**Czech University of Life Sciences Prague**

**Faculty of Economics and Management**

**Department of Economics**

**Bachelor Thesis**

# Financial analysis of enterprise JSC "Grom"

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## Diploma Thesis Assignment

**Declaration**

I declare that I have worked on my diploma thesis titled "Financial analysis of enterprise JSC "Grom"" by myself and I have used only the sources mentioned at the end of the thesis.

In Prague on

**Acknowledgement**

I would like to thank Peter Prohazka, for his advice and support during my work on this Thesis.

Financial analysis of enterprise JSC “Grom”

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# Finanční analýza podnikové JSC "Grom"

## Summary

Objective of the thesis is to analyze and understand financial condition of company for future investments and for analyze effectiveness of company's performance. The thesis consists of two main parts: The theoretical part deals with concepts such as "Base information about financial analysis", "formulas", "explanations of analysis". Also the theoretical part includes the study ratios and their meaning . The second part- is practical part, which includes application of theoretical knowledge to real company conditions of the city of Tymen and analytical work with reports of the company, calculation of its profitability, risks and analyzing it stability.

## Keywords:

financial analysis, profitability, enterprise, debt management, financial statements

## Souhrn

Cílem práce je analyzovat a pochopit finanční situaci podniku pro budoucí investice a pro analýzu efektivity výkonnosti společnosti.Práce se skládá ze dvou hlavních částí: Teoretická část se zabývá koncepty část jako "základní informace o finanční analýzu", "vzorce", "vysvětlení analýzy". Také teoretická část zahrnuje studijní poměry a jejich význam.Druhý zkrácený je praktická část, která zahrnuje aplikaci teoretických poznatků do reálných firemních podmínek města Tymen a analytické práce se zprávami o společnosti, výpočet jeho ziskovosti, rizik a analyzování stabilitu.

## Klíčová slova:

Finanční analýza, rentabilita, podnikání, řízení dluhu, finanční výkazy

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## 1.1. Introduction.

The economy effective functioning is possible due to financial health of business entities. For this purpose the enterprise management must periodically estimate its financial statement. The financial statement regular control will provide managers with the valuable information on events that have occurred, are occurring and will occur. It will allow selecting the activity current and potential problems, and also to take the complex of measures for elimination the problem moments and even to prevent them. The results of such analysis may be used by some of external users: suppliers, customers, competitors, public accountants, bank institutions, tax organs, insurance companies, investors (including potential), statistics organs etc.

Financial Statements provide useful information to a wide range of users:

Managers require Financial Statements to manage the affairs of the company by assessing its financial performance and position and taking important business decisions.

Shareholders use Financial Statements to assess the risk and return of their investment in the company and take investment decisions based on their analysis.

Prospective Investors need Financial Statements to assess the viability of investing in a company. Investors may predict future dividends based on the profits disclosed in the Financial Statements. Furthermore, risks associated with the investment may be gauged from the Financial Statements. For instance, fluctuating profits indicate higher risk. Therefore, Financial Statements provide a basis for the investment decisions of potential investors.

Financial Institutions (e.g. banks) use Financial Statements to decide whether to grant a loan or credit to a business. Financial institutions assess the financial health of a business to determine the probability of a bad loan. Any decision to lend must be supported by a sufficient asset base and liquidity.

Suppliers need Financial Statements to assess the credit worthiness of a business and ascertain whether to supply goods on credit. Suppliers need to know if they will be repaid. Terms of credit are set according to the assessment of their customers' financial health.

Customers use Financial Statements to assess whether a supplier has the resources to ensure the steady supply of goods in the future. This is especially vital where a customer is dependent on a supplier for a specialized component.

Employees use Financial Statements for assessing the company's profitability and its consequence on their future remuneration and job security.

Competitors compare their performance with rival companies to learn and develop strategies to improve their competitiveness.
General Public may be interested in the effects of a company on the economy, environment and the local community.
Governments require Financial Statements to determine the correctness of tax declared in the tax returns. Government also keeps track of economic progress through analysis of Financial Statements of businesses from different sectors of the economy.

Financial analysis of organization has number one priority for a wide range of private users, managers, investors, analysist and creditors. Main aim of this work is to learn how we can make a financial analysis and how we can rate it productivity.

Tasks are:

1. analyze the change in the absolute earnings, revenue, costs
2. analyze the dynamics of the relative performance of a business entity
3. evaluate the effectiveness of the use of equity and borrowed funds

# 2. Objectives of the thesis and methodology

## 2.1. Objectives

The main aim of the bachelor thesis is to evaluate the financial situation of the company. Also,to recognize the financial health of the company, identify strengths but also weaknesses which would lead to problems. One of the targets of financial management evaluation is to provide management of the company with an abundance of quality information used for various flexible, tactical and strategic decisions.

## 2.2. Methodology

Main methodological ways of analysis of enterprise J S C “Grom”, s.r.o are summed up. There are two key methods for analyzing financial statements. The first method is the use of horizontal and vertical analysis. Horizontal analysis is the comparison of financial information over a series of reporting periods, while vertical analysis is the proportional analysis of a financial statement, where each line item on a financial statement is listed as a percentage of another item. Typically, this means that every line item on an income statement is stated as a percentage of gross sales, while every line item on a balance sheet is stated as a percentage of total assets. Thus, horizontal analysis is the review of the results of multiple time periods, whiile vertical analysis is the review of the proportion of accounts to each other within a single period. The following links will direct you to more information about horizontal and vertical analyis:

Horizontal analysis

Vertical analysis

The second method for analyzing financial statements is the use of many kinds of ratios. You use ratios to calculate the relative size of one number in relation to another. After you calculate a ratio, you can then compare it to the same ratio calculated for a prior period, or that is based on an industry average, to see if the company is performing in accordance with expectations. In a typical financial statement analysis, most ratios will be within expectations, while a small number will flag potential problems that will attract the attention of the reviewer.

There are several general categories of ratios, each designed to examine a different aspect of a company's performance. The general groups of ratios are:

Liquidity ratios. This is the most fundamentally important set of ratios, because they measure the ability of a company to remain in business.

Cash coverage ratio. Shows the amount of cash available to pay interest.

Current ratio. Measures the amount of liquidity available to pay for current liabilities.

Quick ratio. The same as the current ratio, but does not include inventory.

Liquidity index. Measures the amount of time required to convert assets into cash.

Activity ratios. These ratios are a strong indicator of the quality of management, since they reveal how well management is utilizing company resources.

Accounts payable turnover ratio. Measures the speed with which a company pays its suppliers.

Accounts receivable turnover ratio. Measures a company's ability to collect accounts receivable.

Fixed asset turnover ratio. Measures a company's ability to generate sales from a certain base of fixed assets.

Inventory turnover ratio. Measures the amount of inventory needed to support a given level of sales.

Sales to working capital ratio. Shows the amount of working capital required to support a given amount of sales.

Working capital turnover ratio. Measures a company's ability to generate sales from a certain base of working capital.

Leverage ratios. These ratios reveal the extent to which a company is relying upon debt to fund its operations, and its ability to pay back the debt.

Debt to equity ratio. Shows the extent to which management is willing to fund operations with debt, rather than equity.

