degree of its dependence on external creditors. The essence of financial stability is determined by the effective formation, distribution and use of financial resources. The stability of the enterprise is an ability to maintain a certain state.<sup>35</sup>

Financial condition may be stable, unstable (pre-crisis) and crisis. The ability of companies to make payments on time, finance its activities on an extended basis, to carry unforeseen shocks and maintain its solvency in adverse circumstances, testifies its strong financial position, and vice versa.

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<sup>32</sup> Bragg, S. (2013). *Financial analysis*. 1st ed. Hoboken, N.J.: Wiley. [book]

<sup>33</sup> Bragg, S. (2013). *Financial analysis*. 1st ed. Hoboken, N.J.: Wiley. [book]

<sup>34</sup> Porter, G., Norton, C. and Porter, G. (2010). *Using financial accounting information*. 1st ed. Mason, OH: Thomson/South-Western. [book]

<sup>35</sup> Barngolz, S.B. and Melnik, M.V. (2015). *Methodology of the economic analysis of a business entity*. 1st edition. Moscow: Finance and Statistics [book]



To ensure the financial stability of the enterprise must have a flexible capital structure, to be able to organize its movement so as to ensure the continued excess of income over expenditure in order to maintain solvency and creating the conditions for self-reproduction.<sup>36</sup>

Consequently, the financial stability of the enterprise - is the ability of a business entity to operate and develop, maintain balance of their assets and liabilities in the changing internal and external environment, ensuring its continued solvency and investment appeal within the boundaries of acceptable risk level.

The financial condition of the company, its strength and stability depend on the results of its industrial, commercial and financial activities. If the production and financial plans successfully carried out, it has a positive effect on the financial position of the company. Conversely, as a result of plan underperformance concerning production and sale of products leads to an increase in its cost, reducing the amount of revenue and profits and as a result of deterioration in the financial condition of the company and of its solvency. Consequently, stable financial condition is not a fluke, but the result of competent, skillful management of the whole complex of factors determining the results of operations of the enterprise.<sup>37</sup>

Strong financial position has a positive effect on the performance of production plans and ensuring the needs of the production by providing necessary resources.

Providers of financial resources can be grouped as follows: owners, lenders, creditors. They differ in the size of the resources provided, their structure, settlement system for the provision of resources, conditions of return and others. Creditors and lenders provide their own means for temporary use, but the nature of the transactions has a fundamentally different character. Lenders provide financial resources for the long-term or short-term basis and with conditions of return in exchange for interest; they only in individual cases and within certain limits control targeted use of these resources. In the case of investment is carried out as a natural element of the interaction between the company and its contractors (suppliers of resources, budget, and personnel). Most often, the concept lending is narrowed to debt capital providers (i.e. long-term funds).<sup>38</sup>

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<sup>36</sup> Porter, G., Norton, C. and Porter, G. (2010). *Using financial accounting information*. 1st ed. Mason, OH: Thomson/South-Western. [book]

<sup>37</sup> Harrington, D. (2002). *Financial analysis*. 1st ed. Mason, Ohio: Thomson Learning. [book]

<sup>38</sup> Bragg, S. (2013). *Financial analysis*. 1st ed. Hoboken, N.J.: Wiley. [book]

The financial stability of the enterprise is mainly characterized by the state of its relationship with lenders. The fact that the short-term liabilities (including borrowings) can efficiently be managed: if the financial condition prognosis is unfavorable, in order to save the financial costs, one can refuse to get credits and try to "get out", relying only on its own capital. With regard to long-term loans, it is usually the strategic nature of the decision; its consequences will affect the financial results over a long period and unjustified and excessive use of borrowed capital can lead to bankruptcy.<sup>39</sup>

### **3.1.3. Financial statements of Roshen as the information base of financial analysis**

The information base for the analysis of the financial condition of the company is the accounting financial statement.

Financial statement is a set of accounting figures, reflected in the form of certain tables, characterizing the movement of assets, liabilities and financial position of the company during the reporting period. Financial accounting is a system representing financial position data, financial results of its operations and changes in its financial position and compiled on the basis of accounting data<sup>40</sup>.

There are four main types of financial statements:

1. The balance sheet includes the assets and liabilities of the company in terms of money.
2. Report on financial results provides data on revenues, expenditures and financial results in the amount of cumulative total from the beginning of the year up to the reporting date.
3. Statement of changes in equity discloses the authorized capital flows, capital reserve, additional capital, as well as information on changes in the value of retained earnings (uncovered loss) of the organization.
4. The cash flow statement shows the difference between cash inflows and outflows for a certain period under review.<sup>41</sup>

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<sup>39</sup> Harrington, D. (2002). *Financial analysis*. 1st ed. Mason, Ohio: Thomson Learning. [book]

<sup>40</sup> Harrington, D. (2002). *Financial analysis*. 1st ed. Mason, Ohio: Thomson Learning. [book]

<sup>41</sup> Harrington, D. (2002). *Financial analysis*. 1st ed. Mason, Ohio: Thomson Learning. [book]

The main objective of financial reporting is to provide information about the financial condition, results of operations and changes in financial condition of the company. Reporting should contain information on the assets and liabilities of the company, the results of transactions, events and circumstances that change the assets and liabilities. A wide range of users in making economic decisions needs this information. It should be noted that the tasks assigned to the financial statements, in different accounting systems are the same.<sup>42</sup>

Users of financial statements can be investors, employees, creditors, suppliers, customers, public authorities and other members of society. All users have different information needs.

Objectivity principal: The financial statement should reflect the real state of affairs in the company.<sup>43</sup>

Accrual principal: For accounting transactions are recorded not only transactions associated with money but also barter, sale on credit, asset swaps and others. Captures all transactions with potential monetary value, but the fact of capital payment is not required.

Matching principal: For accounting operations of the company expenses of future periods need to be capitalized and transferred to costs as obtain economic benefits. Costs, the benefits of which have already been received, and payment will be made in the future, should be recognized as liabilities.<sup>44</sup>

The principle of conservatism. It is necessary to minimize the risk of inclusion in the financial statements overly optimistic information. It should be carefully justified.

The principle of reasonableness: It is necessary to avoid excessive detailed accounting.

Annual financial statements provide ample opportunities for in-depth analysis of the company and the most informative part of it is the balance sheet (form number 1). It reflects the state of assets, equity and liabilities of the enterprise to a certain date.

Balance allows you to evaluate the effectiveness of capital placement, it's sufficiency for the current and future business activities, assess the size of the debt and capital structure, as well as the effectiveness of their involvement.

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<sup>42</sup> Kovalev, V.V. (2015). *Methods of Financial Analysis*. Moskow: Finance and Statistics.

<sup>43</sup> Porter, G., Norton, C. and Porter, G. (2010). *Using financial accounting information*. 1st ed. Mason, OH: Thomson/South-Western. [book]

<sup>44</sup> Porter, G., Norton, C. and Porter, G. (2010). *Using financial accounting information*. 1st ed. Mason, OH: Thomson/South-Western. [book]

On the basis of balance external users can: make a decision on feasibility and conditions of doing business with this company as a partner; to assess the creditworthiness of the company as a borrower; assess the possible risks of their investments, the appropriateness of the acquisition of shares of company and its assets, etc.

In the analysis of the balance sheet, one must first determine what changes have occurred in its assets and liabilities for the period under review and evaluate these changes.

Term "balance"(from the Latin bis - twice and lanx - usually that means literally" dvuchashie ") is used as a symbol of balance, equality. It is not a specific accounting term and it is also widely used in other branches of economics, politics and daily life .In accounting word "balance" has several meanings:

- Equality of outcomes during the records of accounts and forming resources of an economic entity in the various sections
- The result of the basic reporting form
- The name of the main reporting form<sup>45</sup>

The value of the balance as the primary reporting form is extremely high, as this document provides a fairly intuitive and unbiased picture of the property and financial position. It reflects the state of enterprise funds in the monetary assessment for a specific date in two sections:. A) by composition (type of ); b) sources of formation, i.e. the same amount of funds that are available to the enterprise, presented in two ways, which makes it possible to get an idea of where to invest the financial resources of the enterprise (balance sheet assets) and what are their sources of origin (passive balance).<sup>46</sup>

Since one of the intended designations of the balance aim to characterize changes of the financial condition of the company during the reporting period, it contains two columns of figures - at the beginning of the year and the end of the period (quarter). To be able to read balance- means to know content of each article, methods of its assessment and correlation with other balance items, the nature of possible changes for each item and its impact on the financial position of the company, its solvency.

