

**Kyiv National University of Trade and Economics**  
**Economics and Finance of Enterprise Department**

**FINAL QUALIFYING PAPER**

**on the topic:**

**“Development of the financial control system at the enterprise”**

(based on the data of Limited Liability Company

“Clever C”, Kyiv)

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**Kyiv, 2018**

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## АНОТАЦІЯ

Сторчева Ю.С. «Впровадження системи фінансового контролінгу на підприємстві».- Рукопис.

Випускна кваліфікаційна робота спеціальності 051 «Економіка», спеціалізації «Фінансовий менеджмент». – Київський національний торговельно-економічний університет. – К., 2018.

Випускна кваліфікаційна робота присвячена розгляду теоретико-методичних засад та практичних аспектів впровадження та управління системою фінансового контролінгу на підприємстві. Проведений аналіз організаційної та інформаційної системи фінансового контролінгу на підприємстві ТОВ «Клевер К», а також аналіз динаміки обсягу та структури показників фінансової звітності, оцінені ключові індикатори ефективності діяльності підприємства. Розроблена система контрольованих показників, надані пропозиції щодо покращення системи фінансового контролінгу на підприємстві, а також етапи його запровадження.

**Ключові слова:** фінансовий контролінг, оперативний контролінг, стратегічний контролінг, етапи контролінгу, моніторинг, система контрольованих показників.

## ANNOTATION

Storcheva Y.S. "Development of the financial control system at the enterprise".- Manuscript.

The graduate qualification work of 051 "Economics" specialty, specialization "Financial management". - Kyiv National University of Trade and Economics. - K., 2018.

The graduate qualification paper is devoted to the study of theoretical and methodological foundations and practical aspects of implementation and management of financial control system at the enterprise. An analysis of the organizational and information system of financial controlling at the enterprise "Clever C" LLC was conducted, as well as analysis of the dynamics of the volume and structure of the financial performance of the company, the key indicators of the company's activity efficiency were assessed. A system of monitored indicators has been developed, proposals for improving the financial control system at the enterprise have been submitted, as well as the stages of its implementation.



**Key words:** financial controlling, operational controlling, strategic controlling, stages of controlling, monitoring, the system of controlled indicators.

## INTRODUCTION

**Actuality of theme.** The research of the financial control system at the enterprise is a very topical issue, since the organization of successful functioning of the enterprise, the adoption and implementation of managerial decisions that take into account the opportunities and risks of the company depends on properly organized control. That is why today there is an increased interest from the part of scientists to study the peculiarities of the organization of financial control in Ukrainian enterprises, as the activities of domestic organizations are characterized by volatility, limited financial resources, and constant risks.

Financial control is defined as a system of financial management of the development of business entities in the direction of forecasting and planning mechanisms and instruments for achieving a stable financial state. An important direction for improving the performance of enterprises is the application of the latest tools and technologies for managing income and expenditure, which informatively and methodically provides timely adoption of financial decisions for their optimization.

The essence of financial control among scientists was investigated by Babiak N., Davidenko N., Davidovich I., Danilchikina N., Ivakhnenkov S., Karminsky A., Tereshchenko O., Falko S. and others. Among foreign specialists by Weber Y., Kupper H., Folmut H., Meyer E., Mann P., Han D., Horvat P.. The relationship of financial control and cost management is investigated in the works of Guseva I., Pushkar M., Odintsova T., Ostapenko T., Sablin N.. For theoretical and methodological aspects of cost management are devoted the works of such scientists: Blank I., Butynets F., Greshchak M., Davidovich I., Drury K., Lebedeva V., Melnyk K., Napadovskaya L., Petrenko S., Savchuka V., Sukharova L., Horgren C., Tsalka Y. and others.

**The purpose of the work:** investigation of the financial controlling system and formation of suggestions for its improvement for LLC “Clever C”.

**Tasks** that were formed in accordance with the purpose of the work:

- investigate the essence of financial control, its subjects, objects and types;
- determine the main stages of building of a controlling system at the enterprise;
- to consider methodical approaches to the construction of monitoring system of controlled indicators;
- analyze organizational and information systems of financial control of the enterprise;
- analyze dynamics of volume and composition of financial results of activity, assets and capital of the enterprise;
- assessment of key performance indicators of the enterprise;
- identify how to improve the system of organizational and informational support of financial control at the enterprise;
- create the system of priorities of controlled indicators and develop quantitative control standards at the enterprise;
- construction a system for monitoring the indicators.

**Object of the research:** the process of organization of the system of financial control at the LLC “Clever C”.

**Subject of the research:** financial processes and economic relations that arise during the organization and functioning of the system of financial control, their regulation in order to increase the effectiveness of the economic activity of the enterprise.

The LLC "Clever C" – the **empirical base of research** - has extensive experience in the production and sale of furniture. The company makes furniture according to individual projects, provides checkout, a 3-D arrangement of furniture, so customers will be able to see how the ordered furniture will look in the usual interior.

The company was founded on June 9, 2012, by the owner and general director - Voevoda V.V. Location of the company: Kyiv city, Kirillovskaya street, building 160, office 405.

The main indicators of the company for the reporting year are: net proceeds from the sale – 6523 ths UAH, gross profit- 1824 ths UAH, net income – 6 ths UAH, assets – 10320 ths UAH, equity – 9651 ths UAH.

**Methods of the research:** methods of theoretical generalization, grouping and comparison, methods of comparative analysis and synthesis, system method, methods of comparative and structural analysis, methods of statistics and economic analysis, table and graphical methods.

The **information base** of the research is legislative and regulatory acts regulating the activities of enterprises in Ukraine, the works of domestic and foreign scientists, periodicals, internet resources, financial and management reporting of the investigated enterprise.

**Approbation of the research:** according to the results of the research a scientific article “Construction of the financial control system at the enterprise” was published at the Economics and Finance of Enterprise: Comp. of students sciences articles, Part 2- Kyiv: KNTEU, 2017.

**Practical significance:** the recommendations provided in the work on the implementation and improvement of the financial control system can be used in the practical activities of the enterprise LLC “Clever C” to achieve the economic effect.

**Structure of the work:** introduction, three sections, conclusions, references and appendices, which contains the financial statements of the investigated enterprise.



## **CHAPTER 1**

### **THEORETICAL BASIS OF THE CONSTRUCTION OF THE FINANCIAL CONTROL SYSTEM AT AN ENTERPRISE**

#### **1.1 The essence of the financial controlling, its subjects, objects and types**

The concept of "controlling" in economic terms means management, observation, regulation, control. Controlling refers to an appropriate functional system of planning, control, analysis of deviations, coordination, internal consulting and general information provision of enterprise management. It is a system for monitoring and studying the economic mechanism of a particular enterprise, developing ways to achieve the goal that it sets itself and focuses on determining the direction of future development of an enterprise.

Tereshchenko O. gives an interpretation of the goals, essence and functions of control from the point of view of other various scientific schools representatives, which are described below.

An analysis of American, Western European, Ukrainian and Russian publications makes it possible to conclude that the complex of functions aimed at informational support of management (financial management) of an enterprise, various authors is referred to as "controlling", "management accounting" or "management control".

Such well-known representatives of the German economic school as Weber, Kupper, Khan, Horvat, Steinle and others, under the notion of "controlling", are mostly understood the system of planning coordination and control or information management support. The most authoritative representatives of the American School of Controlling (Managerial Accounting) are Anthony, Drury, Hilton, Kaplan, Hongren. At their works, they operate mostly in terms of "managerial accounting" and "managerial control". As a synonym for these terms, the term "controlling" is sometimes used.

Interpretation of controlling as a system, focused on accounting, occurs in the writings of certain domestic authors. So, Sopko V. actually identifies controlling as an administrative (managerial) account, the task of which is to reveal the conformity or inconsistency of costs to business plan indicators [40, p.10].

In my opinion the most widespread disclosure of the essence of financial control is in the book of Marich P. and Koval L., according to which: financial control is a system of financial management of the development of business entities in the direction of forecasting and planning mechanisms and tools to achieve a stable financial state. In case of deviations of the actual financial indicators from the forecasted ones, the financial controlling task is to develop a recommendation on the application of corrective measures to achieve the tasks (Fig.1.1)[23].

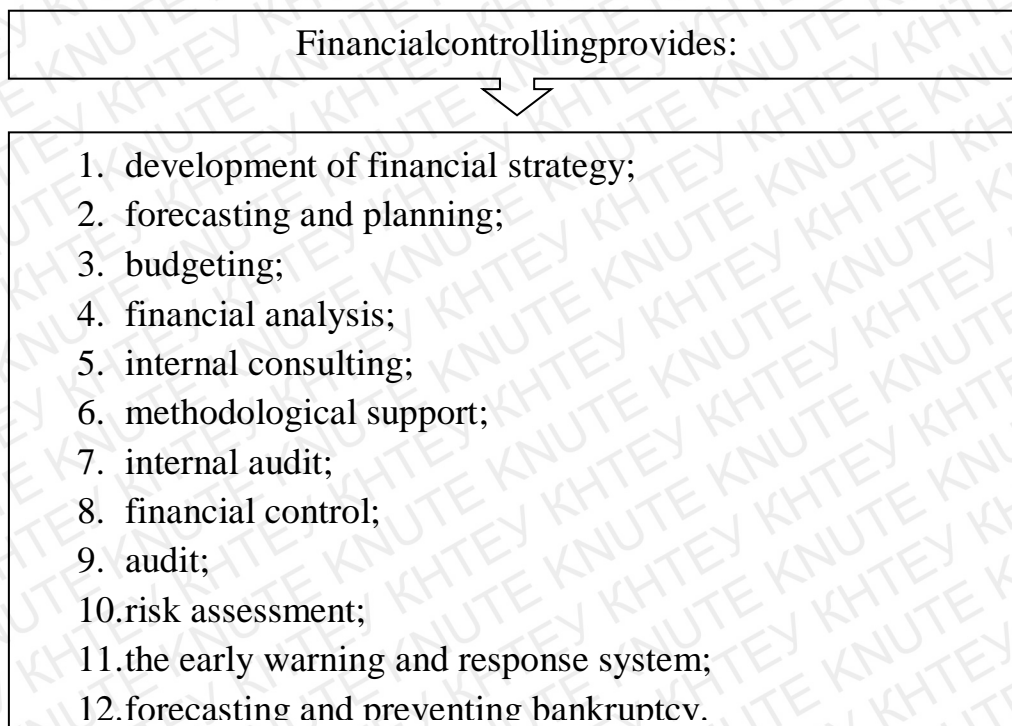


Figure 1.1 The essence of financial control [23]

Financial control is a subsystem of financial management so it should provide information to enterprise management for the coordination, organization and regulation of financial activity, because the shortcomings in the organization of the information system can be one of the factors of the financial crisis. The analysis of financial and economic activity, risk assessment, planning, definition of the strategy of enterprise development, etc are based on information.

The information base of financial control is the indicators of production and financial accounting, as well as information coming from the environment, focusing on



the bank technical and economic data, which can be created by individual users of information, as well as on its subject [23].

Different authors determine the purpose of controlling in different ways. Thus, the purpose of controlling is to maintain the effective functioning of the enterprise, it is determined by the senior management and can be specified depending on changes in the factors of the internal and external environment in which the company operates. Davidovich I. identifies also other formulations of the purpose of financial control, which are described below.

The goal may be high quality of products, gaining share and market expanding, reducing production costs, lowering prices, increasing profits, and independence from creditors.

The purpose of controlling is also to diagnose the actual technical and economic and financial condition, compare it with the forecast, identify trends and patterns of economic development of enterprises in accordance with the main goal and prevent the negative impact of internal and external factors on the financial result and market situation.

The goal may also be obtaining data, its processing and transforming into information for management and decision-making. Such information is non-standard, it is intended to identify trends and patterns of phenomena and processes in the enterprise, helps to develop measures that ensure its livelihoods [7, p.20].

*Marich P. and Koval L. distinguish the following tasks of controlling:*

- collection and analysis of internal and external information;
- identification and elimination of "bottlenecks" at the enterprise;
- timely reaction on new chances and opportunities to increase the financial potential of the enterprise;
- organization of operational and administrative control and systematic analysis of financial and economic activity;
- prevention of risks in financial and economic activity, development of measures for their neutralization;
- assessment of reliability, completeness and reliability of accounting;

- creation of the enterprise development strategy and coordination of work on planning of financial and economic activity;
- analysis of deviations of the actual indicators of financial activity from the planned and developing on this basis proposals for correction of plans or elimination of obstacles to their implementation;
- carrying out of internal consulting and development of methodical support of financial and economic activity of separate structural subdivisions;
- conducting of internal audit and coordinating its activities with the actions of independent auditing firms during the external audit of the enterprise [23].

Solving these tasks occurs during the performance by service of controlling its functions (Fig.1.2) and the use of controlling methods.

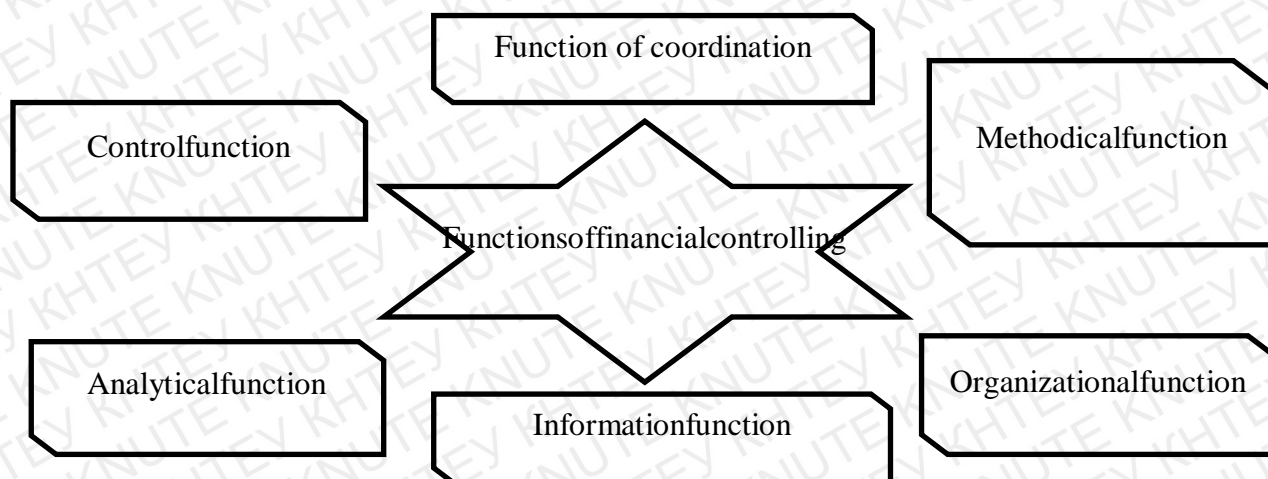


Figure 1.2 Functionsoffinancialcontrolling [40]

Tereshchenko O. proposes a classification of functions of financial control, the content of which is discussed below.

