

**Kyiv National University of Trade and Economics**

Department of Economics and Business Finance

**FINAL QUALIFYING PAPER (PROJECT)  
on the topic:**

**«Enterprise Financial State Management»**

(based on the data of Limited Liability Company  
«Galen-1», Vatutine, Cherkasy region)

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**Kyiv, 2018**

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## АНОТАЦІЯ

Брик О.О. «Управління фінансовим станом підприємства» (за матеріалами ТОВ «Гален-1», м. Ватутіне, Черкаська область). – Рукопис.

Випускна кваліфікаційна робота за спеціальністю 051 «Економіка», спеціалізація «Фінансовий менеджмент» – Київський національний торговельно-економічний університет – Київ, 2018.

Випускну кваліфікаційну роботу присвячено теоретичним, методичним і практичним аспектам управління фінансовим станом. Представлена робота дозволяє дослідити основні засади та методи управління фінансовим станом підприємства, ефективного залучення та використання ресурсів, підтримки нормального фінансового становища на підприємстві.

**Ключові слова:** фінансовий стан, фінансова стійкість, ефективне використання ресурсів.

## ABSTRACT

**Bryk O.O. "Enterprise financial state management" (based on the materials of "Galen-1" LLC, Vatutine, Cherkasy region). – Manuscript.**

Final qualifying paper on the specialty 051 "Economics", specialization "Financial Management". – Kyiv National University of Trade and Economics. – Kyiv, 2018.

The final qualifying paper is devoted to theoretical, methodological and practical aspects of enterprise financial state management. It allows investigating the basic principles, methods and means of financial state management, effective attracting and use of resources, keeping normal financial state in the enterprise.

**Key words:** financial state, financial sustainability, effective use of resources.

## INTRODUCTION

**Relevance of the topic.** The financial state is one of the most important factors in the life of each enterprise. The financial state of the enterprise is a complex and multi-faceted concept, the only definition for it does not exist. The concept of financial state is found in the works of many economists. In recent years, the question of assessing the financial state of the company was highlighted in the works of Western economists - N. A. Kizim, Lee Liu, S. de Covina, P. S. Rose, D. P. Whiting, Russian researchers - I. T. Balabanova, O. V. Kondratiev, Y. S. Mashelchenkova, G. S. Panova, E. A. Utkina, V. E. Cherkasova, O. B. Shirinskaya. Among the scientists of Ukraine, M.L. Lapyshko, M. Ya. Korobov, A. M. Poderyogin and others studied this problem [1].

Of course, these and other authors have understandable point of view. The results of their research have made a significant contribution to the development of the theory and practice of these areas of research. However, I do not fully agree with them, because they mostly consider the concept of "financial state" from a particular aspect, while it takes into account a wide range of financial indicators, ranging from asset structure to solvency. This explains the relevance of the chosen topic, because, as we see, certain moments of the concept of "financial state" are not disclosed to the end.

**The purpose of this work** is to study the theoretical basis of the concept of "financial state", the implementation of diagnostics of the financial state of the selected enterprise.

To solve the goal, it is necessary to solve **the following tasks**:

- to describe the nature, components and typology of financial state of the enterprise;
- to define the methodological principles of managing the financial state of the company;
- to disclose the systematization and description of methodological support assessment of the financial state of the company;
- to carry out the assets dynamics and capital structure of chosen company "Galen-1" LLC;

- to make an analysis of liquidity, solvency and financial sustainability of the enterprise;
- to estimate the level of business activity and profitability of the enterprise;
- to carry out predictive assessment of the financial state of the enterprise;
- to find problem aspects of financial activity of “Galen-1” LLC;
- to make proposals regarding the improvement of the financial state of LLC "Galen-1".

**The object of the research** is the process of diagnosing the financial state of LLC "Galen-1". Enterprise "Galen-1" is a limited liability company, which belongs to sawmill and planing production [2]. “Galen-1” LLC is engaged in the manufacture of parquet made of hard-wood species, furniture panels from hard-wood and coniferous trees. The enterprise is export-oriented, it does not have its market in Ukraine. Among the main foreign markets are the following: the United States of America, North Korea, Denmark, Spain. In 2017 net profit amounted to 662,02 thousand UAH. The company accumulates assets, in the reporting period they amounted to 9138 thousand UAH.

**The subject of the study** is theoretical principles and methodical approaches for diagnosing the financial state of the enterprise.

In the process of writing the diploma work there were used **research methods**: general scientific methods: analysis, synthesis, comparison, system analysis, graphic image method, etc., and special methods of financial analysis: horizontal, vertical methods and ratios method.

**The information base** which helped in the study of this topic were the works of scientists, monographic sources, scientific articles, data of financial reporting of enterprise, etc.

**The practical value of the results.** The practical value of the results of the study is aimed at increasing the efficiency of financial state management of “Galen-1” LLC. Conclusions and proposals can be used in the company activity to improve the financial situation.

**Aprobation of the research.** According to the results of the study a scientific article with the topic "The features of using the Dupont model in assessing the performance of enterprise" which was published in the Economics and Finance of Enterprise: Comp. of students sciences articles, Part 2-Kyiv: KNTEU, 2017.

**Structure of the research paper.** Volume and structure of the final qualifying paper consists of an introduction, three chapters, conclusions, list of used references and appendices.

# CHAPTER 1

## THEORETICAL ASPECTS OF MANAGEMENT OF THE FINANCIAL STATE OF THE ENTERPRISE

### 1.1. Description of the nature, components and typology of financial state of the enterprise

Financial state is one of the most important characteristics of production and financial activity of enterprises. Under the financial state of the enterprise, they understand the level of its provision with the appropriate amount of financial resources necessary for the effective economic activity and timely payment of money in accordance with its obligations. The financial activity of the enterprise should be aimed at ensuring the systematic receipt and effective use of financial resources, compliance with the accounting and credit discipline, achieving a ratio of equity and borrowed funds, financial sustainability for the effective operation of the enterprise.

Evolution of the concept of "financial state" is associated with the development of financial analysis. The founder of financial analysis is considered to be Jacques Savary [3]. In the nineteenth century Savary's ideas were deepened by D. Cherbony, who created the doctrine of synthetic addition and analytical expansion of accounting accounts [3]. At the end of the nineteenth to the beginning of the twentieth century the balancing began to develop – it is one of the areas of accounting, which is essentially an analysis of the financial state of the enterprise. The basis of this direction was laid the economic analysis of the balance, as well as the popularization of knowledge about the balance. In the works of A.K. Rohashchovsky, A.P. Rudanovsky, N. A. Blatov, I. P. Nikolayev and others. the method of balance analysis was finalized [4].

In the early 40's there are the first scientific papers on the analysis of economic activity (D. P. Andrianov, M. F. Dyachkov, etc.) [5]. In the early 70's the first books on the development of methodological approaches in the theory of economic analysis (M.I. Bakanov, A.D. Sheremet, I. I. Karakoz) [3]. In the 90's there is a revival of financial

analysis. His main essence was the analysis and management of financial resources of business entities. Emphasis is placed on the analysis of the financial state of an enterprise, which begins to be isolated in a separate element of financial analysis. In scientific works there is a large number of approaches to the definition of the concept of financial state of the enterprise, but there is no single clear idea.

For example, according to N. Kolchina, "the financial state of the enterprise reflects the final results of its activities" [4]. Savitskaya G.V. determines the financial state as "an economic category that reflects the state of capital in the process of its circulation and the ability of the entity to self-development" [5]. M.N. Kreinina believes that "financial state - a set of indicators that reflect the availability, placement and use of financial resources" [6]. Pokropyvnyy S. F. considers not the financial state of the enterprise, but the financial and economic, which "is characterized by the level of profitability of capital, financial stability and dynamics of the structure of sources of funding, the ability to pay off debt obligations" [6]. O. V. Gryshchenko understands the financial state like "the ability of an enterprise to finance its activities" [4]. According to A.M. Podderyogin, "the financial state of the enterprise is a complex concept, which is the result of the interaction of all elements of the system of financial relations of the enterprise, determined by the population production and economic factors and is characterized by a system of indicators that reflect the availability, placement and use of financial resources" [6].

A.M. Lytovskykh defines the financial state of the business entity as "a characteristic of its financial competitiveness (i.e. solvency, creditworthiness), the use of financial resources and capital, the fulfillment of obligations to the state and other economic entities" [7]. Bilukha M. T. argues that "the financial state of the enterprise is its assets and liabilities reflecting the availability and allocation of financial resources for a certain date" [6]. Bilyk M.D. considers the financial state of the enterprise as "real (fixed at the time) and the potential financial ability of the enterprise to provide a certain level of financing of current activity, self-development and repayment of liabilities to enterprises and the state." Quantitatively, it is measured by a system of indicators on the basis of which its evaluation is carried out "[7].



Each noted author focuses on certain aspects of financial state (resource efficiency, solvency, the ability of an enterprise to finance its activities, etc.). As you know, "financial state" is a very capacious concept. It includes both financial stability and solvency, profitability and creditworthiness, optimizing the structure of assets and capital and the rational allocation of funds, liquidity of the balance sheet etc. Therefore, in my opinion, the best definition of the concept of "financial state" will be as follows: **financial state** is a set of its individual elements that determine the dynamics of changes in the structure of assets and capital, reflect the efficiency of use of the invested resources, characterize the type of financial stability and the level of payment solvency of the enterprise.

The financial state of the company is influenced by factors both internal and external environment (Fig. 1.1).

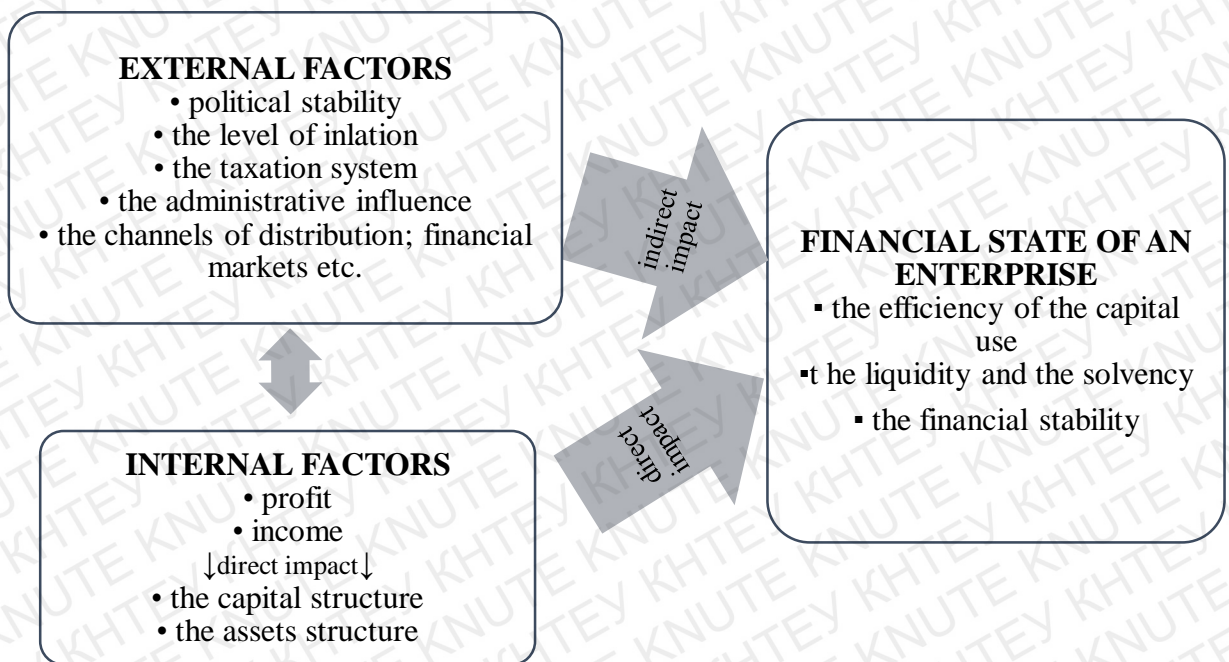


Fig. 1.1. Financial state as a system of interconnected elements [8]

As can be seen from Figure 1.1, several levels of influence of such factors are distinguished. For example, an assessment of the financial situation depends directly on the level of income and profits of the enterprise, the structure of capital and assets

(internal factors). These indicators determine the level of financial stability, solvency and efficiency of capital use. Influence of external factors on the general level of financial state is indirect. Among the factors of the environment the functioning of the enterprise can be identified as follows: the level of inflation, the taxation system, markets, political situation, etc.

An important place in the system of analysis of the financial state is the study of the type of financial sustainability of the enterprise. The main objective of such a study is to study the system of indicators of financial sustainability with a view to its evaluation and regulation. Babich G.V. notes that the financial stability of the enterprise is the state of its financial resources, their distribution and use, which ensures the development of the enterprise due to the growth of profit and capital while maintaining solvency and credit in conditions of permissible risk of economic activity [7].

Financial stability characterizes the degree of financial independence of the enterprise in terms of ownership of its property and its use. This degree of independence can be evaluated according to different criteria: the share of own sources in the total funding sources; the share of debt sources in the total funding sources; structure of the company's loan capital; way of financing current assets, etc. In the management of financial sustainability, the main objective is to ensure the financial security and stability of the operation and development of the enterprise in the long run within the acceptable level of risk. Azarenkova G.M. believes that financial sustainability is understood as the ability of an enterprise to carry on and develop its activities in conditions of competition and market instability, while maintaining a satisfactory capital structure and a dynamic financial equilibrium of assets and liabilities that provides normal liquidity, current and prospective solvency [8].

According to I. Tarasenko, the financial stability of an enterprise depends on the ratio of equity capital and borrowed capital, the ratio of long-term and current liabilities, the adequacy of the provision of working capital assets, etc. [9]. A necessary prerequisite for ensuring an adequate level of financial stability of an enterprise is the observance of such a ratio of equity and borrowed capital and their effective use that would allow them

to carry out profitable activities while maintaining a stable safe level of financial state.

Considering the financial state as a system, it is possible to distinguish its individual elements. Thus, the main components are financial stability management, management of circulating of current and non-current assets, investments, capital, etc.

Assets represent resources that are in the disposal of the enterprise and use of which leads to an increase in economic benefits in the future. Characterizing assets as an object of management, it is necessary to distinguish the features of their individual components. In particular, non-current assets are the least mobile part of the property of an enterprise, the distinction of which is repeated use in the process of economic activity and partial depreciation during each operational cycle [10].

Equally important is the management of solvency and liquidity. Solvency means the ability of an enterprise to fulfill its obligations to creditors. The level of solvency is determined by the ratio between the amount of cash that can be used for repayments to be made. Liquidity is the ability of an enterprise to repay its current obligations on time and in full. In order to maintain liquidity at an appropriate level, an enterprise should have sufficient cash and other liquid assets, which can be converted into cash in case of need and used for repayment of liabilities. Liquidity and solvency are similar concepts, but not unambiguous, since solvency is the ability of an enterprise to pay off debt obligations at a particular moment, while liquidity reflects not only the current state but also the prospect, according to Grabovetsky B. [11].

The effectiveness of the activity depends on the level of capital management. Capital management implies an impact on its dynamic and structure, as well as on the sources of formation in order to increase the efficiency of its use. Thus, capital management is a system of principles and methods for the development and implementation of managerial decisions related to its optimal formation from a variety of sources, as well as ensuring its effective use in various types of economic activities of enterprises [12,13].

Equity and borrowed capital has both advantages and disadvantages (Table 1.1). In particular, the benefits of equity are ease of involvement, ensuring financial stability of

the enterprise, reducing the risk of its bankruptcy. Instead, the disadvantages include, first of all, the limited amount of attraction of financial resources and high value. On the contrary, the advantages of borrowed capital are the possibility of attracting large volumes of resources, low cost, etc. However, the obvious drawbacks are the risk of lowering financial sustainability of the enterprise, generating a lower rate of return, etc.

The capital structure is the ratio of equity and borrowed funds used by the enterprise for its economic activity. Management of the capital structure of the enterprise is reduced to two main areas: the establishment of optimal for a particular enterprise proportions of use of equity and borrowed capital; ensuring the attraction of the necessary types and amounts of capital to the enterprise for the successful business activity.

*Table 1.1*

**Comparative characteristics of equity and borrowed capital**

<b>Equity</b>	<b>Advantages</b> <ul style="list-style-type: none"> <li>• ease of engagement</li> <li>• high profit generation ability</li> <li>• ensuring the financial sustainability of the company's development, its solvency in the long run</li> <li>• reducing the risk of bankruptcy</li> </ul>	<b>Disadvantages</b> <ul style="list-style-type: none"> <li>• limited scope for attracting financial resources to expand its activities</li> <li>• high cost</li> <li>• it is impossible to ensure that the financial profitability ratio of an enterprise exceeds the economic one</li> </ul>
<b>Borrowed capital</b>	<b>Advantages</b> <ul style="list-style-type: none"> <li>• wide opportunities of engagement</li> <li>• ensuring the growth of the financial potential of the enterprise and the growth rates of its economic activity</li> <li>• low cost</li> <li>• the ability to generate an increase in financial activity</li> </ul>	<b>Disadvantages</b> <ul style="list-style-type: none"> <li>• the risk of lowering financial stability and loss of solvency</li> <li>• generating a lower rate of return</li> <li>• high dependence of the cost of borrowed capital on fluctuations of the financial market</li> <li>• the complexity of the involvement procedure</li> </ul>

Source: compiled by the author on the basis of [14-18]

Consequently, the financial state is a set of its individual elements that determine the dynamics of changes in the structure of assets and capital, reflect the efficiency of the use of the invested resources, characterizing the type of financial stability and the level of payment solvency of the enterprise. Objects of management are assets, capital,

investments, etc. Thus, the essence of financial stability is determined by the effective formation, distribution and use of financial resources. It should be noted that financial stability and profitability of equity are inversely proportional to the dependence. The greater the share of own funds in the liabilities, the higher the stability of the enterprise, but the less return on equity. In connection with this, the problem of financial management in an enterprise can be formulated as follows: ensuring an acceptable level of financial sustainability should promote the growth of profitability of equity.