The main factors determining the financial condition of the company are, firstly, execution of the financial plan and completion, as the need arises, of its own working capital at the expense of profit and, secondly, the rate of turnover of working capital (assets). Signal

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<sup>45</sup> Kovalev, V.V. (2015). *Methods of Financial Analysis*. Moskow: Finance and Statistics. [book]

<sup>46</sup> Porter, G., Norton, C. and Porter, G. (2010). *Using financial accounting information*. 1st ed. Mason, OH: Thomson/South-Western. [book]

indicator, which is shown in the financial condition, is solvency of the company acts, which refers to its ability to timely meet the payment requirements of suppliers according to economic contracts, to repay loans, pay personnel and make payments to the budget. Since the execution of the financial plan generally depends on the results of production and economic activity, we can say that the most general indicator determines the financial position. Consequently, the profit and loss account is also drawn to the analysis of financial condition.<sup>47</sup>

The report on financial results (form number 2) contains a comparison of the sum of all the company's income from the sale of goods and services or other items of income to the sum of all expenses incurred by the company to maintain its operations for the period from the beginning of the year. The result of this comparison is gross (balance) profit or loss for the period. Income Statement consists of two sections. The first section reflect the stages of the calculation of financial results (gross profit or loss) in the second section shows the direction of the use of the company's profit in the reporting period: on taxes, education and special reserve funds, payment of dividends, etc.<sup>48</sup>

The report on financial results provides insight into the development trends of the company, its financial and production opportunities not only in the past and the present, but also in the future.

For investors and analysts report on financial results - in many respects a document that is more important than the balance sheet, since it contains not a rigid, one-stage, but dynamic information about what progress has reached the company during the year and due to which integrated factors, what is a scope of its activities.<sup>49</sup>

At the end of chapter 1 we can form following conclusions. At the present stage of economic development question about analysis of the financial condition of the enterprise is very important. Success of its activities mainly depends on the financial condition of the company. Consequently, a lot of attention is focused on financial analysis itself.

The financial condition of the enterprise - is secured or unsecured enterprise funds for its business activities. Or financial condition of the enterprise is a set of indicators that reflect its ability to repay its debt obligations.

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<sup>47</sup> Bruns, W., Hertenstein, J. and Hawkins, D. (2002). *Reading financial reports*. 1st ed. Beijing: Zhongguo ren min da xue chu ban she. [book]

<sup>48</sup> White, G., Sondhi, A. and Fried, D. (1998). *The analysis and use of financial statements*. 1st ed. New York: Wiley. [book]

<sup>49</sup> White, G., Sondhi, A. and Fried, D. (1998). *The analysis and use of financial statements*. 1st ed. New York: Wiley. [book]

The purpose of the analysis of the financial condition of the company is to study the efficiency of resource usage by managers, its founders, investors and banks to assess credit conditions and to determine the degree of risk; for suppliers to reinsure payments on time, for tax inspectors it is used for implementation of cash flow in budget and so on.

The relevance of this issue led to the development of the financial analysis techniques. These methods are aimed at rapid assessment of the financial condition of the company, preparation of information for management decision-making, development of management strategies.<sup>50</sup>

Analysis of the financial statements can concluded about the degree of solvency of the enterprise, how many assets it has and how efficiently they are used, whether they are sufficient for the full and successful implementation of economic activity.

Analyzing the financial statements, it is possible to understand a degree of financial independence, whether it makes sense to attract investments for its development, whether the management team is capable to effectively manage their business and successfully develop it. Modern analysis of financial statements is carried out by means of special programs available to any interested user.<sup>51</sup>

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<sup>50</sup> Kovalev, V.V. (2015). *Methods of Financial Analysis*. Moskow: Finance and Statistics. [book]

<sup>51</sup> Bruns, W., Hertenstein, J. and Hawkins, D. (2002). *Reading financial reports*. 1st ed. Beijing: Zhongguo ren min da xue chu ban she. [book]

## **4. Practical part**

### **4.1 Financial condition analysis of Lipetsk confectionary factory Roshen and techniques to improve its financial results for better competitiveness**

Confectionery Corporation Roshen - one of the largest producers of confectionery products in the world.

ROSHEN Confectionery Corporation in the ranking of the Top-100 of Global Candy Companies occupies 22th place. The head office of the Corporation is located in Kiev, Ukraine. Under its own «sweet quality mark» Roshen produces around 320 items of impeccable quality of products (chocolate and jelly candy, caramel, chocolate, biscuits, waffles, biscuit rolls and cakes). The total production reaches 450 thousand tons per year.

#### **4.1.1 Organizational characteristics of concern Roshen**

The Corporation ROSHEN includes Ukrainian factory (Kiev, Kremenchug and two production plantations in Vinnytsia), Klaipeda confectionery factory (Lithuania), Bonbonetti Choco Kft (Budapest, Hungary), two production facilities in Lipetsk confectionery factory (Russia) and Vinnytsia dairy factory, which provides corporation factories with high-quality dairy materials.

The company also commissioned its own logistics centers to improve the conditions of storage of raw materials and finished products, as well as to optimize product delivery and minimize product delays in the warehouse.

Production objects Confectionery Corporation Roshen certified in accordance with international standards of quality and food safety. On Roshen Corporation enterprises a food standard quality system is operating to comply with ISO 9001: 2008 standard and the safety system of food which complies with the requirements of ISO 22000: 2005, which is confirmed by certificates of correspondence at each factory.

All confectioneries of Roshen Corporation are provided with equipment for monitoring quality control of products and corresponding research. The development of technology and the launch of high-quality confectionery products are handled by experts who have been vetted and trained in specialized international centers.

Products, presented on the market, are made in accordance with the most modern technologies. Exploitation of modern high-performance equipment, the exact observance of production technology, the use of only high quality raw materials that are used in the process of manufacturing is a pledge of main advantages of Roshen products.

Products are represented in Ukraine, the USA, Canada, Estonia, Latvia, Lithuania, Israel, Russia, Kazakhstan, Uzbekistan, Kyrgyzstan, Azerbaijan, Armenia, Moldova and other countries.

The name "Roshen" is formed by discarding the first and last syllables of the names of the corporation's founder - Peter Poroshenko.

The most famous from the product range is cake "Kiev", produced on confectionery factory in Kiev.

As for 2013 corporation includes production facilities:

- Two production factories in Vinnitsa, which joined corporation "Roshen"
- PJSC "Kiev confectionery factory Roshen" (formerly "Kiev confectionery named after Karl Marx", Ukraine). In 2014, net profit of the factory amounted to UAH 34.8 million.
- PJSC "Vinnitsa Confectionery Factory" (Ukraine)
- LLC "Vinnitsa Milk Plant" (Ukraine)
- PJSC "Mariupol confectionery factory "Roshen" (Ukraine) (closed in 2014)
- PJSC "Kremenchug confectionery factory Roshen" (Ukraine)
- PJSC "Lipetsk confectionery Roshen "" (Russia). It was acquired in 2002. During the period from 2013 to 2015 the factory transferred to Russian budget a little more than a billion rubles (about 330 million UAH). Since mid-2013 production volumes were reduced by half, by 2016, "at the peak" worked only 800 people out of 1800)
- CJSC "Roshen" (formerly "Klaipeda confectionery factory", Lithuania)
- Bonbonetti Choco Kft (Budapest, Hungary)<sup>52</sup>
- Logistic Complex Roshen

The total area of complex is 60 000 m<sup>2</sup>, while 57,000 m<sup>2</sup> of them is warehouse space. The total capacity is up to 45 000 tons of which 20-25 000 tons are left for products and 20 000 tons for raw materials.

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<sup>52</sup> Roshen.com. (2017). *General Information: Confectionary Corporation ROSHEN*. [online] Available at: <https://www.roshen.com/ua/about/general/> [Accessed 6 Jul. 2016].



