

Ludmila Lakhtionova, Nataliya Kirichenko

Analysis of report about financial results at small enterprise : Ukrainian experience

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LUYDMILA LAKHTIONOVA

NATALIYA KIRICHENKO

State higher education establishment „Kiev National
Economic University of the name Vadim Get'man”

ANALYSIS OF REPORT ABOUT FINANCIAL RESULTS AT SMALL ENTERPRISE: UKRAINIAN EXPERIENCE

Annotation

In the article the improved model of analysis of financial results of small enterprises is exposed from data of their financial reports. The groupment of incomes, expenses and financial results on the types of activity is specified for implementation of comparative analysis of financial results of small enterprises. On base of specifying current world method of analysis of financial results companies from data of financial statement the conception of classification of global indexes of profitability of activity small enterprises is developed in the conditions of modern informative economy. In this article the method determination of profitability indexes at small enterprises are showed towards realization and expenses according data of report about financial results and on the digital model of Ukrainian form № 2-m.

Introduction

Actuality of theme

In conditions of globalization of economy the questions of analysis of the financial state of companies from data of the financial reporting take important place. It's especially important towards small enterprises as one of the main part in subject economy system. In financial analysis of small enterprises research report about financial results takes special place. Learning this report form we

should pay attention on absolute and relative indexes. Unfortunately, for today single point of view towards content and methods of calculation indexes of analysis of report about financial results of companies, and especially small enterprises, scientists do not have. Ukrainian scientists estimate indexes report about financial results subjects of economy in different ways¹.

Foreign scientists don't have single point of view ². It's serious obstacle in making global comparative analysis financial results economic subjects of the different countries of the world.

It could be said about small enterprises, which give their report about financial results in shorten form.

Aim of the article: researches methods of the analysis financial results of small enterprises from data of financial statement in conditions of global economy and spreading of information space.

Tasks of the research: to develop the system of the organizational stages of making analysis of financial results of small enterprises within outer financial analysis; paying attention opinions about indexes of profitability of companies to elaborate the classification of indexes of profitability and to develop general conception their group for small enterprises of the world countries in conditions of globalization; to make a practical example of analysis from data of the Ukrainian report about the financial results of small enterprise.

Results of the research: the subject of small enterprises in Ukraine make shorten financial report within balance (form № 1-m) and report about financial

¹ Efimenko V.I., Lakhtionova L.A., Kirichenko N.O. – *Global analysis of financial results of the activity of economic subjects according the data of the financial reports*. - International Scientific Conference «Finance and Accounting: Theory and Practice, Development and Trends», Riga, University of Latvia, on September 18–19, 2008. Lakhtionova L.A., *Organization stages of analysis of financial state of enterprise according statistics of form №1 “Balance”*. - International Conference «Business Analysis, Accounting, Taxes and Auditing», Estonia: Tallinn, Tallinn University of Technology, November 6–7, 2008; another Authors: Деєва Н.М., Дедіков О.І.; Костырко Р.О.; Шморгун Н.П., Головка І.В.; Старостенко Г.Г., Мірко Н.В ; Подольська В.О., Яріш О.В.

² Бернстайн Л.А. *Анализ финансовой отчетности: теория, практика и интерпретация*. Пер. с англ./Научн. ред. перевода чл.-корр. РАН И.И. Елисеева. Гл. редактор серии проф. Я.В.Соколов, М.: Финансы и статистика, 2002.; Карлин Т.Р., Макмин А.Р. *Анализ финансовых отчетов (на основе ГААР)*: Учебник. М. ИНФРА-М, 2001., р. 448 Коласс Б. *Управление финансовой деятельностью предприятия*. Проблемы, концепции и методы: Учеб. пособ. / пер. с франц. под ред. проф. Я.В. Соколова. – М.: Финансы, ЮНИТИ, 1997. р.576; МакКензі, Венді. *Посібник Financial Times з аналізу та використання фінансової звітності*: Пер. з англ. К.: Всеуито; Наукова думка, 2003. р.283; МакКензі Венді. *Использование и интерпретация финансовой отчетности*: Пер. с англ. Днепропетровск: Баланс-Клуб Бизнес Букс, 2006. р. 600; another Authors: Стоун Д., Хитчинг К.; Уолш Кярэн; Хиггинс, Роберт С; Этрилл П. Паупа V., Sneidere R.

results (form № 2-m), methodological principles regulate Ukrainian standard of accounting 25 “Financial report subject of small enterprise”.

Paying attention at opinions about making analysis financial results from data of financial report, we propose the next organizational stages of analysis about financial results of small enterprises:

- analysis of contain and structure incomes of small enterprise in dynamic;
- analysis of dynamic contain and structure expenses of small enterprise;
- analysis of dynamic and structure financial results of small enterprise according the types of activity: main operating, other operating, financial and investment;
- analysis of relative indexes – profitable activity of small enterprise in dynamic according classification groups.