## **1.2. Methodological principles of managing the financial state of the company**

Managing the financial state of an enterprise is a set of principles, methods and tools for the adoption and implementation of management decisions on the structure of assets and sources of their financing in order to ensure compliance with the interests of higher management and to ensure the growth of the welfare of owners [19].

The object of managing the financial state of an enterprise is the formation and use of all types of financial resources, including cash, investments, fixed assets and current assets, organization of current financial work at the enterprise [20].

The essence of managing the financial state of the enterprise is realized through its functions, which, in my opinion, most fully described Kramarenko G.O. [21]:

- management of the formation of all financial resources;
- management of distribution and use of all kinds of financial resources;
- planning (budgeting), forecasting and analysis of the financial management of the enterprise.

The essence of the first function of financial management is to manage the timely formation of all types of financial resources, as well as systematic search reserves of additional accumulation of financial resources, especially of own ones, for ensuring the proper financial state and stable operation of the enterprise and to prevent its bankruptcy.

This function also includes stimulating the replenishment of financial resources, primarily cash.

The essence of the second function is to manage the rational distribution of financial resources, in particular, management of the distribution and redistribution of all cash receipts, primarily from the sale of products (goods, works, services). The implementation of this function by financial management requires the adoption of sound investment decisions to attract free financial resources for the most effective investments.

The essence of the third function consists in systematic planning (budgeting), forecasting and analysis of both absolute financial indicators and relative estimation ratios, and using the results of such an analysis of urgent measures for financial rehabilitation of the enterprise, and, if necessary, in the management of his rehabilitation.

In the process of financial management, planning, forecasting, regulation, coordination, stimulation, control and analysis are carried out. The structural and logical scheme of management of the financial state of the company is shown in Figure 1.2.

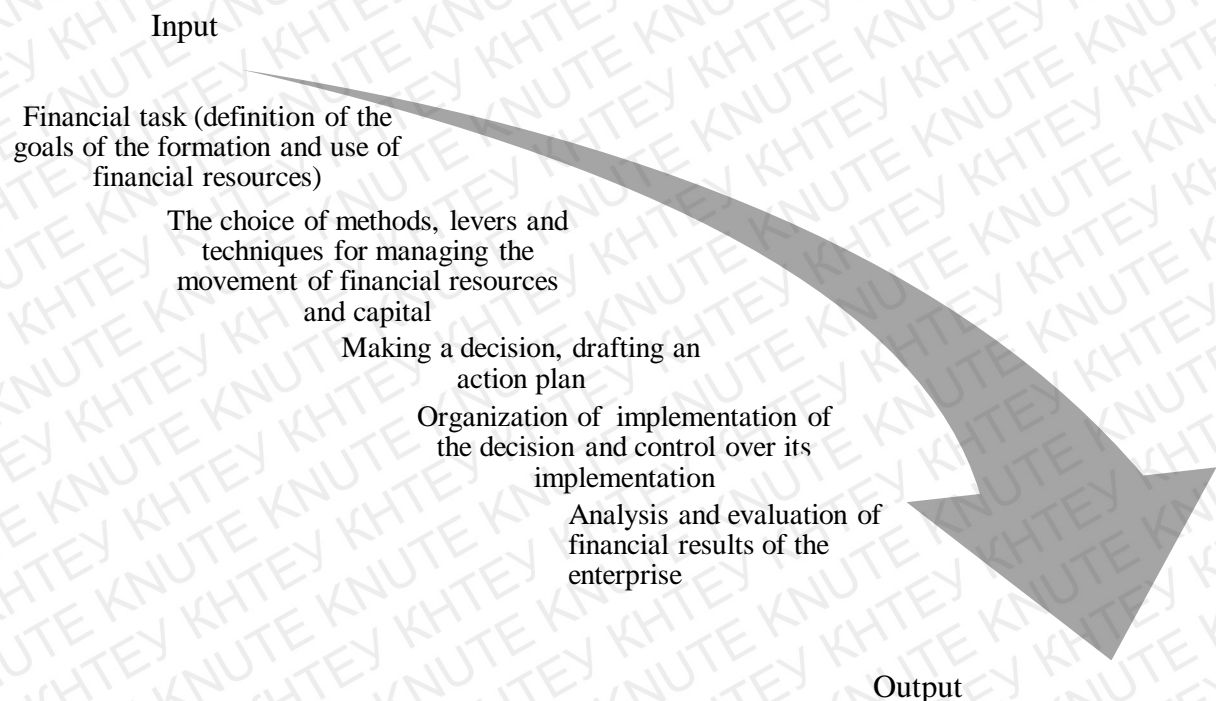


Fig. 1.2. Structural-logical scheme of the financial state management of the enterprise [22]

An important aspect in managing financial sustainability of an enterprise is the development of its process. The process of financial stability management ensures the adoption of managerial decisions on financial issues both at operational and strategic levels. Furman I.V. defines the essence of this process as a specific, ordered set of interconnected elements of financial sustainability management, existing within the framework of information links, enshrined in the existing organizational structure of the enterprise; a complex of purposeful, consistent actions necessary to ensure the desired state of its financial stability at various times [23]. Schematically, the sequence of implementation of the process of managing financial stability of the enterprise is presented in Fig. 1.3.

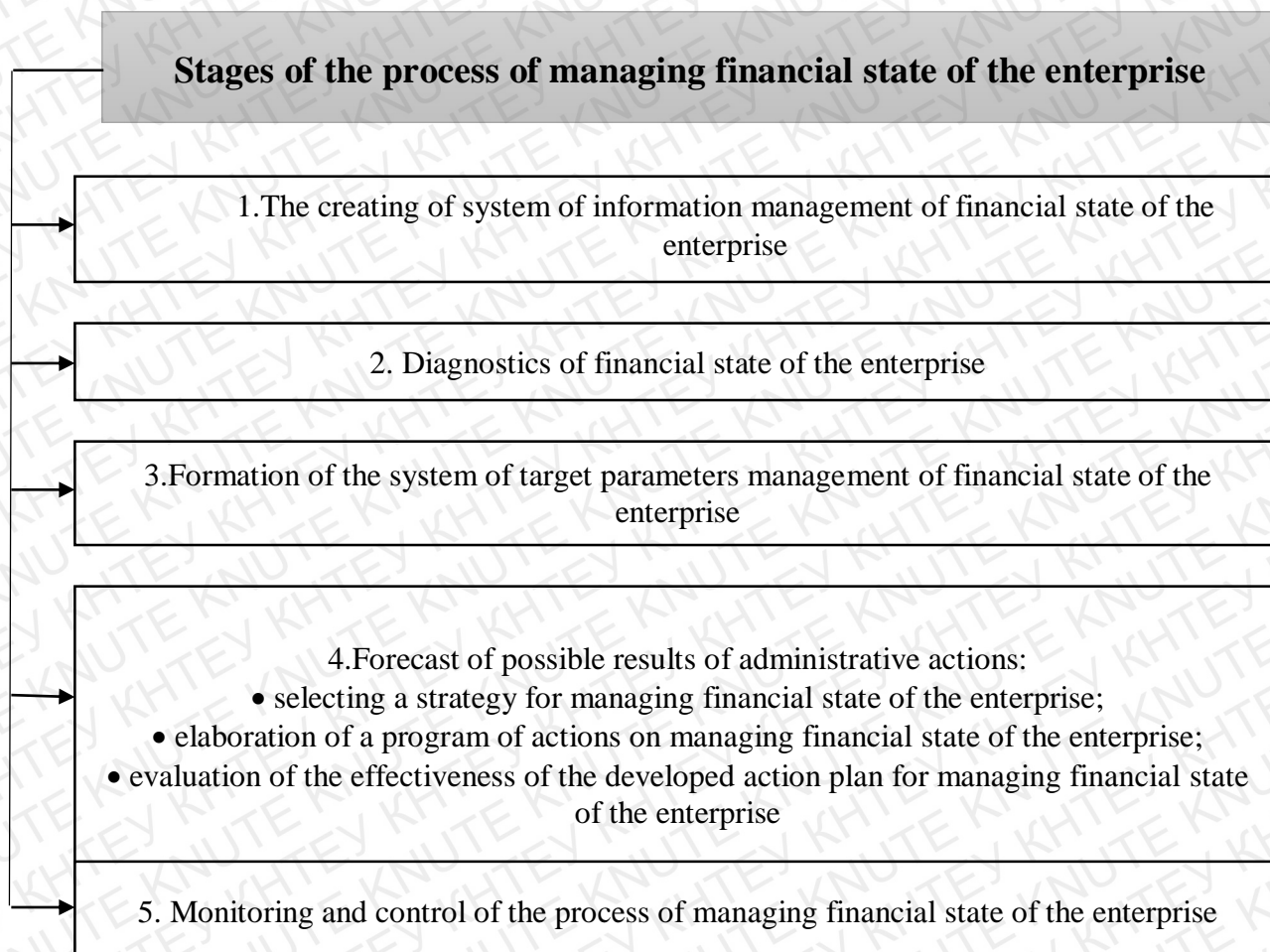


Fig.1.3. Stages of the process of managing financial state of the enterprise [24]

The more sophisticated and meaningful the information security of the enterprise, the more effective the process of managing financial sustainability. Obushchak T.A. in

his work establishes that the system of information provision of the process of managing financial sustainability of enterprises includes:

- information base;
- methodological support (a set of methodologies and methods for diagnosing and forecasting financial sustainability of enterprises);
- software (integrated information management system for financial stability in enterprises based on the use of automated information systems and modern software) [25].

As a system, the management of the financial state of the enterprise is characterized by a set of principles. V.V. Bocharov and V.E. Leontiev emphasize the following principles of management of the financial state of the enterprise: self-regulation of economic activity, self-sustainment, self-financing, the division of sources of working capital formation into equity and borrowed funds, the availability of financial reserves [17]. Some authors define the following principles: financial strategy, strategy of management, control, taking into account progressive experience, orientation towards making short decisions on financial issues, identifying unforeseen effects of external factors, etc.

Among the management principles under consideration, most of them are, in fact, in their essence the tasks that need to be addressed in order to achieve certain goals in the management of a particular object, and those principles of financial management that can serve as principles for managing the financial state of an enterprise require a certain addition and specification. In addition to the standard management principles, one of the principles on which the basic requirements for the implementation of the management process should be ensured is the principle of efficiency, an integrated combination of principles that ensures the alternative and purposefulness of the development of management decisions, innovation orientation, hierarchy of knowledge about the object of management and prioritization in resolving contradictions in the elements of the financial state of the enterprise.



On the basis of generalization of existing points of view, the management of the financial state of an enterprise should be based on the following principles (Fig.1.4):

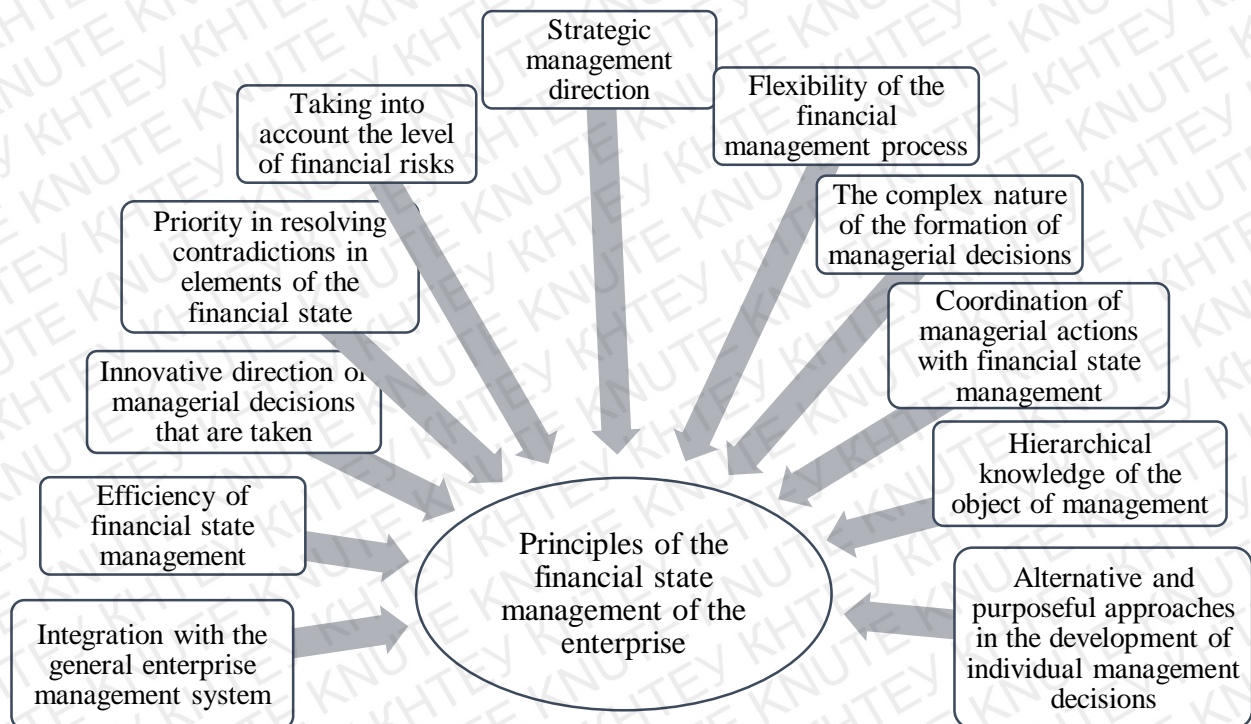


Fig.1.4. Principles of the financial state management of the enterprise [25]

- the principle of the integrity of the financial management system with the general system of enterprise management requires their combination, since the management of the financial state is closely connected with other functional areas of management and is built directly on the basis of financial management, therefore, in whatever of the identified spheres of management a decision is not taken, it directly or indirectly, will affect the level of financial stability and, accordingly, the adoption of managerial decisions;
- the principle of strategic direction of the management of the financial state of the company implies subordination of all management decisions that are made to ensure the achievement of the main goal of the company's existing and the identified strategic directions of its development;
- the principle of flexibility in the process of managing the financial state of an enterprise implies the creation of a capacity for rapid response, adjustment or

development of new managerial decisions under the influence of internal and external factors;

- the principle of the complex nature of the formation of managerial decisions in the management of the financial state of the enterprise;
- the principle of coordination of management actions on the financial state of the enterprise is aimed at ensuring the achievement of positive results through the coordination of actions between all centers of responsibility, their organizational structures;
- the principle of alternative and purposeful approaches in the development of individual management decisions in the management of the financial state of the enterprise should take into account the availability of alternative approaches to the possibility of action. The choice of any managerial decision from an existing alternative should be based on the established system of criteria, which will ensure not only high efficiency, but also its focus on solving a certain range of tasks to achieve the established targets, which determine the financial ideology of the enterprise;
- the principle of hierarchy of knowledge of the object of management consists of the multi-level study of the financial state as an object of management. Implementation of this principle allows to provide not only the identification of the most significant parameters, which determine the quality of financial state control in general, but also to identify the level of financial safety of the enterprise;
- the principle of innovative direction of management of the financial state of the enterprise determines the necessity not only of the use of advanced technologies, methods, tools, but also the adaptation of the control system to their implementation and use, supported by appropriate changes in the organizational structures of the enterprise;
- the principle of priority of the solution of contradictions in the constituent elements of the financial state determines the orientation of the search and the priority solution of the range of those problem issues that make it impossible to solve the

tasks set in the process of managing the financial state of the enterprise to achieve its main goal;

- the principle of taking into account the level of risk in the process of managing the financial state of the company determines the need to predict the change in the level of financial risk in the process of making any management decision.

According to Poddierogin A.M. and Bilyk M.D., the financial state management of the enterprise carries out such tasks [10]:

- formation of sufficient amount of financial resources in accordance with the tasks of enterprise development. These tasks are realized through: definition of the total need for financial resources of the enterprise for the future period, increase of the volume of attraction of own financial resources at the expense of internal sources, determination of expediency of formation of own financial resources at the expense of external sources; management of attraction of borrowed financial resources; optimization of the structure of sources of formation of resource financial potential;
- the most effective use of the existing volume of financial resources in the context of the main activities of the enterprise. Optimization of the distribution of the existing amount of financial resources involves establishing optimal proportions in their use for the purpose of industrial and social development of the enterprise, ensuring the return on investment capital;
- ensuring maximization of the profit of the company with the lowest level of financial risk. It is achieved by effective management of the assets of the enterprise, involving in economic turnover of borrowed funds, the choice of the most effective directions of operational and financial activity. Maximization of the level of company profit is achieved, as a rule, with a significant increase in the level of financial risks. Therefore, maximization of profit should be ensured within the limits of permissible financial risk;
- minimization of the level of financial risk at the foreseen level of profit is possible: diversification of types of operational and financial activities, as well as a portfolio

of financial investments, prevention and avoidance of individual financial risks, effective forms of their internal and external insurance;

- elimination of inefficient areas of activity can increase the level of financial stability and solvency of the enterprise at all stages of its development and is ensured by: formation of optimal structure of capital and assets; effective proportions in the volume of financial resources formation at the expense of different sources; sufficient level of self-financing of investment needs.

Successful practical realization of the set tasks is largely determined by the justification of the financial strategy and tactics of the enterprise. Under the financial strategy, enterprises should understand the formation of a system of long-term goals of financial activity and the choice of the most effective ways to achieve them [26]. As part of the overall strategy of the company, it is important to develop a financial policy on certain aspects of financial activity. Financial policy is a form of realization of financial ideology and financial strategy of the enterprise in the context of the most important aspects of financial activity at certain stages of its implementation. The system of formation of the financial policy of the company on the main aspects of its financial activities within the framework of the overall financial strategy consists of such structural elements [17] .:

#### I. Assets management policy:

- 1) formation of assets;
- 2) management of current assets, including:
  - a) inventory management;
  - b) management of accounts receivable;
  - c) management of monetary assets;
  - d) financing of current assets.
- 3) management of non-current assets, including:
  - a) management of fixed assets;
  - b) management of intangible assets;
  - c) financing of non-current assets.

## II. Capital management policy:

- 1) formation of the structure of capital;
- 2) management of equity;
- 3) management of debt capital.

## III. Investment management policy (investment policy):

- 1) management of real investments, including:
  - a) management of capital investments;
  - b) management of innovative investments.
- 2) financial investment management policy, including:
  - a) the formation of a portfolio of investment instruments;
  - b) formation of a portfolio of investment instruments.