Logistic complex meets all the requirements for logistics complex class "A". It is equipped with the newest control system of trade flows Warehouse Management System. WMS is an intelligent system, that takes into account every component, but also optimizes logistics processes starting from the time of acceptance and until the shipment of goods from the warehouse. By the time of arrival of cargo to the warehouse, records on its completion has already been transferred, accounted and reviewed. This makes it possible to form a pre-order, so loading process itself takes 30-35 minutes. Thus, cargo transport is on the territory of the complex for less than one hour.

Around the logistics centre, new transport interchanges are built for better connection. It is also equipped with three railway branches and eight rail entrances.

In each room there is a special climate regime maintained. All year round temperature equals 18 degrees (tolerance level of +/- 2 degrees). Constant humidity is 30-40%. Climate control is particularly important in relation to the size of the warehouses and the specifics of the product. Since «Roshen» products made from natural ingredients, it is particularly sensitive to temperature changes. At a room height of 12 meters and storage height of 10 meters, it is crucial to monitor and ensure that the warm air does not rise up in order to avoid damage of materials and products.

In the complex, besides finished products, food ingredients are stored as well: confectionery fats, cocoa, nuts, juices (total of about 200 items). For storage of each item unique regime is required to preserve product from spoiling. There are fridges adjusted with individual temperature regimes of +3 to +14 degrees, depending on the ingredient.

For a perfect functioning of the complex, management purchased and installed sophisticated software to control process. There is a special group of well-trained specialists to maintain overall functioning of plantation.

Logistics centre of Roshen Corporation is a universal innovative logistics complex, a good example for all industries using pallets for storage of their products<sup>53</sup>.

Moving forward to Lipetsk confectionery factory.

Lipetsk confectionery factory was founded in 1966. In 2001, confectionery corporation ROSHEN acquired the factory. In 2004, it began the process of modernization - gradual installation of new equipment and development of new products. In March 2011, the

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<sup>53</sup> Roshen.com. (2017). *Logistics Centre: Confectionary Corporation ROSHEN*. [online] Available at: <https://www.roshen.com/ua/about/logistics/> [Accessed 6 Jul. 2016].

production line of glazed sweets based on nougat was launched, marking the completion of the factory modernization process and its aim to work at full capacity.<sup>54</sup>

Today Lipetsk confectionery factory produces a wide range of different types of chocolates. Products are manufactured at two sites - in Lipetsk and Sentsovo. Candies, jelly candies, toffee, fondant candies, glazed and unglazed toffee, candied sweets, based on nougat are produced at Sentsovo factory, while caramel, toffee, fruit, jellies, candies coated wafer are made in Lipetsk. The main activity of the company Lipetsk confectionery "Roshen" is the production of cocoa, chocolate and sugar confectionery.<sup>55</sup>

Company may carry out other activities, not prohibited by the legislation of the Russian Federation, to achieve its purposes. Activities that, in accordance with the legislation of Russian Federation, are subject to licensing, company may produce only with a license.<sup>56</sup>

Priority areas for industrial and economic activities of the company implement in practice main activities and include:

- Implementation Services for development of confectionery products from raw materials into sugary group - candy (in the assortment), caramel
- Providing different types of services
- Other retailing

Production of sugar and flour confectionery refers to one of most dynamic sectors of the food industry. One of the factors that have an important influence on the development of confectionery industry, as a sector of the economy, is a particular specificity of the product itself, which, on one hand, has an elastic demand, but on the other - its consumption remains high even at lower incomes.

#### **4.1.2. Analysis of the financial condition of the Lipetsk Roshen confectionery factory**

The basis for financial analysis of Lipetsk confectionery factory were following:

##### **1. The balance sheet**

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<sup>54</sup> Ru.wikipedia.org. (2016). *Липецкая кондитерская фабрика «Рошен»*. [online] Available at: [https://ru.wikipedia.org/wiki/Липецкая\\_кондитерская\\_фабрика\\_«Рошен»](https://ru.wikipedia.org/wiki/Липецкая_кондитерская_фабрика_«Рошен») [Accessed 21 Jul. 2016].

<sup>55</sup> Ru.wikipedia.org. (2016). *Липецкая кондитерская фабрика «Рошен»*. [online] Available at: [https://ru.wikipedia.org/wiki/Липецкая\\_кондитерская\\_фабрика\\_«Рошен»](https://ru.wikipedia.org/wiki/Липецкая_кондитерская_фабрика_«Рошен») [Accessed 21 Jul. 2016].

<sup>56</sup> Ru.wikipedia.org. (2016). *Липецкая кондитерская фабрика «Рошен»*. [online] Available at: [https://ru.wikipedia.org/wiki/Липецкая\\_кондитерская\\_фабрика\\_«Рошен»](https://ru.wikipedia.org/wiki/Липецкая_кондитерская_фабрика_«Рошен») [Accessed 21 Jul. 2016].

## 2. Income Statement (Profit and Loss)

Time period considered during analysis is 2 years (2014-2015): data for the first period under consideration are shown in 31.12.2014, data for the last period under consideration are shown in 31.12.2015.

The base interval for analysis is selected from 31.12.2014.

As of the reporting period for the analysis is selected from the data presented on 31.12.2015.

The report describes the main trends and approaches used in financial analysis. Conclusions reasoned and supported by practical calculations.

Since the value of net working capital depends on the balance sheet structure, we should consider four basic models of construction of the capital structure and determine ,which of them appears to be the structure of the Lipetsk "Roshen" confectionary factory.

Depending on the balance sheet structure, distinguish four models:

- ideal model
- aggressive model
- conservative model
- compromise model

The presented models are considered, taking into account the fact that in financial management the concept of working capital is divided into permanent working capital, which is the minimum needed to carry out its production activities of the enterprise, and a variable working capital, which displays the amount of additional current assets. Variable working capital is needed as insurance reserves or during peak periods of the enterprise's activity.

Ideal model is based on the assumption that the current assets, in the static representation, are the same in magnitude with short-term obligations. Such a situation in real life almost does not occur, because under unfavorable conditions, for example: urgent need for repayment of debt, company will be forced to sell non-current assets (fixed assets and so on), which further worsen its situation.

Aggressive model is based on the assumption that short-term payables serves only to cover the variable part of current assets, as necessary safety stock. Permanent part of the current assets in this case is covered by long-term payables and part of company's equity. This situation, same as the ideal model, should be regarded as quite risky, since in practice to be restrained with minimum of current assets is impossible.

Conservative model suggests a lack of short-term debt and finance its current assets by long-term liabilities and part of the equity. However, in the long-term activity, this model is impractical.

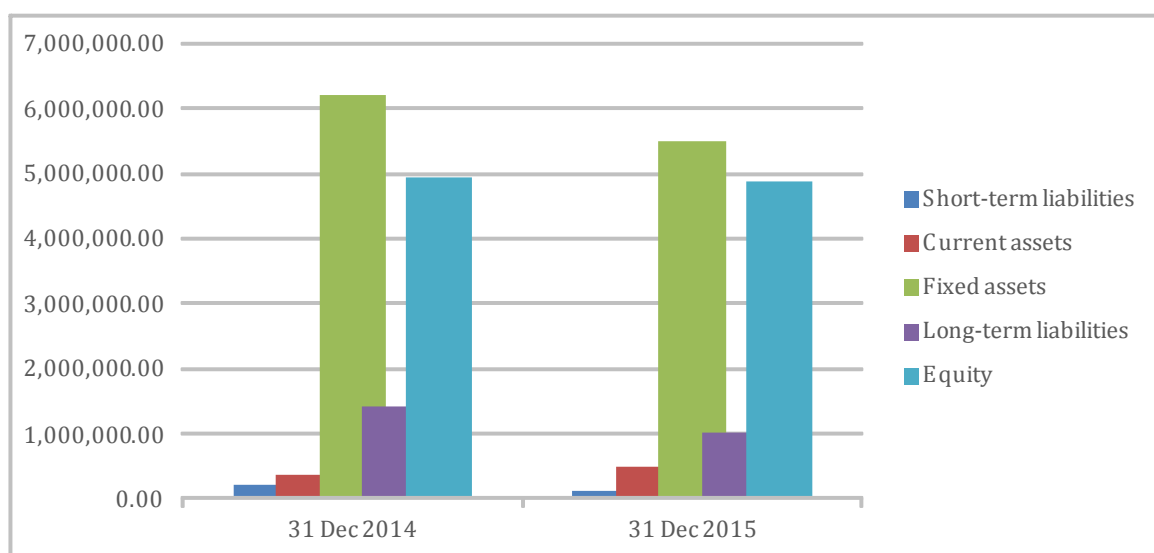
Compromise model is the most viable model. In the case of this model, the net working capital is equal in magnitude to the sum of permanent current assets and half of the variable part.<sup>57</sup>

Getting to the analysis, it should be noted that the value of the net working capital of Lipetsk confectionery factory "Roshen" at the end of the period (31.12.2015) amounted to 381 608,00 RUB., which indicates that the company has net working capital to support its operations, and at the balance sheet date position of the enterprise can be called a fairly stable. However, it is still necessary to audit details of the property structure at Lipetsk confectionery factory "Roshen".