*Coordination function.* As part of the coordination function, financial control should ensure consistency of:

- The Goal Tree with financial resources available at enterprise;
- long-term plans with defined goals and financial strategy of enterprise development;
- operational planning with strategic guidance;
- separate budgets of the company with bringing them into a single plan;

- internal control and planning functions;
- system of providing information with the information needs of the enterprise, which arise during the analysis and planning;
- the organizational structure of the enterprise with production needs.

In addition, in carrying out the coordination function, financial control should ensure the coordinated functioning of the individual subsystems of the management system, the coordination of strategic and operational objectives. In this case, distinguish vertical and horizontal coordination of goals. The first is aimed at harmonizing the various activities carried out by the enterprise, and the second is to coordinate the activities of different units that provide production of one type of product. Coordination should also ensure the efficient use of all financial, labor, production resources available at the disposal of the enterprise.

*The analytical function* of financial controlling develops forms of analytical reports provided to management, determines the main controllable indicators for assessing the effectiveness of the enterprise and the degree of influence of various factors on the size of the final result.

In practice, when management for financial and managerial decisions receives an unlimited amount of information (moreover, from different sources of information), selectivity must be maintained and weighed down in its use. Qualitative selection, processing and further correct interpretation of the received information - the key to making managerial decisions, adequate development strategies.

In this regard, it is very important that the information, received by the management for the management of numerous internal processes, is deliberately limited, sufficiently structured and prepared on the basis of the "cost-benefit" principle. The following optimization tasks are solved by indicators widely used in practice and their systems, the development of which belongs to the analytical function of financial control.

*The organizational function* of financial control is manifested in:



- development and improvement of the financial structure of the enterprise in the allocation of financial responsibility centers and the identification of responsible persons;
- development and improvement of the planning and budgeting regulations, that is, drawing up a schedule of implementation of both strategic and operational planning and budgeting, as well as bringing this regulation to the responsible persons;
- management accounting, the introduction of methods of accounting for costs and results by the centers of responsibility, products, projects, etc.;
- development and improvement of internal reporting rules (who and when should prepare and submit managerial reports);
- organization and conducting in certain time control procedures for detecting deviations;
- the organization of analytical work in the subdivisions of the company, as well as in its affiliates and subsidiaries.

*The methodical function* of financial control is implemented in the process of providing consulting support to top management in the formation of a strategy, the definition of target indicators, budgeting, in developing proposals for improving the efficiency of the enterprise as a whole and the work of its individual units, with the improvement of systems of motivation and determination of personal responsibility workers for the results of work. Financial control within the framework of the implementation of this function is responsible for developing a planning and budgeting algorithm, forms and methods for drafting plan documents and internal reporting, methods for identifying and diagnosing deviations, risks, methods of accounting for costs and results, and methods for conducting financial diagnostics.

*Information function* of financial control is the implementation of internal and external financial communication, based on the objectives of the enterprise, organizational structure and current and possible needs.

The main purpose of the information support system is to provide the company with the most useful information, which should contain the whole complex of actual, planned and forecast data about the activities of the enterprise and all its structural units.

Information provision of management must be made in a user-friendly form. To this end, relevant information is initially processed, summarized, analyzed and provided to users in the form of reports, reports, notes, summaries, recommendations, forecasts, draft decisions.

The financial communication system should be focused on security:

- solvency, including providing liquidity and prevention of bankruptcy of an enterprise, formation of credit policy and policy of inventory management;
- profitability, in particular, to increase the efficiency of the activity on the basis of maximization of profitability indicators;
- maximize the profitability and minimize the price of attracted capital;
- creation of added value, in particular on the basis of maximization of values of value-oriented indicators (EVA, CVA, MVA, SVA).

*The control function* of financial control is manifested in the process of monitoring the achievement of the goals and forecasts of the enterprise (checking their coherence and realism), the implementation of control in the process of drawing up and implementation of plans and budgets, calculation of deviations of the actual values of indicators from the planned, target and desired (budget control), control of internal and external restrictions and operational risks existing at the enterprise[40, p.22-24].

*Danilchkina N.* identifies the following substantially oriented types of controlling: controlling the environment; controlling the management sphere; controlling the marketing sphere; controlling the production sphere; controlling of supply; financial control, which consists of controlling receivables, controlling financial sources and controlling current liquidity; controlling investment projects; controlling of sales, performance and investment; controlling of innovative development projects of production organization; controlling of staff. In some literary sources you can found such types of controlling as environmental control, controlling information technology, controlling resource availability, controlling quality, etc[1].



According to the approach of Tereshchenko O. and Babiak N., the main objects of the financial controlling system are the company's financial flows, costs, risks, investment projects, personnel, and economic processes, which determines the allocation of such types (or subsystems) of financial controlling and appropriate tools for each subsystem (Fig.1.3-1.9):

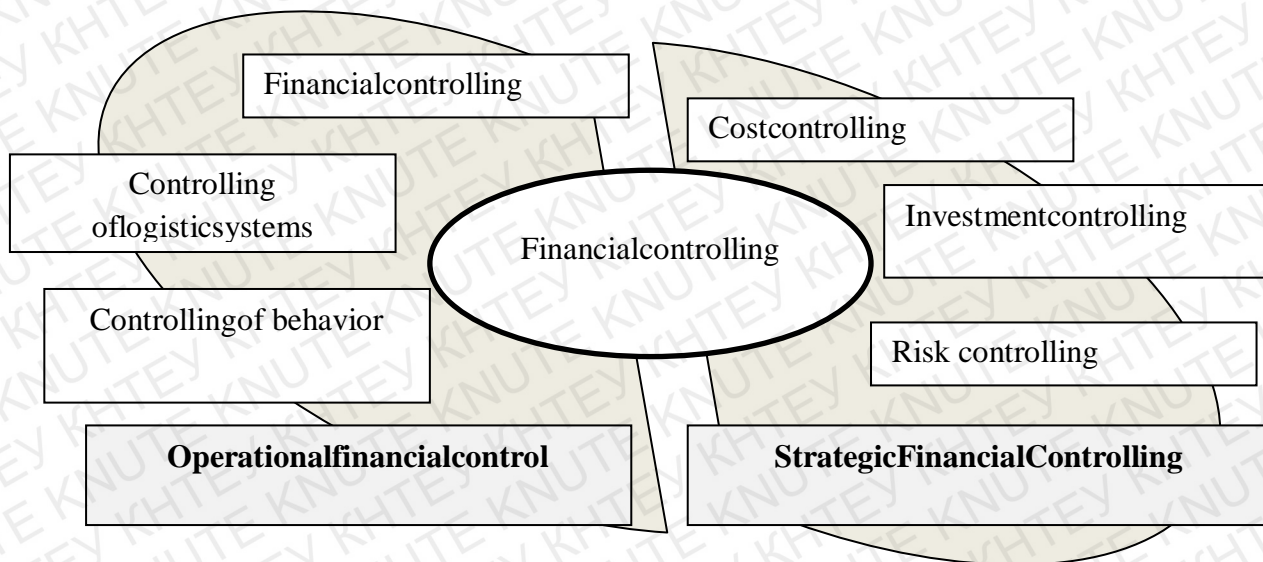


Figure 1.3 Typesoffinancialcontrolling [40]

Cost controlling (Fig. 1.4) gives the opportunity to: effectively manage costs to ensure the competitiveness of products through a purposeful reduction of its cost at the stages of planning and production, and hence realization prices; to ensure continuous economic growth of the enterprise in the short and long term due to the improvement of the life cycle of products; effectively use transfer pricing aimed at coordinating and managing the decentralized structural units of an enterprise (or group of enterprises) and assessing the effectiveness of their financial performance; provide objective information

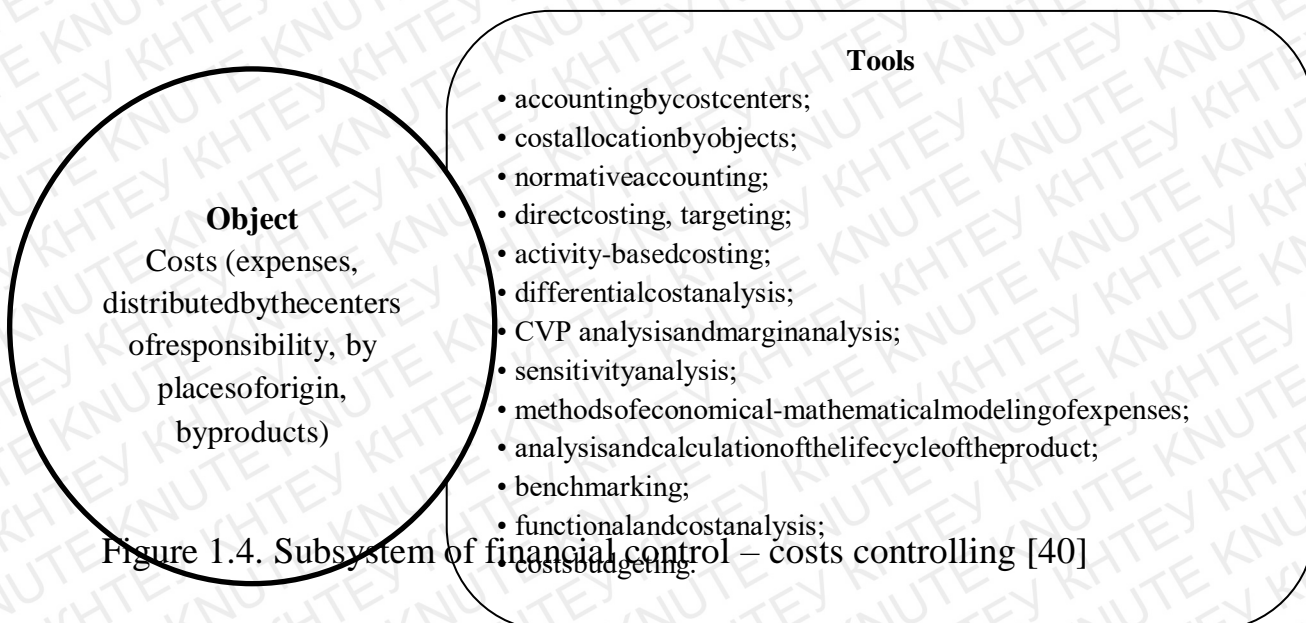


Figure 1.4. Subsystem of financial control – costs controlling [40]



for budgeting of the enterprise; take effective managerial decisions.

The control of finances (Fig. 1.5) is a financial conglomeration in the narrow sense. Unlike financial controlling, which is aimed at information support and coordination of financial decisions in general, financial control includes a system of coordination and information support of financial planning, operational financial control and provision of liquidity.

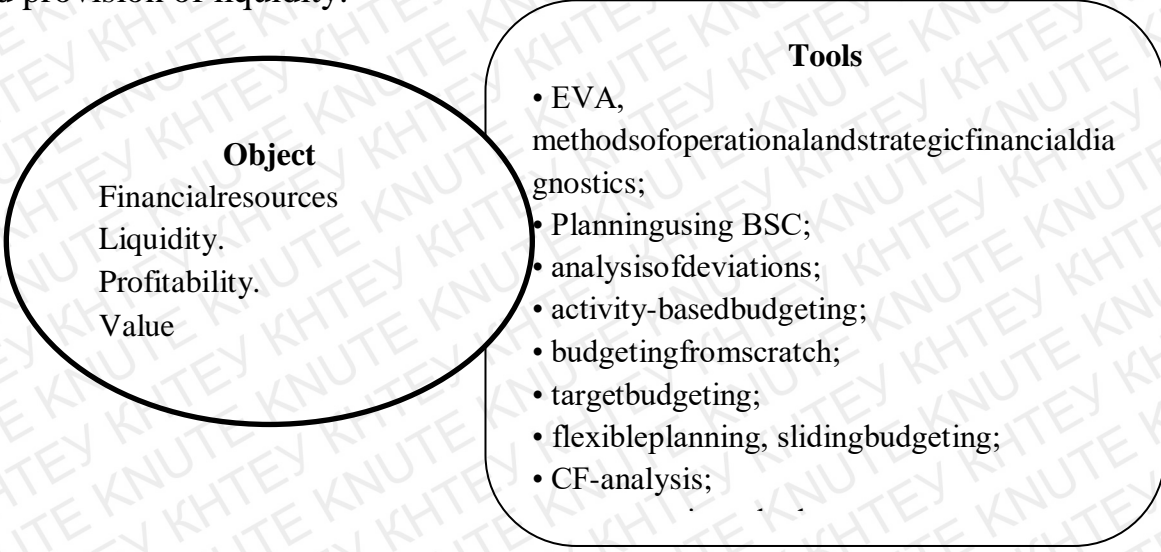


Figure 1.5 Subsystem of financial control – financecontrolling [40, p.30]

Investment Controlling (Fig. 1.6) is an integration of investment activity and controlling and aims to: optimize investment costs; profit maximization and growth of profitability of the enterprise due to exploitation of investment objects, in particular, innovation direction; increase the life cycle of the enterprise by increasing its competitiveness and responding quickly to the trends of market development. The purpose of investment control is to achieve an optimal ratio between minimizing significant investment costs and the maximum level of profitability as a result of their implementation.