## IV. Policy of management of financial risks on issues:

- 1) avoiding financial risks;
- 2) diversification of financial risks;
- 3) hedging financial risks.

## V. Anti-crisis financial management policy on:

- 1) financial stabilization of the enterprise;
- 2) the sanation of the enterprise.

### **1.3. Systematization and description of methodological support assessment of the financial state of the company**

To assess the financial state of the enterprise and to solve specific problems of financial management, a number of special systems and methods of analysis and assesment are used. Methodological support assessment of the financial state of the company allows obtaining a quantitative estimation of the results of financial activity in terms of its individual aspects. Distinguish such systems of financial analysis, which in his work describes Blank I.O. (Figure 1.5) [26]:

- horizontal analysis;
- vertical analysis;
- comparative analysis;
- analysis of ratios;
- integral analysis.

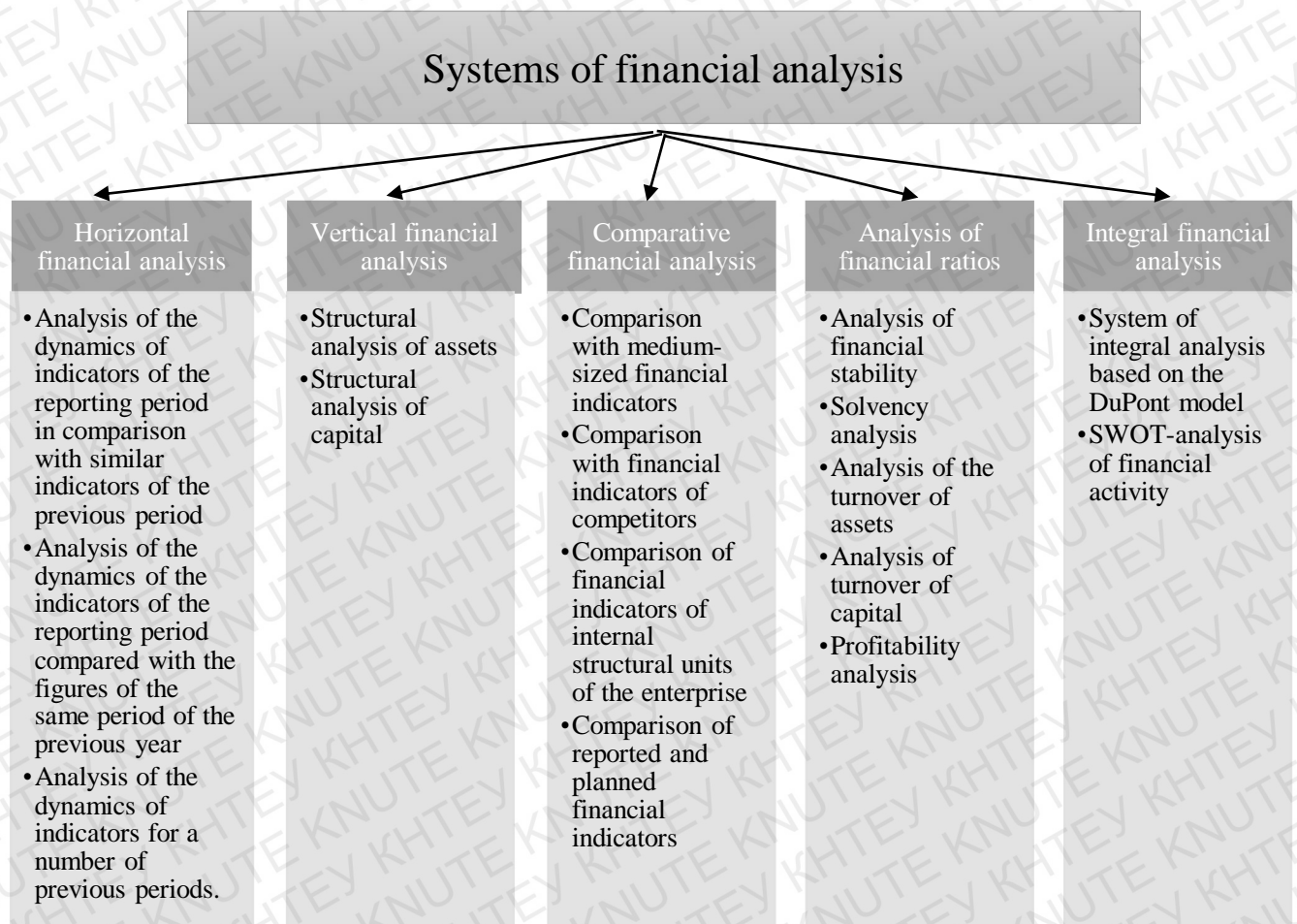


Fig.1.5. Systems of financial analysis [26]

I. Horizontal (trend) financial analysis. Such an analysis is based on the study of the dynamics of individual financial indicators in time. In the process of using this system of analysis, calculations of the rate of growth of individual indicators of financial statements for certain periods are carried out [26]. The most common types of horizontal financial analysis are:

- analysis the dynamics of the indicators of the reporting period in comparison with similar indicators of the previous period;

- analysis the dynamics of the indicators of the reporting period in comparison with the indicators of the same period of the previous year (for example, comparison of quarterly indicators);
- analysis of the dynamics of indicators for a number of previous periods. The purpose of this analysis is to identify trends in the individual indicators that characterize the results of financial activity of the enterprise.

II. Vertical (structural) financial analysis is based on the structural decomposition of individual indicators of financial statements of the enterprise. During such research the specific gravity of individual structural elements of various aggregate financial indicators is calculated [26]. The most common types of vertical financial analysis are:

- a structural analysis of assets in the process of which determines the proportion of current and non-current assets in the total assets of the enterprise, the structure of current assets, the structure of non-current assets, etc.;
- a structural analysis of capital, in which the share of equity and borrowed capital in the total capital of an enterprise, equity structure, debt structure structure, etc. is determined;

III. Comparative financial analysis is based on the comparison of separate groups of similar indicators among themselves. In the course of this study, the sizes of absolute and relative deviations of the comparable indicators are determined [26]. The most common forms of comparative financial analysis are:

- a comparative analysis of financial indicators of the enterprise and the average industry indicators;
- a comparative analysis of financial indicators of the enterprise and its competitors;
- a comparative financial analysis of financial indicators of separate structural units and divisions of this enterprise.
- a comparative financial analysis of reporting and planning indicators.

IV. Analysis of financial ratios (R-analysis) is based on the calculation of the ratio of absolute indicators of financial activity among themselves (Table.1.2).

Table 1.2

### Groups of financial ratios

Groups of financial ratios	Purpose of use	The types of ratios
Ratios for assessing the financial stability	allow to determine the level of financial risk associated with the structure of sources of capital formation of the enterprise and, accordingly, the degree of its financial stability	<ul style="list-style-type: none"> <li>- Equity (autonomy) ratio</li> <li>- Financing ratio</li> <li>- Debt ratio</li> <li>- Current debt ratio</li> <li>- Long-term financial independence ratio</li> <li>- Indicator of maneuverability of the capital</li> <li>- Indicator of maneuverability of equity and long-term loan capital</li> </ul>
Ratios for estimation solvency (liquidity)	characterize the ability of enterprises to repay its current liabilities at the expense of current assets of different levels of liquidity	<ul style="list-style-type: none"> <li>- Cash ratio</li> <li>- Quick ratio</li> <li>- Current ratio</li> <li>- Accounts payable-to-Accounts receivable ratio</li> </ul>
Ratios for assessing assets turnover	show how rapidly formed assets are rotated in the process of economic activity of the enterprise, they are the indicator of the business activity	<ul style="list-style-type: none"> <li>- Assets turnover ratio</li> <li>- Current assets turnover ratio</li> <li>- Non-current assets turnover ratio</li> <li>- Inventory turnover ratio</li> <li>- Accounts receivable turnover ratio</li> <li>- Period of assets turnover</li> <li>- Period of non-current assets turnover</li> <li>- Period of inventory turnover</li> <li>- Period of accounts receivable turnover</li> </ul>
Ratios for assessing capital turnover	characterize how quickly the company uses capital in general and how it's elements are rotated in the process of the economic activity	<ul style="list-style-type: none"> <li>- Capital turnover ratio</li> <li>- Equity turnover ratio</li> <li>- Debt capital turnover ratio</li> <li>- Bank loan turnover ratio</li> <li>- Accounts payable turnover ratio</li> <li>- Period of capital turnover</li> <li>- Period of equity turnover</li> <li>- Period of debt capital turnover</li> <li>- Period of bank loan turnover</li> <li>- Period of accounts payable turnover</li> <li>- Operational cycle</li> <li>- Financial cycle</li> </ul>
Ratios for estimation profitability	are relative characteristics of financial results and the efficiency of enterprise	<ul style="list-style-type: none"> <li>- Return on assets</li> <li>- Return on equity</li> <li>- Return on debt</li> <li>- Net return on sales</li> <li>- Operating margin</li> <li>-Gross margin</li> </ul>

Source: compiled by the author based on [26]



Ratio analysis involves evaluating the performance and financial health of a company by using data from the current and historical financial statements. In the process of applying such a system of analysis, various relative indicators that allow to characterize the individual results of financial activity and the level of financial state of the enterprise are determined [26]. Analysis of financial ratios makes it possible to assess the ability of the enterprise to repay its debts, its financial independence, the compliance of the sum of assets and liabilities of the company with the main tasks of its financial and economic activity.

Analytical indicator EBITDA is an important indicator in assessing the financial performance of an enterprise. EBITDA stands for earnings before interest, taxes, depreciation and amortization. EBITDA strips out the cost of debt capital and its tax effects by adding back interest and taxes to earnings. It can be used to analyze and compare profitability among companies and industries as it eliminates the effects of financing and accounting decisions [27]. EBITDA is calculated in the following formula (1.1) [28]:

$$\text{EBITDA} = \text{Operating Profit} + \text{Depreciation Expense} + \text{Amortization Expense} \quad (1.1)$$

Another indicator is EVA. The most important benefit of an EVA-based assessment is the combination of financial and operational results in this indicator [29]. The economic value added reflects the amount of net profit that can be divided between shareholders after taxes and capital costs. The EVA formula looks like (1.2) [30, 31]:

$$\text{EVA} = \text{NOPAT} - \text{WACC} * \text{IC} \text{ or } \text{EVA} = (\text{ROIC} - \text{WACC}) * \text{IC}, \quad (1.2)$$

where NOPAT – net operating profit after tax

WACC-waged average cost of capital

IC-invested capital

ROIC-return on invested capital

In addition to the system of financial ratios and indicators special general indicators of the threat of bankruptcy are used in the world of practice. The most common models are represented in Table 1.3. Models of bankruptcy diagnostics are widely used by financial analysts because:

1. analytical information for the calculation of indicators is available, as is reflected in the forms of financial statements [32];
2. there is possibility of forecasting bankruptcy, determining the risk zone in which the enterprise is located [33];
3. these models have a small number of indicators, which ensure high accuracy of results, with insignificant labor costs [34].

Table 1.3

### Models of bankruptcy diagnostics

Model	Calculation	Meaning
Altman model	$Z = 1,2X_1 + 1,4X_2 + 3,3X_3 + 0,6X_4 + X_5$ , where $X_1$ = working capital / total assets, $X_2$ = retained earnings / total assets, $X_3$ = EBIT / total assets, $X_4$ = market value of equity / book value of total liabilities, $X_5$ = sales / total assets,	$Z > 2,9$ – zone of financial sustainability («green» zone). $1,8 < Z < 2,9$ – uncertainty zone («grey» zone). $Z < 1,8$ – zone of financial risk («red» zone).
Springate model	$Z = 1,03X_1 + 3,07X_2 + 0,66X_3 + 0,4X_4$ , where $X_1$ – own working capital / total assets; $X_2$ – EBIT / total assets; $X_3$ – profit before tax / current liabilities $X_4$ – net income / assets.	$Z < 0,862$ – potential bankruptcy $Z > 2,451$ – financial sustainability
Lis model	$Z = 0,063X_1 + 0,092X_2 + 0,057X_3 + 0,001X_4$ , where $X_1$ – current assets / total assets $X_2$ – operational profit / total assets; $X_3$ – retained earnings / total assets; $X_4$ – equity / liabilities.	The minimal value when $Z < 0,037$

Model	Calculation	Meaning
Tereshchenko model	$Z = 0,213X_1 + 2,208X_2 + 0,67X_3 + 1,13X_4 + 1,48X_5 + 0,515X_6 + 0,467X_7 - 2,599$ , where $X_1$ – current assets/current liabilities; $X_2$ – equity/total assets; $X_3$ – net sales revenue/total assets; $X_4$ – the sum of net profit and depreciation/the sum of net sales revenue and other operating profit; $X_5$ – the sum of net profit and depreciation /total assets $X_6$ – profit before tax/net sales revenue; $X_7$ – net sales revenue/average balance of circulation cash	$Z < 0,8$ – financial crisis $Z > 0,51$ – financial sustainability
Taffler and Tishou model	$Z = 0,53X_1 + 0,13X_2 + 0,18X_3 + 0,16X_4$ , where $X_1$ = profit from operational activity / current liabilities $X_2$ = working capital / current liabilities $X_3$ = current liabilities / assets $X_4$ = net sales revenue / assets	$Z > 0,3$ – successful long-term perspectives $Z < 0,2$ – possible bankruptcy

Source: compiled by the author based on [35-42]

V. Integral financial analysis allows obtaining the most profound assessment of the conditions for the formation of individual aggregate financial indicators [43]. The most common types of such analysis are:

1. The system of integrated analysis of the effective use of assets of the company, developed by DuPont (USA), which involves the decomposition of the indicator "return on assets" on the number of indicators that form it [44].

2. SWOT-analysis of financial activity. The name of the system represents the abbreviation of the initial letters of the terms that are the objects of this analysis [45]:

S - strengths of the enterprise;

W - weaknesses of the enterprise;

O - opportunities for enterprise development;

T - threats to enterprise development.

3. The rating technique also has a wide range of use. The basis of such a method is the comparison of the estimated enterprise by each indicator of the financial state with a conditional reference enterprise, which has the best performance from all comparable enterprises [46]. That is, the basis of calculation for obtaining a rating assessment of the financial state of the enterprise is not subjective expert assessments, but the highest results from the whole set of real indicators [43]. Output data matrices are standardized in the ratio of the corresponding indicator of the reference enterprise by the formula (1.4):

$$X_{ij} = \frac{A_{ij}}{\max A_{ij}}, \quad (1.4)$$

where  $X_i$  — standardized indicators of the state of the  $i$ -th enterprise;

$A_{ij}$  — the value of the  $i$ -th indicator in the  $j$ -th enterprise;

$\max A_{ij}$  - the value of the  $i$ -th indicator in the reference enterprise;

For each enterprise whose financial state is analyzed, the value of its rating is determined by the formula (1.5) [43]:

$$R_j = \sqrt{(1 - X_{1j})^2 + (1 - X_{2j})^2 + \dots + (1 - X_{nj})^2}, \quad (1.5)$$

where  $R_j$  — rating estimation of the  $j$ -th enterprise;

$X_{1j}, X_{2j}, \dots, X_{nj}$  — standardized indicators  $j$ -th enterprise.

The highest rating is in that enterprise which has a minimum of comparative values [47].

The financial stability of the enterprise is at a high level when it carries out its economic activity at the expense of equity. In practice, the ratio between equity and loan capital among diverse companies is not the same. Depending on this, in the analysis it is

customary to distinguish four types of financial stability of business entities [37,38], as shown in Fig. 1.6.

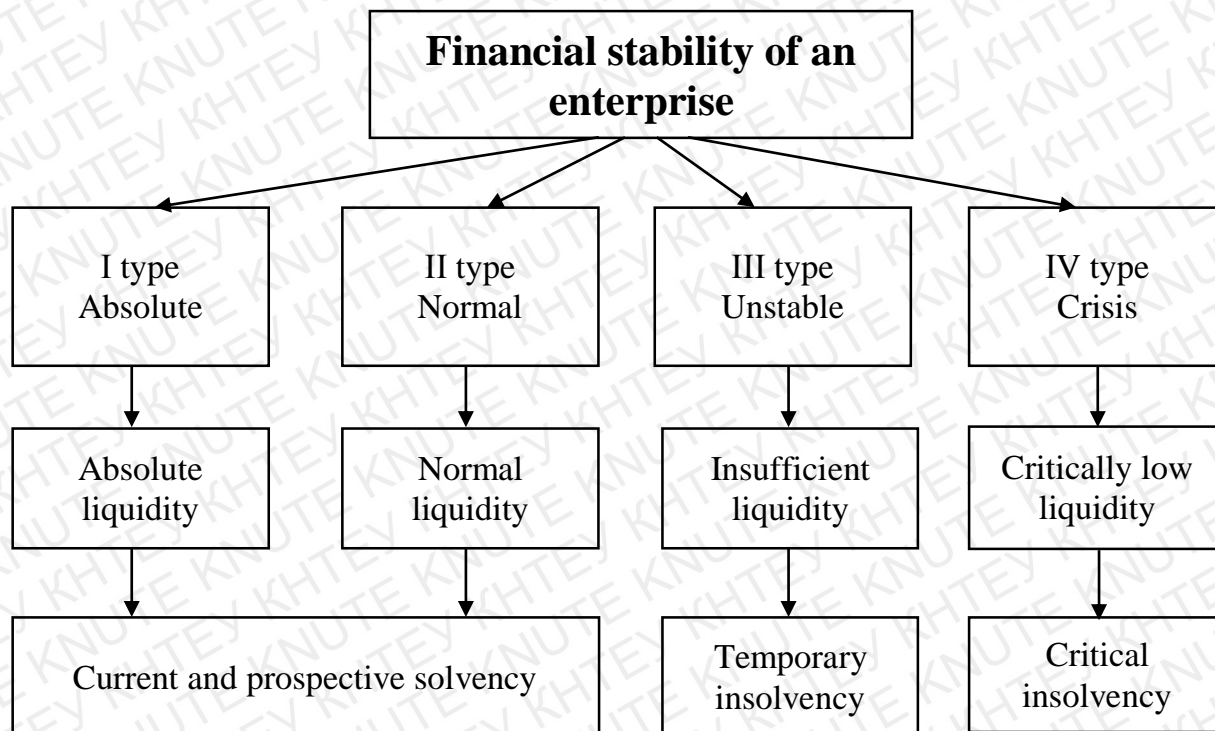


Fig. 1.6. The types of financial stability of an enterprise [48]

To determine the type of financial stability it is necessary to compare the sum of the following indicators:

- inventories and expenses of future periods;
- own working capital;
- normal sources of stock financing (to normal sources of financing stocks include bank loans, payables for goods, work and services, and working capital. Working capital is the difference between current assets of the enterprise and its short-term obligations) [48].