Based on the above models, the property structure of the organization at the end of the reporting period can be attributed to a compromise model. Short-term payables aim to cover half of the variable part of the current assets. The structure of the balance of the asset and changes in the analyzed period are presented in Tables 1 and 2.

In graphical form, "Roshen" property structure during all the periods can be presented in figure 3.

**Figure 3 - Structure of company's propert**



Source: Own graph based on data from <http://www.disclosure.ru/issuer/4824006696/>

<sup>57</sup> Selezneva, N. N.(2016) *Financial analysis. Financial management*. Moscow:Unity-Dana.[book]

**Table 1 - Structure of balance sheet assets of Lipetsk confectionery factory Roshen**

<b>Balance Sheet Item</b>	<b>Account Code</b>	<b>31.12.14</b>	<b>31.12.15</b>
<b><i>I. Fixed Assets</i></b>			
Intangible assets	1110	0,00%	0,00%
Reasearch and development	1120	0,00%	0,00%
Intengible exploration assets	1130	0,00%	0,00%
Tangile exploration assets	1140	0,00%	0,00%
Capital asset	1150	93,80%	91,15%
Profitable investments in tangible asset	1160	0,00%	0,00%
Long-term investment	1170	0,21%	0,00%
Deferred tax	1180	0,60%	0,55%
Other non-current assets	1190	0,00%	0,00%
<b><i>TOTAL</i></b>	<b><i>1100</i></b>	<b><i>94,61%</i></b>	<b><i>91,70%</i></b>
<b><i>2. Current Assets</i></b>			
Stock	1210	3,32%	3,63%
Value added tax on purchased goods	1220	0,01%	0,01%
Receivables	1230	2,03%	4,65%
Financial investments	1240	0,00%	0,00%
Cash	1250	0,00%	0,00%
Other current assets	1260	0,03%	0,02%
<b><i>TOTAL</i></b>	<b><i>1200</i></b>	<b><i>5,39%</i></b>	<b><i>8,30%</i></b>
<b><i>BALANCE</i></b>	<b><i>1600</i></b>	<b><i>100,00%</i></b>	<b><i>100,00%</i></b>

Source: Own table based on data from <http://www.disclosure.ru/issuer/4824006696/>

**Table 2 - Changes in balance sheet assets of Lipetsk confectionery factory Roshen**

<b>Asset</b>	<b>31.12.14</b>	<b>31.12.15</b>	<b>In absolute terms, RUB</b>	<b>Rate of increase</b>	<b>Share</b>
<b><i>I. Fixed Assets</i></b>					
Intangible assets	27,00	23,00	-4,00	- 14,81%	0,00%
Reasearch and development	0,00	0,00	0,00	0%	0,00%
Intengible exploration assets	0,00	0,00	0,00	0%	0,00%
Tangile exploration assets	0,00	0,00	0,00	0%	0,00%
Capital asset	6,164,527	5,476,775	-687,752	- 11,16%	- 2,65%
Profitable investments in tangible asset	0,00	0,00	0,00	0%	0,00%
Long-term investment	13,520	20,00	- 13,500	- 99,85%	- 0,21%
Deferred tax	39,404	32,784	- 6,620	- 16,80%	- 0,05%
Other non-current assets	0,00	0,00	0,00	0%	0,00%

<b>TOTAL</b>	<b>6,217,478</b>	<b>5,509,602</b>	<b>-707,876</b>	<b>- 11,39%</b>	<b>- 2,91%</b>
<b>2.Current Assets</b>					
Stock	217,986	217,816	- 170	- 0,08%	0,31%
Value added tax on purchased goods	820	598	- 222	- 27,07%	- 0,00%
Receivables	133,401	279,328	145,927	109,39%	2,62%
Financial investments	0,00	0,00	0,00	0,00	0,00%
Cash	322,00	272	- 50	- 15,53%	- 0,00%
Other current assets	1,712	913	- 799	- 46,67%	- 0,01%
<b>TOTAL</b>	<b>354,241</b>	<b>498,927</b>	<b>144,686</b>	<b>40,84%</b>	<b>2,91%</b>
<b>BALANCE</b>	<b>6,571,719</b>	<b>6,008,529</b>	<b>-563,190</b>	<b>- 8,57%</b>	<b>0,00%</b>

Source: Own table based on data from <http://www.disclosure.ru/issuer/4824006696/>

In the analysis of the balance of the asset it can be seen that the total value of the company's assets in the reporting period compared to the base slightly decreased. Compared to the data from 31.12.2014, assets and balance sheet total decreased by 8.57%, which amounted to -563 190,00 RUB in absolute terms. Thus, in the reporting period, the balance sheet and the balance sheet total assets are at the level of 6 008 529,00 RUB. To a large extent this was due to the decrease in the article "Fixed assets". During past period it decreased by 687 752,00 RUB. (As a percentage of -11.16%), and already at the end of the analyzed period, the value of the article "Fixed assets" established at the level of 5 476 775,00 RUB.

In the overall structure of assets non-current assets, the value of which on 31.1014 was 6217 478,00 RUB., decreased by 707 876,00 RUB. (The rate of decrease in non-current assets amounted to -11.39%). On 31.12.2015 the value of non-current assets was already 5 509 602,00 RUB. (Share was 92% of the overall structure of the property).

The value of current assets, which amounted to 354 241,00 RUB 31.12.2014., on the contrary increased by 144 686.00 RUB. (The growth rate amounted to 40.84%), and on 31.12.2015 its value amounted to 498 927,00 RUB. (share was 8% of the overall structure of the property).

As can be seen from the table 1, at the end of the reporting period, the largest share in the structure of total assets accounted for non-current assets (91.7%), indicating that the structure of assets is at a stage of low mobility and reduces turnaround assets of the enterprise. However, there is a positive trend compared to the base period analyzed - in the

reporting period, the share of non-current assets in the total structure of the balance decreased by -2.91%, which is in the dynamics can lead to faster turnover.

In the structure of non-current assets of most of the change was due to a decrease of 687 752,00 RUB. compared with the base period of the article "Fixed assets".

In the structure of current assets the biggest change was due to an increase of 145 927,00 RUB., compared with the base period of the article "Accounts receivable". Accounts receivable size in the analyzed period increased by 145 927,00 RUB., which is a negative change, and can be caused by a problem with the payment of goods or the provision of an active consumer loan customers, i.e. distraction of the current assets and the immobilization of the working capital from the production process.

### Balance sheet liabilities

Structure of balance sheet liabilities and changes in the analyzed period are presented in tables 3 and 4.