In such a way we have already done proposals of analysis report about financial results and show example of agrarian firm, but were not done towards small enterprises³.

It is enough simply to make analysis of incomes contain and structure, expenses and financial results activity of small enterprise, with distribution them into three type of activity: operating, financial and investment. It isn't problem⁴. But analysis of indexes of profitability is another situation.

For today we have not only one opinion towards group and methods of determination indexes of profitability.

Ukrainian scientists recommend dividing all indexes of profitability in analysis of subject activity of small enterprise into four main groups:

- indexes of profitability towards to realization;
- indexes of profitability towards to assets;
- indexes of profitability towards to own capital and duties;
- indexes of profitability expenses and production data.

³ Лахтіонова Л.А. *Фінансовий аналіз сільськогосподарських підприємств*. Навч. посіб. – К.: КНЕУ, 2005. р. 222–250.

⁴ Лахтіонова Л.А., Кириченко Н.О. *Аналіз доходів суб'єкта малого підприємництва у зовнішньому фінансовому аналізі*. - Вісник Хмельницького національного університету, 2007, № 6, т. 2. – Хмельницький: ХНУ, 2007; Лахтіонова Л.А., Кириченко Н.О. *Аналіз витрат суб'єкта малого підприємництва у зовнішньому фінансовому аналізі*. Науковий вісник Ужгородського університету: Зб.наукових праць. Серія «Економіка. Спецвипуск 22. Частина 2. Ужгород: УНУ, 2007.

According to this scheme, the researches of Ukrainian companies were made. But they were not made with small enterprises⁵. These data consist the first group:

1. Profitability gross incomes (marginal incomes) – connection gross incomes (marginal income) towards clear gain from realization. It will be next formula:

$$P_{GV} = \frac{GV (ME)}{CG} = \frac{\text{line 030 - line 140 form № 2 - m}}{\text{line 030 form № 2 - m}},$$

where:

P_{GV} — gross profitability (marginal income),

$GV (ME)$ — gross profit (marginal income),

CG — clear gain from realization (clear income).

It shows how many hryvnas of gross income is on 1 hryvna clear gain. It can be shown in percents. Than higher this index, so much the better.

The same indexes in scheme account as connection gross incomes towards sales are discovered by:

- foreign scientists P.Etryl, E.MacLain, who call it as standard gross profit and use this index comparative the activity of different companies⁶,
- American scientist Robert C.Higgins who calls it as gross marga⁷,
- British scientist V.MacCanthy who calls it as gross profitability⁸,

So, making global analysis of financial results report we should investigate gross index of profitability or standard of gross profit (gross profitability, marga) as connection gross income (marginal incomes) towards clear gain from realization (clear income, sale volume).

2. Profitability from operating income (OI) (P_{OI}) – sum operating income towards clear income (gain) from realization:

$$P_{OI} = \frac{OI}{CG} = \frac{\text{line 030 + line 040 + / - line 080 - lines 090 - 140 form № 2 - m}}{\text{line 030 form № 2 - m}}.$$

⁵ Лахтіонова Л.А. Фінансовий аналіз сільськогосподарських підприємств: Навч. посіб. К.: КНЕУ, 2005, р. 241–250.

⁶ Этрилл П. *Финансы и бухгалтерский учет для неспециалистов* / Питер Этрилл, Эдди Маклейни: Пер. с англ. – 2-е изд. М.: Альпини Бизнс Букс, 2007, р.187.

⁷ Хиггинс, Роберт С. *Финансовый анализ: инструменты для принятия бизнес-решений*: Пер. с англ. М.: ООО «И.Д. Вильямс», 2007, р. 58.

⁸ МакКензи Венди. *Использование и интерпретация финансовой отчетности*: Пер. с англ. Днепропетровск: Баланс-Клуб Бизнес Букс, 2006, р. 310.

It describes how many hryvnas of operating income is on 1 hryvnas on clear income (gain). It can be calculated in percents. Than higher this index, so much the better. Analogous index according scheme calculating as connection operating income towards sales (gain) is described by:

- Walsh Cyaran from Ireland Management Institute in Dublin, who calls it as index of efficiency of management ⁹,
- British scientist V.MacCanthy who calls it as profitability of operating income ¹⁰, Profitability of clear income (P_{CI}) – sum of clear income (CI) towards clear gain from realization. It is the next formula:

$$P_{CI} = \frac{CI}{CG} = \frac{\text{line 190 form № 2 - m.}}{\text{line 030 form № 2 - m.}}$$

According the word experience the profitability standard of clear profit is 6 -12% ¹¹ This index is recognized by the most scientists:

- American scientist Bernstein who calls it as coefficient of clear profit¹²,
- foreign scientists P.Etryl, E.MacLain, who call it as the standard of clear profit¹³,
- American scientist Robert C.Higgins who calls it as sale profitability¹⁴,
- American scientists Carlyn, MacMean who calls it as coefficient “profit/sale” or clear profit standard. It shows, what profit is in calculation on sale dollar ¹⁵,
- French scientist B. Colass who calls it as standard of clear profit¹⁶,

So, taking in attention the world experience in analysis of report about financial results at small enterprises it is necessary to research next index - profitability

⁹ Уолш Кьяран. *Ключові фінансові показники. Аналіз та управління розвитком підприємства*: пер. з англ. К.: Всеувиго; Наукова думка, 2001, р. 58.