The financial stability of an enterprise is absolute (type I) when its current activities are funded mainly through its own working capital. Such an enterprise is independent of borrowed resources, bank loans in particular. It has absolute liquidity and provides current and prospective solvency. In this case, the following ratio of indicators should be

observed:  $\text{Stocks} + \text{Future expenses} < \text{Own working capital (OWC)}$ .

The financial stability of an enterprise is considered to be normal (type II) when its operating activities are funded by the normal sources of stock financing. Such an enterprise is characterized by a normal level of solvency, it is able to carry out cost-effective operational activities. Normal financial sustainability is most desirable for the enterprise. For the second type of financial stability, the following ratio of indicators should be observed:  $\text{Normal sources of stock formation} > \text{Stocks} + \text{Future expenses} > \text{OWC}$  [40,41].

An unstable (type III) state is considered a type of financial sustainability where current activities can not be fully financed by the normal sources of stock financing. In this situation, there is a need for additional financial resources. This entails a violation of intra-corporate financial discipline. In other words, in such enterprises there are delays in the payment of wages, the use of temporarily free own funds of the reserve fund and funds of economic stimulation, interruptions in the flow of money to current accounts and payments, unsustainable profitability, non-fulfillment of the financial plan, including profit. In addition, the above conditions lead to the emergence of temporary insolvency. However, for type III, there is a possibility of its restoration by replenishing sources of own funds, reducing receivables, accelerating the turnover of stocks. In the unstable type of financial stability, the following ratio of indicators is observed:  $\text{Stocks} + \text{Future expenses} > \text{Normal sources of stock formation}$  [49].

Crisis, critical or catastrophic financial state (type IV) occurs in the event that the enterprise is practically bankrupt. In addition to exceeding the inventories and expenses of future periods over normal sources of financing, the company still has the overdue accounts payable. In such a situation, the company has a low level of liquidity and critical solvency, the restoration of which in practice is almost impossible. With this type of financial stability, the following inequality is fulfilled:  $\text{Stocks} + \text{Future expenses} > \text{Normal sources of stock formation}$ ; availability of overdue payables [49].

Consequently, during the diagnosis of the financial state of the company special financial analyzes are used. This is a horizontal, vertical, comparative analysis, ratio

analysis and integral analysis. Methodological support assessment of the financial state of the company allows obtaining a quantitative estimation of the results of financial activity in terms of its individual aspects.

## CHAPTER 2

### EVALUATION OF FINANCIAL STATE OF “GALEN-1” LLC

#### 2.1. Characteristics of the assets dynamics and capital structure of “Galen-1” LLC

“Galen-1” LLC is engaged in the manufacture of parquet made of hard-wood species, furniture panels from hard-wood and coniferous trees. The enterprise is export-oriented, it does not have its market in Ukraine. Among the main foreign markets are the following: the United States of America, North Korea, Denmark, Spain. By 2016, Russia was one of the largest markets, but due to aggravation of political disputes this market of goods was lost. That is why in the last year the volumes of sales have decreased significantly, profits have suffered a considerable reduction.

At the enterprise an increase in total assets is observed, indicating an increase of company activities. In 2016, the amount of assets decreased (by 4.38%), which was mainly caused by the reduction of the amount of current assets (by 43.43%). The most significant reduction in the amount was characterized by the accounts receivable (by 98.93%) due to the decrease in sales volumes, as the during the whole 2016 there was a reconstruction in the manufacturing workshops, and also company lost one of the main markets. Thus, the number of buyers, and, respectively, receivables decreased. For the same reason, the number of inventories increased (by 33.06%).

The amount of accounts receivable on settlements with the budget, as well as other current receivables, also decreased (by 62.65% and 84.31% respectively). Reduction was also made by cash (by 62.48%). Instead, the amount of non-current assets increased (by 28.45%), which was caused by the purchase of a large number of fixed assets in connection with the refurbishment of workshops. Thus, the amount of fixed assets has grown by 28.45%, which is the only non-current assets. As for 2017, the situation has changed: the number of assets has increased again (by 9.24%). Along with a slight decrease in the amount of current assets (by 0.84%), there is an increase in the amount of



non-current assets (almost 13%). Among them fixed assets continue tendency to increase (+ 12.97% as of 01.01.2018). The most essential balance sheet articles, which have increased, are receivables for goods, works and services (71.43%), other current receivables (50%), accounts receivable with budgets (32.27%) and cash (25.71%). The decrease in the amounts of non-current assets was made by items of future periods (-19.2%) and inventories (-1.07%). The calculations are presented in Appendix A. The informational base for calculations is presented in Appendices C and D.

Table 2.1

**The assets structure of "Galen-1" LLC for the period from 01.01.2014 to 01.01.2018 years**

Assets items	Period, years				
	01.01.2014	01.01.2015	01.01.2016	01.01.2017	01.01.2018
Non-current assets, %	60,62	52,91	54,33	72,98	75,48
<i>absolute change,</i> +/-		-7,71	+1,42	+18,65	+2,5
Current assets, %	39,38	47,09	45,67	27,02	24,52
<i>absolute change,</i> +/-		+7,71	-1,42	-18,65	-2,5
Total assets, %	100,00	100,00	100,00	100,00	100,00

Source: compiled by the author based on the financial statements of "Galen-1" LLC [50]

As to the structure of the assets of LLC "Galen-1", we observe that non-current assets prevailed current assets (Table 2.1). So, for 2013-2015, their shares approached the equilibrium state with a small predominance of non-current assets, however, in 2016, the share of non-current assets increased to almost 73%, while the current ones declined to 27%. In 2017, this trend increased further: the share of non-current assets amounted to 75.5%, and current assets - 24.5%. This asset structure was created as a result of the purchase of a large number of fixed assets, along with a reduction in accounts receivable and cash. The structure of assets is shown in Figure 2.1.

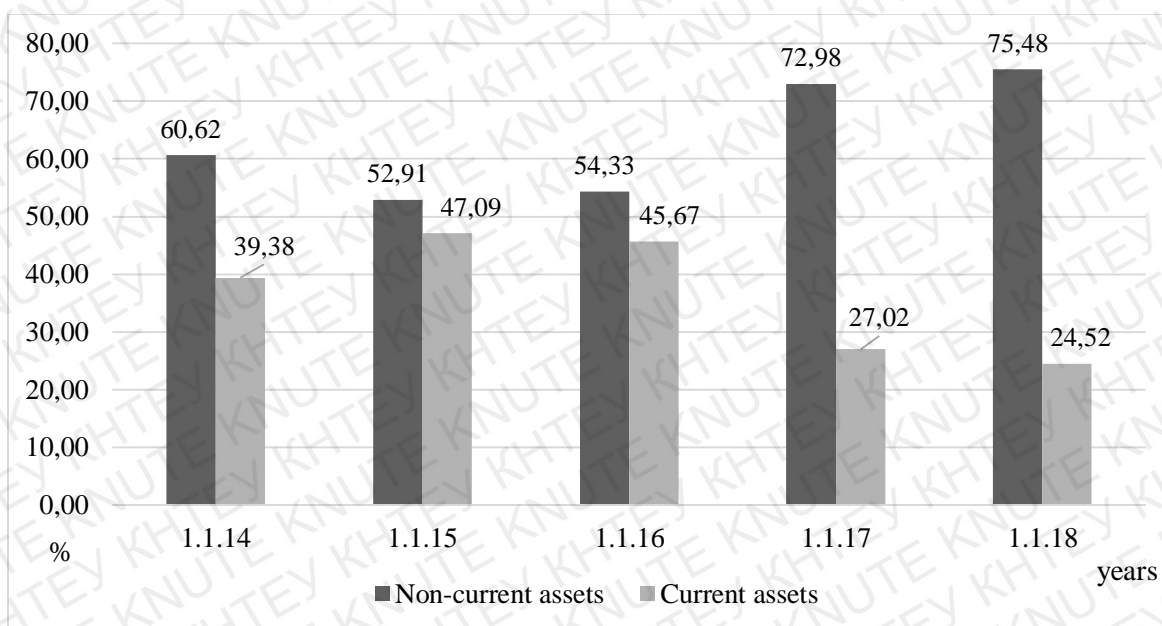


Fig.2.1. The assets structure of "Galen-1" LLC for the period from 01.01.2014 to 01.01.2018 years [50]

Talking about the structure of non-current assets, we conclude that 100% of their amount occupy fixed assets (Table 2.1). In the possession of LLC "Galen-1" there are no intangible assets, incomplete capital investments, goodwill, etc.

Instead, the structure of current assets differs (presented in Table 2.2). Thus, in 2013 and 2014, the largest share in the overall structure was occupied by inventories (89.88% and 72.10% respectively). Aggregate receivables, cash and other current assets were the rest in 2013, and in 2014 other current assets were not available at all. In 2015, the share of inventories decreased significantly (to 12,34%), along with a significant increase in receivables for goods, works and services, accounts receivable with the budget and cash. As of 2016, the structure of assets was as follows: inventories amounted 29%, future expenses amounted 45%, receivables with budgets were 13.85%, cash amounted 10,84%. A fairly negligible share was held by accounts receivable for goods, works and services and other current receivables (0.93% and 0.35% respectively). In 2017, the share of inventories remained at the level of the previous year - 29%, expenses of future periods decreased to 36.7%. The share of receivables with the budget increased in the total

amount of current assets - up to 18.5% and cash - up to 13.74%. There were no more significant changes in the structure of current assets.

Table 2.2

**The current assets structure of "Galen-1" LLC for the period from 01.01.2014 to 01.01.2018 years**

Current assets items	Period, years									
	01.01.2014		01.01.2015		01.01.2016		01.01.2017		01.01.2018	
	th. UAH	%	th. UAH	%	th. UAH	%	th. UAH	%	th. UAH	%
Inventories	1137	89,88	1194	72,10	493	12,34	656	29,03	649	28,96
<i>abs. change, +/-</i>			+57	-17,78	-701	-59,76	+163	+16,69	-7	-0,07
Accounts receivable for goods, works and services	7	0,55	80	4,83	1960	49,06	21	0,93	36	1,61
<i>abs. change, +/-</i>			+73	+4,28	+1880	+44,23	-1939	-48,13	+15	+0,68
Accounts receivable with the budget	19	1,50	249	15,04	838	20,98	313	13,85	414	18,47
<i>abs. change, +/-</i>			+230	+13,54	+589	+5,94	-525	-7,13	+101	+4,62
Other accounts receivable					51	1,28	8	0,35	12	0,54
<i>abs. change, +/-</i>							-43	-0,93	+4	+0,19
Cash	31	2,45	133	8,03	653	16,35	245	10,84	308	13,74
<i>abs. change, +/-</i>			+102	+5,58	+520	+8,32	-408	-5,51	+63	+2,9
Future expenses							1017	45,00	822	36,68
<i>abs. change, +/-</i>									-195	-8,32
Other current assets	71	5,61								
<i>abs. change, +/-</i>			-71	-6,61						
Total	1265	100,00	1656	100,00	3995	100,00	2260	100,00	2241	100
<i>abs. change, +/-</i>			+400	0,00	-2339	0,00	-1735	0,00	-19	0,00

Source: compiled by the author based on the financial statements of "Galen-1" LLC [50]

Both the amount of assets and the amount of capital in 2013-2015 increased, and in 2016 it decreased. With regard to equity, its amount was steadily increasing. It experienced the greatest growth in 2015 (by 111.57%). As of 01.01.2018, the growth of equity was 6.2%. The dynamics of borrowed capital was different. In particular, long-term bank loans appeared in 2015, before the "Galen-1" LLC was engaged in economic activity without the use of long-term debt. Their use took place during 2015-2017. In terms of short-term capital, its amount is characterized by an ambiguous trend, but is mainly reduced. Thus, in 2014, short-term debt decreased by 61%, in 2015 it slightly increased by 1.97%, in 2016 it fell sharply again by 62%, and in 2017 it increased by 9.39%. This was mainly due to an increase in the amount of other current liabilities (by 35.14%). Data on capital dynamics are presented in Appendix B.

Table 2.3

**The capital structure of "Galen-1" LLC for the period from 01.01.2014 to 01.01.2018 years**

Capital items	Period, years				
	01.01.2014	01.01.2015	01.01.2016	01.01.2017	01.01.2018
Equity, %	63,76	87,01	74,01	82,94	80,63
<i>absolute change,</i> +/-		+23,25	-13,00	+8,93	-2,31
Borrowed capital, %	36,24	12,99	25,99	17,06	19,37
<i>absolute change,</i> +/-		-23,25	+13,00	-8,93	+2,31
Total capital, %	100,00	100,00	100,00	100,00	100,00

Source: compiled by the author based on the financial statements of "Galen-1" LLC [50]

The capital structure of "Galen-1" LLC for the period from 01.01.2014 to 01.01.2018 is characterized by the following: the enterprise was mainly active by the expense of equity (Figure 2.2.). Thus, its share in total capital increased from 63.76% in

2013 to 80.63% in 2017. Accordingly, the share of debt capital declined from 36.24% in 2013 to 19.37% in 2017, although the trend for these indicators is volatile and ambiguous.

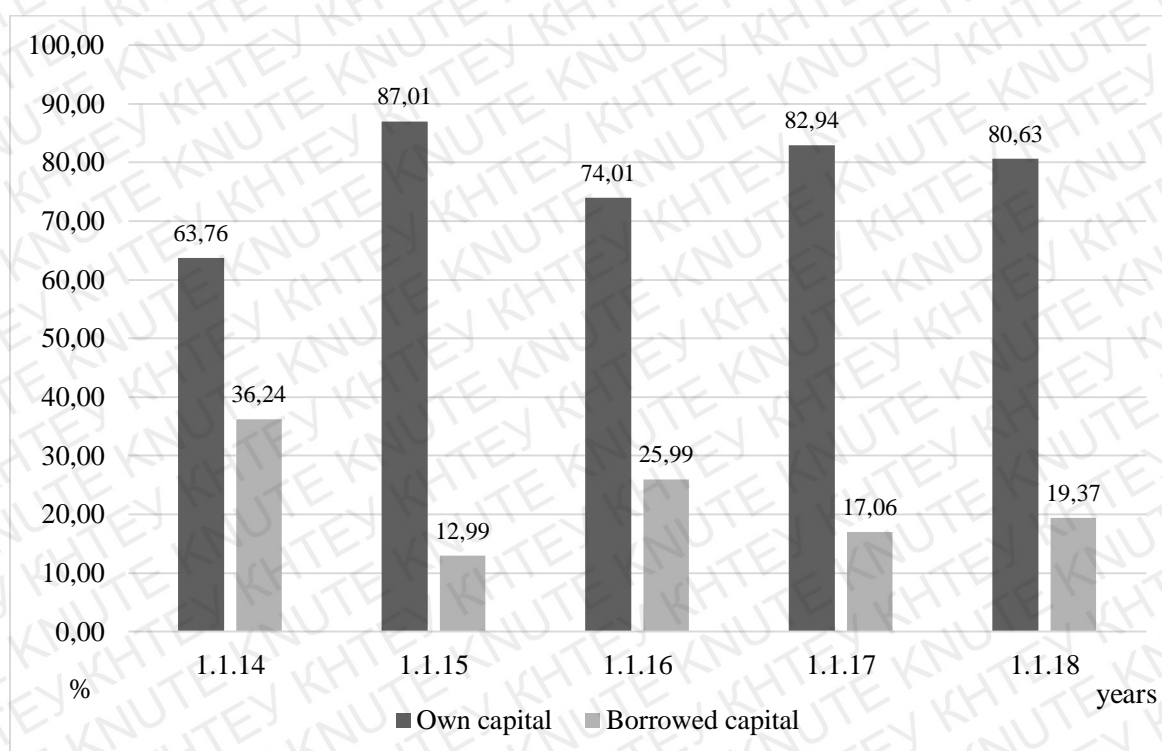


Fig. 2.2. The capital structure of "Galen-1" LLC for the period from 01.01.2014 to 01.01.2018 year [50]

As for the borrowed capital structure, the situation was as follows: in 2013 and 2014 the company used exclusively short-term borrowed capital. In 2015, "Galen-1" LLC attracted long-term borrowed capital, its share was 79.5%. Since then, the share of long-term borrowed capital is increasing: 87.32% in 2016 and 88.81% in 2017. The structure of borrowed capital is presented in Table 2.4 and in Figure 2.3.