**Table 3** - Structure of balance sheet liabilities of Lipetsk confectionery factory Roshen

Balance Sheet Item	Account Code	31.12.14	31.12.15
<b>3. Equity</b>			
Registered capital	1310	1,96%	2,15%
Treasury stock	1320	0,00%	0,00%
Revaluation of non-current assets	1340	0,00%	0,00%
Capital surplus	1350	61,38%	67,13%
Reserve capital	1360	0,29%	0,32%
Retained earnings (uncovered loss)	1370	11,63%	11,68%
<b>TOTAL</b>	<b>1300</b>	<b>75,27%</b>	<b>81,28%</b>
<b>4. Long-term Liabilities</b>			
Borrowed funds	1410	18,96%	14,49%
Deferred tax liabilities	1420	2,43%	2,28%
Provisions for contingent liabilities	1430	0,00%	0,00%
Other long-term liabilities	1450	0,00%	0,00%
<b>TOTAL</b>	<b>1400</b>	<b>21,40%</b>	<b>16,77%</b>
<b>5. Short-term Liabilities</b>			
Borrowed funds	1510	0,12%	0,10%
Accounts payable	1520	3,20%	1,85%
Deferred income	1530	0,00%	0,00%
Provisions for liabilities and charges	1540	0,00%	0,00%
Other short-term liabilities	1550	0,00%	0,00%
<b>TOTAL</b>	<b>1500</b>	<b>3,33%</b>	<b>1,95%</b>
<b>BALANCE</b>	<b>1700</b>	<b>100,00%</b>	<b>100,00%</b>

Source: Own table based on data from <http://www.disclosure.ru/issuer/4824006696/>

**Table 4 - Changes in balance sheet liabilities of Lipetsk confectionery factory Roshen**

<b>Liability</b>	<b>31.12.14</b>	<b>31.12.15</b>	<b>In absolute terms, RUB</b>	<b>Rate of increase</b>	<b>Share</b>
<b>3. Equity</b>					
Registered capital	129 059,00	129 059,00	0,00	0,00%	0,18%
Treasury stock	0,00	0,00	0,00	0,00%	0,00%
Capital surplus	4 033 445,00	4 033 445,00	0,00	0,00%	5,75%
Reserve capital	19 359,00	19 359,00	0,00	0,00%	0,03%
Retained earnings (uncovered loss)	764 392,00	701 713,00	- 62 679,00	- 8,20%	0,05%
<b>TOTAL</b>	<b>4 946 255,00</b>	<b>4 883 576,00</b>	<b>- 62 679,01</b>	<b>- 1,27%</b>	<b>6,01%</b>
<b>4. Long-term Liabilities</b>					
Borrowed funds	1 246 100,00	870 350,00	- 375 750,00	- 30,15%	-4,48%
Deferred tax liabilities	160 656,00	137 284,00	- 23 372,00	- 14,55%	- 0,16%
Other long-term liabilities	0	0	0	0,00%	0,00%
<b>TOTAL</b>	<b>1 406 756,00</b>	<b>1 007 634,00</b>	<b>- 399 122,00%</b>	<b>- 28,37%</b>	<b>- 4,64%</b>
<b>5. Short-term Liabilities</b>					
Borrowed funds	8 190,00	5 957,00	- 2 233,00	- 27,26%	- 0,03%
Accounts payable	210 518,00	111 362,00	- 99 156,00	- 47,10%	- 1, 35%
Deferred income	0,00	0,00	0,00	0,00%	0,00%
Provisions for liabilities and charges	0,00	0,00	0,00	0,00%	0,00%
Other short-term liabilities	0,00	0,00	0,00	0,00%	0,00%
<b>TOTAL</b>	<b>218 708,00</b>	<b>117 319,00</b>	<b>- 101 389,00</b>	<b>-46,36%</b>	<b>-1,38%</b>
<b>BALANCE</b>	<b>6 571 719,00</b>	<b>6 008 529,00</b>	<b>-563 190,00</b>	<b>-8,57%</b>	<b>0,00%</b>

Source: Own table based on data from <http://www.disclosure.ru/issuer/4824006696/>

Regarding liabilities section, reducing the balance sheet total was mainly due to decrease in the article "Borrowings". During this period the value decrease of this article amounted to



375 750.00 RUB. that corresponds to -30.15% in percentage. Thus, at the end of the period the value of the article "Borrowings" established at the level of 870 350,00 RUB.

Considering the change in equity of Lipetsk confectionery factory "Roshen", it can be seen that the value for the analyzed period slightly decreased. On 31.12.2015g value of the company's own capital amounted to 4 883 576,00 RUB. (81.28% of total liabilities).

The share of liabilities in total sources of formation of assets for the analyzed period has significantly decreased. On 31.12.2015 aggregate amount of long-term and short-term liabilities of the enterprise was 1124 953,00 RUB. (18.72% of total liabilities). Reducing amount of external borrowings leads to lower degree of financial risk and a positive effect on its financial stability, increasing the degree of independence from the borrowed funds.

Considering changes in reserves and retained earnings of the company, it may be noted that during the analyzed period, their total value decreased by 62 679.00 RUB. and amounted to 721 072,00 RUB. Reserves amounted to 0.00 RUB. and retained earnings by -62 679.00 RUB. In general, it can be viewed as a negative trend as well as a decrease in reserves, funds and retained earnings may indicate inefficient enterprises.

In the overall structure of liabilities, the value of equity (balance section III), which at 31.12.2014 was 4 946 255.00 RUB., has declined to 62 679.00 RUB. (The growth rate amounted to -1.27). However, on 31.12.2015 its value amounted to 4 883 576,00 RUB. (Which is 81.28% of the overall structure of the property). To the greatest extent this change was due to the decrease in the article "Retained earnings (uncovered loss)", which amounted in -62 679.00 RUB.

In the overall structure of debt on 31.12.2015 long-term liabilities exceed short-term by 890 315,00 RUB. Which indicates a good stability of the financial enterprise and, perhaps, the future increase in turnover of the company in case long-term liabilities are aimed to expand the fleet of equipment and production volumes. It is necessary to compare above factors and to conduct more in-depth analysis.

Long-term liabilities, the value of which amounted to 1 406 756,00 RUB. in 31.12.2014, decreased by 399 122,00 RUB. (Rate of decrease was -28.37%) and 31.12.2015 its value amounted to 1 007 634,00 RUB. (Share of which is 16.77% in total liabilities).

The greatest influence on the decrease in long-term liabilities had a decrease in the article "Borrowings". During this period value decrease in this article amounted to 375 750.00 RUB. (As a percentage of 30.15%) and already at the end of the analyzed period, the value of the article 'Borrowings' was set at 870 350,00 RUB.

The amount of short-term liabilities, which amounted to 218 708,00 RUB. in 31.12.2014, also fell by 101 389,00 RUB. (Rate of decline in short-term liabilities amounted to - 46.36%), and their size in 31.12.2015 was established at the level of 117 319,00 RUB. (Which is 1.95% of the overall structure of the property).

The largest share in the structure of short-term debt obligations in 31.12.2015 is the article "Accounts payable". At the end of the analyzed period, the value of debt according to this article is 111 362,00 RUB. (Share of total short-term accounts payable is 94%). During analyzed period, decrease under this debt amounted to 47.1%, which is -99 156,00 RUB. in absolute terms.

### Aggregated balance

The aggregate balance is constructed by combining the homogeneous balance sheet items for subsequent ease of analysis. Structured aggregate balance is presented in table 5.

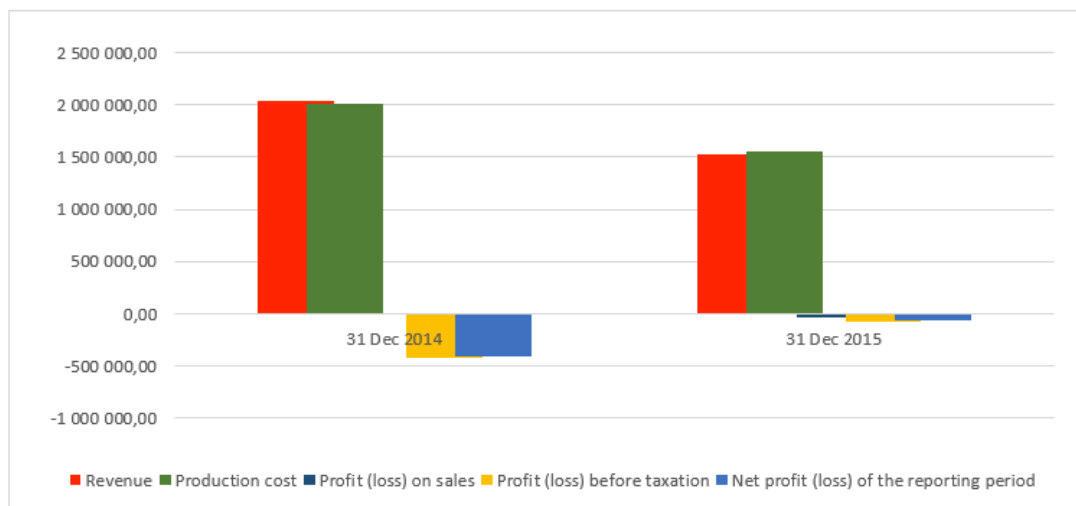
**Table 5** - Aggregated balance of Lipetsk confectionary factory Roshen