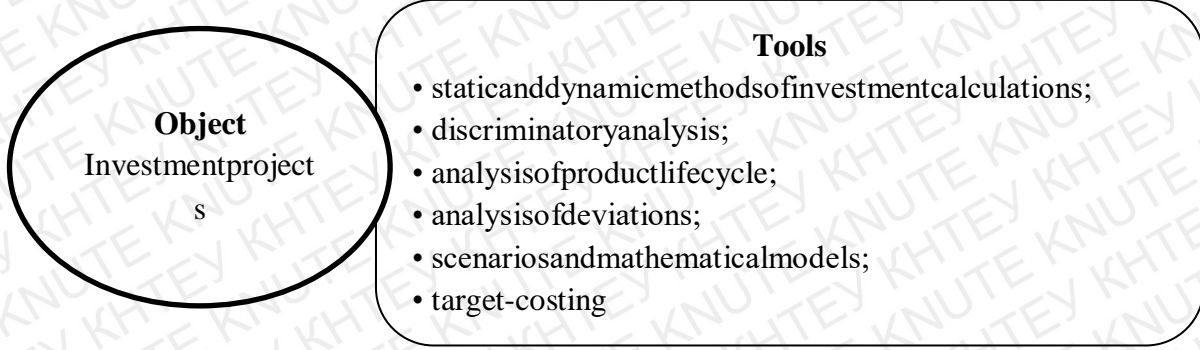


Figure 1.6 Subsystem of financial control – investment controlling [40, p.30]

The main task of investment control is information and analytical support to achieve the goals of the enterprise in the field of investment activity.

Priority directions of investment control:

- planning and coordination of investment activities within the framework of strategic and operational planning at the enterprise;
- initiating of new investment projects and developing proposals for their implementation;
- realization of investments, support of projects (project-controlling);
- control over the implementation of investment projects, which includes current checking calculations, as well as control of the budget of the investment project, calculation of their efficiency;
- creation of an investment planning system;
- formation of a method for conducting investment calculations and determining criteria for decision-making.

The object of controlling logistics systems (Fig. 1.7) as a subsystem of financial control is the system of information and financial flows that accompany the flow of material flows of the enterprise. The purpose of logistic controlling is the coordination of material and related information and financial flows, as well as optimization of financial resources used to provide logistics activities of the enterprise.

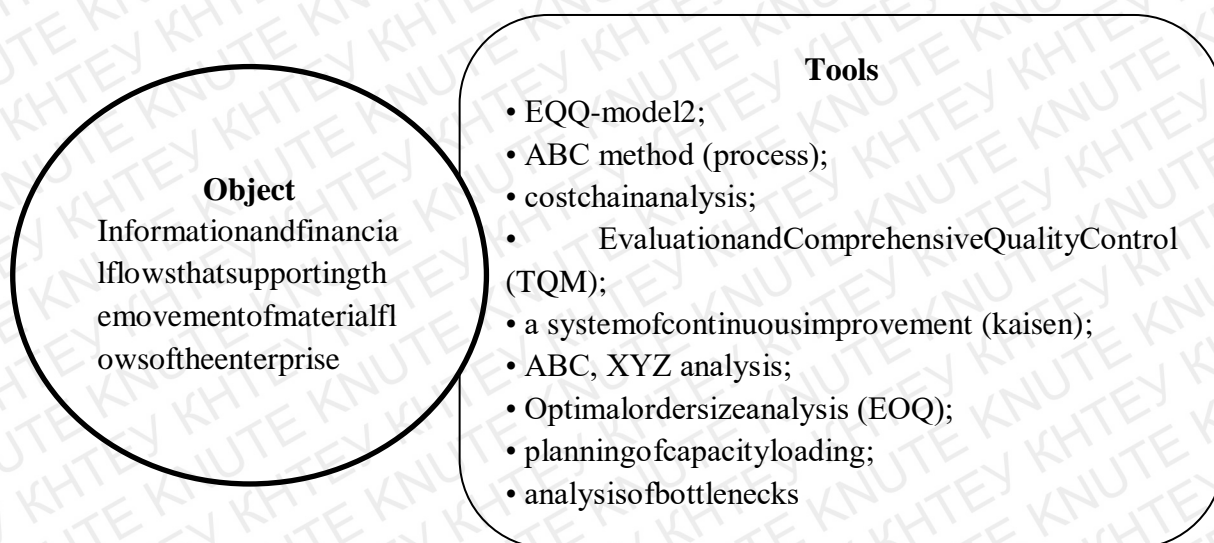


Figure 1.7 Controlling of logistics systems [40, p.30]

From the point of financial controlling in the field of logistics, the main emphasis is placed on the analysis and control of decisions made by logistics managers and which ultimately affect the level of total costs, profit, profitability and other performance indicators of the enterprise. The key features of an organization's logistics mission are quality, time and cost.

The main tasks of logistic controlling:

- analysis of the implementation of the strategic (tactical, operational) logistics plan;
- control of matching logistic strategic and operational plans with marketing, production and financial;
- quality control of products and logistics services, analysis of the degree of satisfaction of consumer inquiries;
- evaluation of the efficiency of the implementation of certain logistical functions and the work of individual subsystems, units and elements of the logistics system;
- analysis of the efficiency of use in the logistics management of investments, fixed assets, working capital, material and labor resources;
- estimation of efficiency of use in the system of logistics the information technologies;
- diagnosing of logistic risks and developing measures to reduce them.

A special place in the latest arsenal of corporate finance management is occupied by tool for controlling behavior (Fig. 1.8). Behavioral Finance, Behavioral Controlling, Behavioral Accounting, and Behavioral Macroeconomics are debated within the framework of behavioral management in theory and in practice.

Controlling behavior is aimed at the selection of adequate criteria for assessing the effectiveness of management activities at all levels, as well as the development of effective systems of motivation in order to direct the activities of individual individuals to achieve the objectives of the enterprise.



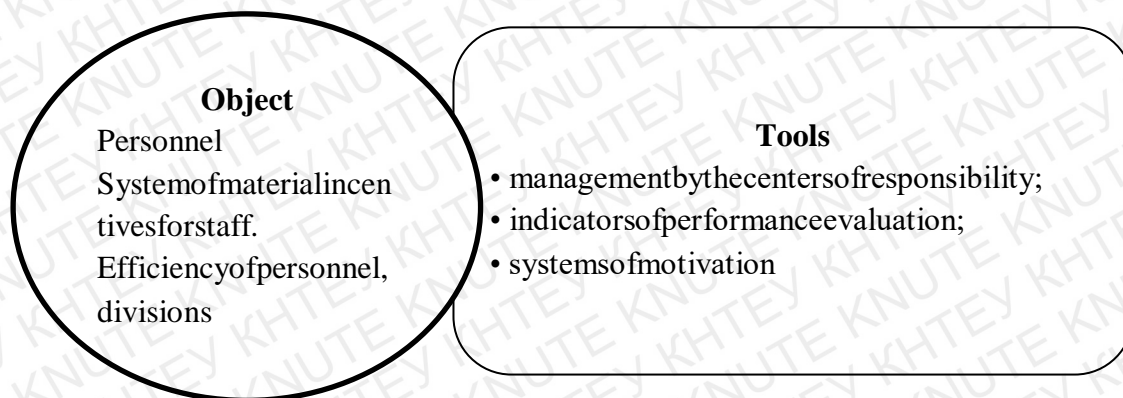


Figure 1.8 Subsystem of financial control – *controlling of behavior*[40, p.30]

*Risk Controlling* (Fig. 1.9) is another required subsystem of financial controlling at the enterprise. The dynamics of economic transformations increases the degree of uncertainty, which has a tremendous impact both on financial models of companies, and on the behavior of employees. Continuous detection and definition of quantitative risk values, construction of a control and management system are important not only for financial but also for all other types of risks (operational, commercial, technological, etc.). An integrated risk management system within the framework of financial control locates possible problems that arise when separate departments of the company are responsible for the implementation of their function, and not for the result as a whole.

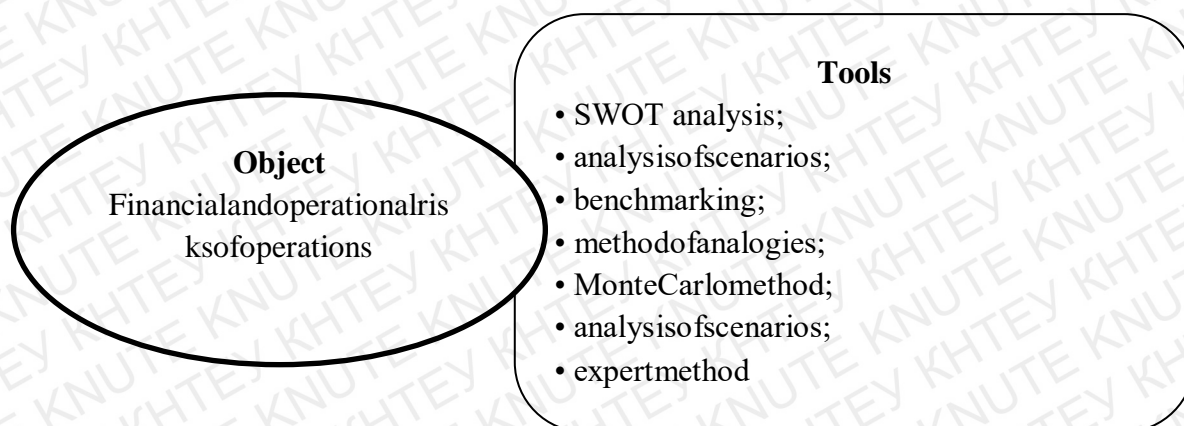


Figure 1.9 Subsystem of financial control – *risks controlling*[40, p.30]

Depending on the functions performed, financial control is divided into strategic and operational. According to researches of scientists it is established, that successful

financial and economic activity of the enterprise almost 70% depends on the strategic orientation of management decisions, 20% - on the efficiency of operational management and 10% - on the quality of the implementation of current tasks.

Klokar O. in the article "Characterization of the main types of financial control and their influence on the construction of an effective controlling system of a business entity" by Tereshchenko O. presents a comparison table of strategic and operational control (Table 1.1).

*Table 1.1*

**Comparison of strategic and operational controlling**

<b>Characteristic</b>	<b>Strategic controlling</b>	<b>Operational controlling</b>
Object	The value of an enterprise	Income, expenses, profit of the enterprise
Orientation	Adaptation of the enterprise to environmental factors	Ensuring of the cost-effectiveness of business processes at an enterprise
Level of planning	Strategic planning	Tactical and operational planning, budgeting
Main points	Chances / Risks Strengths / Weaknesses	Income / expenses. Cash receipts / expenses
Target values	Ensuring of viability, competitiveness of potential development, value of an enterprise	Quantitative indicators of profit, cash flow, liquidity
Tools	Balanced Scorecard (BSC), VBM, ABC Method, Transfer Prices, Benchmarking, SWOT Analysis, Together-Costing, Product Lifecycle Analysis, Target Tree Building, GAP-Analysis, PIMS-Analysis	Budgeting, budget control, financial analysis, reporting, CVP analysis, direct costing

*Source: [13]*

The main task of strategic financial control is to determine the strategic directions of the company's activities on the basis of management and formulation of its development strategy, as well as the definition of strategic success factors and planning

horizons in the long-term period. At the same time it is believed that the time period of strategic control is unlimited (three years or more).

The most important form of manifestation of strategic financial control is the system of strategic planning. Such planning should take into account the results of the analysis of strengths and weaknesses of the enterprise, the interests of owners and business partners

A prerequisite for successful strategic control is the well-organized accounting, financial and managerial accounting.

The main objective of operational financial control is the organization of a management system to achieve the current (short-term) financial objectives of the enterprise. Such goals are expressed in terms of sales revenue, profit, profitability, etc. The latter must be consistent with monetary and non-monetary objectives defined in the framework of strategic control. Operational financial control includes internal reporting and control, budgeting (operational planning), internal consulting [23].

Consequently, financial control is a system of financial management of an enterprise in the direction of forecasting and planning of mechanisms and instruments for achieving a stable financial state. The main task of controlling is the development of a recommendation and the application of corrective measures to achieve the set strategic goals of the enterprise. The main objects of the financial control system are the company's financial flows, costs, risks, investment projects, personnel, and business processes.

Financial controlling performs a number of functions: control, analytical, informational, organizational, consulting and methodical and coordination function.

## **1.2 The mechanism of the development of control system atan enterprise**

Implementation of a financial controlling system in an enterprise is a complex process that includes information, technical, organizational, personnel and other measures, which can only be realized if there is a well-organized algorithm of action.

Today in the scientific-practical literature there are no clearly defined instructions about the construction of financial control system. Moreover, it is rare for enterprises to



fully realize this task by their own efforts. Unfortunately, so far domestic consulting companies are not very widespread services for full-scale implementation of the control system, mainly these services are limited to the use of separate financial control instruments.

*Tereshchenko O., Babiak N.* distinguish a significant role of the preparatory stage in the development of financial control system, especially its role is enhanced in the case of the introduction of controlling by a third party organization.

This solves three main tasks:

1. Diagnostics of financial and economic activity of the enterprise and forecasting of its future status using scenario analysis (with the introduction of controlling and without implementation) to substantiate expediency of introduction of financial control.
2. Creation of a technical task for the introduction of financial control, definition of stages, terms, specific tasks to be performed.
3. Estimation of the value and economic effect from the introduction of the justification for the introduction of financial control in the enterprise is carried out through the evaluation and forecasting of key indicators and characteristics of the enterprise, which will be identified within the framework of the phased diagnosis of financial and economic activity [40]. Mechanism of in-depth diagnostics of the enterprise's activity before introducing financial control by Tereshchenko O. (Fig. 1.10).

Stages of diagnostic of the enterprise		
	I. Preliminary screening of the enterprise	
	II. Analysis of the business model in the context of external relations and bu	
	III. Analysis of the management system available at the enterprise	
	IV. Analysis of enterprise strategy	
	V. Analysis of the financial state of the enterprise	
	VI. Personnel audit	

Figure 1.10 Stages of diagnostics of the enterprise[40, p.38]  
Consider each step in more detail.

#### I. Preliminary screening of the enterprise.

Conducting interviews with top management of the enterprise, questioning key employees of the company.

II. Analysis of the business model in the context of external relations and business processes.

Analysis of the business scheme of the enterprise reflecting the main industrial relations with suppliers, consumers, lenders and major production processes.