Debt service coverage ratio. Reveals the ability of a company to pay its debt obligations.

Fixed charge coverage. Shows the ability of a company to pay for its fixed costs.

Profitability ratios. These ratios measure how well a company performs in generating a profit.

Breakeven point. Reveals the sales level at which a company breaks even.

Contribution margin ratio. Shows the profits left after variable costs are subtracted from sales.

Gross profit ratio. Shows revenues minus the cost of goods sold, as a proportion of sales.

Margin of safety. Calculates the amount by which sales must drop before a company reaches its breakeven point.

Net profit ratio. Calculates the amount of profit after taxes and all expenses have been deducted from net sales.

Return on equity. Shows company profit as a percentage of equity.

Return on net assets. Shows company profits as a percentage of fixed assets and working capital.

. Then follow analyses of ratio indicators – profitability ratios, asset utilization ratios, debt management ratios and liquidity ratios

# 3. Theoretical part

## 3.1.

This first part of the thesis is composed of basic definitions on several concepts related with finance and accounting, refers to an assessment of the viability, stability and profitability of a business, sub-business or project.

## 3.2. Information base of financial analysis

The economy effective functioning is possible due to financial health of business entities. For this purpose the enterprise management must periodically estimate its financial statement. The financial statement regular control will provide managers with the valuable information on events that have occurred, are occurring and will occur. It will allow selecting the activity current and potential problems, and also to take the complex of measures for elimination the problem moments and even to prevent them. The results of such analysis may be used by some of external users: suppliers, customers, competitors, public accountants, bank institutions, tax organs, insurance companies, investors (including potential), statistics organs etc.

The importance of this question is underlined by its wide coverage in reference literature of native and foreign authors (table. 1).

**Table 1. The definitions of "financial statement" conception**

| Source | Term treating | Treating by original language |
|---|---|---|
| InvestorWords [15] | the status of a firm's assets, liabilities and equity positions at a specific point in time, often described in a financial statement | the status of a firm's assets, liabilities and equity positions at a specific point in time, often described in a financial statement |
| Glossar [13] | represent a enterprise's current general financial statement according to the concluding inspection | Zeigt die aktuelle finanzielle Gesamtsituation des Unternehmens laut letzter Überprüfung |
| Glossario finanza [14] | the financial statement describes a financial position of the business entity's assets or liabilities and equity capital | la posizione finanziaria o financial position descrive le attività o le passività ed i mezzi propri di una data entità economica |
| Gazdasági szótár [12] | a firm's state and adequacy of its activity nature to the prudence principle for the main results clarification; the owner puts hjs capital for creating and funding past and current events also for negative effects prevention on the expected risks | a céltartalékokkal a vállalkozás az óvatosság és az összemérés elvéből kiindulva pontosítja az eredményt, valósabbá teszi a saját tőkéjét és fedezetet teremt a múltbeli és folyamatban lévő, bizonytalan kimenetelű események jövőre vonatkozó kedvezőtlen hatásaira, várható kockázataira |
| Энциклопедический словарь экономики и права [10] The encyclopedic dictionary of economic and law | the economic entity's financial security for economic activity realization, normal activity schedule supporting and timely calculation carrying out | уровень обеспечения экономического субъекта денежными средствами для осуществления хозяйственной деятельности, поддержания нормального режима работы и своевременного проведения расчетов |
| Словник законодавчих термінів [5] The dictionary of legislative terms | the indexes aggregate represented an enterprise's resources availability, allocating and using, it's real and potential financial capabilities | сукупність показників, що відображають наявність, розміщення і використання ресурсів підприємства, реальні й потенційні фінансові можливості підприємства |

The source: It was processed independently on the basis of reference sources

According to the table characterizing the financial statement the English, German, Italian, Hungarian, Russian and Ukrainian reference sources indicate the level of enterprise assets and sources of their forming security to support the continued business entity existence. It is logical as such security characterizes the scales of enterprise activity and its reliability level, represents the adapt ability to external changes, creates the great opportunities for the management effectiveness improvement, enables to determine the solvency, liquidity and financial stability, and if necessary to predict the probable bankruptcy.

Thus financial statement - is one of the major characteristics of any business entity activity. It enables to determine the enterprise competitiveness, its capacity in business cooperation, its current and potential stability and reliability, in advance to choose its own development strategy correctly. But the financial statement estimation represents process of the economic unit property and resources analysis by means of express and profound analysis methodology that enables to identify the problem points in enterprise activity, to set the regularity and reasons of their occurrence and to outline the eliminating ways

The sources of information for financial analysis mention about this tasks:

- determine which documents are the main sources for financial analysis;
- Describe these documents, their advantages and disadvantages;
- Define the basic requirements for sources of information financial analysis.

The effectiveness of enterprise management pretty much determined by the level of its organization and the quality of supplied information.

Special importance as an information basis of the financial analysis are accounting data, and reporting becomes the main source of providing information about the fair presentation of the financial condition of the company. There are several reasons of that structure, the main one is to change the form of ownership. This process is the most dynamic in the sphere of circulation, quite naturally led to the destruction of many vertical links and the subsequent isolation of enterprise information.

## 3.1. Specifications

Basically, the most accessible and compact sources of information for the analysis of the financial condition of the company are the forms of financial statements №1,2,3, and if the analysis is carried out by internal users, it also details the current accounting. The structure of quarterly reports include: balance sheet, (Form №1) and report on financial results and their use (form №2). The annual financial statements include the three standard forms: Form №1, form №2, form №3 - a report on the financial and property status of the enterprise and the explanatory note. These forms are made by counting, grouping and specialized data processing of the current accounting and become it final stage.

The main source of information for financial analysis is the balance sheet the company (Form №1 annual and quarterly reports), giving a kind of "snapshot" of the financial condition of the beginning and end of reporting period. Its importance in this case is so great that the analysis of financial condition is often called the analysis of the balance. Although an in-depth analysis of financial condition always intended use and other forms of annual report, as well as the accounting data, balance sheet plays a key role.

Logic and nature of the tasks of financial analysis are closely related with form and structure of the balance sheet, composition of sections and articles of its assets and liabilities. However, this does not mean, of course, that the form the balance determines the logic and problem analysis. Balance Sheet shows a generalized economic assets of the enterprise in the monetary evaluation of a certain date, grouped according to their composition and by their source. Thats why, the balance sheet, in essence, is practically used as the model of the system, generally show the circuit of the enterprise and financial relations, in which the company enters in this circuit.

The data source for the analysis of financial results is the report of the financial results and their use (Form number 2 annual and quarterly reports).

How comfortable are the sources of information for financial analysis?

First of all that  you can make a comparison analysis of previous report periods without preparation of data for analysis because of Form №1 and Form №2. Second, with the appearance specialized accounting software for automated analysis of the financial condition of the company, convenient immediately after the preparation of reporting forms without leaving the program to produce on the basis of already prepeared forms of financial statements using the built-in power of the financial analysis, simple, rapid analysis of a company.