Asset	31.12.14	31.12.15	In absolute terms, rub.	Rate of increase	Share
<b>Fixed Assets</b>	<b>6217478</b>	<b>5509602</b>	<b>- 707876</b>	<b>- 11.39%</b>	<b>- 2.91%</b>
<b>Current Assets</b>	<b>354241</b>	<b>498927</b>	<b>144686</b>	<b>40.84%</b>	<b>2.91%</b>
Inventories and expenses	218806	218414	-392	-0.18%	0.31%
Short-term receivables	133401	279328	145927	109.39%	2.62%
Cash and short-term investments	322	272	- 50	- 15.53%	-0.00%
Other current assets	1712	913	-799	-46.67%	- 0.01%
<b>Balance</b>	<b>6571719</b>	<b>6008529</b>	<b>- 563190</b>	<b>- 8.57%</b>	<b>0.00%</b>
Equity and Liabilities					
<b>Equity</b>	<b>4946255</b>	<b>4883576</b>	<b>- 62679</b>	<b>- 1.27%</b>	<b>6.01%</b>
<b>Long-term liabilities</b>	<b>1406756</b>	<b>1007634</b>	<b>- 399122</b>	<b>- 28.37%</b>	<b>- 4.64%</b>
Loans	1246100	870350	- 375750	- 30.15%	- 4.48%
Other long-term liabilities	160656	137284	- 23372	- 14.45%	- 0.16%
<b>Current liabilities</b>	<b>218708</b>	<b>117319</b>	<b>- 101389</b>	<b>- 46.36%</b>	<b>- 1.38%</b>
Loans	8190	5957	- 2233	- 27.26%	- 0.03%
Accounts payable	210518	111362	- 99156	- 47.1%	- 1.35%
Other current liabilities	0	0	0	0.00%	0.00%
<b>Balance</b>	<b>6571719</b>	<b>6008529</b>	<b>-563190</b>	<b>- 8.57%</b>	<b>0.00%</b>

Source: Own table based on data from <http://www.disclosure.ru/issuer/4824006696/>

Changes in income statement during reporting period, compared to the baseline, are shown in Table 6. Changes in financial and economic activities during reporting period, compared to the baseline, are shown in Table 7.

**Figure 4 - Financial Results of Company**



Source: Own graph based on data from <http://www.disclosure.ru/issuer/4824006696/>

**Table 6 - Change in income statement during reporting period compared with base period (thsd. RUB.)**

Name	31.12.14	31.12.15	In absolute terms, RUB	Rate of increase	Share
<b>Income and expenses from ordinary activities</b>					
Revenue	2 032 583	1 527 352	- 505 231	- 24.86%	0.00%
Production costs	- 2 011 976	- 1 552 121	459 855	- 22.86%	- 2.64%
<b>Gross profit (loss)</b>	<b>20 607,00</b>	<b>- 24 769,00</b>	<b>- 45 376</b>	<b>-220.20%</b>	<b>- 2.64%</b>
Selling costs	- 8 470,00	- 6 254,00	2 216,00	-26.16%	0.01%
Administrative costs	0	0	0	0,00%	0,00%
<b>Profit (loss) on sales</b>	<b>12 317,00</b>	<b>- 31 023</b>	<b>-43 160</b>	<b>- 355.61%</b>	<b>- 2,63%</b>
<b>Other sources of income and expenses</b>					
Participation capital	29.00	12 471.00	12 442.	42 903,45%	0.82%
Interest receivable	48.00	28.00	- 20,00	-41.67%	- 0.00%
Interest payable	- 64 788,00	- 88 348,00	- 23 560,00	36,36%	- 2.60%
Other revenues	38 585,00	227 163,00	188 578	488,73%	12,97 %

Other expenses	- 413 004	- 199 722,00	213 282	- 51.64%	7.24%
<b>Profit (loss) before taxation</b>	<b>- 426 993</b>	<b>- 79 431,00</b>	<b>347 562</b>	<b>-81.40%</b>	<b>15.81 %</b>
Change in deferred tax assets	22 824,00	- 6 620,00	-29 444	-129,00%	- 1.56%
Change in deferred tax liabilities	- 3 098,00	23 372,00	26 470	-854,42%	1,68%
Current income tax	0,00	0,00	0,00	0,00%	0.00%
<b>Net profit (loss) for the reporting period</b>	<b>-407 267</b>	<b>-62 679,00</b>	<b>344 588</b>	<b>84,61%</b>	<b>15,93 %</b>
<b>For reference only</b>					
Total financial result of the period	0,00	0,00	0,00	0,00	0.00%
<b>Basic profit (loss) per share</b>	<b>0,00</b>	<b>0,00</b>	<b>0,00</b>	<b>0,00</b>	<b>0.00%</b>
Diluted profit (loss) per share	0,00	0,00	0,00	0,00	0.00%

Source: Own table based on data from <http://www.disclosure.ru/issuer/4824006696/>

**Table 7 - Changes in financial - economic activity in the reporting period compared with the base period (thsd.RUB)**

Name	31.12.14	31.12.15	In absolute terms, rub.	Rate of increase
1. Sales volume	2 032 583,00	1 527 352,00	-505 231,00	-24,86%
2. Sales profit	12 137,00	-31 023,00	43 160,00	-355,61%
3. EBITDA	12 137,00	-31 023,00	43 160,00	-355,61%
4. Net profit	-407 267	-62 679,00	344 588	84,61%
5. Sales margin, %	0.60%	-2,03%	-2,63%	-440,16%
6. Net worth	4,946,255	4,883,576	-62,679	-1,27%
7. Turnover of net assets, %	41,09%	31,28%	-9,82%	-23,89%
8. Return of net assets, %	-8,63%	-1,63%	7,01%	81,16%
9. Net equity	4 946 255	4 883 576	-62 679,00	-1,27%
10. Return of net equity, %	-8,23%	-1,28%	6,96%	84,51%
11. Borrowings	1,254,290	876,307	-377,983	-30,14%
12. Financial leverage	32,86%	23,04%	-9.83%	-29,90%
13. Retained earnings	0,00	0,00	0,00	0,00
14. Re-investing ratio	0,00	0,00	0,00	0,00
15. Economical growth	0,00	0,00	0,00	0,00
16. Weighted average cost of capital	0,00%	0,00%	0,00%	0,00%

Source: Own table based on data from <http://www.disclosure.ru/issuer/4824006696/>

Table 6 shows that proceeds from the sale of the company as compared to the base period decreased slightly (from 2032 583,00 thsd. RUB. to 31.12.2014g 1527 to 352,00 thsd. RUB. on 31.12.2015). During the analyzed period, the change in sales was -505 231,00 thsd. RUB. The growth rate was -24.86%.

Gross profit amounted to 31.12.2014g 20 607,00 thousand. Rub. During the period under review it decreased by 45 376,00 thsd. RUB., which should be seen as a negative point, and was 31.12.2015g -24 769,00 thsd. RUB.

Operating profit in 31.12.2014 amounted to 12 137,00 thsd. RUB. During the period under review it as well as the gross profit decreased by 43 160,00 thsd. RUB., which should be seen as a negative point. Profit from sales in 31.12.2015 amounted to -31 023.00 thsd. RUB.

An indicator of reducing the effectiveness of the enterprise can be seen as a higher rate of decline in revenues in relation to the cost of change. The rate of change of the cost was -22.86%, while revenue changed by -24.86%.

The negative aspect is the presence of loss under the section "Other income and expenses". In 31.12.2015 balance under section set at -48 408,00 thsd RUB., but there is a positive trend -since the end of 31.12.2014 to the end of 31.12.2015 balance under the section "Other income and expenses" increased by 412,958,00 thsd. RUB.

As can be seen from the table 6, the net profit for the period under review increased by 344 588,00 thsd. RUB. and in 31.12.2015 established at the level of -62 679,00 thsd. RUB..The growth rate was -84.61%.

Considering the dynamics of financial and economic activity of the Lipetsk "Roshen" confectionery factory, special attention should be paid to the return on net assets and the weighted average cost of capital.