#### III. Analysis of the management system available at the enterprise.

Analysis by using special style guide manuals:

- expert evaluation of the manifestations of policy, collegiality and liberalism in the style of people management;
- existing management methods;
- relationship in a team.

Analysis of the organizational structure of the enterprise:

- analysis of features and type of organizational structure;
- analysis of the responsibility distribution;
- analysis of the organization of work execution.

Analysis of existing information flows and information technologies that support the management process:

- analysis of the interaction of functional units and information flows between them;
- analysis of document circulation between divisions;
- analysis of the level of automation of accounting, analysis, planning and control processes.

#### IV. Analysis of enterprise strategy.

Surface analysis of the company's mission, audit of the main strategy, analysis of the current state of the main functional components of the company's strategy and their compliance with the overall strategy.

#### V. Analysis of the financial condition of the enterprise:

- assessment of the status and effectiveness of the use of fixed assets;
- analysis of the structure and efficiency of the use of current assets;
- analysis of financial sustainability;
- solvency and liquidity analysis of the enterprise;
- studying the level and structure of the cost of the final product (works, services).

#### VI. Personnel audit.

Evaluating the effectiveness of using company personnel and assessing of human resources:

- analysis of the personnel structure of the company (number, professional and staff composition, dynamics of employment, job growth, dismissal, individual values and expectations, employee responsibility for the results of their professional activity);
- assessment of managerial professional potential.

Diagnostics and analysis of systems of motivation and stimulation of the company's personnel:

- integrity and comprehensive incentive measures;
- justification of the size of the basic salary;
- adequacy of the rules for evaluating the results of employees, calculating the bonus part;
- providing the opportunity to influence the circumstances on which remuneration depends.

On the basis of the information obtained during the in-depth diagnosis of financial and economic activity, a report is drawn up and submitted to the management of the enterprise, in which all the positive sides of the enterprise and "bottlenecks" are noted. To eliminate the latter, solutions are proposed based on the methodology of



controlling. After that, the further introduction of the control system acquires a clear configuration, transparency of the future model, justification of economic efficiency. At this stage, the quality of functioning of the enterprise information system existing at the enterprise, the level of automation of financial and economic activity, and proposals for its improvement are assessed. Implementation of control systems at the enterprises always requires certain organizational changes in the work of the enterprise. This is due to the definition of the place of controlling services in the management hierarchy, with the development or improvement of the financial structure of the enterprise, the intensive introduction of modern information technology, which usually accompanies the process of setting financial control, rationalization of the document flow system, information flows, business process modeling.

*Zborovskaya O. and Godes O. distinguish the following basic principles of construction of the system of financial control:*

- the direction of the financial controlling system to achieve the company's financial strategy;
- multifunctionality of financial controlling;
- the orientation of financial control over quantitative indicators;
- compliance of the methods of financial control with the specifics of the methods of financial analysis and financial planning;
- timeliness, simplicity and flexibility of building a financial controlling system;
- economic efficiency of the introduction of financial control in the enterprise.

Implementation of the financial controlling system at the enterprise can significantly improve the efficiency of the whole process of managing its financial activities [10]. Taking into account the above principles, the authors identify the following building stages of a financial controlling at the enterprise (Fig. 1.11).

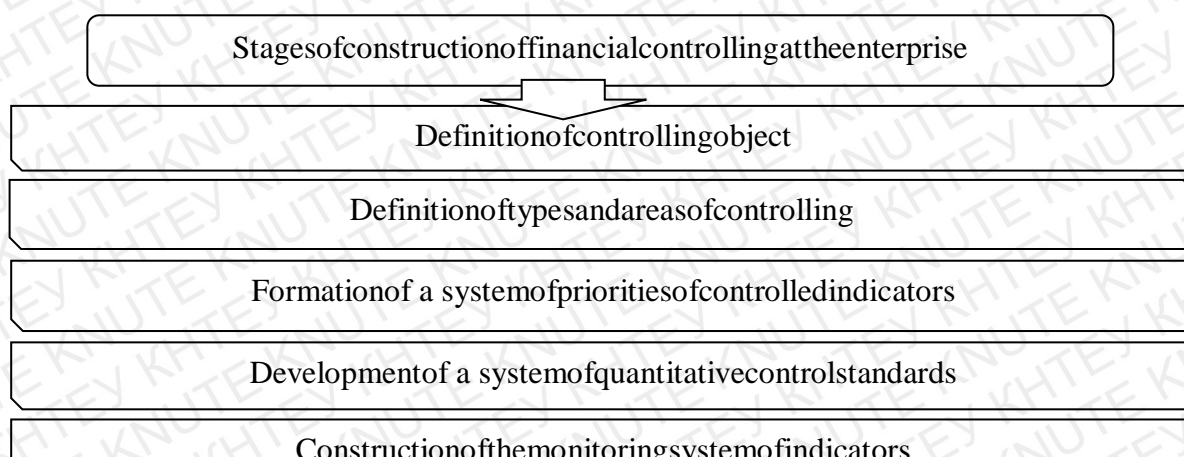


Figure 1.11 Stages of construction of financial controlling at the enterprise [10]

Let's consider in more detail each stage of controlling implementation.

1. Definition of controlling object. The object of financial control is management decisions that are connected with the main aspects of financial activity of enterprises.
2. Definition of types and areas of controlling. Main types: strategic control; current controlling; operational control. Each of these listed types of controlling must correspond to its scope and frequency of its functions.
3. Formation of a system of priorities of controlled indicators. The whole system of indicators is ranked by significance. In the process of such a ranking, the most important indicators of this type of controlling are first selected in the system of priorities of the first level; then a system of priorities of the second level is formed, the indicators of which are in a factor relation with the indicators of the first level; a system of priorities for the third and subsequent levels is formed similarly.

When a system of priorities are forming, it should be borne in mind that they may be of a different nature, but at the same time, a hierarchical summary of all control indicators for the company as a whole and for certain areas of financial activity should be provided.

4. Development of a system of quantitative control standards. After defining and ranking the list of financial indicators that are monitored, there is a need to establish quantitative standards for each of them. Such standards can be established both in absolute terms and in relative terms. In addition, such quantitative standards may be stable or mobile. Standards are target strategic norms, indicators of current plans and budgets, the system of state or enterprise standards and norms, etc.

5. Construction of a monitoring system for indicators that are included in financial control. The system of financial monitoring is a mechanism for continuous

monitoring of financial performance of a company, determining the size of deviations of actual results from predicted and identifying the causes of these deviations [10].

6. The formation of a system of algorithms for action on elimination of deviations is the final stage of construction of financial control in the enterprise. Principal system of actions of enterprise managers in this case by Podderyoginym A. is determined in three algorithms.

*“Do not take any measures”*. This form of response is foreseen in cases where the size of negative deviations is well below the "critical" criterion.

*“Eliminate the deviation”*. Such system of actions involves a procedure for the search and implementation of reserves to ensure the fulfillment of target, planning or normative indicators. At the same time reserves are considered in the context of various aspects of financial activity and individual financial transactions. As such opportunities may be considered the expediency of introducing an enhanced economy, using the system of financial reserves and other.

*“Change the system of planned or normative indicators”*. Such system of actions is carried out in those cases where the possibility of normalizing certain aspects of financial activity is limited or absent at all. In this case, based on the results of financial monitoring, proposals are made for adjusting the system of target strategic norms, indicators of current financial plans or individual budgets. In some critical cases, a proposal may be grounded for the termination of individual production, investment and financial transactions, and even the activities of individual centers of costs and investments [32].

Consequently, the introduction of financial control system requires preliminary research and diagnostics of the enterprise, which is divided into six stages. The introduction of financial control will significantly improve the efficiency of the entire process of managing the financial activity of the enterprise, and despite the fact that it allocates the general stages of its implementation, this process is individual for each economic entity.



### 1.3 Methodical approaches to the construction of a monitoring system of controlled indicators

The construction of the monitoring system of indicators is the fifth stage of the introduction of financial control in the enterprise. Figure 1.12 shows the sequence of implementation of this phase.

Stages of monitoring system construction:		
I.	construction of a system of informative reporting indicators for each type of financial control:	
II.	development of a system of generalizing (analytical) indicators;	
III.	definition of the structure and indicators of forms of control reports;	
IV.	determination of control periods for each type of financial control and a group of controlled indicators;	
V.	setting the sizes of deviations of actual results of controlled indicators from the established standards;	
VI.	identification of the main causes of deviations.	

Figure 1.12. Stages of construction of financial indicators monitoring system [7]

*Davidovich I. defines the following main stages of constructing of the monitoring system for controlled financial indicators:*

1) the construction of a system of informative reporting indicators for each type of financial control is based on the data of financial and managerial accounting (this system is the so-called "primary information monitoring base" necessary for the next

calculation of aggregated on the company separate analytical absolute and relative financial indicators, which characterize the results of financial enterprise activity);

2) the development of a system of generalizing (analytical) indicators that reflects the actual results of the achievement of the prescribed quantitative control standards, is carried out in strict accordance with the system of financial indicators (full comparability of the quantitative expression of established standards and controlled analytical indicators is ensured; in the process of developing such system algorithms for calculating individual generalizations (analytical) indicators using the primary information base of supervision and financial methods analysis);

3) definition of structure and indicators of forms of control reports of performers is intended to form a system of carriers of control information (to ensure the effectiveness of control, such a form of report should be standardized and contain information:

- actually achieved value of the monitored indicator (in accordance with the predicted);
- size of the deviation of the actual achieved value of the monitored indicator from the predicted;
- factor decay of the size of the deviation, the algorithm of such must be determined and communicated to each performer before;
- explanation of the reasons of negative deviations for the indicator as a whole and its separate components. The form of the standard control report of the performer is differentiated in accordance with the content of the budget proven (plan);

4) definition of control periods for each type of financial control and each group of controlled indicators (specification of control period by types of control and groups of indicators is determined by the "urgency of response" necessary for the effective management of financial activities at this enterprise, with this principle distinguished:

- weekly (ten-day) control report;
- monthly control report;
- quarterly control report);

5) establishment of the sizes of deviations of the actual results of controlled indicators from the established standards is carried out both in absolute terms and in relative indicators (as each indicator is contained in the control reports of the performers, at this stage, it is aggregated within the enterprise as a whole, while the relative indicators, all deviations are divided into three groups:

- positive deviation;
- negative "permissible" deviation;
- negative "critical" deviation).

6) the identification of the main reasons of the deviations of the actual results of the monitored indicators from the established standards is carried out on the enterprise as a whole and on separate "centers of responsibility". In the process of such analysis, the indicators of financial control, in which there are "critical" deviations from target norms, tasks of current plans and budgets, are distinguished and considered. For each critical deviation, the causes that caused them must be identified. In the process of conducting such an analysis, in general, the enterprise uses the relevant sections of the executive reports [7, p.356-358].

Deviation analysis is the main tool for evaluating the responsibility centers.

The basis for determining the deviations can also be certain basic periods of management - last year, last quarter, past semester, etc.

The most important value in modern economic conditions are deviations from norms. Deviations from norms should be considered absolute differences from the current norms of consumption of raw materials, semi-finished goods, wages and other direct costs for the manufacture of products, the execution of works or services and the relative magnitude of the differences between actual and estimated indirect costs [3].

*Davidovich I.* in his book "Controlling" gives a broad classification of deviations from the norms that are described below.

*Positive deviations* of direct costs are considered in terms of the validity of norms and norms, calculated per unit of output. Deviations in the part of constant costs are analyzed for their response to changes in production volumes and compliance with flexible estimates.



*Negative deviations* of direct costs are analyzed from the standpoint of observance of technological processes, standards of organization and management of production in relation to specific types of products, works or services.

*Recorded deviations* are deviations that are actually reflected in certain accounting documents, which is why they are called documented. These include deviations detected: according to the signaling documentation before the start of the production process; as the production task is performed; using calculations and formulas after the end of the reporting period (from several hours to several months).

*Unconsidered* (undocumented) in this reporting period, deviations from norms are revealed by methods of inventory of work in progress, finished and rejected products, material values, etc. The reasons for their formation can be:

- inaccuracies in the process of release and the calculation of the remnants of materials;
- concealing a marriage; damage, loss and shortage of semi-finished products, parts and products;
- inaccuracies in the inventory of material balances and work in progress.

Uncorrected deviations are determined after the end of the reporting period and indicate an insufficient level of organization of production and management accounting.

*Material deviations* arise in the supply- production and production activities. They are distributed between the balances of materials, work in progress, finished and sold in this reporting period products.

*Cost deviations*, as a rule, refer to the cost of sales[7, p.197].

Also Davidovich I. notes that the process of analysis of deviations consists of a number of procedures. Thus, the deviation from profit affects three groups of deviations:

- deviation from the proceeds from the sale of products (performed works or services rendered),
- deviation from the norms of production costs;
- deviation from the norms of costs of sales.

In turn, the latest deviations are influenced by deviations in product prices and deviations from sales volumes. The scheme for calculating deviations from profits and explanation formulas are given in Appendix A.

Deviations from the norms of production costs consist of deviations in materials, deviations in the cost of labor of the main production workers, variations in variable invoicing (generic) costs and deviations for permanent (generic) overhead costs.

For the control and analysis of deviations a special classifier of possible causes and possible culprits of deviations is developed. An example of such classifier is given in the Table 1.2.

*Table 1.2*

**An example of a classifier of deviations causes**

Detection of the cause of the deviation	The responsibility center determines the reasons for the rejection	Code of responsibility center	Responsibility center - the culprit of deviations	Code of the center of responsibility of the culprit

*Source: developed by author based on [7, p.208]*

Consequently, the considered stage of controlling implementation: the construction of a monitoring system for monitored indicators is an important step that should be corrected when changing the purpose of financial control and the system of indicators of current plans and budgets.

## **CHAPTER2**

### **INVESTIGATION OF THE FINANCIAL CONTROLLING ORGANIZATION AT THE LLC “CLEVER C”**

#### **2.1. The analysis of the organizational and information system of financial control at the enterprise**

Clever C has extensive experience in the production and sale of furniture. Company makes furniture according to individual projects, provides checkout, 3-D arrangement of furniture, so customer will be able to see how the ordered furniture will look in the usual interior.