¹⁰ МакКензи Венди. *Использование и интерпретация финансовой отчетности*: Пер. с англ. Днепропетровск: Баланс-Клуб Бизнес Букс, 2006, р. 310.

¹¹ Лахтіонова Л.А. *Фінансовий аналіз сільськогосподарських підприємств*: Навч. Посіб; К.: КНЕУ, 2005, р. 248

¹² Хиггинс, Роберт С. *Финансовый анализ: инструменты для принятия бизнес-решений*: Пер. с англ. М.: ООО «И.Д. Вильямс», 2007, р. 543.

¹³ Этрилл П. *Финансы и бухгалтерский учет для неспециалистов / Питер Этрилл, Эдди Маклейни*: Пер. с англ. – 2-е изд. М.: Альпине Бизнес Букс, 2007, р. 186.

¹⁴ Хиггинс, Роберт С. *Финансовый анализ: инструменты для принятия бизнес-решений*: Пер. с англ. М.: ООО «И.Д. Вильямс». 2007. s. 96.

¹⁵ Карлин Т.Р., Макмин А.Р. *Анализ финансовых отчетов (на основе GAAP)*: Учебник. М. ИНФРА-М, 2001. s. 292.

¹⁶ Коласс Б. *Управление финансовой деятельностью предприятия*. Проблемы, концепции и методы: Учеб. пособ. / пер. с франц. под ред. проф. Я.В. Соколова. М.: Финансы, ЮНИТИ, 1997. s. 118.

of clear profit or clear profit standard as attitude clear profit towards clear incomes from realization or sales.

These indexes are called also as indexes of realization production profitability of gross, operating and clear profit. So this group of indexes we can also call as indexes of realized production profitability.

The second and the third group of indexes can be calculated taking balance in attention.

Indexes of fourth group are the following:

1. Operating expenses profitability (P_{OE}) – relation operating activity profit (OAP) towards sum of operating expenses (OE):

$$P_{OE} = \frac{OAP}{OE} = \frac{\text{line } 030,040 - \text{lines } 090 - 140 + / - \text{line } 080 \text{ form. № } 2 - m}{\text{lines } 090 - 140 + / - \text{line } 080 \text{ form. } ^1 2 - m}.$$

It describes the profitability of operating expenses and shows how much profit is at 1 hryvnas of operating expenses.

2. Profitable of production with gross profit (PP_{GP}) – relation of gross profit (GP) to prime cost of realized goods (CRG):

$$PP_{GP} = \frac{GP}{CRG} = \frac{\text{line } 030 - \text{line } 140 \text{ form } № 2 - m}{\text{line } 140 \text{ form } № 2 - m}.$$

It describes how much profit is from 1 hryvnas of prime cost of realized goods. It is profitable of realized goods.

3. Profitability of activity expenses – relation general profit from general activity to all expenses from common activity:

$$KBЗД = \frac{ПЗД}{ВЗД} = \frac{\text{line } 070 - \text{line } 060 - \text{line } (180 - \text{lines } 170,160) \text{ form } № 2 - m}{\text{line } 180 - \text{lines } 170,160 \text{ form } № 2 - m}.$$

Expended profitability shows how much profit comes from 1 hryvnas of all expenses for current period.

Bernstein (USA) and MacCanthy (UK) pay attention on expended profitability, but they doesn't connect it with financial report indexes of small enterprises ¹⁷,

Now look at the analysis of financial results report of "Globe Ukraine" enterprise. It's private small enterprise and it's situated in Obolon district of Kiev. It sells haberdashery "Solingen" and "DUP", German and Czech productions.