Financial analysis, based on data from only financial statements, acquires the characteristics of the external analysis, analysis provided outside of the company concerned its contractors, owners or public authorities. This analysis is based only on reported data, which contain only a very limited part of the information about the activity of the company, did not reveal all the secrets of the success or failure of the company, but external users reporting it becomes possible to objectively evaluate fairly the financial condition of the company, its business activity and profitability, not using the information, is a trade secret.

There is a diverse economic information on the activities of company and many ways to analyze this activity. Financial analysis on the financial statements referred to the classical method of analysis. Intraeconomic financial analysis uses as a source of information about the technical data of pre-production, regulatory and routine information and other data in the system of accounting.

Any company in one degree or another in constant need of additional sources of financing. You can find them on the capital market, attracting potential investors and creditors by objective informing them of their financial and economic activity, that is, mainly through financial statements. How attractive the published financial results showing current and future financial condition of the company, so high and the probability of obtaining additional sources of finance.

## 3.2. Criteria and ratios.

The main requirement for the information provided in the financial statements is, that it is useful to users, that this information can be used to make informed business decisions. To be useful, information must comply with the relevant criteria:

1. Appropriateness - means that the information is significant and has an impact on the decisions made by the user. Information is also considered appropriate if it allows prospective and retrospective analysis.
2. Reliability of information is determined by its truthfulness, predominance of economic substance over legal form, the possibility of checking and documenting. Information deemed true, if it does not contain errors and biased estimates, and do not falsify the events of economic life.
3. Neutrality - suggests that the financial statements does not focus on the satisfaction of the interests of one group of users overall accountability over another.
4. Understandability - means that users can understand the content of statements without special training.
5. Comparability - requires that the data on the activities of the company were comparable with similar information about the activities of other firms.

During the formation of the accounting information to be observed certain limitations on the information included in the reporting:

1. Optimal cost-benefit ratio, meaning that the costs of reporting must reasonably relate to the benefits that company will have from the presentation of these data to interested users.
2. The principle of prudence (conservatism) suggests that reporting documents should prevent overestimation of assets and profits and low valuation of liabilities.
3. Confidentiality requires that the accounting information contained no data that can harm the competitive position of the company.

The availability of information on the area can be divided into open and closed (secret). The information contained in the accounting and statistical reporting goes beyond the economic entity and is public information. Each business entity develops their targets, rules, regulations, tariffs, limits, system evaluation and regulation of financial activity. This information is a trade secret.

In conclusion, on the basis of the objectives, the following conclusions:

- main sources of information of financial analysis are: Form№1 and Form №2 quarterly and annual reporting, Form number 3 annual reports, internal accounting data, planning and forecasting;

- Form №1 - "Balance Sheet" - provides basic information for the analysis of financial condition at the beginning and end of the period, as well as its dynamics in one or a series of periods;

- Form №2 - "Report on the financial results of the company" provides information on the financial performance for the reporting period;

- Basic requirements for the sources of information used in the financial analysis are: the relevance, reliability, neutrality, understandability, comparability;

- field availability of information is divided into open (forms of financial statements) and closed (information of internal accounting and planning) or secret.

# 4. Financial analysis JSC «Grom»

## 4.1. Analysis of the composition, structure and dynamics of enterprise property and sources of financing.

Before performing structural analysis provides an overall assessment of the dynamics of the company's assets. Checked whether the following condition are fulfilled:

**Profit growth rate> revenue growth rate> growth rate of property**

For the analysis of the property business, in particular the analysis of the asset balance, the following formula:

1. (non-current assets/ balance)*100% = sum of shares of non-current assets
2. (Each article of non-current assets / sum of non-current assets)* sum of shares of non-current assets = The specific weight of each article
3. Just as we found specific weight of each article of non-current assets we found specific weight of each current asset.
4. Absolute change = non-current assets fiscal year. – non-current assets beginning of the year., and current assets.
5. Change ratio = (Column 3/1 Column)*100%

### *I. Table 1 - Analysis of the composition and structure of property companies*

| **Property** | **At the beginning of the year** | | **Fiscal year** | | **Change +,- per year** | | **Grow rate +, -,%** |
|---|---|---|---|---|---|---|---|
| | **thousand euros** | **%** | **Thousand Euros.** | **%** | **Euros** | **%** | |
| 1. Non-current assets | | | | | | | |
| 1.2. Fixed assets | 1070,28 | 44,06 | 1109,86 | 41,67 | + 39,57 | - 2,39 | 103,7 |
| 1.3. Construction in progress | 78,62 | 3,24 | 25,02 | 0,94 | - 53,6 | - 2,3 | 31,83 |
| 1.5. Long term investments | 30,06 | 1,24 | 30,06 | 1,13 | 0 | - 0,11 | 100 |
| **Summary for 1$^{st}$ section** | **1178,97** | **48,53** | **1164,95** | **43,74** | **- 14,02** | **- 4,79** | **98,81** |
| 2. Current assets | | | | | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 2.1. Resources | 160,46 | 6,61 | 127,93 | 4,80 | - 32,53 | - 1,81 | 79,73 |
| 2.2. VAT on purchased assets | 29,08 | 1,19 | 3,82 | 0,14 | - 25,26 | - 1,05 | 13,14 |
| 2.3. accounts receivable | 467,11 | 19,23 | 732,75 | 27,51 | + 265,64 | + 8,28 | 156,87 |
| 2.4. Short term investments | 568,88 | 23,42 | 595,68 | 22,37 | + 26,8 | - 1,05 | 104,71 |
| 2.5. Cash | 24,88 | 1,03 | 38,26 | 1,44 | + 13,37 | + 0,41 | 153,75 |
| **Summary for 2$^{nd}$ section** | **1250,44** | **51,47** | **1498,46** | **56,26** | **+ 248,02** | **+ 4,79** | **119,84** |
| **Balance sheet** | **2429,42** | | **2663,42** | | **+ 234** | | **109,63** |

1. The balance sheet total at the end of the year compared with the beginning increased by 234 thousand. Euros, or 9.63%. At first glance, ensured the growth of the property business, it develops.

2. The increase was due to current assets by 19.84%. Non-current assets decreased compared with the beginning of the year to 1.19%. It is positive that the company has invested financial resources involved in more liquid assets, and it improves the financial stability of the enterprise.

3. Non-current assets decreased by 1.19% TV.The assets increased by 39,57 thousand. Euros, or 3.7%. Other articles decreased.

4. Current assets increased by 19.84% due to the sharp increase in accounts receivable of 265,64 thousand. Euros and increase funds to 53.75%. The remaining articles were down especially stocks at 32,53 thousand. euros and VAT decreased by 25,26 thousand. euros.

Considering the structure of the balance necessary to make the following conclusion: the highest share occupied current assets and current assets inside the largest share of 27.51% in accounts receivable - then it is likely the company is to light industry. in non-current assets are dominated fixed assets of 41.67%.Such a strong increase in accounts receivable at the enterprise, reducing the finished product says that the company produces a lot of power and major spending on manufacturing products that are currently in demand.