Credo of The Company: Individual approach to each client!

Mission of The Company: We strive to provide more than just the delivery of excellent products and services required by customers.

Vision of The Company: The Clever C strives to become the best company in the market of goods and services. The company always delivers high-quality products and services to customers. The specialists of the company constantly improve, conduct research and take part in various programs that contribute to the development of new directions. Applying the strategy of accelerated development due to innovation, increasing efficiency, organizational capabilities and partnerships, the Clever C constantly strive to develops technologies and products that are of great importance to consumers.

The assortment of the company`s products and services is very diverse and is intended to help customers solve a variety of tasks related to the repair, cleanliness and design of residential and commercial premises:

- manufacture and installation of furniture (the basic directions: office furniture, kitchens, hallways, furniture for bars, restaurants etc.);
- production and installation of metal-plastic and aluminum structures (the basic directions: windows, doors, office partitions, plumbing booths etc.);
- sun protection constructions (the basic directions: awnings, pergotenda, jalousie, rollets, etc.);



- specialized cleaning.

Features of the company:

- ❖ has only production halls (no salons), it gives the opportunity to sell furniture cheaper than in other stores;
- ❖ the widest choice of materials;
- ❖ the ability to make orders “under the key” that will save customers from looking for multiple suppliers;
- ❖ a lot of positive recommendations from customers;
- ❖ possibility to equip client's office in 24 hours;
- ❖ guarantee on all furniture.

So, let's start a review of the information system of financial control of the enterprise.

The business and financial activities of the company are constantly changing, therefore the controlling system, as well as its information support, require constant improvement in accordance with these changes.

The controlling system requires reporting (actual) information, which is formed, in large part, in accounting management. For operational, current and strategic management it is necessary to rationalize the collection of information on the following principles:

- the concept of management functions in decision-making centers, which makes it possible to coordinate planning, accounting, control, analysis at all management levels;
- the delegation of authority and responsibility to linear and functional employees;
- the coordination of the work of the accounting process, which situates in the linear and functional decision-making and responsibility centers;
- the improvement of the system of communication (information communications) within the enterprise;
- subordination of planning, accounting, control and analysis systems to the controlling service.

For information provision of strategic and actual planning, which is an extremely important component of strategic control methods, reporting information is not enough. In order to make future opportunities visible, it is necessary to use information on the further development of external circumstances that will enable to develop and implement an optimal strategy of external conditions [7, p.394].

The information used by the enterprise is characterized by certain problems showed in Figure 2.1.

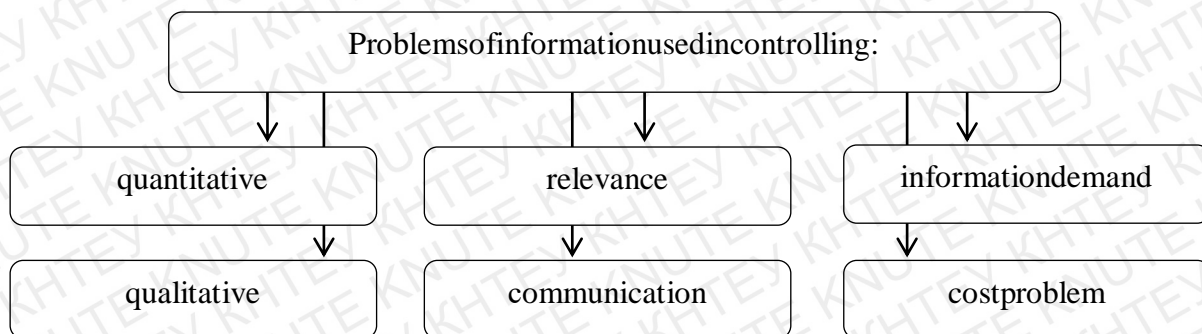


Figure 2.1. Problems of information used in controlling [7, p.395]

The essence of the quantitative problem is to determine the rational amount of information required for strategic control, since there are no criteria for their calculation. At the forefront today is the development of modules built on the principle of partial information systems, which must develop on the basis of the division of labor and used to obtain and combine rational indicators.

The quality problem is due to the need for sufficient justification of the information characteristics of certain indicators that can have an influence on the decision-making process.

The issue of obtaining the necessary information is now of paramount importance. The rapid development of world science and practice leads to a significant reduction of actualization cycles - at relatively short intervals, the importance and value of information are reduced, it morally aging.

The problem of communication concerns the issue of the direction of the transmission of information. The underestimation of the research of the communication

process is the reason that a significant part of the accounting data is handled unsystematically, which complicates its use by management personnel.

Important in terms of controlling is the identification of demand for information. The need for information is manifested through the planning and control processes and the corresponding solutions.

Modern practice shows that obtaining the necessary information requires every time more and more financial costs. The essence of the cost problem is precisely the need to find reserves to reduce the cost of information provision.

The system of information provision of financial control, identifying strategic objectives and strategic action plans in specific indicators, helps managers achieve their goals of managing and controlling the business in the interests of both its owners and other stakeholders.

The important task of the financial control service is to improve the system of information flows, change the algorithms of document flows, automate the transmission of information.

The current level of organization and support of business processes of the enterprise in the system of financial controlling requires prompt processing and further analysis of large volumes of various information. Technical support for the solution of such tasks is usually done using flexible corporate information systems, which are intended for complex automation of management of all types of economic activity of the enterprise.

As for the software used by the company, it is possible to allocate such basic programs as 1C and M.E.Doc. 1C:Enterprise is a universal cloud and on-premise system of programs for automating financial and operational activities of an enterprise. The program has a wide range of capability to address the diverse needs of the business. This is achieved through the ability of the program to customize the system based on the specific needs of companies and their business processes. M.E.Doc is a widespread Ukrainian software for reporting to supervisory authorities and the exchange of legally significant primary documents between counterparties electronically.



The company's responsible employees have access codes for these applications, which speeds up the exchange of information. It also provides protection of information, since without access code it is impossible to view and change the data, processes and results of its activity.

Let's consider the organizational structure of the LLC "Clever C" (Figure 2.2).

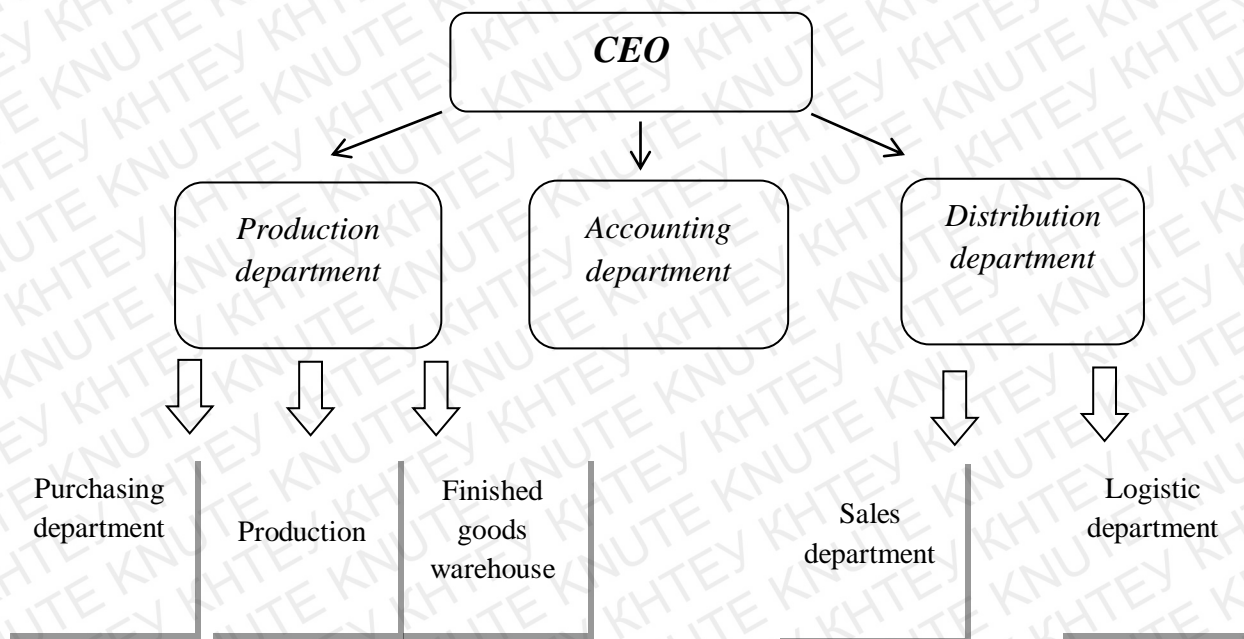


Figure 2.2 The organizational structure of the LLC "Clever C"

In accordance with the organizational system of the enterprise, financial control should be carried out by the accounting department. However, at present, there are no specialists in financial control at this department, so the functions of financial control are distributed among all departments of the enterprise.

Organizational system of financial controlling is manifested in such aspects:

- development and improvement of the financial structure of the enterprise in the allocation of financial responsibility centers and the identification of responsible persons;
- development and improvement of the planning and budgeting regulations, that is, drawing up a schedule of implementation of both strategic and operational planning and budgeting, as well as bringing this regulation to the responsible persons;

- production management accounting, the introduction of methods of accounting for costs and results by the centers of responsibility, products, projects, etc.;
- development and improvement of internal reporting rules (who, for whom and when should prepare and submit management reports);
- organization and conducting procedures for detecting deviations;
- the organization of analytical work in the subdivisions of the company.

Directions and tasks of the financial controlling department:

- coordination (coordination of separate subsystems of the management system, coordination of strategic and operational goals and objectives, ensuring integration of risk management and planning systems, coordination of strategic and operational planning based on the introduction of a balanced system of indicators);
- financial strategy (coordination and methodological support of the process of development and implementation of financial strategy; elaboration of proposals for adaptation of the organizational structure of the enterprise to the chosen development strategy; portfolio analysis; application of VBM);
- budgeting (definition of objects and planning tools; development and improvement of the financial structure of the company with the identification of centers of responsibility; development and continuous improvement of the internal method of forecasting and budgeting; organization and implementation of the planning process);
- internal control (examination of management decisions related to expenses incurred by the centers of responsibility; budget control (analysis of deviations of actual performance indicators from the planned ones); preparation of reports in the context of individual budgets, periods and users (reporting); preparation of the consolidated budget execution report; proposals for the correction of plans and activities; control of compliance with internal regulations and legislative acts);
- risk control (identification, analysis of risks in financial and economic activity, as well as development of measures for their neutralization; identifying and

eliminating bottlenecks in the enterprise; timely response to the emergence of new chances and opportunities (identification and development of strengths));

- internal consulting and methodical support;
- information management support.

The place and role of financial controlling in the enterprise information system is shown in Appendix B.

After analyzing the organizational and information systems of financial control at the LLC “Clever C”, it can be noted that the company doesn’t have a financial control unit, but at the moment its functions are divided among other departments. Each of the departments performs control functions assigned to it. The enterprise uses such software as 1C and M.E.Doc, which helps to structure the information of the enterprise, provide for rapid exchange of information, provide its protection and increase the productivity of the company as a whole.

## **2.2. The analysis of the dynamics of the volume and composition of financial results of the enterprise**

The Statement of financial results (Statement of comprehensive income) illustrates the financial performance and results of financial activity of an enterprise. Financial results of the LLC “Clever C” you can find at Appendices H-K(2013-2017 years).

Formation of financial results in the report is subordinate to the types of activity of the enterprise. The activity of the enterprise is divided into operational, financial and investment.

In addition, the statement of financial results includes the results of emergency events, that is, those events or operations that differ from the usual activities of the enterprise and do not occur frequently or regularly.

The reporting period for drawing up a statement of financial results is the calendar year from January 1 to December 31 inclusive.



The purpose of this report is to provide users with complete true and fair information about income, expenses, profits and losses from enterprise activity for the reporting period.

Let's consider the dynamics of the volume and composition of the main financial results of the LLC “Clever C” (Table 2.1). The growth rate for each year is shown in Appendix N.

*Table 2.1*

**Dynamics of volume and composition of financial results of the LLC “Clever C”  
(2013-2017 years)**

Years	2013		2014		2015		2016		2017		Deviations in the structure, %	Growth rate, %
	Thous., UAH	%	Thous., UAH	%	Thous., UAH	%	Thous., UAH	%	Thous., UAH	%		
Net proceeds from the sale	21424	100,00	19434	100,00	12758	100,00	8705	100,00	6523	100,00	-	-69,55
Prime cost of product sold	19322	90,19	17260	88,81	10909	85,51	6780	77,89	4699	72,04	-18,15	-75,68
Gross profit	2102	9,81	2174	11,19	1849	14,49	1925	22,11	1824	27,96	18,15	-13,23
Other operating income	40	0,19	45	0,23	83	0,65	69	0,79	226	3,46	3,28	465,00
Administrative costs	1671	7,80	1651	8,50	1570	12,31	1738	19,97	1832	28,09	20,29	9,63
Distribution costs	413	1,93	473	2,43	214	1,68	149	1,71	163	2,50	0,57	-60,53
Other operating costs	22	0,10	58	0,30	87	0,68	78	0,90	48	0,74	0,63	118,18
<b>Earnings before interest and taxes (EBIT)</b>	36	0,17	37	0,19	61	0,48	29	0,33	7	0,11	-0,06	-80,56
Other financial income	0	0	0	0	0	0	0	0,00	0	0	-	-
Other income	0	0	0	0	0	0	0	0,00	0	0	-	-
Financial costs	0	0	0	0	0	0	0	0,00	0	0	-	-
<b>Earnings before tax (EBT)</b>	36	0,17	37	0,19	61	0,48	29	0,33	7	0,11	-0,06	-80,56
Income tax costs	0	0	0	0	2	0,02	0	0,00	1	0,02	0,02	-
<b>Net income</b>	36	0,17	37	0,19	59	0,46	29	0,33	6	0,09	-0,08	-83,33

*Source: developed and calculated by the author on the basis of financial statements*

According to the table it can be noted that during the investigated period Net proceeds from the sale and Net income of the enterprise decreased. By the way Prime cost of product sold and other costs decreased too. It means that the sales volume and the amount of production costs declined.