Table 2.4

**The borrowed capital structure of "Galen-1" LLC for the period from 01.01.2014 to 01.01.2018 years**

Borrowed capital items	Period, years				
	01.01.2014	01.01.2015	01.01.2016	01.01.2017	01.01.2018
Long-term borrowed capital, %	0,00	0,00	79,51	87,32	88,81
<i>absolute change, +/-</i>			+75,91	+7,81	+1,49

Borrowed capital items	Period, years				
	01.01.2014	01.01.2015	01.01.2016	01.01.2017	01.01.2018
Short-term borrowed capital, %	100,00	100,00	20,49	12,68	11,19
<i>absolute change, +/-</i>			-79,51	-7,81	-1,49
<i>Total borrowed capital, %</i>	100,00	100,00	100,00	100,00	100,00

Source: compiled by the author based on the financial statements of "Galen-1" LLC [50]

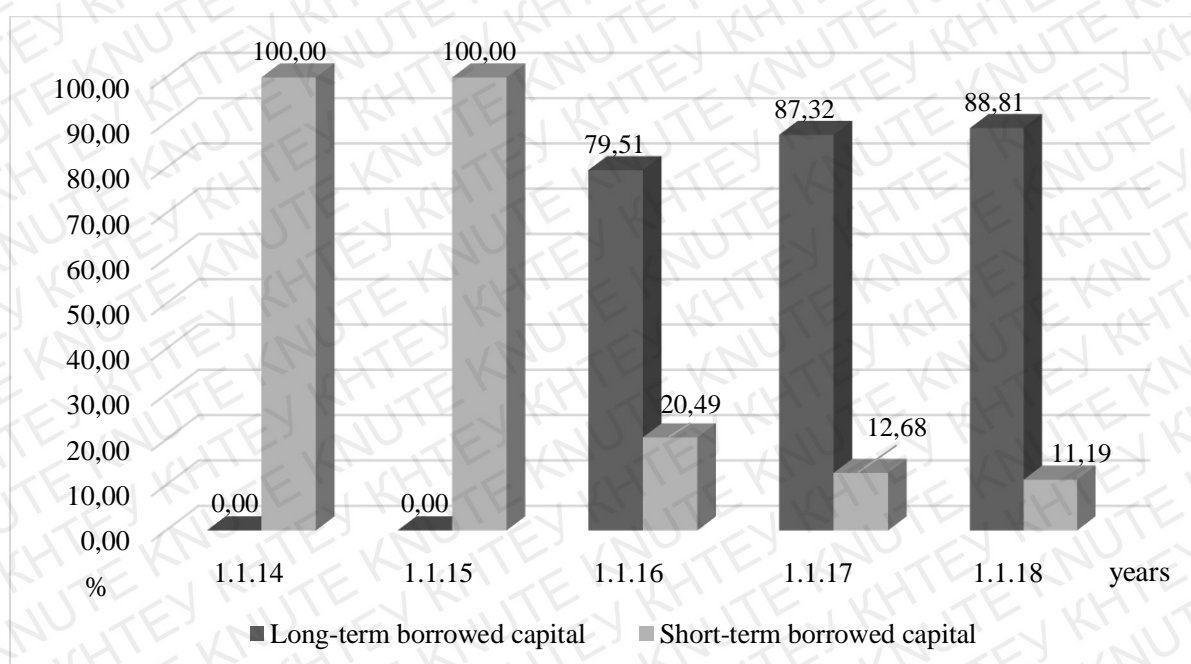


Fig. 2.3. The borrowed capital structure of "Galen-1" LLC for the period from 01.01.2014 to 01.01.2018 years [50]

Consequently, the assets of "Galen-1" LLC, as well as capital, tend to increase. There is a steady increase in the amount of non-current assets. Changes are subjected to such items as accounts receivables for goods, works and services, other current receivables, accounts receivable with the budget, cash. As for the structure of assets of "Galen-1" LLC, we observe that non-current assets prevailed the current ones. In 2017, the share of non-current assets was 75.5% and current assets - 24.5%. Over the past 5 years, the company has been operating mainly by equity. Its share is 80.63% as of 01.01.2018.

## 2.2. Analysis of liquidity, solvency and financial sustainability of the enterprise

Solvency determines the ability of a business entity to repay its liabilities. Characterizing solvency of "Galen-1" LLC we use the main indicators of solvency (Table 2.5, Figure 2.4), which indicate that:

Table 2.5

### The dynamics of the solvency ratios of "Galen-1" LLC for the period from 01.01.2014 to 01.01.2018 years

Indicators	Period, years					Absolute change on, +/-			
	01.01. 2014	01.01. 2015	01.01. 2016	01.01. 2017	01.01. 2018	Period, years			
						01.01. 2015	01.01. 2016	01.01. 2017	01.01. 2018
Cash ratio	0,03	0,29	1,40	1,35	1,56	+0,26	+1,11	-0,05	+0,20
Quick ratio	0,05	1,01	7,52	3,24	3,89	+0,96	+6,50	-4,27	+0,65
Current ratio	1,09	3,62	8,57	12,49	11,32	+2,54	+4,95	+3,91	-1,17
Accounts payable-to-accounts receivable ratio	0,20	2,33	8,19	2,38	3,12	+2,13	+5,85	-5,81	+0,75
Accounts receivable-to-accounts payable ratio	0,32	20,00	980,00	0,38	0,80	+19,68	+960,0	-979,6	+0,43

Source: compiled by the author based on the financial statements of "Galen-1" LLC [50]

- in 2013, the company could instantly repay 3% of current liabilities at the expense of ready-made funds, 5% - due to high-liquid assets, and current assets exceeded the volume of current liabilities by 9%;

- in 2014, “Galen-1” LLC could repay its current liabilities by 29% by ready-made funds, more than 100% with the help of high-liquid assets, and the amount of current assets 2.5 times exceeded the volume of current liabilities;
- in 2015 the situation was as follows: the ready-made means of payment exceeded the amount of current liabilities by 40%, liquid assets - by 650%, and current assets - by 750%;
- in 2016, the ready-made means of payment were higher than current liabilities by 35%, liquid assets - by 220%, and current assets - by 1150%;
- in 2017, the ready-made means of payment exceeded the amount of current liabilities by 56%, liquid assets - by 290%, and current assets by more than 1000%.

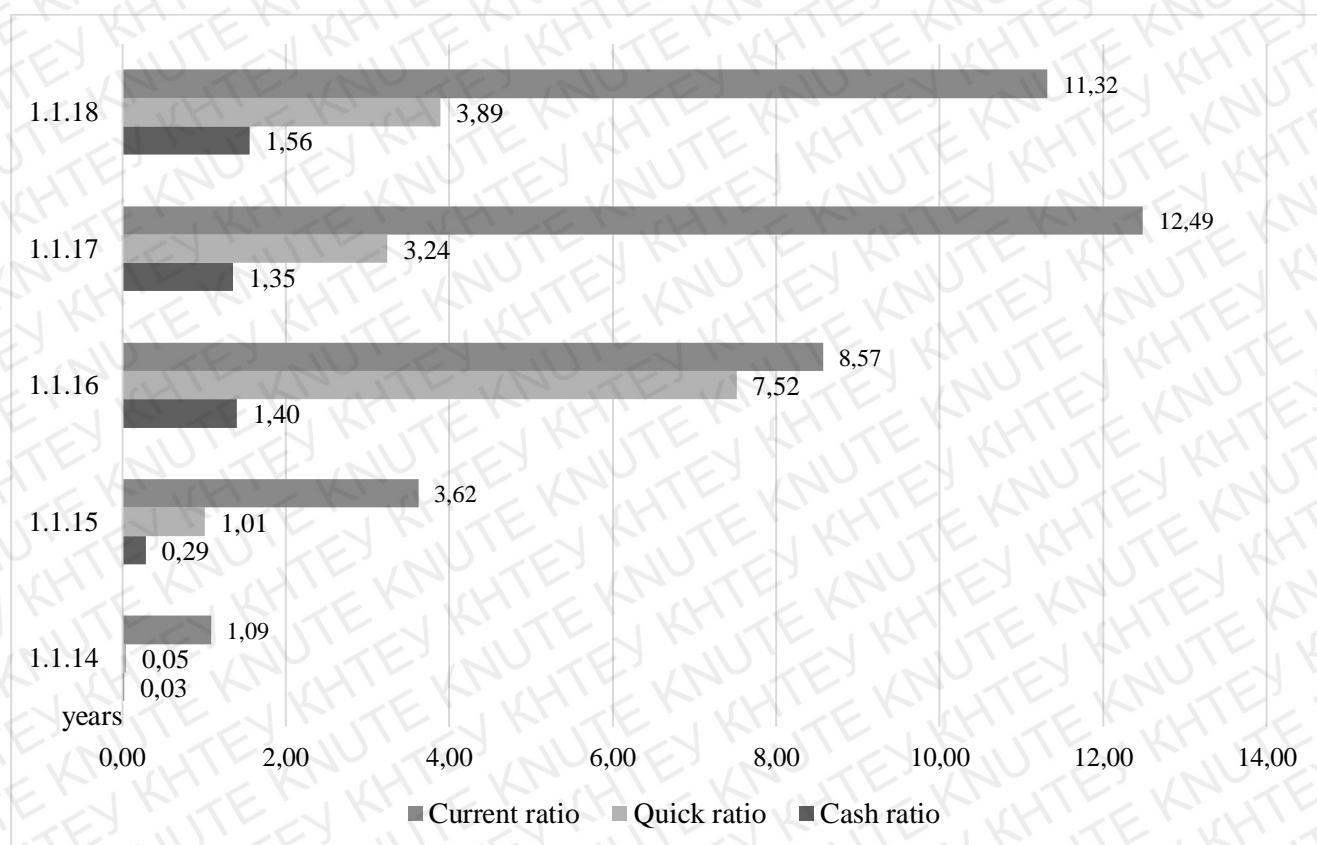


Fig. 2.4. The dynamics of the solvency ratios of the "Galen-1" LLC for the period from 01.01.2014 to 01.01.2018 years [50]

For the last 5 years, “Galen-1” LLC was characterized by a sufficient level of financial stability. This is indicated by the values of the corresponding indicators (Table



2.6). Thus, at the end of the investigated period, 81% of the capital was equity (own funds), which is the result of the positive trend of past years. In other words, 81% of the assets were financed from own sources, and 19% - from loans, which in general complied with the recommended requirements.

Table 2.6

**Dynamics of the financial sustainability indicators of “Galen-1” LLC for the period from 01.01.2014 to 01.01.2018 years**

Indicators	Period, years					Absolute change on, +/-			
	01.01. 2014	01.01. 2015	01.01. 2016	01.01. 2017	01.01. 2018	Period, years			
						01.01. 2015	01.01. 2016	01.01. 2017	01.01. 2018
Autonomy ratio	0,64	0,87	0,74	0,83	0,81	+0,23	-0,13	+0,09	-0,02
Financing ratio	1,57	1,15	1,35	1,21	1,24	-0,42	+0,20	-0,14	+0,03
Debt ratio	0,36	0,13	0,26	0,17	0,19	-0,23	+0,13	-0,09	+0,02
Current debt ratio	0,36	0,13	0,05	0,02	0,02	-0,23	-0,08	-0,03	0,00
Long-term debt ratio	0,00	0,00	0,21	0,15	0,17	0,00	+0,21	-0,06	+0,02
Long-term financial independence ratio	0,64	0,87	0,95	0,98	0,98	+0,23	+0,08	+0,03	0,00
Indicator of maneuverability of the capital	0,05	0,39	0,27	0,12	0,06	+0,34	-0,13	-0,15	-0,06
Indicator of maneuverability of equity and long-term loan capital	0,05	0,39	0,43	0,25	0,23	+0,34	+0,03	-0,17	-0,02

Source: compiled by the author based on the financial statements of “Galen-1” LLC [50]

In the structure of borrowed funding sources in 2013 and 2014, short-term loans prevailed and amounted to the entire amount of borrowed capital. However, in 2015, long-term capital was the overwhelming amount of borrowed capital, and the share of

short-term capital declined significantly. In 2016 and 2017, the structure of borrowing capital was maintained: 17% of the capital in 2016 and 19% in 2017 in its total amount was long-term, and only 2% of the short-term. Such a financing structure requires an adequate level of assets liquidity to avoid solvency problems and financial sustainability.

At the end of the investigated period, 6% of equity was used to finance working assets, which is evidence of a low level of maneuverability of equity. There is a tendency of falling of some indicators of financial stability, preservation of which in the future can lead to negative consequences.

To assess the type of financial stability we use information about the amount of working capital, the amount of inventories and future expenses and the amount of normal sources of stocks financing (Table 2.7).

*Table 2.7*

**Definition of financial sustainability type of “Galen-1” LLC for the period from 01.01.2014 to 01.01.2018 years, th.UAH**

Indicators	Period, years				
	01.01.2014	01.01.2015	01.01.2016	01.01.2017	01.01.2018
Own working capital	101	1199	1721	833	471
Stocks+Future expenses	1137	1194	493	1673	1471
Normal sources of stock financing, incl.	1287	1660	2189	1070	714
▪ working capital	1265	1656	2187	1014	669
▪ accounts payable	22	4	2	56	45
▪ short-term bank loans	0	0	0	0	0
The type of financial stability	↓	↓	↓	↓	↓
	normal	absolute	absolute	unstable	unstable

Source: compiled by the author based on the financial statements of “Galen-1” LLC [50]

Considering these indicators, we can observe the following:

- in 2013, “Galen-1” LLC was characterized by a normal type of financial sustainability, as the number of inventories and future expenses was higher than the amount of own working capital, but remained below the amount of normal sources of stock financing;
- in 2014 and 2015, the company was characterized by an absolute type of financial stability, as the number of inventories and future expenses did not exceed the amount of own working capital;
- in 2016 and 2017 the situation was extremely aggravated: the company was in an unstable financial state (the amount of inventories and future expenses exceeded both the amount of own working capital and the amount of normal sources of stock financing). It was influenced by the following factors: firstly, the reconstruction had place, secondly, a gradual transition to a new type of product was carried out, and thirdly, a reorganization of the workshop was introduced. The decrease in the financial sustainability was also influenced by a decrease in the amount of working capital, mainly due to the increase of non-current assets, which indicates that the company purchased new fixed assets for the purpose of retrofitting the workshops. It should be noted that there were no overdue accounts payable in the enterprise, indicating the possibility of improving the financial state of the company due to effective capital and assets management.

Consequently, in view of the calculations performed, there is *a contradiction in the study of the financial state* of "Galen-1" LLC. On the one hand, as of 01.01.2018, the enterprise was characterized by a high level of the autonomy ratio (0.81). This suggests that the company finances its current business mainly through its own financial resources. Such a picture is desirable for any enterprise, because it deprives dependence on bank loans, provides prospective solvency and, most importantly, contributes to ensuring a high level of financial safety of an enterprise and a normal type of financial stability.

However, on the other hand, in the view of the excess of inventories and the future period expenses over the amount of normal sources of stock financing, the enterprise is

characterized by unsustainable financial state. This is due, first of all, to the accumulation of inventories due to the lack of sales, the transition to new types of products, refurbishment and reconstruction of the workshops, the search for new markets. It is logical that there was sales reducing and accumulating inventories. For the same reason, there was a decrease in the amount of normal sources of stocks financing in the form of accounts payable for goods, works and services. “Galen-1” LLC has no overdue payables, therefore, this situation is not catastrophic for the enterprise; instead, with the achievement of planned indicators in the next period (the release of new types of products, the transition to new markets, the expanding exporters all over the world), the enterprise will have the opportunity to restore its solvency and achieve absolute type of financial stability.

### **2.3. Analysis of business activity and profitability of the enterprise**

Taking into account the performed calculations, it can be considered the instability of the business activity of the enterprise (Table 2.8). This is indicated by different turnover ratios. In particular, in 2016, the turnover ratios tended to decrease, which resulted an increase in the periods of assets turnover. Instead, in 2017, the situation has improved. Turnover ratios have increased, and the periods of turnover, respectively, have been reduced. The period of asset turnover decreased by 214 days and amounted to 388 days; the turnover period of current assets was 120 less and amounted to 100 days; the period of the turnover of non-current assets was 288 days, which is 94 days less than in the previous period; the period of inventories turnover was reduced by 17 days and amounted 39 days; the turnover period of accounts receivables was 18 days, which is 95 days less than in 2016. Such a situation is satisfactory for the enterprise, and its preservation can lead to positive effects and even more efficient use of resources.

Table 2.8

**The dynamics of assets turnover ratios of "Galen-1" LLC for the period of  
2014-2017 years**

Indicators	Period, years				Absolute change on, +/-		
	2014	2015	2016	2017	Period, years		
					2015	2016	2017
Assets turnover ratio	1,99	1,81	0,60	0,93	-0,18	-1,21	+0,33
Current assets turnover ratio	4,59	3,93	1,64	3,62	-0,66	-2,29	+1,98
Non-current assets turnover ratio	3,52	3,36	0,94	1,25	-0,16	-2,41	+0,31
Inventory turnover ratio	4,74	10,49	6,50	9,24	+5,75	-3,99	+2,74
Accounts receivable turnover ratio	37,75	6,98	3,21	20,27	-30,77	-3,77	+17,05
Period of assets turnover, days	178,00	200,00	602,00	388,00	+22,00	+402,00	-214,0
Period of current assets turnover, days	75,00	92,00	220,00	100,00	+17,00	+128,00	-120,0
Period of non-current assets turnover, days	103,00	108,00	382,00	288,00	+5,00	+274,00	-94,00
Period of inventory turnover, days	76,00	35,00	56,00	39,00	-41,00	+21,00	-17,00
Period of accounts receivable turnover, days	10,00	52,00	113,00	18,00	+42,00	+61,00	-95,00

Source: compiled by the author based on the financial statements of "Galen-1" LLC [50]

As well as indicators of assets turnover, and indicators of capital turnover are characterized by positive changes in 2017. This is indicated by the calculations performed in Table 2.9. However, earlier the situation was unfavorable. So, in particular, from 2014

to 2016 there was a continuous increase in the periods of turnover for all components of capital.

Table 2.9

**The dynamics of capital turnover ratios of "Galen-1" LLC for the period of 2014-2017 years**

Indicators	Period, years				Absolute change on, +/-		
	2014	2015	2016	2017	Period, years		
					2015	2016	2017
Capital turnover ratio	1,99	1,81	0,60	0,93	-0,18	-1,21	+0,33
Equity turnover ratio	2,62	2,33	0,76	1,14	-0,30	-1,56	+0,37
Borrowed (debt) capital turnover ratio	8,27	8,13	2,77	5,10	-0,14	-5,36	+2,33
Bank loan turnover ratio	—	12,28	3,36	5,78	—	-8,92	+2,43
Accounts payable turnover ratio	50,01	44,75	20,83	55,80	-5,26	-23,92	+34,97
Period of capital turnover, days	182,00	200,00	602,00	387,00	+18,00	+402,00	215,00
Period of equity turnover, days	138,00	155,00	472,00	316,00	+17,00	+317,00	156,00
Period of borrowed (debt) capital turnover, days	44,00	45,00	130,00	71,00	+1,00	+85,00	-59,00
Period of bank loan turnover, days	—	30,00	108,00	63,00	—	+78,00	-45,00
Period of accounts payable turnover, days	8,00	8,00	18,00	7,00	0,00	+10,00	-11,00

Source: compiled by the author based on the financial statements of "Galen-1" LLC [50]

The period of capital turnover increased by 402 days and amounted to 602 days, the period of equity turnover increased by 317 days and amounted to 472 days, the period of borrowed capital turnover increased by 85 days and amounted to 130 days, period of bank loan turnover increased by 85 days and amounted to 130 days and period of accounts

available turnover was 18 days which is 10 days higher than in previous period. Capital management in this case had to be reduced to accelerating the capital turnover period in order to be able to obtain more economic benefits from the use of resources.