## II. Table 2 - Dynamics of the assets of the company according to the degree of risk.

| Degree of risk | Assets | Group of assets | | | | Deviation (+, -) | |
|---|---|---|---|---|---|---|---|
| | | At the beginning of the year | | At the end of the year | | | |
| | | **Thousand euros** | **%** | **Thousand euros** | **%** | **Thousand euros** | **structural change** |
| Maximal | Cash | 24,88 | 1,07 | 38,26 | 1,48 | 13,37 | 0,41 |
| | Short-term investments | 568,88 | 24,37 | 595,68 | 22,99 | 26,80 | -1,38 |
| | | **593,76** | **25,44** | **633,94** | **24,47** | **42,17** | **-0,96** |
| Minimal | Accounts receivable (payable within 12 months), finished products | 504,22 | 21,60 | 759,42 | 29,32 | 255,20 | 7,71 |
| | Long-term investments | 30,06 | 1,29 | 30,06 | 1,16 | 0 | -0,13 |
| | | **534,28** | **22,89** | **789,48** | **30,48** | **255,20** | **7,59** |
| Average | Work in progress | 10,91 | 0,47 | 11,04 | 0,43 | 0,13 | -0,04 |
| | VAT | 29,08 | 1,25 | 3,82 | 0,15 | -25,26 | -1,10 |
| | | **39,99** | **1,71** | **14,86** | **0,57** | **-25,13** | **-1,14** |
| High | Accounts receivable (payable over 12 months) | 17,33 | 0,74 | 17,33 | 0,67 | 0 | -0,07 |
| | fixed assets | 1070,28 | 45,85 | 1109,86 | 42,84 | 39,57 | -3,01 |
| | construction in progress | 78,62 | 3,37 | 25,02 | 0,97 | -53,60 | -2,40 |
| | | **1166,23** | **49,96** | **1152,21** | **44,48** | **-14,03** | **-5,48** |
| | **Summary** | **1794,26** | **100** | **2590,49** | **100** | **256,21** | |

The analysis showed that the largest share in total assets occupy assets with a high degree of risk, but the share of these assets decreased by 5.48 points. This trend shows an increase in financial stability.

## 4.2. Analysis of individual sections and items of assets.

In the analysis of assets in non-current assets received much attention analysis of fixed assets:

- analyzes the provison of the company fixed assets

- analyzes the movement, the state and the use of fixed assets (retirement, update, depreciation, capital productivity, capital-labor ratio, the capital ratio)

In the analysis of the current assets are analyzed following articles. Particular attention is paid to the article stocks. A significant increase in the proportion of inventories is their accumulation in consequence of the presence of illiquid assets or conscious accumulation due to interruptions in the supply and inflation processes.

However, the decrease in the share of inventories and work in progress can lead to defetsitu individual commodities and disruptions in the production process.

Should not be a sharp increase in inventories of finished goods as this causes:

1. None rhythmic output, decrease demaand for production.

A significant increase in the proportion of work in progress can be caused by:

- equipment downtime

- low quality of logistics

At the analysis draws attention to the structure of current assets. For a stable, well-functioning production is characterized by stable structure of current assets and significant changes of this structure is not desirable.

### III. Table 3 - Analysis of the dynamics and structure of the organization reserves

| types of reserves | At the begining of the year | | At the end of the year | | Changes,+- this year | | Grow rate +, -, % |
|---|---|---|---|---|---|---|---|
| | thous. Eur | %sum mary | thous. Eur | %sum mary | thous. Eur | %sum mary | |
| Reserves | 160,46 | 100 | 127,93 | 100 | -32,53 | - | 72,73 |
| 1. Raw materials | 95,11 | 59,27 | 72,88 | 56,97 | -22,22 | -2,30 | 76,64 |
| 2. Work in progress | 10,91 | 6,80 | 11,04 | 8,63 | 0,13 | 1,83 | 101,22 |
| 3. finished goods | 54,44 | 33,93 | 44 | 34,39 | -10,44 | 0,46 | 80,82 |

**Conclusion:** In general, under Article 210 decreased to 27.27%. The positive is the reduction of finished goods in warehouses. The largest share raw materials, although they declined slightly by 2.3%.

For the analysis of inventories are calculated:

Turnover ratio.= Revenue / average Manuf. resources

Days Sales in Inventory = 360/Turnover ratio.

These figures are compared with the previous period , turnover ratio should increase and decrease the duration of the turnover.

Revenue at the beginning of the year = 7337,77 thousand. eur., At the end = 7377,77 thousand. euros.

| Title | Turnover ratio | | t | |
|---|---|---|---|---|
| | Beginning of the year | End of the year | Beginning of the year | End of the year |
| Reserves | 50,89 | 51,16 | 7,07 | 7,04 |
| – Raw materials | 87,35 | 87,83 | 4,12 | 4,10 |
| – Work in progress | 668,42 | 672,06 | 0,54 | 0,54 |

| | | | | |
|---|---|---|---|---|
| – Finished goods | 149,07 | 149,89 | 2,41 | 2,40 |
| Accounts receivable | 12,23 | 12,30 | 29,44 | 29,27 |
| Cash | 232,37 | 233,64 | 1,55 | 1,54 |

**Conclusion**: based on the calculation turns out that turnover ratio increases and decreases the duration of the turnover is positive for activity of the company.

## 4.3. Analysis of receivables

One of the easiest methods for analyzing the state of a company's accounts receivable is to print an accounts receivable aging report, which is a standard report in any accounting software package. This report divides the age of the accounts receivable into various buckets, which you can sometimes alter within the accounting software to match your billing terms. The most common time buckets are from 0-30 days old, 31-60 days old, 61-90 days old, and older than 90 days. Any invoices falling into the time buckets representing periods greater than 30 days are cause for an increasing sense of alarm, especially if they drop into the oldest time bucket.

There are several issues to be aware of when you analyze based on an aging report, which are:

Individual credit terms. Management may have authorized unusually long credit terms to specific customers, or perhaps only for particular invoices. If so, these items may appear to be severely overdue for payment when they are, in fact, not yet due for payment at all.

Distance from billing date. In many companies, the majority of all invoices are billed at the end of the month. If you run the aging report a few days later, it will likely still show outstanding accounts receivable from one month ago for which payment is about to arrive, as well as the full amount of all the receivables that were just billed. In total, it appears that receivables are in a bad state. However, if you were to run the report just prior to the month-end billing activities, there would be far fewer accounts receivable in the report, and there may appear to be very little cash coming from uncollected receivables.

Time bucket size. You should approximately match the duration of the time buckets in the report to the company's credit terms. For example, if credit terms are just ten days and the first time bucket spans 30 days, nearly all invoices will appear to be current.

Unapplied credits. There may be unapplied credits on the report. If so, clean up the report by researching which invoices they should have been applied against. Doing so may reduce the amount of overdue receivables listed on the report.

***IV. Table 4 - Analysis of the dynamics and structure of accounts receivable***

| **Amounts receivable** | **At the beginning of the year** | | **At the end of the year** | | **Changes+, -this year** | | **growth rate** |
|---|---|---|---|---|---|---|---|
| | **Thousand euros.** | **%summary** | **Thousand euros.** | **%summary** | **Thousand euros..** | **%summary** | |
| accounts receivable | 467,11 | 100 | 732,75 | 100 | 265,64 | | 156,87 |
| short-term receivables | 449,77 | 96,29 | 715,42 | 97,63 | 265,64 | 1,35 | 159,06 |
| long-term receivables | 17,33 | 3,71 | 17,33 | 2,37 | 0 | -1,35 | 100,00 |

By year-end accounts receivable increased by 56.87%, this was due to the increase in short-term receivables. Share in the total amount of receivables takes short-term receivables, which increased by 59.06%. Long-term receivables remained unchanged.