The reasons for such changes may be a reduction in the overall range of services and a decrease in demand for products which are provided by the company. So it's important to consider the change in the main indicators in more detail.

Figure 2.3 shows the dynamics of indicators such as gross profit, operating result (EBIT), financial result before tax (EBT) and net income.

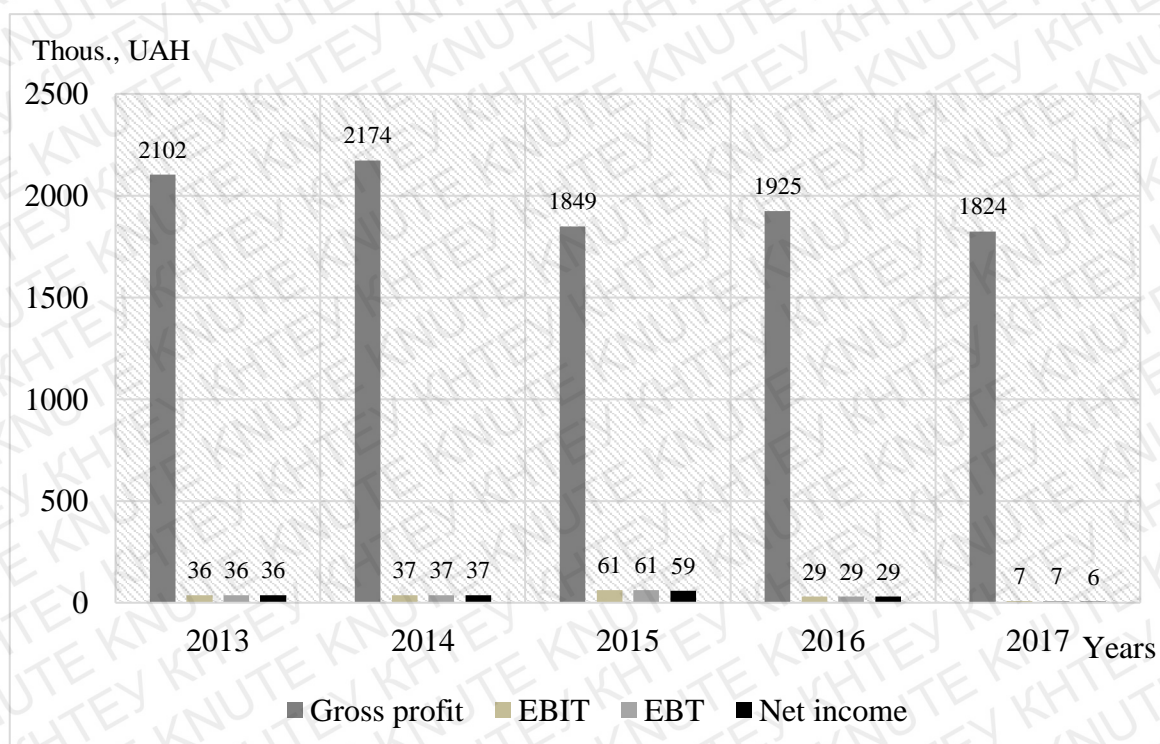


Figure 2.3 Dynamics of Gross profit, EBIT, EBT and Net income, UAH ths

According to the calculations in the table and diagram it can be noted that Gross profit of the company in 2017 compared to 2013 decreased by 13,2%, EBIT and EBT decreased by 80,6% and Net income – by 83%. The main activity of the company is operational, the enterprise doesn't engage in financial activity, accordingly such indicators as EBIT and EBT are the same.

The dynamics of such indicators as EBIT and Net income is negative, they reached the maximum value in 2015, in volume of 61 and 59 ths. UAH respectively. The lowest level of considered indicators is observed in 2017.

Regarding the structure of income and expenditure of the enterprise in accordance with the proceeds from the sale, it can be noted that the specific weight of the prime cost of production has a stable dynamics to decrease (by 18%). The largest share of operating expenses is administrative expenses, their volume during the investigated period increased by 9.6%.

Figure 2.4 shows the dynamics of the structure of Net proceeds from sales over the past five years.



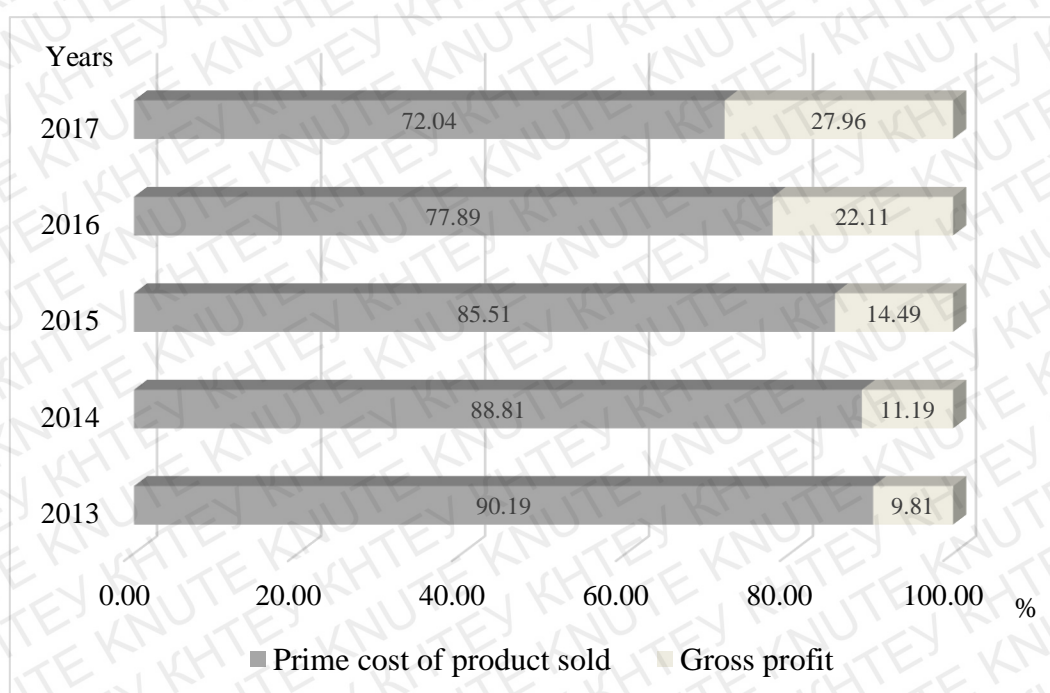


Figure 2.4 The dynamics of the structure of Net proceeds from sales (2013-2017 years)

Despite the fact that the volume of gross profits decreased, and according to the diagram, it can be noted that the share of gross profit tends to increase, in contrast to the proportion of the prime cost of product sold. The specific weight of gross profit for the investigated period increased by 18.5%.

Other operating income has a low specific weight in accordance with the proceeds from the sale, which is 3.5% in the reported year (increased by 3,3%). Specific weight of expenses for the investigated period increased by 21.5%. The share of administrative expenses increased by 20%, the share of distribution expenses raised by 0.57%, and the share of other transaction costs - by 0.63%.

The amount of administrative expenses and other operating expenses increased by 9.6% and 118.2% respectively. The amount of distribution expenses decreased by 60.5% in the reported year.

The financial result from operating activities depends on the size of the operating expenses of the enterprise. So let's consider the dynamics of their volume and composition in terms of their elements (Table 2.2). The growth rate for each year is shown in Appendix O.



Table 2.2

**Dynamics of volume and composition of elements of operating expenses of  
the LLC “Clever C” (2013-2017 years)**

Years	2013		2014		2015		2016		2017		Deviations in the structure, %	Growth rate, %
	Thous., UAH	%	Thous., UAH	%	Thous., UAH	%	Thous., UAH	%	Thous., UAH	%		
Material costs	11973	60,96	10631	61,10	7707	64,10	4181	56,95	3082	49,34	-11,61	-74,26
Labor costs	4687	23,86	4007	23,03	2589	21,53	2228	30,35	2352	37,66	13,79	-49,82
Expenses for social events	1729	8,80	1475	8,48	969	8,06	490	6,67	517	8,28	-0,53	-70,10
Depreciation	667	3,40	673	3,87	672	5,59	383	5,22	249	3,99	0,59	-62,67
Other operating costs	586	2,98	612	3,52	86	0,72	59	0,80	46	0,74	-2,25	-92,15
Total	19642	100,0	17398	100,0	12023	100,0	7341	100,0	6246	100,0	-	-68,20

*Source: developed and calculated by the author on the basis of financial statements of the LLC “Clever C”*

In accordance with the results of calculations, it can be noted that the largest share in operating costs is material expenses – 49,34% in 2017. Personal costs and deductions for social events in the reported year occupy 37,7% and 8,3% of expenses respectively. The specific weight of the depreciation is 4%, the smallest share in operating expenses is occupied by other operating costs – 0,7%.

Also during the investigated period, the share of material and expenses for social events decreased by 11,6% and 0,53% respectively. The specific weight of the depreciation and labor costs raised by 13,8% and 0,6% respectively.

Figure 2.5 shows the dynamics of the volume of elements of operating costs.

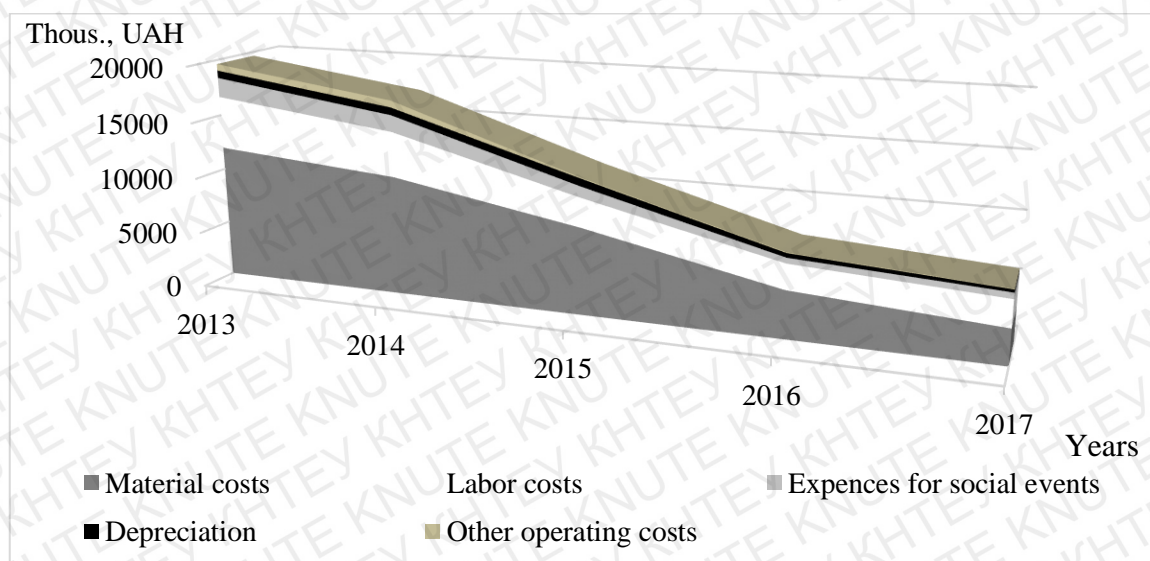


Figure 2.5 The dynamics of the volume of elements of operating costs (2013-2017 years)

The graph clearly reflects the change in the amount of operating expenses and the specific weight of each element during the investigated period. The total operating expenses decreased by 68%, which is the result of a decrease in all elements, especially in such significant as material and labor costs.

The biggest changes are observed in the amount of such costs as other operating costs, material and expenses for social events – declined by 92%, 74% and 70% respectively. The amount of labor costs and depreciation decreased by 50% and 60% respectively.

According to the Statement of comprehensive income, the financial result of operating activities depends on administrative costs, distribution costs and other operating expenses, the dynamics of which is shown in Figure 2.6.

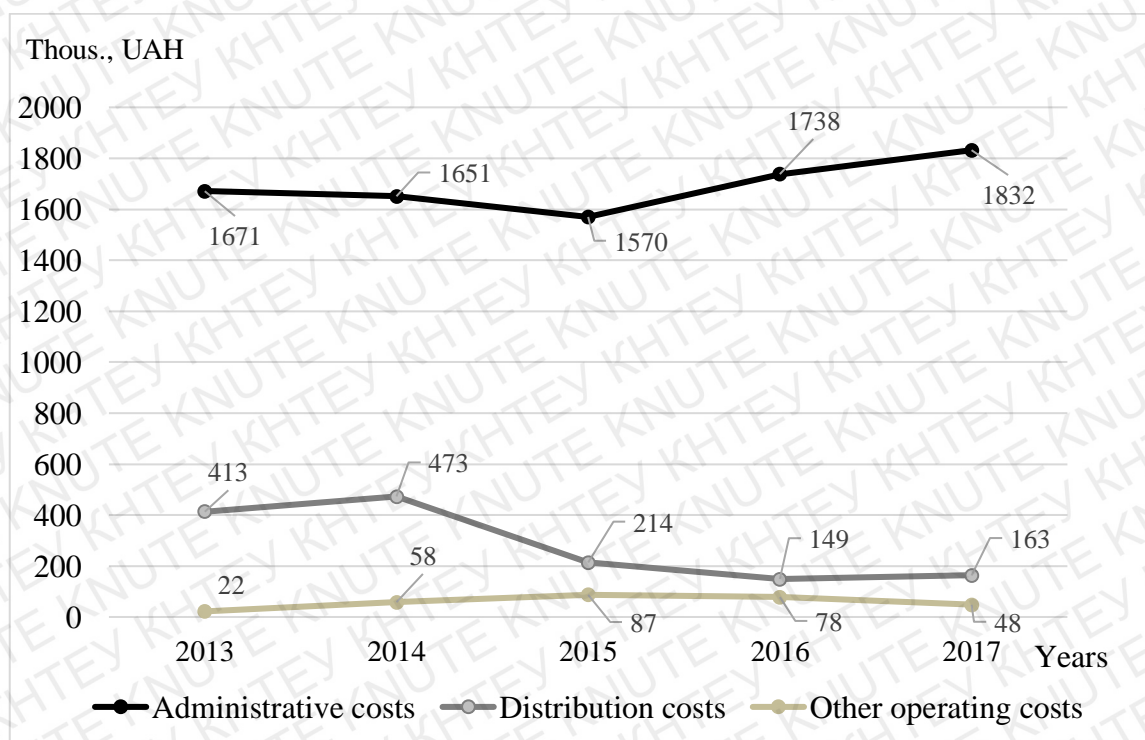


Figure 2.6 Dynamics of administrative costs, distribution costs and other operating expenses (2013-2017 years), ths UAH

According to the graph, it can be noted that in the reported year, the volume of distribution expenses decreased significantly (60,5%). The volume of other operating expenses has not changed much. And the amount of administrative expenses declined in 2015, but in the reporting year again increased to 1832 ths UAH.