In 2017, the company demonstrated an effective policy of managing capital, which led to a reduction in turnover periods. For example, the period of capital turnover decreased by 215 days and amounted to 387 days, the period of equity turnover was reduced by 156 days and amounted to 316 days, and the period of borrowed capital turnover decreased by 59 days and amounted to 71 days.

The same can be said about the duration of the operational and financial cycles (Fig.2.5 and Table 2.10).

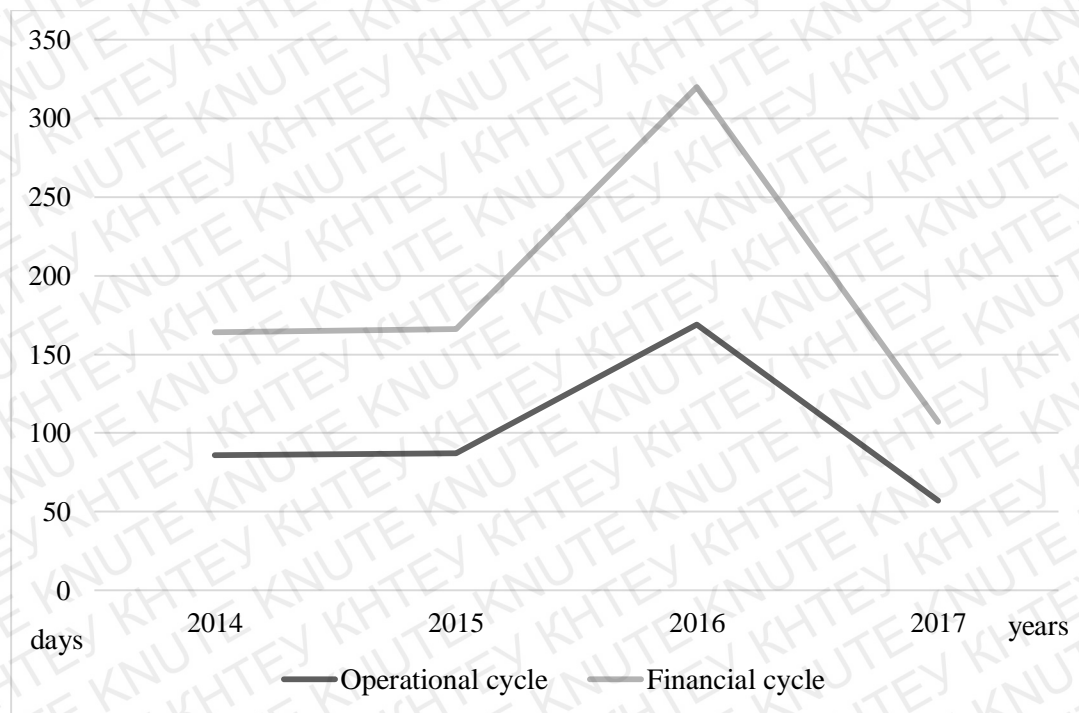


Fig. 2.5. The dynamics of the duration of operational and financial cycles of "Galen-1" LLC for the period 2014-2017 years, days [50]

From 2014 to 2016, they continued to grow: the operating cycle increased from 86 days in 2014 to 169 days in 2016, and the financial cycle grew from 78 days in 2013 to 151 days in 2016. But in 2017, the operating cycle decreased by 112 days and amounted to 57 days, and the financial cycle decreased by 101 days and amounted to 50 days. Such

data indicate that the company introduced effective control over accounts receivable and harmonized accounts payable policy.

*Table 2.10*

**The dynamics of the duration of operational and financial cycles of the "Galen-1" LLC for the period 2014-2016 years, days**

Indicators	Period, years				Absolute change on, +/-		
	2014	2015	2016	2017	Period, years		
					2015	2016	2017
Operational cycle	86	87	169	57	+1	+82	-112
Financial cycle	78	79	151	50	+1	+72	-101

Source: compiled by the author based on the financial statements of "Galen-1" LLC [50]

The results of the calculation of profitability "Galen-1" LLC are performed in Table 2.11 and are characterized by ambiguous tendency.

*Table 2.11*

**The dynamics of the profitability indicators of "Galen-1" LLC for the period 2014-2017 years, %**

Indicators	Period, years				Absolute change on, +/-		
	2014	2015	2016	2017	Period, years		
					2015	2016	2017
ROA	21,49	26,64	0,53	9,55	+5,16	-26,12	+9,03
ROE	27,88	32,98	0,57	9,26	+5,10	-32,41	+8,69
ROD	87,85	115,1	2	41,42	+27,28	-113,07	+39,3
ROS <sub>net</sub>	10,63	14,16	0,74	8,13	+3,54	-13,42	+7,38
Operating margin	10,79	14,72	12,57	17,59	+3,93	-2,16	+5,02
Gross margin	17,55	20,27	27,15	26,00	+2,72	+6,87	-1,15

Source: compiled by the author based on the financial statements of "Galen-1" LLC [50]

In 2014 and 2015, the company had good growth rates of profitability. Thus, in 2015, the return on assets was 26.64%, return on equity was 33%, return on debt was



115.12%, net return on sales 14.16%. Operating and gross margin were also at the high level. However, in 2016, the situation deteriorated sharply. Most of indicators fell by almost 100%, the profitability of the company was very small. For example, the return on assets fell by 26.12 pp. and amounted to 0.5%, the return on equity decreased by 32.41 pp. and amounted to 0.57%, and the net profitability of the sales decreased by 13.42 pp. and amounted to 0.74%. As to operating margin, it's level was a quite lower than in previous years. On the contrary gross margin has increased by 6,87 p.p. and amounted to 27,15%. In 2017, the company demonstrated an effective and rational use of assets, equity and borrowed funds as evidenced by the calculations received. There was an increase in all indicators of profitability except gross margin. The highest result was made by return on debt ratio, which increased by 39,36 p.p. and amounted to 41,42%. The dynamics of the main indicators of profitability "Galen-1" LLC is presented in Fig. 2.6. Support for such management will lead to even better results in the subsequent periods of operation of the enterprise.

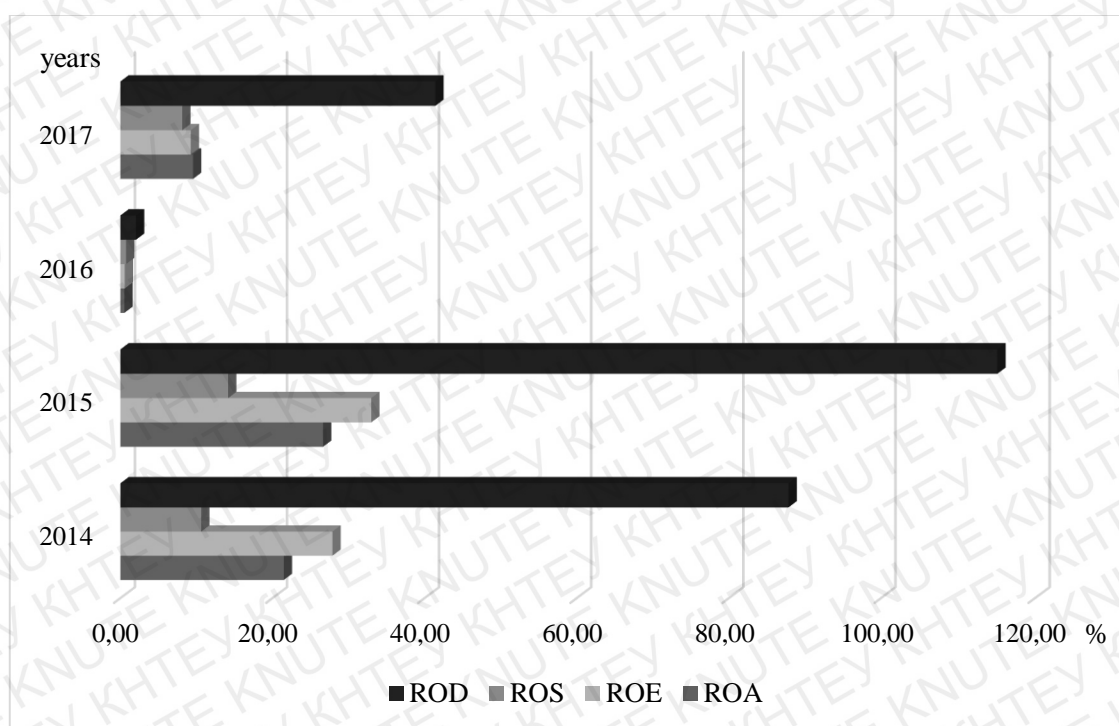


Fig. 2.6. The dynamics of the profitability indicators of "Galen-1" LLC for the period 2014-2017 years, % [50]

Thus, in 2014 and 2015, "Galen-1" LLC was characterized by rather high performance. It had an absolute type of financial stability, satisfactory indicators of solvency and business activity, provided the company with a high level of profitability. In 2016, the situation deteriorated due to internal and external factors. There has been a slowdown in the periods of turnover of assets and capital, lowering the profitability of the enterprise. However, in 2017, the situation has improved somewhat. Thus, the duration of the turnover of assets and capital was accelerated as well as the increase in their profitability. Rational management of the financial state of the enterprise will allow it to return to the proper level of functioning and will allow to receive financial indicators like in 2014-2015 periods.

## CHAPTER 3

### OPTIMIZATION OF FINANCIAL STATE OF “GALEN-1” LLC

#### 3.1. Predictive assessment of the financial state of the enterprise

The essence of predictive assessment is to develop and justify the goals, identify the best methods and ways to achieve them, effectively using all kinds of resources necessary for the accomplishment of the tasks and establishing their interaction. It is necessary to determine the ways of development of the enterprise and economic resources that ensure its development, to predict the consequences of the decisions and measures taken by management.

The process of planning the financial state of enterprise includes many components: production and sales of products, the cost of goods sold, the financial sustainability of the enterprise, its ability to repay liabilities. These and other components are the objects of predictive assessment.

"Galen-1" LLC was quite successful until 2016. The company rationally attracted and efficiently used financial resources, that is why its financial state was at a safe level. However, in 2016, with the transition to new types of products and reconstruction in the workshops, the company experienced a deterioration in key performance indicators, and therefore the financial stability of the company weakened and characterized an unsatisfactory state. Despite the positive changes in profitability and business activity in 2017, “Galen-1” LLC is still in an unstable financial position. That is why, in the subsequent period, the company faces the following tasks:

- to achieve financial performance, like in the 2014-2015 period;
- to increase revenues from sales of products by 50% compared with 2017;
- to increase the profitability of assets and equity, as well as the profitability of turnover;
- to reduce periods of turnover in the most essential items of the balance;
- to improve the financial stability of the enterprise and bringing it to absolute state;

- to increase solvency ratios;
- to increase the sum of working capital;
- to reduce company's operational and financial cycles.

#### Profit and Loss Statement planning

Typically, the amount of net sales revenue (NSR) is projected by the rate of growth. In 2017, the company reconstructed and moved to new types of products within 9 months. That is why there is a significant reduction in net sales, compared with 2015. Thus, it is inappropriate to predict the amount of revenues from sales by the rate of growth. In this case we are guided by the retrospective of the previous years before reconstruction. The management of the company sets a goal to increase revenues by 50% in 2017, based on the number of contracts concluded, the availability of new markets and total demand for products:

$$NSR_{pl} = NSR_{2017} + 50\% = 8147 + (8147 * 0,5) = 12220,5 \text{ th.UAH}$$

We find the sum of the cost of goods sold (COGS) in the planned period through its level in the revenues:

$$L_{cogs} = COGS_{2017} / NSR_{2017} * 100\% = 6028,78 / 8147 * 100\% = 74\%$$

$$COGS_{pl} = NSR_{pl} * L_{cogs} = 12220,5 * 74\% = 9043,17 \text{ th.UAH}$$

Sales expenses (SE) are expected to increase 2.5 times according to increasing in sales due to the contracts concluded:

$$SE_{pl} = SE_{2017} * 2,5 = 15 * 2,5 = 37,5 \text{ th.UAH}$$

The financial department has decided to keep administrative expenses (AE) at the level of the reporting year:

$$AE_{pl} = 617 \text{ th.UAH}$$

The sum of other operating income (OOI) is calculated through its level in the revenues from the sale:

$$L_{ooi} = OOI_{2017} / NSR_{2017} * 100\% = 69 / 8147 * 100\% = 0,85\%$$

$$OOI_{pl} = L_{ooi} * NSR_{pl} = 0,85\% * 12220,5 = 103,87 \text{ th.UAH}$$

The financial department has decided to keep the amount of other operating expenses (OOE) at the level of the reporting year:

$$OOE_{pl} = 122 \text{ th.UAH}$$

Given the sum of these indicators, the amount of gross profit (GP) will be:

$$GP_{pl} = NSR_{pl} - COGS_{pl} = 12220,5 - 9043,17 = 3177,33 \text{ th.UAH}$$

EBIT will amount:

$$EBIT_{pl} = GP_{pl} - AE_{pl} - OOE_{pl} - BSE_{pl} + OOI_{pl} = 3177,33 - 617 - 122 - 37,5 + 103,87 = 2504,70 \text{ th.UAH}$$

Income tax (IT) will be 18% from EBIT:

$$IT_{pl} = EBIT * 18\% = 2504,70 * 0,18 = 450,85 \text{ th.UAH}$$

Thus, the forecast amount of net profit (NP) in the planned period will be:

$$NP_{pl} = EBIT_{pl} - IT_{pl} = 2504,70 - 450,85 = 2053,85 \text{ th.UAH}$$

Operational expenses will keep the same amount – 6673 th.UAH.

Forecasted profits and losses are represented in Table 3.1.

*Table 3.1*

**Profit and Loss Statement for 2017 year and planning period of “Galen-1” LCC,  
th.UAH**

Item	2017 year	Planning period	Absolute change, +/-
Net sales revenue	8147	12220,5	+4073,5
Cost of goods sold	(6028,78)	(9043,17)	+3014,39
Gross profit	2118,22	3177,33	+1059,11
loss			
Other operating income	69	103,87	+34,87
Administrative expenses	(617)	(617)	0,00
Sales expenses	(15)	(37,5)	+22,5
Other operational expenses	(122)	(122)	0,00
Financial result from operating activities			

Continuation of Table 3.1

Item	2017 year	Planning period	Absolute change, +/-
profit	1433,22	2504,70	+1071,48
loss			
Other financial revenue			
Other revenue			
Financial expenses	-285	0	-285
Other expenses	-312,5	0	-312,5
Financial result before tax			
profit	836,02	2504,7	1668,68
loss			
Income tax	-174	-450,85	276,85
Net financial result			
profit (income)	662,02	2053,85	1391,83
loss			
Operational expenses	6673	6673	0

Source: compiled by the author

When planning the balance sheet we are guided by the source information received from the financial department of the enterprise (Table 3.2):

- in the planned period, it is planned to purchase fixed assets by 800 thousand UAH (depreciation rate is 10%);
- it is planned to reduce the period of turnover by 25%: the period of stock turnover up to 30 days, accounts receivable up to 14 days and accounts payable up to 6 days. In general, the task is to reduce the duration of operational and financial cycles within 20-25%;
- planned replenishment of capital for 100 thousand UAH;
- in the planned year, the costs of future periods will not occur.

## 1.Planning assets

### 1.1.Planning fixed assets (FA):

$$FA_{pl}=FA_{2017}+FA_{purchased} - (FA_{depreciation\ 2017} + FA_{purchased}) * Depreciation\ rate = 6897+800-(1540+800)*0,1=7463\ th.UAH$$

Total non-current assets: 7463 th.UAH

1.2.Planning inventories (I). The amount of inventories is calculated through its turnover period:

$$I_{pl} = COGS_{pl} * TP_{I_{pl}} / 360 = 9043,17 * 30 / 360 = 753,60\ th.UAH$$

1.3.Planning accounts receivable (AR). The amount of accounts receivable is calculated through its turnover period:

$$AR_{pl}=NSR_{pl}*TP_{AR_{pl}} / 360=12220,5*14/360=475,24\ th.UAH$$

1.4.Planning cash (C). Cash is calculated through its level in revenues from sales:

$$L_c = C_{2017} / NSR_{2017} = 308 / 8147 = 4\%$$

$$C_{pl} = NSR_{pl} * 5\% = 12220,5 * 0,05 = 488,82\ th.UAH$$

Total current assets: 1717,66 th.UAH

Total assets: 9180,66 th.UAH

## 2.Planning capital and liabilities

2.1.Registered capital (RG) increases 100 th.UAH in planning period:

$$RC_{pl} = RC_{2017} + \text{the sum of replenishment} = 6728 + 100 = 6828\ th.UAH$$

2.2.Planning retained earnings (RE). Retained earnings are calculated through the capitalization ratio:

$$Cap\ ratio = (RE_{2017} - RE_{2016}) / NP_{2016} * 100\% = (2118 - 2078) / 38 = 1,05\%$$

$$NP_{cap} = NP_{pl} * Cap\ coef = 2053,86 * 0,0105 = 21,62\ th.UAH$$

$$RE_{pl} = RE_{2017} + NP_{cap} = 2118 + 21,62 = 2139,62\ th.UAH$$

Total equity: 8967,62 th.UAH

2.3.Planning accounts payable (AP). Accounts payable are calculated through its turnover period:

$$AP_{pl} = NSR_{pl} * TP_{AP_{pl}} / 360 = 12220,5 * 6 / 360 = 203,68\ th.UAH$$

Total current liabilities: 203,68 th.UAH

Total liabilities: 9171,29 th.UAH

Table 3.2

**Balance Sheet for 2017 year and planning period of “Galen-1” LLC, th.UAH**

Assets				Liabilities			
Item	2017 year	Planning period	Abs. change, +/-	Item	2017 year	Planning period	Abs. change, +/-
Fixed assets	6897,00	7463,00	+566,00	Registered capital	6728,00	6828,00	+100,00
Intangible assets	0,00	0,00	0,00	Unpaid capital	-1478,0	0,00	+1478,00
Incomplete capital investments	0,00	0,00	0,00	Retained earnings	2118,00	2139,62	+21,62
Long-term financial investments	0,00	0,00	0,00	Other equity	0,00	0,00	0,00
Other non-current assets	0,00	0,00	0,00	Total equity	7368,00	8967,62	+1599,62
Total non-current assets	6897,00	7463,00	+566,00	Long-term bank loans	1572,00	0,00	-1572,00
Inventories	649,00	753,60	+104,60	Other long-term liabilities	0,00	0,00	0,00
Accounts receivable	462,00	475,24	+13,24	Total long-term liabilities	1572,00	0,00	-1572,00
Cash	308,00	488,82	+180,82	Short-term bank loans	0,00	0,00	0,00
Future expenses	822,00	0,00	-822,00	Current accounts payable	57,00	203,68	-146,68
Other current assets	0,00	0,00	0,00	Other current liabilities	141,00	9,37	-131,63
Total current assets	2241,00	1717,66	-523,34	Total current liabilities	198,00	213,05	+15,05
Balance	9138,00	9180,66	+42,66	Balance	9138,00	9180,66	+42,66

Source: complied by the author based on the financial statements of “Galen-1” LLC [50]



As you can see, the amount of the asset, though not much, however, exceeds the capital and liabilities amount. We make balance of these two parts adding the difference between the assets and passive to the item “other current liabilities”. Thus, other current liabilities in the planned period will amount to 9.37 thousand UAH, all current liabilities: 213.05 thousand UAH, and the balance will be 9180.66 thousand UAH.