## 4.4. Analysis of liabilities

In the analysis of liabilities also use the horizontal and vertical analysis and compiled analytical table.

A method of financial statement analysis in which each entry for each of the three major categories of accounts (assets, liabilities and equities) in a balance sheet is represented as a proportion of the total account. The main advantages of vertical analysis is that the balance sheets of businesses of all sizes can easily be compared. It also makes it easy to see relative annual changes within one business.

A procedure in fundamental analysis in which an analyst compares ratios or line items in a company's financial statements over a certain period of time. The analyst will use his or her discretion when choosing a particular timeline; however, the decision is often based on the investing time horizon under consideration.

## *V. Table 5 - Analysis of the dynamics and structure of the sources of funds the organization*

| **sources of funds** | **At the begining of the year** | | **At the end of the year** | | **Changes +,-** | | **growth rate +, -, %** |
|---|---|---|---|---|---|---|---|
| | **Sum, thous. Eur.** | **Specific weight, %** | **Sum, thous. Eur.** | **Specific weight, %** | **thous. Eur.** | **%** | |
| 1. Capital and reserves | | | | | | | |
| 1.1. charter capital | 1273,62 | 52,42 | 1273,62 | 47,82 | 0 | -4,61 | 100,00 |
| 1.2. reserve capital | 11,26 | 0,46 | 11,26 | 0,42 | 0 | -0,04 | 100,00 |
| 1.3. Retained earnings (loss) | 215,02 | 8,85 | 237,13 | 8,90 | 22,11 | 0,05 | 110,28 |
| **Total for Section 1** | **1499,90** | **61,74** | **1522,01** | **57,15** | 22,11 | **-4,59** | **101,47** |
| 3. short-term liabilities | | | | | | | |
| 3.1. Loans and credits | 266,66 | 10,98 | 471,11 | 17,69 | 204,44 | 6,71 | 176,67 |
| 3.2. accounts payable | 662,84 | 27,28 | 670,28 | 25,17 | 7,44 | -2,12 | 101,12 |
| **Total for Section 3** | **929,50** | **38,26** | **1141,39** | **42,02** | **211,88** | **3,76** | **120,40** |
| **Balance sheet** | **2429,40** | **100,00** | **2663,40** | **100,00** | **233,99** | **0,00** | **109,63** |

**Conclusions:** Liabilities increased by 233,99 thousand. euros, or 9.63%. This was due to the increase in equity capital to 22,11 thousand. euros and increased borrowings to 211,88 thousand. euros. In the company there is a tendency to increase equity by increasing retained earnings, other articles remained unchanged, but decreased their share. Especially decreased the proportion of the share capital by 4.61. The share of retained earnings as of the end of the period increased by 0.05. On the whole, the share of equity at the end of the reporting period decreased by 4.59. This tendency suggests that the enterprise becomes unstable. The enterprise has been an increase in the debt capital

211,88 thousand. euros and the leverage ratio at 3.76. Increased short-term borrowings at the 204,44 th. euros, or 6.71%. Accounts payable increased by 7,44 thousand. euros, but decreased its share by 2.12%.

### VI. Table 6 - Analysis of the dynamics and structure of accounts payable organizations

| **Accounts payable** | **At the beginning of the year** | | **At the end of the year** | | **Change +,-** | | **Grow rate +, -,** |
|---|---|---|---|---|---|---|---|
| | **Sum, thous. Eur** | **Specific weight, %** | **Sum, thous. Eur** | **Specific weight, %** | **thous. Eur** | **%** | **%** |
| Accounts receivable, total | 662,84 | 100 | 670,28 | 100 | + 7,44 | - | 101,12 |

Accounts payable increased by 1.12%, which in absolute terms is 7,44 thousand. euros.

### VII. Table 7 - Comparative analysis of payables and receivables during the reporting period

| **Title** | **accounts receivable** | **accounts payable** |
|---|---|---|
| 1. Revenue from sales, ths. eur.<br>- At the beginning of the year<br>- At the end of the year | 7337,77<br>7377,77 | 7337,77<br>7377,77 |
| 2. Debt, thous. Euros.<br>- At the beginning of the year<br>- At the end of the year<br>- deviation (+, -) | 467,11<br>732,75<br>+ 265,64 | 662,84<br>670,28<br>+7,44 |
| 3. Turnover ratio, turnover<br>- At the beginning of the year | 15,71<br>10,07 | 11,07<br>11,01 |
| 4. Repayment period, days<br>- At the beginning of the year | 22,92<br>35,75 | 32,52<br>32,70 |

Turnover ratio= Revenue / average accounts receivable

Days Sales in Inventory = 360/ Turnover ratio.

**Conclusion:** Turnover ratio of accounts receivable and accounts payable decreased, which is positive for accounts payable, but not for accounts receivable. The maturities of receivables and payables increased, which is a negative factor, as they should be reduced. At the end of the year accounts receivable exceeded accounts payable, this suggests that our company owe more than it should to creditors.

## 4.5. Analysis of balance sheet liquidity and solvency of the company

The company is considered liquid if its current assets more than current liabilities.

The company is considered solvent if it is able to finance its operations and meet its obligations in a timely manner and to pay off debt.

Analysis of solvency and liquidity begins with the group's assets and liabilities into 4 groups. Assets are grouped according to their degree of liquidity, the speed of turning them into cash.

A1 – most liquid assets (cash and short-term investments)

A2 – quick assets (receivables up to 12 months, and other current assets)

A3 – slowly realizable assets (stocks, VAT, long-term investments finance from the first section and the deferred tax assets of section 1)

A4 – illiquid assets: (1 section are taken from all non-current assets less long term. financial. Attachment and deferred-tax assets + s receivables over 12 months).

Liabilities are divided into 4 groups.

L1 – the most pressing liabilities (payables, receivables participants in the payment of income and other current liabilities)

L2 - short-term liabilities. (short-term loans and provisions for liabilities)

L3 – long-term liabilities

L4 – constant liabilities (Equity)

Next, each group of assets is compared with the corresponding group of liabilities.