For successful development of activities it is necessary for return on net assets to be higher than the weighted average cost of capital, then the company is able to pay not only the interest on loans and dividends declared but also to reinvest part of the net profit of production.

### Analysis of financial stability

Analysis of changes in financial soundness indicators of Lipetsk confectionery factory Roshen in absolute terms for the entire reporting period is presented in Table 8.

**Table 8** - Analysis of changes in financial soundness indicators Lipetsk confectionery factory Roshen for 2014-2015 (thsd.RUB)

Name	31.12.14	31.12.15	In absolute terms, rub.	Rate of increase
1.Shareholder's equity	4 946 255,00	4 883 576,00	-62 679,0	-1,27%
2.Fixed Assets	6 217 478,00	5 509 602,00	-707 876,000	-11,39%
3.Sources of working capital for the formation of reserves and costs	-1 271 223,00	-626 026,00	645 197,00	50,57%
4. Long-term liabilities	1 406 756,00	1 007 634,00	-399 122,00	-28,37%
5.Sources of equity adjusted by the amount of long-term borrowings	135 533,00	381 608,00	246 075,00	181,56%
6.External resources	8 190,00	5 957,00	-2 233,00	-27,26%
7. Total amount of sources of funds, taking into account long-term and short-term borrowings	143 723,00	387 565,00	243 842,00	169,66%
8.Value of stocks and costs,circulating in the balance sheet	218 806,00	218 414,00	-392,00	-0,18%
9.Surplus of sources of working capital	-1 409 029,00	-844 440,00	645 589,00	43,33%
10.Surplus of sources of own funds and long-term borrowed sources	- 83 273,00	163 194,00	246 467,00	295,97%
11.Surplus of the total value of all the sources for the formation of reserves and costs	-75 083,00	169 151,00	244 234,00	325,29%
<b>12.Three integrated financial soundness indicators (S)</b>				
12.1 S1	Negative	Negative	0,00	0,00
12.2 S2	Negative	Positive	1,00	0,00
12.3 S3	Neative	Positive	1,00	0,00
<b>Financial stability of the enterprise</b>	<b>Crisis. Unstable state enterprises</b>	<b>Normal financial stability</b>	0,00	0,00

Source: Own table based on data from <http://www.disclosure.ru/issuer/4824006696/>

Through analysis of the type of enterprise's financial stability in absolute terms and based on complex indicator of financial stability, in dynamics it can be seen as improvement of financial situation of the company.

Analysis of the financial sustainability of the relative indicators presented in Table 8, indicates that, compared with the base period (31.12.2014) the situation on the Lipetsk "Roshen" confectionery factory remained overall at the same level.

The indicator "Factor autonomy" for the period under review increased by 0.06 and amounted to 0.81 in 31.12.2015. This is above the standard value (0.5), in which the loan capital can be compensated by the company property.

The indicator "Ratio of debt and equity(leverage)" for the period under review decreased by 0.1 and amounted to 0.23 in 31.12.2015. The more this ratio exceeds 1, the greater the dependence of companies on borrowed funds. The allowable level is often determined by the conditions of each enterprise but mainly by rate of working capital turnover. Therefore, you must define an additional turnover rate of material circulating assets and accounts receivable for the period under review. If a receivable turns faster than working capital, which means a relatively high intensity of revenue to the enterprise funds, that is, as a result - an increase in own funds. Therefore, the high turnover of material circulating assets and even higher accounts receivable turnover ratio between own and borrowed funds can be much greater than 1.

The indicator "Ratio of mobile and immobilized assets" for the period under review increased by 0.03 and amounted to 0.09 in 31.12.2015. Ratio is defined as the ratio of mobile assets (total for two) and long-term receivables to the immobilized assets (non-current assets, adjusted for long-term receivables). The characteristic value is different for each industry but considering equal conditions ,an increase coefficient is a positive trend.

The indicator "Ratio of maneuverability" in the analyzed period increased by 0.09 and amounted to -0.11 in 31.12.2015. This is below the standard value (0.5). Maneuverability ratio describes characterizes, the share of own sources of funds is in mobile form. Normative value of the index depends on the nature of the enterprise: in asset-intensive industries, its normal level should be less than the material. At the end of the period "Roshen" has a heavy structure of assets. The share of fixed assets in the balance sheet is in total of more than 40%. Thus, the company can be attributed to asset-intensive industries and the normative value of this index should be higher.

The indicator "Security ratio of reserves and cost by own funds " for the period under review increased by 1.13 and amounted to 1.75 in 31.12.2015. This is higher than normative values (0.6-0.8). The coefficient is the ratio of the difference between the sum of sources of working capital, long-term loans and non-current assets to the value of inventories and costs.

**Table 9** - Analysis of balance liquidity of Lipetsk confectionery factory Roshen in relative terms over the period of 2014-2015 (thsd.RUB)

Name	31.12.14	31.12.15
Absolute liquidity ratio	0,00	0,00
Intermediate liquidity ratio	0,61	2,38
Current liquidity ratio	0,62	2,39
The coverage ratio of current assets using own sources of formation	0,38	0,76
Reduction factor (loss) of solvency	0	1,42

Source: Own table based on data from <http://www.disclosure.ru/issuer/4824006696/>

Absolute liquidity ratio at the beginning and at the end of the period (31.12.2014 - 31.12.2015) is below the standard value (0.2), which indicates that the value of the coefficient is too low and the company did not fully provide the means for timely repayment of the most urgent obligations due to the most liquid assets. At the beginning of the analyzed period (31.12.2014) value of the absolute liquidity ratio was 0. In the end of the period value of the index has not changed, amounting to 0.

The coefficient of the intermediate (quick) liquidity shows how much short-term debt can be repaid at the expense of the most liquid and quick assets. Normative value of the index is 0.6-0.8 means that current liabilities should be covered by 60-80 percent due to quick assets. At the beginning of the analyzed period (in 31.12.2014) value of the index quickly (intermediate) liquidity amounted to 0.61 while in 31.12.2015 value of the index has increased, which can be seen as a positive trend, and amounted to 2.38.

At the beginning of the analyzed period 31.12.2014 value of the current liquidity ratio was 0.62. In 31.12.2015 value of the index has increased, which can be seen as a positive trend, and amounted to 2.39. At the end of the period rate is higher than the standard value (2), which means that the company provided its own funds for business activities and timely repayment of term liabilities.



Since the end of the analyzed period, coverage ratio of current assets using own sources of formation is higher than its standard value (0.1), calculated rate of loss of ability to pay. Loss of solvency indicators show whether the next six months the company will lose its ability to pay under the current dynamics of the indicator of current liquidity. At the end of the period value of the index set at 1.42, which means that the company does not lose its ability to pay, since the index is greater than one.

#### **4.1.3. Development of measures to improve the financial results of Lipetsk confectionery factory Roshen in order to increase its competitiveness**

Based on the outcomes of the reporting in 2015, taking into account experience, critically assessing the existing shortcomings in the work and to determine the strategy and tactics for the further development of the company, the following main areas were identified of long-term development:

1. Development of a new range of products that meets modern requirements of quality and price in order to preserve and strengthen the position held by the Company in the market of confectionery products.
2. Development of a flexible pricing policy, aimed at making a profit through the formation of a strategy of differentiated prices for the products corresponding to the solvency of counterparties.
3. Increasing the number of potential consumers of services, to the chosen marketing strategy.
4. Implementation of measures for the modernization of existing equipment, as well as the reduction of losses of different types, by implementing progressive norms, standards and resource-saving technologies, to optimize the cost of the production of confectionery products services.
5. Implementation of measures to accelerate the turnover of circulating assets by reducing inventories in warehouses and impeding the growth of accounts receivable.
6. Ensuring the further growth of labor productivity - the main factor of growth in real wages and welfare of the workers of the Company.

7. Continuation of the work to improve the system of material and moral incentives for employees of the company in the performance indicators, aimed at improving production efficiency.
8. To fulfill above-mentioned objectives it is necessary to improve the project management system, which is based on an effective balance between the amount of work, resources, time, quality, risk.

Promising Company's development plan offers solutions to problems faced by the company, as well as the path of intensive development in order to reach a qualitatively new level, including in income, profit and profitability. The set of planned activities in the future will have a positive effect on the competitiveness of the company and will ensure the effectiveness of business.