In order to evaluate the effectiveness of the enterprise let's calculate the indicators of profitability of company's activity (Table 2.3).

Table 2.3

**Profitability indicators of the LLC "Clever C" (2013-2017 years), %**

Indicators	Years			
	2014	2015	2016	2017
Net profitability	0,19	0,46	0,33	0,09
Return on expenses	0,21	0,49	0,40	0,10
Economic profitability	0,35	0,58	0,28	0,07
Return on equity (ROE)	0,39	0,62	0,30	0,06

*Source: developed and calculated by the author on the basis of financial statements of the LLC "Clever C"*

According to the results of calculations given in the table it can be noted that the indicators of profitability of the enterprise are rather low. The indicators are influenced by low EBIT and Net income, the dynamics of which is negative. In spite of this, the volume of operating expenses and the volume of production of the company also decreases, which results in not large differences between the values at low profitability rates.

Thus, having analyzed the dynamics of the volume and composition of financial results of the LLC "Clever C" for 2013-2017, it can be noted that the company has a steady negative tendency in net proceeds from the sale, EBIT and net income. Gross profit of the company in 2017 compared to 2013 decreased by 13,2%, EBIT decreased by 80,6% and Net income – by 83%. The sales volume and the amount of production costs declined because of a reduction in the overall range of services and a decrease in demand for products which are provided by the company. The total operating expenses decreased by 68%, which is the result of a decrease in all elements, especially in such significant as material and labor costs.



### 2.3. The analysis of the dynamics of the volume and composition of assets and capital at the enterprise

The Statement of financial position (Balance Sheet) illustrates the volume and composition of assets and capital of the enterprise. Annual reports of the LLC “Clever C” you can find at Appendices D-G (2013-2017 years).

Firstly, let`s compare the indicator of the financial condition of the company with the indicators of financial performance of the enterprise (Table 2.4).

Table 2.4

**Dynamics of asset / capital, net proceeds from the sale and net income of the LLC “Clever C” (2014-2017 years)**

Years	2014	2015	2016	2017	Deviations, ths. UAH			Growth rate, %		
					Δ b/w 2014 & 2015	Δ b/w 2015 & 2016	Δ b/w 2016 & 2017	Δ b/w 2014 & 2015	Δ b/w 2015 & 2016	Δ b/w 2016 & 2017
Assets/Capital	10688,5	10452,5	10460	10320	-236	7,5	-140	-2,2	0,1	-1,3
Net proceeds from the sale	19434	12758	8705	6523	-6676	-4053	-2182	-34,4	-31,8	-25,1
Net income	37	59	29	6	22	-30	-23	59,5	-50,8	-79,3

Source: developed and calculated by the author on the basis of financial statements of the LLC “Clever C”

According to the data in the table it can be noted that the indicator of the financial state of the company in 2017 decreased by 1,3%, in turn, net proceeds from the sale declined by almost 25%, and the net financial result decreased by 79,9%. Figure 2.7 displays a graph of the dynamics of the change of data indicators.

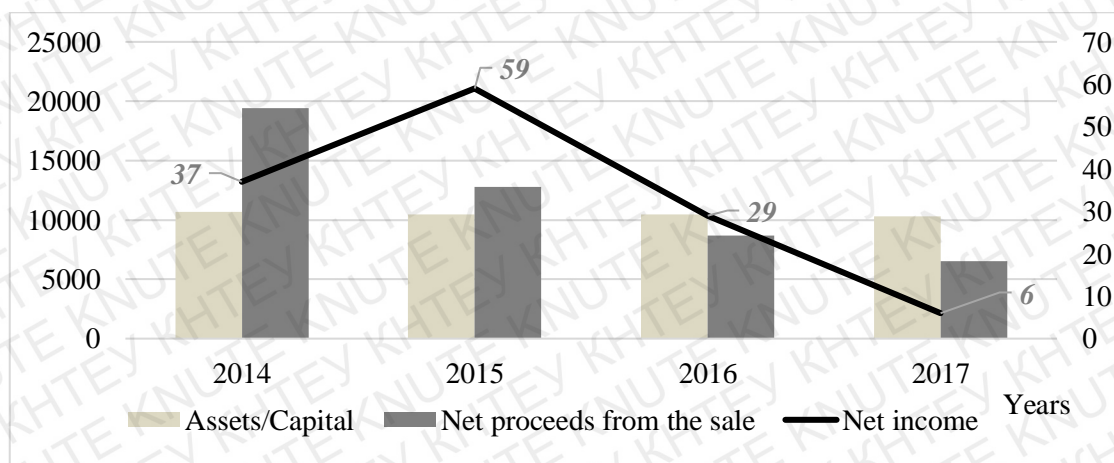


Figure 2.7 Dynamics of volume of asset / capital, net proceeds from the sale and net income (2014-2017 years), ths UAH

Consequently, according to the graph, it can be noted that the amount of asset / capital is more stable than another two indicators. The amount of asset/capital increased in 2016, compared with 2015 by 0,1%, however, in the reporting year, this indicator has declined by 1,3%. Net proceeds from the sale decreased by 25% and Net income – by 79% in 2016, compared with 2015.

Table 2.5 shows the dynamics of the volume and composition of assets. The growth rate for each year is shown in Appendix L.

*Table 2.5*

**Dynamics of volume and composition of assets of the LLC “Clever C”  
(2014-2017 years)**

Years	2014		2015		2016		2017		Deviation s in the structure,	Growth rate, %
	Thous., UAH	%	Thous., UAH	%	Thous., UAH	%	Thous., UAH	%		
Incomplete capital	16,5	0,2	12	0,11	12	0,11	12	0,12	-0,04	-27,27
Fixed assets	3593	33,62	2986	28,57	2518	24,07	2199	21,31	-12,31	-38,8
<b>Non-Current Assets</b>	3609,5	33,77	2998	28,68	2530	24,19	2211	21,42	-12,35	-38,74
Inventories	6556,5	61,34	7073	67,67	7664	73,27	7956,5	77,10	15,76	21,353
Manufacturing reserve	2661,5	24,90	2519	24,10	2238,5	21,40	1803	17,47	-7,43	-32,26
Goods in process	16	0,15	26	0,25	30	0,29	33,5	0,32	0,17	109,38
Final product	3876	36,26	4526,5	43,31	5394,5	51,57	6119	59,29	23,03	57,869
Goods	3	0,03	1,5	0,01	1	0,01	1	0,01	-0,02	-66,67
Accounts receivable for goods, works, services	511,5	4,79	377	3,61	260	2,49	143	1,39	-3,40	-72,04
Other current receivables	11	0,10	0,5	0	2	0,02	9,5	0,09	-0,01	-13,64
Cash and cash equivalents	0	0	4	0,04	4	0,04	0	0	0	-
<b>Current Assets</b>	7079	66,23	7454,5	71,32	7930	75,81	8109	78,58	12,35	14,55
<b>Total Assets</b>	10688,5	100	10453	100	10460	100	10320	100	-	-3,448

*Source: developed and calculated by the author on the basis of financial statements of the LLC “Clever C”*

According to the table, it can be noted that the main part of the assets of the enterprise is current assets of the enterprise, the share of which in the reporting year was almost 79%. The specific weight of non-current assets in the reporting year was 21% respectively. During the investigated period there is a tendency towards a decrease in the share of non-current assets, and an increase in the share of current assets.

It can be considered that through the elements of assets the largest share in the total amount is held by inventories because the company is engaged in trading activities (77% in the reported year). The volume of fixed assets also occupies a significant



proportion, with the tendency to decrease (21% in the reported year). Other current receivables occupy the smallest share in total assets (0.09% in the reported year).

Let's consider in more detail the dynamics and composition of non-current assets of the enterprise (Figure 2.8).

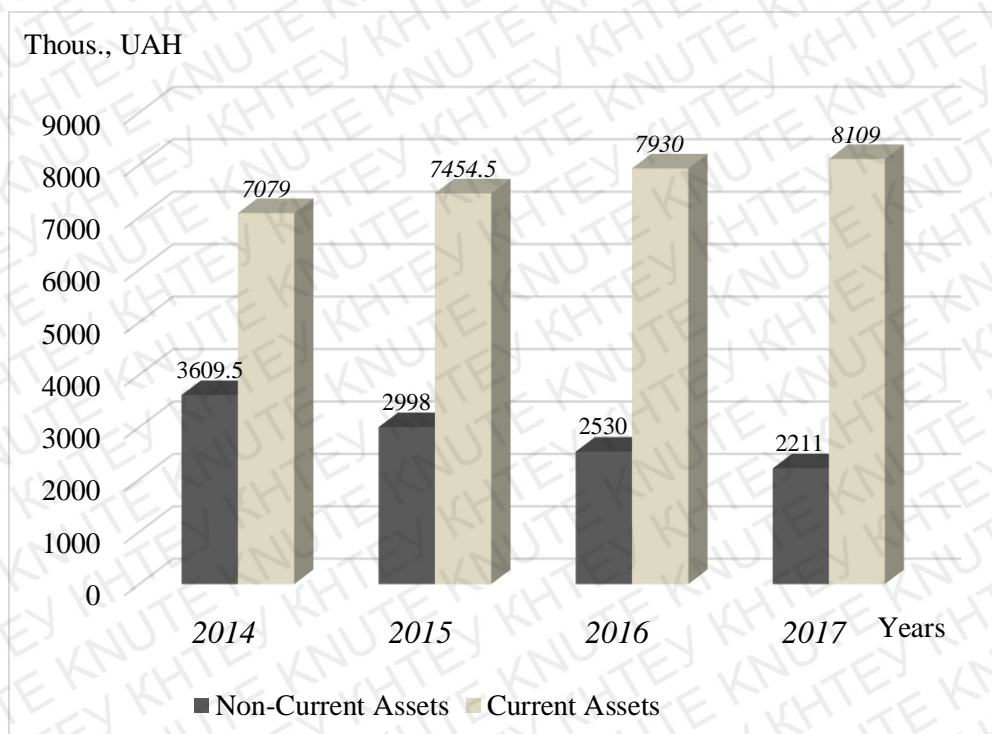


Figure 2.8 Dynamics of volume and composition of non-current assets of the enterprise (2014-2017 years), ths UAH

According to the diagram, the total volume of non-current assets of the enterprise in the reported year decreased to 2211 ths UAH. The largest share of non-current assets is occupied by fixed assets, incomplete capital investment is equal to 12 ths UAH last three years.

The part of fixed assets in non-current assets is 99,5%, and the specific weight of incomplete capital investment 0,5% respectively. The amount of incomplete capital investment and fixed assets declined by 27% and 39% respectively.

Let's consider in more detail the dynamics and composition of non-current assets of the enterprise (Table 2.6).



Table 2.6

**Dynamics of volume and composition of current assets of the LLC “Clever C”  
(2014-2017 years)**

Years	2014		2015		2016		2017		Growth rate, %
	Thous., UAH	%	Thous., UAH	%	Thous., UAH	%	Thous., UAH	%	
Inventories	6556,5	61,34	7073	67,67	7664	73,27	7956,5	77,10	21,35
Accounts receivable for goods, works, services	511,5	4,79	377	3,61	260	2,49	143	1,39	-72,04
Other current receivables	11	0,10	0,5	0	2	0,02	9,5	0,09	-13,64
Accounts receivable	522,5	4,89	377,5	4	262	2,50	152,5	1,48	
Cash and cash equivalents	0	0	4	0,04	4	0,04	0	0	-
<b>Current Assets</b>	<b>7079</b>	<b>66,23</b>	<b>7454,5</b>	<b>71,32</b>	<b>7930</b>	<b>75,81</b>	<b>8109</b>	<b>78,58</b>	<b>14,55</b>

*Source: developed and calculated by the author on the basis of financial statements of the LLC “Clever C”*

According to the table, it can be noted that there was an increase in the volume of inventories of the enterprise by 21% compared with 2014. Also, the volume of accounts receivable decreased by 70%. Regarding the volume of cash and cash equivalents, their amount declined to 0 ths UAH compared with 2014.

Figure 2.9 shows the composition of the current assets of the enterprise and the share of current assets components in 2017.

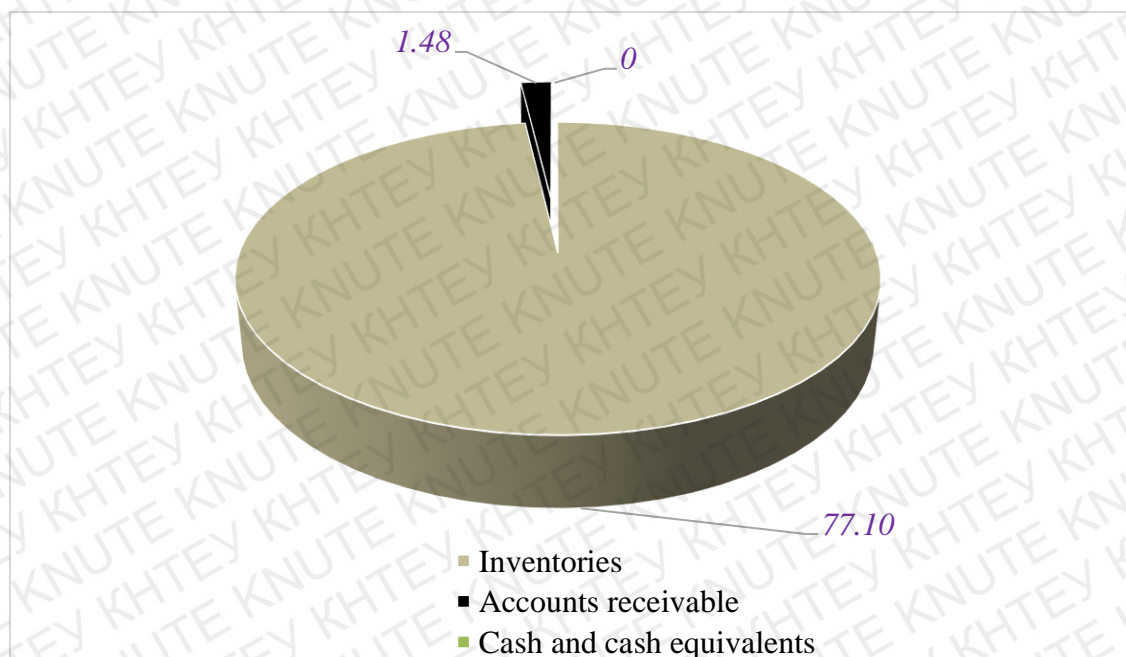


Figure 2.9 The composition of the current assets and the share of their components in 2017 year, %

According to the diagram, it can be noted that the largest share in the current assets of the enterprise is occupied by inventories (77%) in the form of final products. Also, a part of current assets is occupied by accounts receivables for goods, works, services (1,5%). The smallest share in current assets is taken by cash and cash equivalents - 0%.