The company is considered to be completely liquid, if the following conditions fulfiled:

A1 ≥ L1 A2 ≥ L2 A3 ≥ L3 A4 ≤ L4

### *VIII. Table 8 - Analysis of balance sheet liquidity*

| **Assets** | **At the beginning of the period** | **At the end of the period** | **Liabilities** | **At the beginning of the period** | **At the end of the period** | **Paying excess and lack of payment** | |
|---|---|---|---|---|---|---|---|
| 1. The most liquid assets A1 | 593,77 | 633,95 | 1. The most urgent obligations L1 | 662,84 | 670,28 | -69,06 | -36,33 |
| 2. Quick assets A2 | 449,77 | 715,42 | 2. current liabilities L2 | 266,66 | 471,11 | 183,11 | 244,31 |
| 3. Slowly realizable assets A3 | 219,62 | 161,82 | 3. long-term liabilities L3 | 0 | 0 | 219,62 | 161,82 |
| 4. illiquid assets A4 | 1166,24 | 1152,22 | 4. permanent liabilities L4 | 1499,91 | 1522,02 | -333,66 | -369,80 |
| **Balance sheet** | **2429,40** | **2663,41** | **Balance sheet** | **2429,41** | **2663,41** | **-** | **-** |

Will check whether the conditions of liquidity are fulfilled:

Beginning of the year A1<L1 A2>L2 A3>L3 A4<L4

End of the year A1<L1 A2<L2 A3>L3 A4<L4

The company is not totally liquid than the beginning not the end of the year, as not fulfilled the necessary conditions.

During the reporting period there is a lack of payments to cover immediate obligations. At the beginning of the year it amounted to 69,06 thousand. euros, and at the end of the year amounted to 36,33 thousand. euros. These figures confirm that the most urgent assets do not cover the accrued liabilities. Favorably the availability of payments surplus, as at the beginning and at the end of the year, as evidenced by the second and third group of assets and liabilities.

To estimate the solvency we calculate a financial ratios. They analyzed the dynamics, data at the end of the year compared to the beginning of the year and compared to standard values.

current liquidity for beginning and end of the year = (A1+A2) – (L1+L2)

Beginning of the year current liquidity = 1040,54 – 929,5= 111,04

End of the year current liquidity = 1349,37 – 1141,39 =207,98

**The long-term liquidity at the end of the year = A3 – L3**

**Long-term liquidity** = 219,62-0=219,62

During the year the company was solvent.

For a more accurate analysis of solvency we must calculate relative performance – financial ratios. They are calculated at the beginning and end of the year and study the dynamics and compared with standard values.

Absolute liquidity ratio = A1/ (L1+L2) >0,2-0,25

Quick Ratio = (A1+A2)/ (L1+L2) ≥ 0,7-0,8

Current ratio = (A1+A2)=A3/( L1+L2) ≥ 2

The coefficient of total liquidity = (A1+0,5A2+0,3A3)/ (L1+0,5L2+0,3L3)

The most important indicator is the current ratio. If it meets the standard value, it is considered that the structure of the balance is satisfactory, and the company is solvent.

## *IX. Table 9 - Analysis of liquidity*

| **Title of liquidity** | **At the beginning of the year** | **At the end of the year** | **Changes, +,-** | **specification** | **Fulfilling the specification** |
|---|---|---|---|---|---|
| 1. Absolute liquidity ratio | 0,64 | 0,56 | -0,08 | >0,2-0,5 | Yes |
| 2. The coefficient of critical liquidity | 1,12 | 1,18 | 0,06 | ≥ 0,7-0,8 | Yes |
| 3. Current ratio | 1,36 | 1,32 | -0,04 | ≥ 2 | No |
| 4. The coefficient of total liquidity | 1,11 | 1,15 | 0,04 | ≥ 1 | Yes |

**Conclusion:** absolute liquidity ratio decreased by the end of the year, but still more than the standard value, as at the beginning of the year and at the end. At the end of the year coefficient has become a 0.56, which means that the company is able to pay its debts at the expense of its most liquid assets by 56%, and capital adequacy ratio only 20-25%. All coefficients are increased by the end of the year, except current ratio. It can be concluded that the enterprise is not completely insolvent.

To identify the factors that influence change in the company's solvency is performed factor analysis of current liquidity ratio.

For a basis of factor analysis takes the original model of current liquidity ratio.

current liquidity ratio.= (A1+A2+A3)/( L1+L2)

Accept that the 1-year end, and 0-beginning of current year liquidity ratio change.

Due to A1:

(A1.1+A2.0+A3.0/L1.0+L2.0) – (A1.0+A2.0+A3.0/L1.0+L2.0) = (1303,34/929,5) – (1263,16/929,5) = 1,4-1,36 = 0,04

current liquidity ratio change due to A2:

(A1.1+A2.1+A3.0/L1.0+L2.0) – (A1.1+A2.0+A3.0/L1.0+L2.0) = (1568,99/929,5) – (1303,34/929,5) = 1,68-1,40= 0,28

current liquidity ratio change due to A3:

(A1.1+A2.1+A3.1/L1.0+L2.0) – (A1.1+A2.1+A3.0/L1.0+L2.0) = (1511,19/929,5) – (1568,99/929,5) =1,62-1,68= -0,06

current liquidity ratio change due to L1:

(A1.1+A2.1+A3.1/L1.1+L2.0) – (A1.1+A2.1+A3.1/L1.0+L2.0) = (1511,19/936,94) – (1511,19/929,5) = 1,61-1,62 = -0,01

current liquidity ratio change due to L2:

(A1.1+A2.1+A3.1/L1.0+L2.1) – (A1.1+A2.1+A3.1/L1.1+L2.0) = (1511,19/1139,95) – (1511,19/936,94) = 1,32-1,62 = -0,30

| **Influence of factors on current liquid ratio change** | **Change + -** |
|---|---|
| *Due to:*<br>The most active assets (A1) | 0,04 |
| Quick assets (A2) | 0,28 |
| Slow-moving assets (A3) | -0,06 |
| The most urgent liabilities (L1) | -0,01 |
| current liabilities (L2) | -0,30 |
| **Summary:** | **-0,04** |

**Conclusion:** so it can be concluded that a change in the current ratio to a greater extent affected by current liabilities.

## 4.6. Analysis of financial stability

Financial stability is a key indicator of financial and economic activity of the company in a market economy.

Financial stability of the timely payment of taxes in the budget, social contributions, salaryes of employees, dividends to shareholders, banks and guarantees the repayment of loans and interest thereon.

Financial stability is closely related to solvency. The essence of financial stability - a provision of reserves and future expenditures, by the sources of their formation, and the ability to pay in favor of its external manifestation.

***X. Table 10 - Analysis of financial stability***

| **Titles** | **At the beginning of the year** | **At the end of the year** | **Changes, +, -** |
|---|---|---|---|
| **1** | **2** | **3** | **4** |
| 1. Own capital<br>1.1. Capital and reserves | 1499,90<br>1284,88 | 1522,01<br>1284,88 | |
| 2. Fixed assets | 1178,97 | 1164,95 | -14,02 |
| 3. Availability of own working capital | 105,91 | 119,93 | 14,02 |
| 4. Availability of own working and long-term debt | 105,91 | 119,93 | 14,02 |
| 5. Short-term loans and borrowings | 266,66 | 471,11 | 204.45 |
| 6. The total value of equity and debts | 1766.56 | 1993,12 | 226,56 |
| 7. The total value of stocks and VAT | 189,54 | 131,75 | -57,79 |
| 8.Changes(+), scarcity (-)of own working capital for the formation of reserves | -83,63 | -11,82 | 71,81 |
| 9.Changes (+), scarcity (-)of own working capital and long-term debt for the formation of reserves | -83,63 | -11,82 | 71,81 |

| | | | |
|---|---|---|---|
| 10. Changes (+), scarcity (-)the total value of its own working capital and debt for the formation of reserves | 1577,02 | 1861,37 | 284,35 |

In the analysis of financial stability is checked following relation:

Z ≤ (**Sources of own funds** + **Long-term loans**) – F

**Z** – inventory and costs, stocks + VAT

**F** – fixed assets

**Sources of own funds** - equity (capital and reserves + deferred income)

**Long-term loans** – fixed liabilities

If the condition is satisfied, the company is financially stable.