The assets structure in the planning period are presented in Fig. 3.1.

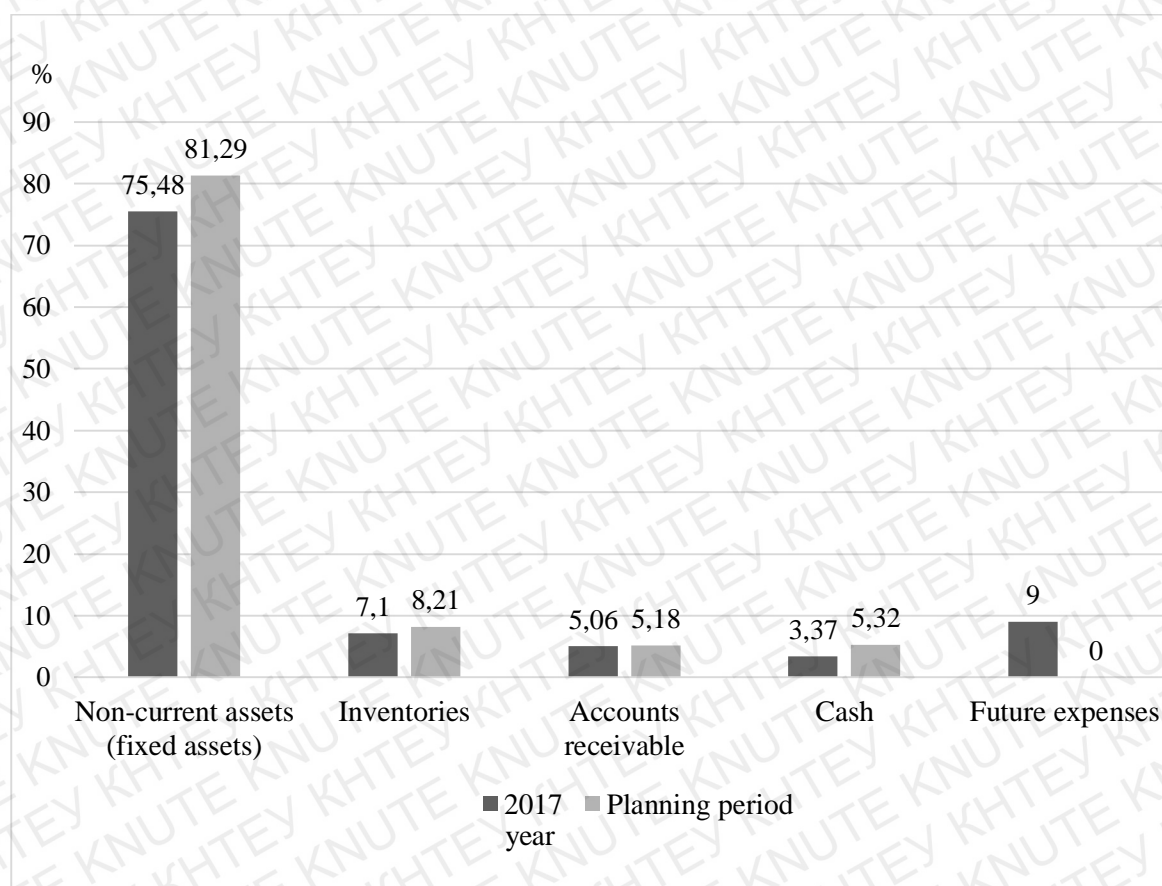


Fig.3.1. The assets structure for 2017 year and planning period of “Galen-1” LLC [50]

Considering information from the figure above we can conclude that the assets structure will be a little bit different than in reporting year. The specific weight of fixed assets will increase by 5,81 p.p. and will amount 81,29%, the weight of inventories will be higher by 1,11 p.p and will amount 8,21%, the weight of cash will increase by almost 2 p.p. and will be 5,32% in the total amount of assets. So, the structure of assets will almost keep except that future expenses will not have a place in planning period.

As for capital structure (Fig.3.2) it is important to say that the specific weight of equity will increase by 17,05 p.p. and will amount to 97,68% comparing with 80,63% in 2017. Functioning at the expense of equity will give a possibility to provide financial stability and development of the enterprise, keep its solvency at the safe level and reduce the risk of bankruptcy. Current liabilities will amount the level of previous year. Also, we can consider that long-term liabilities will not appear in planning period and current liabilities will keep the same level as in last year.

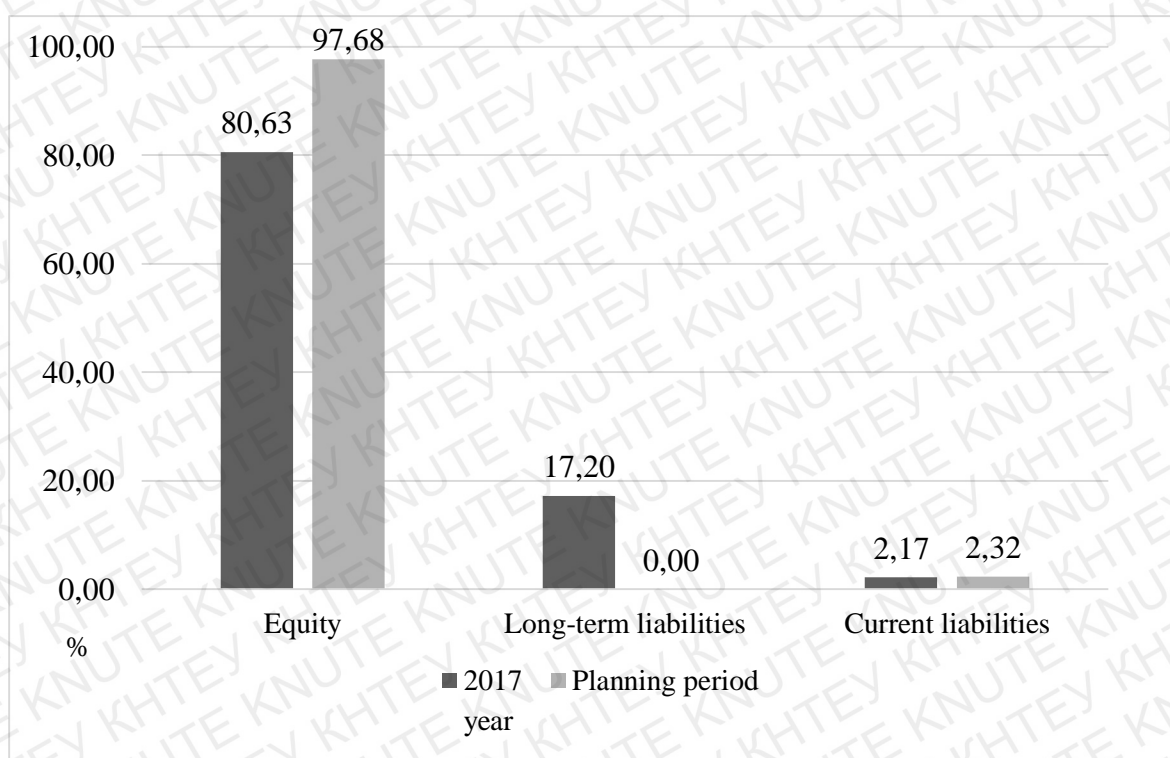


Fig.3.2. The capital structure for 2017 year and planning period of "Galen-1" LLC [50]

Consequently, the forecast of the main financial indicators of "Galen-1" LLC was carried out. With an increase in revenue from sales of 50%, the company will be able to significantly reduce the periods of turnover of the main items of the balance, despite the fact that their amount will be higher than in the previous period. Thus, the implementation of the tasks will lead to efficient use of resources, which will positively affect the dynamics of indicators of profitability, liquidity, financial sustainability and business activity.

### 3.2. Substantiation of problem aspects of financial activity of “Galen-1” LLC

In the case of "Galen-1" LLC there are problems of inefficient use of resources and a low level of sales revenue. The main reasons following:

- accumulation of unnecessary stocks;
- lack of research of buyers purchasing power and inefficient policy of collecting receivables;
- bad organization of work on material and technical provision of production;
- lack of stable sales channels of products and marketing communications;
- absence of policy of optimization and restructuring of payables.

These and other problems of “Galen-1” LLC can be divided into 4 main groups: marketing, manufacturing, financing and management problems. All these problems influence the financial performance of the company. Solving these problems will help the company to improve its financial state. They are represented in Table 3.3.

*Table 3.3*

**The problem aspects of “Galen”-1 LLC activity**

Group of problems	Type of problems
Marketing problems	There is no planned volume of orders, and hence a production plan
	Insufficiently researched market to find reserves to increase net sales revenue
	Weak connection with exporters, which reduces sales
Manufacturing problems	Insufficient working equipment
	Instability of machines due to repair
	Depreciation of equipment
	Reconstruction in the workshops which slows down production processes

Group of problems	Type of problems
Financial problems	Unstable financial state of the enterprise
	Lack of working capital
	Accumulation of a large number of inventories that need to be sold
	Long duration of asset turnover periods
	Inefficient policy of collecting receivables
	Long duration of financial and operational cycles
	Ineffective use of current assets
Management problems	Lack of the planning system of future financial performance
	Lack of the control over the financial state

Source: compiled by the author

This work is devoted to solving financial problems, so it is necessary to focus on them. Let's consider these problems in more detail:

- the financial state of an enterprise is considered unsustainable if there are not sufficient sources of financing of current activities, there is insufficient liquidity, periodic insolvency arises, turnover of working assets is slowing down, and therefore there is a need to attract additional sources of financing. The unstable type of financial situation in this situation was formed because the amount of inventories and expenses of future periods exceeds the sum of the normal sources of stocks financing and the amount of own working capital. This suggests that the enterprise has accumulated a lot of stocks that require faster implementation. This unstable state is the result of ineffective decisions on the financing of inventories and the implementation of future expenses, the impossibility of realization of accumulated inventories in accordance with the terms of repayment of loans and repayment of liabilities. The decrease in the amount of working capital is due to

the increase of non-current assets. It is clear that there was a reconstruction and retrofitting of workshops at the "Galen-1" LLC during 2016-2017, that's why it purchased fixed assets. Stability of financial state can be restored provided: reasonable reduction of stocks and expenses to the standard level; acceleration of the turnover of capital invested in assets; multiplication of own working capital through internal and external sources. In the process of production and financial activity, enterprise has to be interested in maintaining and efficient use of its working capital. Preservation is achieved by, firstly, the focus on the acquisition of the necessary inventory that will be used in the production process and will not remain for a long time in stock. Secondly, by preventing the use of working capital on secondary purposes, that is, the effectiveness of its use is primarily ensured by a high level of turnover. The higher the level of turnover, the less money is needed to ensure the production process. Keeping money in unfinished production and unrealized finished goods is a major factor in the inefficient use of working capital. The need for own working capital is conditioned both by production and financial factors. Among production factors the most important are: volumes of production, duration of the production cycle, periodicity of purchase of inventories, timing of sales of products and forms of payment for it. Changes in these indicators lead to adjustment of working capital. The reduction of production volumes and other indicators reduces the need of own working capital and vice versa. The increase of these indicators leads to the need to increase working capital. This increment is provided at the expense of the company's own profit or provided resources. Provision of the company with working capital, as well as the fixed assets, directly affects its activities. The insufficiency of these funds leads to insecurity of the manufacturing process, reduces the rhythm of products release and timely deliveries to consumers. The inefficient and ineffective use of the company's current assets reduces its production and financial capacity. And the loss or inefficient use of working capital leads to bankruptcy of the enterprise;

- the long period of turnover means the inefficient use of assets and capital of the enterprise, which slows down the operational and financial cycles. The increase in the duration of the turnover of assets and capital indicates that companies need more resources to finance its needs, which forces to attract more financial resources. Those financial resources which may be aimed at reducing the amount of commitments or to intensify current operating, financial or investment activities, are directed towards the financing of assets. There are large circle of directions in which the company can act to reduce the period of turnover of current assets: to work to decrease the amount of inventories, to work to increase the volume of revenue, to streamline accounts receivable management, to reduce the amount of other current assets;
- too high liquidity ratios, in particular the current solvency ratio, also indicate that the enterprise uses resources inappropriately. The high value of the indicator is negative, as evidenced by the excessive distraction of the company's resources to generate cash, which leads to inefficient use of available financial resources, since under the conditions of a normal economic situation and the average expected profitability of an enterprise it is more efficient to invest free cash resources for expanding activities.

It is worth to say that not less important problem is the lack of planning financial indicators and control over the financial performance. The main task in this situation is that management needs to analyze where, when and how to use financial resources to effectively increase production and maximize profits. Therefore, the creation of long-term financial forecasts has to focus on increasing profits and maximizing the results of the enterprise's activities.

The management of the company must adequately assess the current situation and choose the most effective combination of solutions from all possible alternatives. Its actions should be based on the three main stages described below:

- estimation of the current financial state of the enterprise and its changes in comparison with the previous period. The objective of this stage is not only

analysis of the dynamics of financial indicators, but also determining the acceptable level of reduction of financial ratios. In some cases, it is possible to consciously allow a temporary decrease in the indicators. For example, in implementing a large-scale investment program for the reconstruction of the manufacturing workshops, the company can make investments that exceed its current financial strength. That is, to finance capital expenditures, in addition to existing profits and attracted long-term loans, short-term loans and payables can be used, which can lead to decrease in liquidity and financial stability. Such actions can be quite justified, because short terms of reconstruction will facilitate the better financial results of the company in the future. Thus, for the future profit growth, and, therefore, the future strengthening of the financial state of the enterprise the reduce of the basic financial indicators may temporarily be allowed. The task of management is to determine the redline below which the financial state will become critical;

- determination of the reasons that led to changes in the financial state of the enterprise. It is necessary to establish the causes of the problems while investigating the preconditions for their emergence. Also, it is important to find the activities of the enterprise and changes in the external environment, which led to a deterioration of the financial state;
- developing a program of action for the future. Management decisions can be very diverse and constantly changing. During the period of decline in profitability (for example, in the case of searching new markets) particularly important measures are control of working capital (in terms of volumes of procured stocks, timely delivery of components, accuracy of planned production volumes and other) and the definition of the required amount of capital investments. Reducing circulating assets may create an additional reserve for capital investment- for example, by purchasing a smaller amount of stocks.

As for control over the financial state it should be provided by enterprise to verify the implementation of management decisions in the field of financial management of the

company in order to achieve strategic goals and prevent crisis situations that can lead to bankruptcy.

Among the main tasks of controlling of the financial state, we distinguish the following:

- Control over absolute indicators
- Control over relative indicators
- Control over liquidity, solvency and financial sustainability
- Control over the use of equity
- Control over the use of loans
- Rating similar companies to compare financial indicators

It should be noted that control over other aspects has to be implemented, including:

- Control over the marketing system
- Comprehensive control over economic activity
- Control over business processes
- Control over production
- Control over technical conditions
- Control over the volume of sold products and the connection of revenue with COGS

Thus, solving these problems will allow the company to achieve high financial performance. Rational inventory management, optimization of receivables, management of current liabilities, increase of own working capital and normal sources of financing of stocks will help the company to move from an unstable to an absolute type of financial state.



### **3.3. Proposals for improvement of the financial state of the enterprise**

According to the considered problems, the company should adopt three main proposals for improving the financial situation:

1. maintain an effective policy for financing inventories and future expenses, realization of accumulated inventories. “Galen-1” LLC should increase the amount of working capital. The stability of the financial state may be restored if the company will speed up the period of assets turnover, reduce stocks, increase the amount of its own working capital. The financial state of the enterprise must be systematically and comprehensively evaluated using various techniques and methods of analysis. It makes possible to assess the financial performance of the enterprise both in statistics for a certain period and in the dynamics - for a number of periods, to determine the "pain points" in financial activities and ways of more efficient use of financial resources and their rational placement;
2. reduce the duration of the periods of turnover of assets and capital of the enterprise. This will accelerate operational and financial cycles and reduce the amount of resources needed to finance working capital. Money released due to a shorter period of asset turnover may be aimed at reducing the amount of liabilities or expanding operational, financial or investment activities. For this company, it is necessary, first of all, to reduce the amount of stocks or to obtain a larger amount of net revenue, which would be formed due to the implementation of these stocks; optimize management of accounts receivable;
3. efficiently manage current assets, namely: optimize their structure and quantity. Then the company will be able to use resources rationally and direct money into investment activities.