Table 1. Financial results report of small enterprise "Globe Ukraine" 2008

Article	Line code	Current period	Last period
Income from realization (goods, services)	010	1286,6	553,2
Indirect taxes	020	(214,4)	(92,2)
Clear income (gain) from realization production (goods, services) (010 - 020)	030	1072,2	461,0
Other operating incomes	040		
Other ordinary incomes	050		
Extraordinary incomes	060		
Clear incomes (sum)	070	1072,2	461,0
Increasing (diminution) rests of non-complete production and ready production	080		
Material losses	090		
Salary	100	(17,7)	(4,7)
Social expenses	110	(6,8)	(1,8)
Amortization	120		
Other operating expenses	130	(28,0)	(5,5)
Including:	131		
Prime cost	140	(973,5)	(432,5)
Other ordinary expenses	150		
Extraordinary expenses	160		
Profit tax	170	(11,6)	(4,9)
General expenses (090 + 100 + 110 + 120 + 130 + 140 + 150 + 160 + 170)	180	(1037,6)	(449,5)
Clear profit (expenses)	190	34,6	11,5

¹⁷ МакКензи Венди. *Использование и интерпретация финансовой отчетности*: Пер. с англ. Днепропетровск: Баланс-Клуб Бизнес Букс, 2006, р. 310; Бернштейн Л.А. *Анализ финансовой отчетности: теория, практика и интерпретация*. Пер. с англ./Научн. ред. перевода чл.-корр. РАН И.И. Елисеева. Гл. редактор серии проф. Я.В.Соколов, М.: Финансы и статистика, 2002, р. 543.

Table 2. Analysis of profitability data of small enterprise “Globe Ukraine” according data form № 2-m “Report about financial results”

Profitability data	2007	2008	Deviation (+,-)
1. Indexes of profitability towards to realization:			
1.1. Profitability data towards to realization (marga) or gross profit standard (gross profitability, gross marga)	6,10	9,21	+ 3,11
1.2. Profitable of operating profit	3,56	4,31	+0,75
1.3. Clear profit standard (coefficient of clear profit)	2,49	3,23	+0,80
4. Data of expended profitability:			
4.1. Operating expenses profitability	3,69	4,50	+ 0,81
4.2. Profitability of activity expenses	3,69	4,50	+0,81
4.3. Profitability of production gross profit	6,49	10,14	+3,65

Private enterprise “Globe Ukraine” has lo indexes of profitability, in spite of the fact that they increase in dynamic. For example, profitability on clear profit (2,49% in 2007 and 3,23% in 2008) is much lower standard. Operating expenses profitability is equal expenses activity profitable because of absence financial and investment activity. So “Globe Ukraine” is low-profitable enterprise (2007-2008).

Conclusions

From this research following conclusions can be done:

- a) we have new improved model of the organizing stages analysis financial results report at small enterprises including the following stages of analysis:
- analysis of income structure and contain at small enterprises in dynamic;
 - analysis dynamic of expenses contain and structure at the small enterprise;
 - analysis of financial results contains and structure in dynamic at the small enterprise including the types of activity: main operating, other operating, financial and investment;
 - analysis of the relative data:
 - * profitability of activity at small enterprise according its classification groups in dynamic;

- * defined the group of incomes, expenses and financial results in types of activity: operating, financial and investment activity for making comparative analysis of financial results at small enterprises;
- b) developed conception of global indexes classification of profitability at small enterprises according their financial report in conditions of modern information economy in four groups:
- indexes of profitability towards to realization;
 - indexes of profitability towards to assets;
 - indexes of profitability towards to own capital and duties;
 - indexes of profitability expenses and production.
- c) described the method of the determination of profitable indexes at small enterprises towards to realization:
- profitability of gross profit or standard of gross profit (gross profitability, gross marga) as connection gross profit (marga profit) to clear gain from realization;
 - profitability on operating profit or profitability of operating profit as connection sum of operating profit to clear income (gain) from realization (sale);
 - profitability on clear profit or clear profit standard (clear profit coefficient) as connection clear profit to clear income (gain) from realization or sale.

These indexes are called also indexes realized production profitability (realized goods) on gross, operating and clear profit. That is why, this group of indexes also can be names as indexes of profitability from realized production (realized goods);

- d) discovered the method of the determination indexes of profitability at small enterprises towards to expenses:
- profitability of operating expenses as profit from operating activity to sum of operating expenses;
 - profitability of production on operating profit as gross profit to prime cost of realized goods;
 - profitability of activity expenses as general profit from ordinary activity to all expenses from ordinary activity.

So, according world experience and native Ukrainian theory and practice of the financial analysis of economy subjects the following indexes of profitability for making global analysis of report about financial results at small enterprises help to avoid disorder in the method of analysis, to understand its results better, to find out the reasons of differences and changes of the level of profitability.

**ANALIZA RAPORTÓW DOTYCZĄCYCH WYNIKÓW FINANSOWYCH
W MAŁYM PRZEDSIĘBIORSTWIE – DOŚWIADCZENIA UKRAIŃSKIE****Streszczenie**

W artykule przedstawiono zmodyfikowany model analizy wyników finansowych małego przedsiębiorstwa, dostosowując dotychczasowe metody analizy raportów finansowych małych przedsiębiorstw do globalnych standardów. Omówiono główne metody ustalania wskaźników zyskowności małych firm.