189,55 beginning of the year. ≤ (1499,90+ 0)- 1178,97

131,73 end of the year ≤(1522,01+0)- 1164,95

189,55 ≤ 320,93 – condition is satisfied, the company is financially stable.

131,73 beginning of the year ≤ 357,06 – condition is satisfied, the company is financially stable.

There are 4 types of companies by financial stability:

1. Absolute financial stability- At the absolute financial stability reserves and costs are covered by its own working capital, and the company does not depend on external sources. Absolute financial stability characterized by inequality.

**Z < own current assets**

where Z - the amount of reserves and costs;

own current assets defined as the difference between equity and non-current assets

2. Normal financial stability is characterized by inequality

**Own current assets < Z<own current assets +long-term liabilities**.,

This ratio shows that the amount of reserves and costs exceed the amount of working capital, but less than the sum of its own working capital and long-term borrowing. To cover the cost of stocks and uses its own and borrowed funds long-term

3. The unstable financial condition

In unstable financial condition to cover stocks and costs company uses its own and borrowed funds of long-term and short-term nature. Unstable financial condition is characterized by inequality.

**Own current assets+long term liabilities< Z< own current assets+long term liabilities+short term loans**,

4. The critical financial situation.

Characterized by a situation where the amount of reserves and costs exceeds the total amount of normal (reasonable) funding sources. The critical financial situation characterized by inequality.

**Own current assets + Long term liabilities + short term loans <Z**

This situation means that the company can not pay on time with its creditors and may be declared bankrupt.

To estimate the financial stability we must use three-component type analysis .To characterize the sources of formation of reserves and costs are used indicators, which reflect the different types of sources.

| | |
|---|---|
| 1. Availability of own circulating assets | Equity - non-current assets |
| 2.Availability of own and long-term sources of borrowing | own current and long-term borrowings - non-current assets |
| 3.Availability of own, short and long-term sources of borrowing | own, short-term and long-term borrowings - non-current assets |

With these parameters it is possible to determine the three-figure type financial situation. There are four types of financial situations:

1. Surplus (+) or scarcity (-) of working capital, defined as the difference between the presence of working capital and the value of stocks and costs.

2. Surplus (+) or scarcity (-)of own and long-term debt sources of formation of reserves and costs , defined as the difference between the presence of long-term debt and own sources and the amount of reserves.
3. Surplus (+) or scarcity (-)own, and long-term debt sources of formation of reserves and costs , defined as the difference between the presence of long-term debt and own sources and the amount of reserves.

## 4.7. Indicators of financial stability.

To determine the type of financial stability are calculated absolute indicators of financial stability.

1. Own current assets

**availability of working capital = equity -non-current assets**

At the beginning of the year: 105,91 thousand euros

At the end of the year: 119,93 thousand euros

2. Availability of own sources and long-term debt for the formation of reserves and costs.

**Availability of own current and long-term debt funds = (Sources of own funds + Short-term loans) – Fixed assets and investments**

At the beginning of the year: 105,91 thousand euros

At the end of the year: 119,93 thousand euros

3. Availability of the total value of the main sources of formation of reserves and costs

4. **values of the main sources of formation of reserves and costs**= **Availability of own current and long-term debt funds** + **Short-term loans**

At the beginning of the year: 105,91 thousand euros

At the end of the year: 119,93 thousand euros

At the beginning of the year : -83,63thousand euros

At the end of the year: -11,82 thousand euros

5. Surplus / scarcity of own and long-term sources of formation of reserves and costs

At the beginning of the year: -83,63 thousand euros

At the end of the year: -11,82 thousand euros

6. Surplus / scarcity of the total amount for the formation of reserves and costs

+- Availability of own sources and long-term debt for the formation of reserves and costs. = Availability of own sources and long-term debt for the formation of reserves and costs. – Z

At the beginning of the year: -83,63thousand euros

At the end of the year: -11,82 thousand euros

At the beginning of the year At the end of the year:

Availability of working capital = -83,63< 0

Availability of working capital = -11,82 <0

Surplus / shortage of own and long-term sources of formation of reserves and costs = -83,63<0 Surplus / shortage of own and long-term sources of formation of reserves and costs = -11,82 < 0

Availability of own sources and long-term debt for the formation of reserves and costs. = -83,63< 0

Availability of own sources and long-term debt for the formation of reserves and costs.= -11,82 <0

**Conclusion:** so we can conclude that at the beginning of the year, the company is in crisis, the end of the year the state of the organization has improved somewhat, but still remains unstable.

To analyze the financial stability wec alculate relative performance / financial ratios. These figures are calculated at the beginning and end of the year. Analyzed in the dynamics and compared with standard values.

***XI.Table 11 - Analysis of financial stability***

| **Title** | **At the beginning of the year** | **At the end of the year** | **Changes, +, -** | **specification** | **Fulfilling specifications** |
|---|---|---|---|---|---|
| 1. Autonomy ratio | 0,62 | 0,57 | -0,05 | 0,5 | Yes |
| 2. The ratio of debt and equity | 0,62 | 0,74 | 0,12 | = 1 | No |

| | | | | | |
|---|---|---|---|---|---|
| 3. Factor for long-term capital raising | 0 | 0 | 0 | - | - |
| 4. The coefficient of maneuverability | 0,21 | 0,24 | 0,03 | >=0,5 | No |
| 5. coefficient of funding | 1,61 | 1,36 | -0,25 | >=1 | Yes |
| 6. Changing the permanent asset | 0,79 | 0,77 | -0,02 | - | – |
| 7. The coefficient of availability of internal funds | 0,26 | 0,24 | -0,02 | *≥0,1* | Yes |

1. **The financial independence / autonomy**

*C1 = (equity + deferred income) / balance currency*

The standard value is 0.5.

This ratio shows the share of own capital advanced to exercise their statutory activities in the total value of the enterprise sources. The growth of this indicator characterizes the increase of financial independence the company.

2. **The ratio of debt and equity - the shoulder of financial leverage**

*C2 = borrowed capital / Equity = 1*

Shows how much debt capital the company has attracted on 1 euro of the equity invested in assets.

3. **The coefficient of early attracting capital**

*C3= long-term liabilities / (equity + long-term liabilities); no specification*

4. **The coefficient of maneuverability** – shows how much of the company's equity capital is in the mobile form, allowing company more / less freely maneuver.

The low value of this indicator means that a significant part of the company's equity capital is enshrined in the immobilization of character values (current assets), and it follows that they can not be for a short period converted into cash.

*C4= (equity – fixed assets) / equity ≥ 0,5*

**5. Ratio of financing / risk**

Shows how much leverage is covered equity.