It is crucial to consider risks to which the company is exposed before formulating strategic plan. The main factors of risks associated with the company's activities are financial risks, industry risks, investment risks, legal risks, tax risks and social risks.

Financial and economic policies held by company aimed at reducing the impact of financial risks, including through the expression of its assets and liabilities in national currency. However, the overall financial condition of the Company, its liquidity, sources of financing, results of operations during the reporting period are dependent on changes in exchange rates, interest rates on loans and the risk of inadequate performance of obligations of the debtor to pay the Company's services. The Company's activity is exposed to the risk of default and inflation risks, which may significantly affect the financial and economic situation of the company. The default risk associated with non-performance of contractual obligations for payment (estimated) for services rendered. Delays in the transfer of advance payments from customers may lead to liquidity risk, disruption service delivery schedules and, as a consequence, the risk of liability. Inflationary processes may lead to the loss of real value of the Company's receivables at significant default or delay payments. To minimize the impact of inflationary risks, company is working on cost optimization.

Sector-specific risks associated with the activities of Roshen Company, are, in the main, the implementation of the main activities in the internal market, which is typical for the majority of the subjects of the industry.

Among the most significant industry risks relating to the Company's operations, are the following:

- Risks associated with increasing competition in the market as a result of major international manufacturers in the domestic market of goods / services with a monopoly in some sectors of the market and a possible increase in their financial resources.
- Risks related to the policy of price dumping used by main competitors.
- Risks associated with a general deterioration of the economic situation in the country and, consequently, decrease the level of solvency of potential customers.
- Risks associated with a possible increase in the cost of goods / services of the company as a result of tariff increases in energy, raw materials and materials prices.<sup>58</sup>

Activity of Roshen Company is subject to investment risks. Risks of profit loss as a result of the onset financial damage (loss of profit) consequently to the fact that the Company shall bear the costs, aimed at obtaining in the future period revenues.

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<sup>58</sup> Lemieux, V. (2013). *Financial Analysis and Risk Management*. 1st ed. Berlin [u.a.]: Springer.

## 5. Conclusion

The study was conducted with the aim of analysing financial activity of confectionery corporation Roshen, which is one of the largest producers of confectionery products in the world. The company is ranked on the Top-100 list of Global Candy Companies, occupying the 22th place. One of the main factors of competitiveness of the food industry is to maintain a stable financial position. It is crucial for stability of an enterprise to conduct proper financial analysis and identify upcoming financial issues in a timely manner.

Based on financial models, the structure of the organization's assets at the end of the reporting period can be attributed to a compromise model. Short-term accounts payable is aimed at covering half of the variable part of current assets. Net profit for the period under review increased by 344,588 RUB and on 31.12.2015 established at the level of -62,679 RUB (the growth rate was -84.61%).

Using the analysis of the type of enterprise financial stability in absolute terms and based on indicator of financial stability, dynamics imply the improved financial situation of the company. Analysis of financial stability in relative terms, suggest that compared with the base period (31.12.2014) the situation on the Lipetsk Roshen confectionery factory remained overall at the same level.

Based on the outcomes of the 2015 reporting, and taking into account experience, critically assessing the existing shortcomings in the work and determining the strategy and tactics of the further development of the company, we recommend the following basic directions of perspective development:

1. Increase in product prices (will increase revenue)
2. Development of a flexible pricing policy, aimed at making a profit through the formation of a strategy of differentiated prices for the products corresponding to the solvency of counterparties (will increase revenue)
3. Increasing the number of potential consumers of products, including due to the chosen marketing strategy (will increase revenue)
4. Implementation of measures for the modernization of existing equipment, as well as the reduction of losses of different types, by implementing progressive norms, standards and resource-saving technologies, to optimize the cost of the production of confectionery products services (cost reduction in the long term)

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## 7. Appendix

<i>Assets</i>			
Balance sheet item	Account code	31.12.14	31.12.15
<b><i>1. Fixed Assets</i></b>			
Intangible assets	1110	27	23
Reasearch and development	1120	0	0
Intengible exploration assets	1130	0	0
Tangible exploration assets	1140	0	0
Capital asset	1150	6 164 527	5 476 775
Profitable investments in tangible asset	1160	0	0
Long-term investment	1170	13 520	20
Deferred tax	1180	39 404	32 784
Other non-current assets	1190	0	0
<b><i>TOTAL</i></b>	<b><i>1100</i></b>	<b><i>6 217 478</i></b>	<b><i>5 509 602</i></b>
<b><i>2. Current Assets</i></b>			
Stock	1210	217 986	217 816
Value added tax on purchased goods	1220	820	598
Receivables	1230	133 401	279 328
Financial investments	1240	0	0
Cash	1250	322	272
Other current assets	1260	1 712	913
<b><i>TOTAL</i></b>	<b><i>1200</i></b>	<b><i>354 241</i></b>	<b><i>498 927</i></b>
<b><i>BALANCE</i></b>	<b><i>1600</i></b>	<b><i>6 571 719</i></b>	<b><i>6 008 529</i></b>

<b><i>Equity and Liabilities</i></b>			
Balance sheet item	Account Code	31.12.14	31.12.15
<b><i>3. Equity</i></b>			
Registered capital	1310	129 059	129 059
Treasury stock	1320	0,00	0,00
Revaluation of non-current assets	1340	0,00	0,00
Capital surplus	1350	4 033 455	4 033 455
Reserve capital	1360	19 359	19 359
Retained earnings (uncovered loss)	1370	764 392	701 713
<b><i>TOTAL</i></b>	<b><i>1300</i></b>	<b><i>4 946 255</i></b>	<b><i>4 883 576</i></b>
<b><i>4. Long-term Liabilities</i></b>			
Long-term borrowings	1410	1 246 100	870 350
Deferred tax liabilities	1420	160 656	137 254
Provisions for contingent liabilities	1430	0,00	0,00
Other long-term liabilities	1450	0,00	0,00
<b><i>TOTAL</i></b>	<b><i>1400</i></b>	<b><i>1 406 756</i></b>	<b><i>1 007 634</i></b>
<b><i>5. Short-term Liabilities</i></b>			
Borrowed funds	1510	8 190	5 957
Accounts payable	1520	210 518	111 362
Deferred income	1530	0,00	0,00
Provisions for liabilities and charges	1540	0,00	0,00
Other short-term liabilities	1550	0,00	0,00
<b><i>TOTAL</i></b>	<b><i>1500</i></b>	<b><i>218 708</i></b>	<b><i>117 319</i></b>
<b><i>BALANCE</i></b>	<b><i>1700</i></b>	<b><i>6 571 719</i></b>	<b><i>6 008 529</i></b>



Balance Sheet Item	Account Code	31.12.04	31.12.15
<b>Income and expenses from ordinary activities</b>			
Revenue	2110	2 032 583	1 527 352
Cost of goods sold	2120	-2 011 976	-1 552 121
<b>Gross profit (loss)</b>	<b>2100</b>	<b>20 607</b>	<b>-24 769</b>
Selling and marketing costs	2210	-8 470	-6 254
Executive expenses	2220	0,00	0,00
<b>Operating profit (loss)</b>	<b>2200</b>	<b>12 137</b>	<b>-31 023</b>
<b>Non-operating profit</b>			
Share of profit (loss) of associates	2310	29	12 471,00
Interests receivable	2320	48	28
Interests payable	2330	-64 788	-88 348
Other gains	2340	38 585	227 163
Other expense	2350	-413 004	-199 722
<b>Profit (loss) before income tax</b>	<b>2300</b>	<b>-426 993</b>	<b>-79 431</b>
Income tax expense	2410	0,00	0,00
Deferred income tax liabilities	2430	-3 098	23 372
Deferred income tax assets	2450	22 824	-6 620
Others	2460	0,00	0,00
<b>Net profit (loss) for the year</b>	<b>2400</b>	<b>-407 267</b>	<b>-62 679</b>
<b>FOR REFERENCE</b>			
Re-valuation of non-current assets not included in net profit (loss) for the period	2510	0,00	0,00
Result from other operations not included in net profit (loss) of the period	2520	0,00	0,00
Total financial report for the period	2500	0,00	0,00
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in \$ per share) – basic	2900	0,00	0,00
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in \$ per share) – diluted	2910	0,00	0,00