Following the considered proposals, the enterprise can achieve high profitability, business activity and liquidity in the planning period in practice. Practical proposals for improvement of financial state are as follows:

- to increase the revenues from sales of products by 50%;

- to reduce the period of turnover of assets and capital by 25%;
- to reduce the amount of current assets;
- to improve the financial stability of the enterprise and bringing it to absolute state.

Having fulfilled these conditions, "Galen-1" LLC will demonstrate a positive trend in the dynamics of financial indicators. In addition, in the planned period, the company will have an absolute type of financial stability, confirming the calculations in Table 3.4. The following indicators are needed to determine the type of financial state:

*Table 3.4*

**Determining the type of financial state in the planning period, th.UAH**

Indicators	Planning period
Own working capital	1504,62
Inventories + Future expenses	753,60
Normal sources of stocks financing, incl.:	1758,4
Bank loans	0,00
Working capital	1717,66
Accounts payable for goods, works and services*	40,74

\*the sum of accounts payable for goods, works and services is calculated as 20% from total accounts payable

Source: compiled by the author based on the financial statements of "Galen-1" LLC [50]

The amount of future expenses and inventories is less than the amount of working capital, this indicates the absolute type of financial sustainability of the enterprise. We can conclude that the current activities in the planned period will be financed by the own working capital. An enterprise will not depend on bank loans, it will have high liquidity and will provide current and prospective solvency (Table 3.5). As we see, the cash ratio and quick ratio will increase. Despite the high values of these ratios in 2016, it is worth noting that their further increase will result in the maintenance of a safe financial state of the enterprise and the continued financing of operational needs during the planning period. Current solvency ratio will decrease, but will be in satisfactory requirements.

Table 3.5

**Solvency ratios in the reporting and planning periods of "Galen-1" LLC**

Indicators	01.01.2018 year	Planning period	Absolute change, +/-
Cash ratio	1,56	2,29	+0,73
Quick ratio	3,89	4,53	+0,64
Current ratio	11,32	8,06	-3,26

Source: compiled by the author based on the financial statements of "Galen-1" LLC [50]

As to the indicators of business activity, it should be noted that their overall change will positively affect the duration of the operational and financial cycles (Table 3.6). In particular, their duration will be reduced by more than 25%. This will allow to receive more money in the process of economic activity, because during the same period, when reducing these cycles, money will be less distracted from turnover, but more often generate income.

Table 3.6

**Indicators of business activity of "Galen-1" LLC in the reporting and planning periods**

Indicator	01.01.2018 year	Planning period	Absolute change, +/-
Assets turnover ratio	0,93	1,33	+0,40
Period of assets turnover, days	388,00	270,00	-118,00
Current assets turnover ratio	3,62	6,17	+2,55
Period of current assets turnover, days	100,00	59,00	-41,00
Inventories turnover ratio	9,24	12,89	+3,65
Period of inventories turnover, days	39,00	28,00	-11,00
Accounts receivable turnover ratio	20,27	29,91	+9,64

Continuation of Table 3.6

Indicator	01.01.2018 year	Planning period	Absolute change, +/-
Period of accounts receivable turnover, days	18,00	13,00	-5,00
Accounts payable turnover ratio	55,80	71,95	+16,15
Period of accounts payable turnover, days	7,00	5,00	-2,00
Operational cycle, days	57,00	41,00	-16,00
Financial cycle, days	50,00	36,00	-14,00

Source: complied by the author based on the financial statements of "Galen-1" LLC [50]

According to Table 3.6, the following can be considered: the reduction of the turnover period of current assets by 41 days, the period of inventory turnover by 11 days, the accounts receivable period of turnover by 5 days and the accounts payable period of turnover by 2 days will reduce the duration of the operating cycle by 16 days and the financial cycle by 14 days (Fig. 3.3). Such changes will indicate an increase in the efficiency of using the company's funds, the ability to pay in time liabilities and a reasonable policy for attracting receivables.

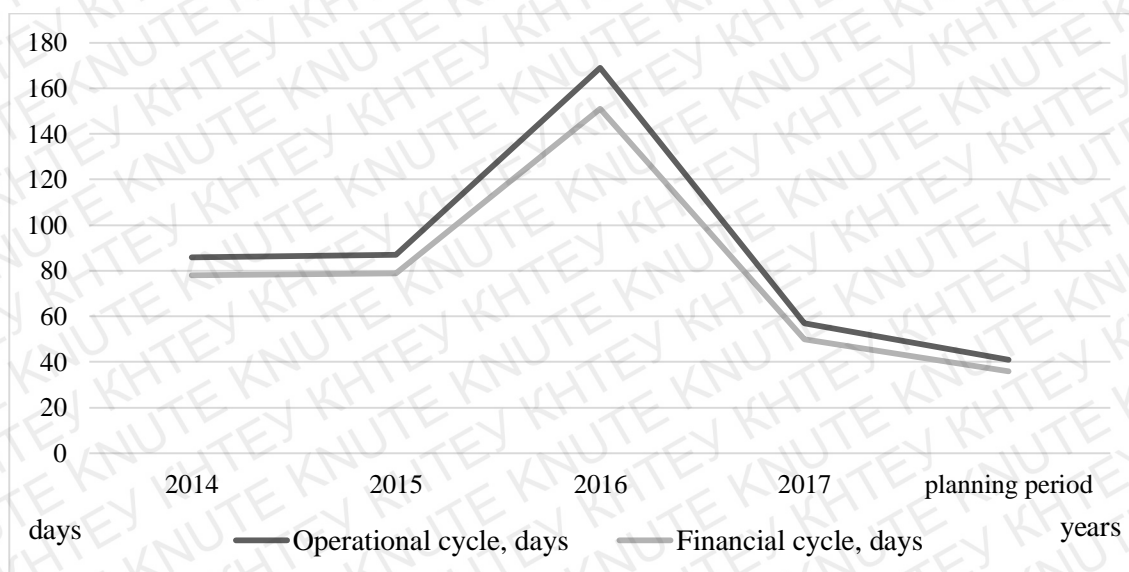


Fig. 3.3. The dynamics of the duration of operational and financial cycles of "Galen-1" LLC in 2014-2017 years and in the planning period [50]

Like all other indicators, profitability indicators will also be characterized by a positive trend in the planned period. Profitability of assets, equity and sales will reach the level of 2014 (before the reconstruction of the enterprise). The data is presented in Table 3.7 and in Figure 3.4.

Table 3.7

**Indicators of profitability of "Galen-1" LLC in the reporting and planning periods, %**

Indicators	01.01.2018 year	Planning period	Absolute change, +/-
ROA	9,55	27,35	+17,80
ROE	9,26	25,15	+15,89
ROS <sub>net</sub>	8,13	16,81	+8,68

Source: complied by the author based on the financial statements of "Galen-1" LLC [50]

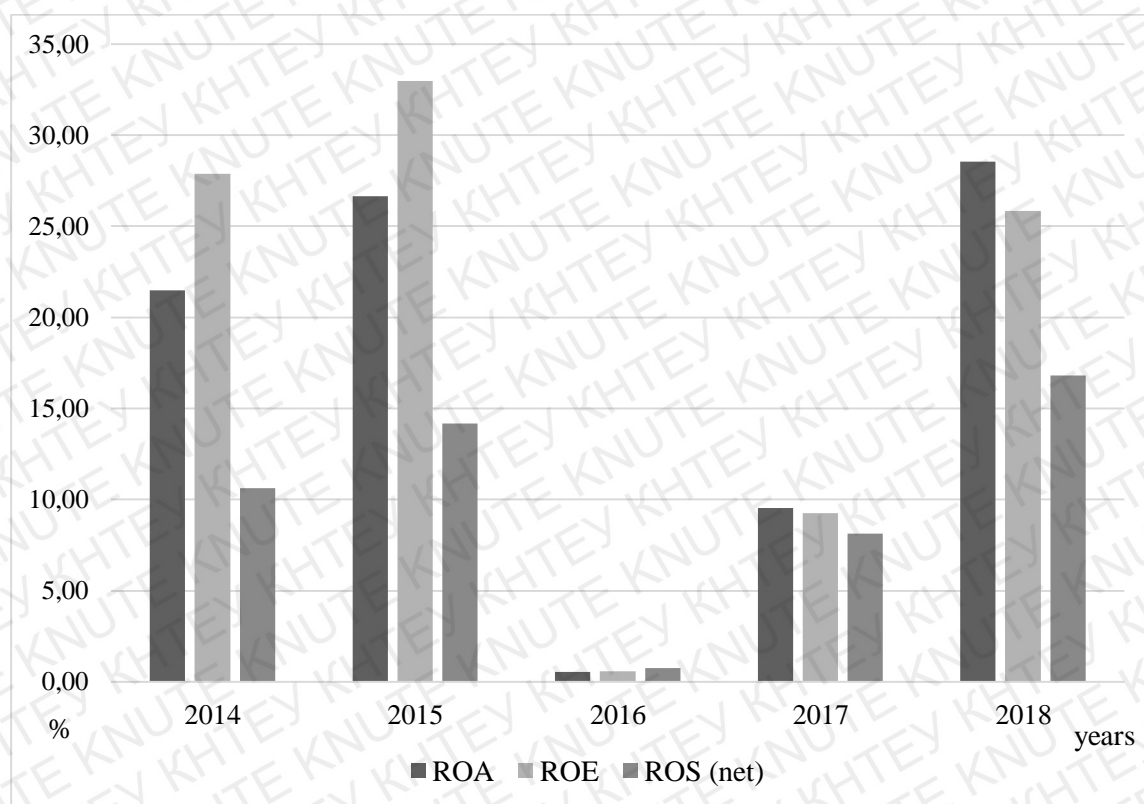


Fig.3.4. The dynamics of the profitability indicators of "Galen-1" LLC in 2014-2017 years and planning period [50]

Thus, achievement of the planned indicators will allow the enterprise to fulfill the tasks:

- to increase financial performance of the activity like in 2014-2015 period;
- to shorten the periods of stock, receivables and payables turnover;
- to maximize profitability;
- to optimize the use of current assets;
- to achieve the financial sustainability of the enterprise in absolute state.

The obtained results testify that performing planned indicators "Galen-1" LLC will be able to perform the tasks. First of all, with the goal of increasing revenues by 50%, an absolute type of financial stability will be achieved, liquidity and solvency ratios will increase, and the duration of operational and financial cycles will decrease by 25%. Thus, with reasonable financial policy, "Galen-1" LLC will be able to maximize profits in planning period and achieve a high level of economic activity. The company must focus on maintaining a safe level of financial state, since in such a critical time for its operation, when it moves on new products, goes to new markets, works on changed new technologies in the converted workshops, it is simply necessary to rationally attract and use financial resources and monitor the company's financial state management.

## CONCLUSIONS AND PROPOSALS

The polemic of determining the essence of the concept of "financial state" is extremely controversial and ambiguous. Summing up the opinions of various authors, the essence of this concept is that the financial state is a set of its individual elements that determine the dynamics of changes in the structure of assets and capital, reflect the efficiency of use of the invested resources, characterizing the type of financial stability and the level of payment solvency of the enterprise. In turn, financial sustainability means the ability of an enterprise to carry on and develop its activities in conditions of competition and market instability, while maintaining a satisfactory capital structure and a dynamic financial equilibrium of assets and liabilities that provides normal liquidity, current and prospective solvency.

Among types of financial state of the enterprises distinguish absolute, normal, unstable and crisis type. Each of them has a certain level of liquidity and solvency. The purpose of managing the financial state of an enterprise is to achieve its absolute type and to achieve such a structure between its equity and borrowed capital, which would allow to carry out profitable business activity while maintaining the financial safety of the enterprise. Hence, the objects of management are assets, investments, capital of the enterprise.

An important place in the management of the financial state is the management of profitability, solvency and liquidity. Thus, we can conclude that financial stability is one of the most important characteristics of financial and economic activity of the enterprise in a market economy. If an enterprise is financially sustainable, it benefits other enterprises of the same profile in terms of attracting investments, obtaining loans, selecting suppliers and recruiting qualified personnel. Finally, it does not conflict with the state and society, because it pays timely taxes to the budget, contributions to social funds, wages - to workers and employees, dividends - to shareholders, and guarantee banks the repayment of loans and payment of interest on them. The higher the stability of

the enterprise, the more it is independent of the unexpected change in market conditions and, consequently, the less risk of being on the verge of bankruptcy.

The essence of management of the financial state of the enterprise is realized through its functions: management of the formation of all financial resources; management of distribution and use of all kinds of financial resources; planning (budgeting), forecasting and analysis of the financial management of the enterprise activity. In order to manage the financial state of an enterprise, a financial mechanism is used - an integral system of financial management of an enterprise on which financial management is based, which is intended for the organization of interaction of objects and economic entities in the field of financial relations, the formation and use of financial resources, ensuring the effective impact of financial activity on the final results of the enterprise. The financial mechanism includes financial methods, financial levers, legal, normative and informational support.

As a system, the management of the financial state of an enterprise is characterized by a set of principles, the most common of which are: the principle of integrity of the financial management system with the general system of enterprise management, the principle of strategic direction, the principle of the complex nature of the formation of management decisions, the principle of alternative and purposeful approaches in the development of individual management decisions, the principle of priority resolution of contradictions in the constituent elements of the financial state, and others. In the process of managing the financial situation, many tasks are faced with financial management. The most important of them, which contribute to the purpose of managing the financial state, are: formation of sufficient financial resources in accordance with the objectives of enterprise development, effective use of the existing amount of financial resources, ensuring maximization of the profit of the company with the lowest level of financial risk, while minimizing the level of financial risk at the foreseeable level profit and so on.

In case of diagnostics of the financial state of the enterprise, special financial analyzes are used. There area horizontal, vertical, comparative analysis, ratio analysis and integral analysis. They allow to make a comprehensive assessment of the financial state



of the enterprise. Indicators that directly indicate the financial state of the enterprise are the following indicators: autonomy ratio, financing ratio, long-term financial independence ratio, maneuverability of equity and borrowed capital ratio. Equally important indicators in the management of the financial state are the indicators of business activity, liquidity and solvency, profitability. In the process of diagnostics of the financial performance different bankruptcy models can be also used. Rating assessment is not less common in the evaluating the financial state.

For the period from 2013 to 2015, "Galen-1" LLC was successful in economic activity, characterized by a high level of profitability, liquidity and solvency, and had an absolute financial stability. With the transition to new types of products and markets, and the reconstruction of production facilities in 2016, the situation changed: "Galen-1" LLC was in an unstable financial state with a simultaneous drop in business activity, liquidity and profitability. In 2017, the situation has improved. Nevertheless, despite the growth of profitability and solvency, the company keeps being in an unstable financial state. Having made a variety of calculations, we can distinguish the following results of these changes:

- during the last 3 years, the structure of the company's borrowed capital has changed tremendously: if in 2013-2014 100% of borrowed sources were held by short-term borrowed capital, in 2015 its share decreased to 20.5%, in 2016 - to 12.7% , and in 2017 - to 11.2%. The rest was long-term borrowed capital;
- during the last years, "Galen-1" LLC was characterized by a sufficient level of financial sustainability. At the end of the investigated period, equity was 81% of the total capital, which was the result of a positive trend of the past years. Thus, 81% of assets was financed from own sources, and 19% - from borrowed, which in general was in line with the recommended requirements;
- regarding the type of financial sustainability, there is a sharp deterioration in the situation: before 2016-2017 "Galen-1" LLC was characterized by an absolute type of financial stability, then in 2016-2017 it was unsustainable. The decline was due to a downtime in production, which led to an increase in inventories, along with a reduction in accounts payable in the normal sources of stock financing. With the

correct policy of financial management, the company will be able to resume solvency in the planned period and achieve high indicators of economic activity;

- the solvency and liquidity ratios indicate that by the end of the period the ready-made means of payment were higher than current liabilities by 56%, high-liquid assets by 290%, and current assets by more than 1000%. This situation, on the one hand, is satisfactory, because the large volume of high-liquid assets and current assets allows to timely repay liabilities and expansion of the boundaries of economic activity, and on the other hand, this may indicate an ineffective use of resources available at the enterprise;
- the improvement of business activity in 2017 led to a reduction in the duration of operational and financial cycles by 65%, which is a positive phenomenon;
- “Galen-1” LLC was characterized by ambiguous profitability dynamics over the past 5 years: in 2014 and 2015 the profitability of assets, capital and sales was high, in 2016 the indicators fell, and in 2017 they increased again, but they have not yet reached the level of the past years;
- “Galen-1” LLC has the opportunity to restore its solvency and achieve an absolute type of financial stability in the course of established commercial relations, the signing of new contracts for the supply of products, rational management of available resources and reduced periods of asset turnover.

Main problems of “Galen-1” LLC can be divided into 4 main groups: marketing (insufficiently researched market to find reserves to increase net sales revenue, weak connection with exporters, there is no planned volume of orders), manufacturing (instability of machines die to repair, reconstruction in the workshops which slows down manufacturing processes, insufficient working equipment), financing (lack of working capital, accumulation of a large number of inventories, unstable financial state, long duration of periods of turnover, ineffective use of resources) and management problems (lack of planning and control systems). All these problems influence the financial performance of the company. Solving these problems will help the company to improve its financial state.

When planning financial indicators for the next period, certain criteria were met: firstly, ensuring the achievement of financial performance at the 2013-2015 period level, secondly, the plan to increase revenues from sales by 50% compared with 2017, thirdly, raising the level of return on assets and equity, as well as the profitability of sales; fourthly, reducing the periods of turnover of assets and capital; and, fifth, improving financial stability to the absolute state. Taking into account such conditions, the main financial indicators (such as net sales revenue, gross profit, net profit, etc.) and major balance sheet items (fixed assets, inventories, accounts receivable, cash, equity, current liabilities, etc.) were projected. The obtained results testify that when achieving planned indicators "Galen-1" LLC will be able to perform the tasks. First of all, with the goal of increasing revenues by 50%, an absolute type of financial stability will be achieved, liquidity and solvency ratios will increase, and the duration of operational and financial cycles will decrease by 25%. Thus, with reasonable financial policy, "Galen-1" LLC will be able to maximize profits in planning periods and achieve a high level of economic activity.

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