*C5= equity / debt capital ≥ 1*

**6. Non-current assets / equity**

*C8= Non-current assets / equity*

The higher the score, the higher the financial stability of the company.

**7. Coefficient of enterprises own working capital**

*C9= (Equity - Non-current assets) / current assets ≥0,1*

Should increase and match standard value.

C1 complies to specifications but at the end of the year decreased compared with the beginning for 0.05, it indicates that the share of equity capital advanced to exercise their statutory activities in the total value of the sources of funds has decreased, it is negative for the company. C2 increased by the end of the year for 0.12 and does not fulfill the standard, the company is not quite effectively attracted borrowings. Coefficient of maneuverability increased at the end of the year for 0.03, but nevertheless it does not meet the standard value, this suggests that much of the company's equity capital is enshrined in the immobilization of character values (non-current assets), may not be for a short period converted into cash. C5 decreased at the end of the year for 0.25, but complies to specifications it is said that the company can cover its own capital borrowings. C6 decreased by the end of the year for 0.02, it indicates that the financial stability of the end of the year has decreased. C7 increased by the end of the year for 0.02, but fulfill to the standarts.Using factor analysis revealed three factors influence the amount of change a ratio of the company's own working capital.

## 4.8. Analysis of business activity

Any activity that is engaged in for the primary purpose of making a profit. Business activities can include things like operations, marketing, production and administration. Also known as "business operations". For this analysis we use turn over ratio. The percentage of a mutual fund or other investment vehicle's holdings that have been "turned over" or replaced with other holdings in a given year. The type of mutual fund, its investment objective and/or the portfolio manager's investing style will play an important role in determining its turnover ratio.

To analyze the business activity indicators are calculated:

***XII. Table 12 - Analysis of business activity***

| Title | Base year | Report year | Changes, +, - |
|---|---|---|---|
| 1. Inventory turnover ratio | 54,67 | 51,16 | -3,51 |
| 2. Accounts receivable turnover ratio | 17,93 | 12,30 | -5,63 |
| 3. The average maturity of receivables days | 20,08 | 29,27 | 9,19 |
| 4. Turnover ratio of funds | | 233,64 | |
| 5. Capital productivity, eur. / eur | 6,95 | 6,77 | -0,18 |
| 6. Turnover ratio of accounts payable | 12,04 | 11,07 | -0,97 |
| 7. The average maturity of accounts payable days | 29,9 | 32,52 | 2,62 |

1. The turnover ratio of funds

Turnover ratio of funds= revenue/ Cash (average)

2. The accounts receivable turnover ratio

Accounts receivable turnover ratio = revenue/Accounts receivable (average)

3. Maturity of receivables

$T_{account\ recivable}$ = 360 / accounts receivable turnover ratio

4. Inventory turnover ratio

Inventory turnover ratio= Revenue / Reserves (average)

5. The turnover ratio of accounts payable

The turnover ratio of accounts payable= Revenue / payables (average)

6. Maturity payables

$T_{credit}$ = 360 / The turnover ratio of accounts payable

7. Capital productivity

V = Revenues / Fixed Assets

These indicators are studied in dynamics, calculated for the year and compared to the previous year. A positive trend is that the turnover ratio should be increased, and the maturity of payables and receivables decrease

## 4.9. Analysis of profit and profitability

**Profit analysis.**

Profit - is the final financial results of the company, which characterizes the absolute efficiency of its work.

Initial information for analysis of profit is a form №2 «Profit and Loss Account". On the basis of this report is compiled analytical table.

The following types of income:

1. gross profit = Revenues - Expenses
2. Profit from sales = Gross profit - (commercial + administrative expenses)
3. Profit before tax = profit from sales + other income - other expenses
4. Net profit = Profit before tax - income tax

### XIII. Table 13 - Analysis of profit

| The name of title | base year, thousand eur. | fiscal year, thousand eur. | Growth rate, % | Specific weight,% base year of fiscal year |
|---|---|---|---|---|
| 1. Revenue from sales of goods | 7337,77 | 7377,77 | 0,55 | 0.55 |
| 2. Cost of goods, products | 7208,22 | 7218,84 | 0,15 | 0.15 |
| 3. gross profit | 129,55 | 158,93 | 122,68 | 22.68 |
| 4. management costs | 28,88 | 26,66 | 92,30 | 7.7 |
| 5. management costs | 22,22 | 22 | 99,00 | 1 |
| 6. Profit (loss) from sales | 180,44 | 207,82 | 115,17 | 15.17 |
| 7. Income from participation in other organizations | 32,88 | 28,44 | 86,48 | 13.52 |
| 8.Other costs | 4,44 | 21,77 | 490,00 | 390 |
| 9. Profit before tax | 208,88 | 214,48 | 102,68 | 2.68 |
| 10. net income | 167,11 | 171,59 | 102,68 | 2.68 |

**Conclusion:** Net profit increased by 2.68% and profit before tax increased by 2.68%. Profit from sales increased by 15.17% due to the reduction in the commercial 7.69% and management costs by 1%. Gross profit increased by 22.68% due to increased sales revenue by 0.55%.

**Cost benefit analysis.**

Profitability index characterizes the relative efficiency of the company.

Profitability index characterizes the relative efficiency of the company. There are different types of profitability:

1. Return on sales

*R = revenues / costs*

2. Return on assets

$$\text{ROA} = \frac{\text{Net Income}}{\text{Average Total Assets}}$$

3. Return on equity

*R = Profit / Equity*

4. Breakeven costs

R = Profit / production costs

All margins of the investigated companies say that the company is working effectively.

## 5. Conclusion

Based on this analysis, the following conclusions on the investigated enterprises:

Balance sheet total at the end of the year compared with the beginning of increased ensured the growth of property companies, it develops. The increase was due to current assets.

Considering the structure of the balance necessary to make the following conclusion: the highest share occupied current assets and current assets inside the largest share of 27.5% in receivables - then it is likely the company relates to the light industry as well as in non-current assets are dominated fixed assets 41.67%. Such a strong increase in accounts receivable at the enterprise, reducing the finished product says that the company produces a lot of power and major spending on manufacturing products that are currently in demand.

1. The balance sheet total increased, the company is developing

2. Growth of equity

3. No losses found

4. Accounts receivable approximates the accounts, accounts receivable at the end of the period 62,46 to more than thousand.euros.

5. There is a sharp increase in the articles of loans and credits - almost 2 times.

Own current assets = 1522,01– 1164,95 = 357,06 thousand euros

The company has its own working capital, this is a very positive development.

The analysis showed that the largest share in total assets occupy assets with a high degree of risk, but the share of these assets decreased by 5.48 points. This trend shows an increase in financial stability.

The company is not totally liquid at the beginning not the end of the year, as not fulfilled the necessary conditions. During the reporting period there is a lack of payments to cover immediate obligations. At the beginning of the year, he was 69,06 thousands. euros, and at the end of the year amounted to 36,33 thousand. euros. These figures confirm that the most urgent assets do not cover the accrued liabilities. Favorably as the availability of payments surplus, as at the beginning and at the end of the year, as evidenced by the second and third group of assets and liabilities.

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