Consider the dynamics of the volume and composition of capital of the enterprise, that is shown in Table 2.7. The growth rate for each year is shown in Appendix M.

Table 2.7

**Dynamics of volume and composition of capital of the LLC “Clever C”  
(2014-2017 years)**

Years	2014		2015		2016		2017		Deviation s in the structure,	Growth rate, %
	Thous., UAH	%	Thous., UAH	%	Thous., UAH	%	Thous., UAH	%		
Registered capital	328	3,07	328	3,14	328	3,14	328	3,18	0,11	0
Retained profit (uncovered loss)	9218,5	86,25	9258,5	88,58	9302,5	88,93	9320	90,31	4,06	1,101
<b>Equity</b>	9546,5	89,32	9586,5	91,71	9630,5	92,07	9648	93,49	4,17	1,0632
<i>Accounts payable:</i>	876,5	8,20	616	5,89	606,5	5,80	455	4,41	-3,79	-48,09
for goods, work, services	550,5	5,15	255	2,44	194,5	1,86	177,5	1,72	-3,43	-67,76
payments to the budget	146	1,37	94	0,90	81	0,77	117,5	1,14	-0,23	-19,52
<i>including income tax</i>	0	0	0	0	0	0	0,5	0	0	-
insurance arrears	40,5	0,38	43,5	0,42	56,5	0,54	27	0,26	-0,12	-33,33
wages arrears	87	0,81	147,5	1,41	197	1,88	102	0,99	0,17	17,241
for advances received	52,5	0,49	76	0,73	77,5	0,74	31	0,30	-0,19	-40,95
Current provision	235,5	2,20	221	2,11	189,5	1,81	162	1,57	-0,63	-31,21
Other current liabilities	30	0,28	29	0,28	33,5	0,32	55	0,53	0,25	83,333
<b>Current Liabilities</b>	1142	10,68	866	8,29	829,5	7,93	672	6,51	-4,17	-41,16
<b>Total Capital</b>	10688,5	100,00	10453	100,00	10460	100,00	10320	100,00	-	-3,448

*Source: developed and calculated by the author on the basis of financial statements of the LLC “Clever C”*

According to the table, it can be noted that the largest share in the capital of the enterprise is held by equity 93,5%, current liabilities held 6,5%.

According to the elements of the capital, the largest share is held by retained profit (90,3%). Such elements as registered capital and accounts payable have specific weight in the amount of 3,2% and 4,4% respectively. The smallest share holds other current liabilities – 0,5%.

Consider the dynamics of equity, long-term and current liabilities of the enterprise (Figure 2.10).

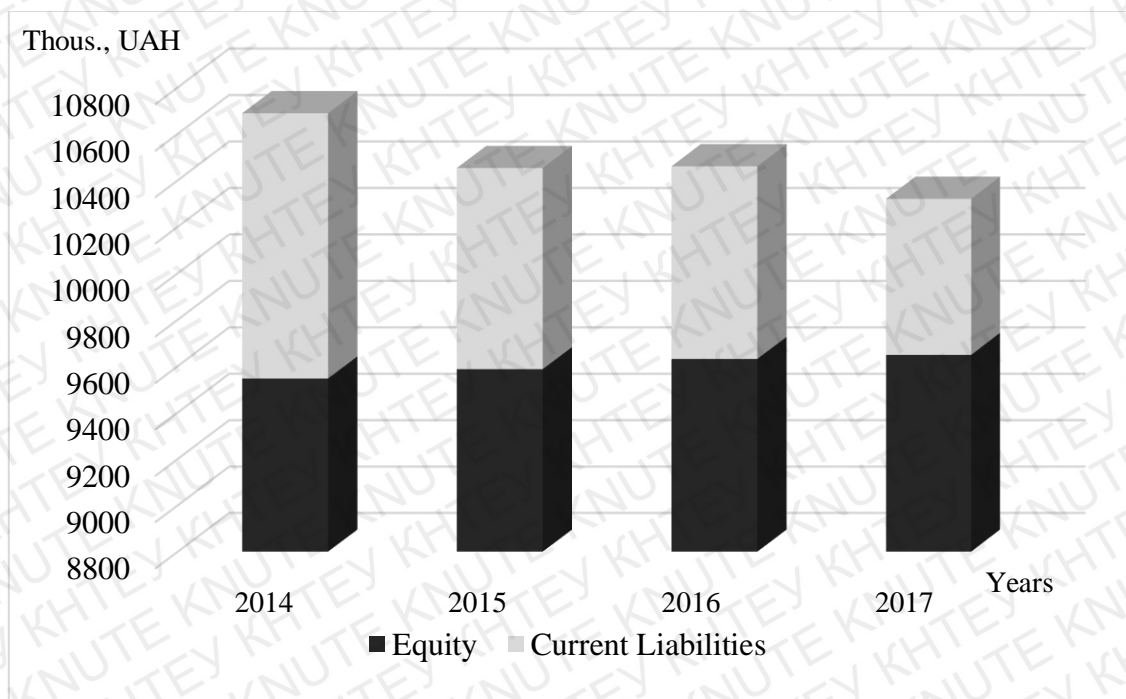


Figure 2.10 Dynamics of equity and current liabilities of the enterprise for 2014-2017 years, ths. UAH

According to the graph and statistics, equity of the company in the reported year increased to 9648 ths. UAH. The amount of the registered capital is stable, so it means that capital changed due to increase of retained profit (to 9320 ths. UAH). Retained profit increased by the net income of the previous year

The amount of current liabilities decline due to changes in such elements as accounts payable, current provision and other current liabilities, that declined to 455, 162 and 55 ths. UAH respectively.

Therefore considering the dynamics of the volume and composition of assets and capital at the enterprise for 2014-2017, it can be noted that the indicator of the financial state of the company in 2017 decreased by 1,3%, net proceeds from the sale declined by almost 25%, and the net financial result decreased by 79,9%.

The main part of the assets is current assets of the enterprise, the share of which in the reporting year was almost 79%, the specific weight of non-current assets in the



reporting year was 21% respectively. The largest share of non-current assets is occupied by fixed assets. The largest share in the current assets of the enterprise is occupied by inventories (77%) in the form of final products.

The largest share in the capital of the enterprise is held by equity 93,5%, current liabilities held 6,5%.

#### 2.4. The assessment of key performance indicators of the enterprise

A Key Performance Indicator (KPI) is a measurable value that demonstrates how effectively an enterprise is achieving its business goals.

Firstly, let`s calculate such key indicators as solvency ratios (Table 2.8).The formulas for all KPIs are presented in Appendix C.

Table 2.8

#### Dynamics of solvency ratios of the LLC “Clever C” (2014-2017 years)

Indicators	2014	2015	2016	2017	Absolute increment (+,-)
1. Absolute solvency ratio	-	0,005	0,005	-	-
2. Fast solvency ratio	0,46	0,44	0,32	0,23	-0,23
3. Current solvency ratio	6,20	8,61	9,56	12,07	5,87
4. Ratio of current accounts receivable and payable	0,60	0,61	0,43	0,34	-0,26
5. Ratio of current accounts receivable and payable of commercial agreements	0,93	1,48	1,34	0,81	-0,12

*Source: developed and calculated by the author on the basis of financial statements of the LLC “Clever C”*

The absolute liquidity ratio evaluates the payment facilities of the company to cover short-term liabilities in the near future and assesses the effectiveness of the use of free cash. The optimum value of this indicator is from 0,2 to 0,3. In the reporting year, the value of this indicator dropped to 0, which is below the criterion and indicates the

deficit of the most liquid funds to cover liabilities. The amount of cash and cash equivalents in the reported year is 0. It is very important to the enterprise to attract more quickly liquid assets.

The ratio of fast solvency estimates the degree of coverage of short-term liabilities only at the expense of cash & cash equivalents and accounts receivable. The optimum value lies in the range from 0.7 to 0.8. During the investigated period there is a negative tendency of this indicator, which confirms the need to optimize the resources of the company.

The current solvency ratio determines the assessment of the ability of the enterprise to cover short-term liabilities, which are valued in the context of not only timely settlements with debtors and the effective sale of finished goods, but also the sale of all tangible assets during the year. The criterion value of this indicator is in the range of 1.0 to 3.0. For the considered period of time, this indicator significantly exceeds the norm, which means a large share of low-liquid assets in the company.

Let's consider the indicators of financial stability of the enterprise (*Table 2.9*).

*Table 2.9*

**Dynamics of financial stability ratios of the LLC "Clever C" (2014-2017 years)**

<b>Indicators</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>Absolute increment (+,-)</b>
1. Financial autonomy ratio	0,89	0,92	0,92	0,93	0,04
2. Ratio of financing	0,12	0,09	0,09	0,07	-0,05
3. Debt ratio	0,11	0,08	0,08	0,07	-0,04
4. Current debt ratio	0,11	0,08	0,08	0,07	-0,04
5. Agile equity ratio	0,62	0,69	0,74	0,77	0,15
6. Maneuverability ratio of long-term capital	0,62	0,69	0,74	0,77	0,15

*Source: developed and calculated by the author on the basis of financial statements of the LLC "Clever C"*

The indicator of financial autonomy characterizes the level of financing activities at the expense of its own funds. The actual value of this indicator corresponds to the criterion ( $> 0.5$ ), which indicates the independence of the enterprise from borrowed sources, during the investigated period, there is an increase in this indicator.

The debt ratio of an enterprise characterizes the level of its indebtedness. In the reporting year, this ratio is 0.07, which is close to the desired criterion value ( $<0.5$ ). As for the dynamics of the debt ratio, during the investigated period, the coefficient is reduced, which indicates a significant share of financing activities at the expense of own equity. The current debt ratio is equal to debt ratio because of the absence of long-term liabilities.

The ratio of financing characterizes the ratio between the borrowed and own equity of the enterprise. In the reporting year, this ratio was 0,07, which means a significant excess of own resources of the company over borrowing.

As to the coefficients of capital's maneuverability, it can be noted that there is a higher value of this indicator in comparison with 2014, which indicates the flexibility in the use of own and borrowed funds.

Let's consider the indicators of business activity of the enterprise (Table 2.10)

*Table 2.10*

**Dynamics of indicators of business activity of the LLC "Clever C" (2014-2017 years)**

<b>Indicators</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>Deviations for the period</b>
1. Ratio of assets turnover	1,82	1,22	0,83	0,63	-1,2
2. Turnover period of assets, days	198	295	433	570	371,6
3. Ratio of current assets turnover	2,75	1,71	1,10	0,80	-1,9
4. Turnover period of current assets, days	131	210	328	448	316,4
5. Ratio of inventories turnover	2,63	1,54	0,88	0,59	-2,0
6. Turnover period of inventory, days	137	233	407	610	472,8
7. Ratio of accounts receivable turnover	37,19	33,80	33,23	42,77	5,6
8. Turnover period of accounts receivable, days	10	11	11	8	-1,3
9. Ratio of accounts payable turnover	22,17	20,71	14,35	14,34	-7,8
10. Turnover period of accounts payable, days	16	17	25	25	8,9
<b>11. Length of the operational cycle, days</b>	<b>146</b>	<b>244</b>	<b>418</b>	<b>618</b>	<b>471,5</b>
<b>12. Length of the financial cycle, days</b>	<b>130</b>	<b>227</b>	<b>393</b>	<b>593</b>	<b>462,7</b>

*Source: developed and calculated by the author on the basis of financial statements of the LLC "Clever C"*

According to the table, the indexes of business activity of the enterprise for the investigation period indicate that the turnover ratios of assets, current assets and



inventories decreased, which is a negative trend, as the period of their turnover increased by 372, 317 and 473 days, respectively.

There is a positive trend - an increase in the turnover rate of accounts receivables, and accordingly, a decrease in the period of its turnover for 2 days. The turnover period of accounts payable increased by 9 days.

During the investigated period there is a very negative trend in the turnover period of current assets and inventories, as assets don't turn up during the one operating cycle.

Regarding the duration of the operational and financial cycles, it can be noted that their period in the reporting year has increased in comparison with previous years, which is definitely a negative trend, as the slowdown in the process of release of funds is taking place. Such negative dynamics testify to the inappropriate use of current assets.

Let's calculate the profitability of the enterprise activity for the investigated period (Table 2.11).

*Table 2.11*

**Dynamics of profitability indicators of the LLC "Clever C" (2014-2017 years)**

<b>Indicators</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>Absolute increment (+,-)</b>
Return on assets, % (ROA)	0,35	0,58	0,28	0,07	-0,28
Return on current assets, %	0,52	0,82	0,37	0,09	-0,44
Return on equity, % (ROE)	0,39	0,62	0,30	0,06	-0,33
EBIT Margin, %	0,19	0,48	0,33	0,11	-0,08
Return on current expenses, %	0,21	0,51	0,40	0,11	-0,10
Net Margin, %	0,19	0,46	0,33	0,09	-0,10

*Source: developed and calculated by the author on the basis of financial statements of the LLC "Clever C"*

Fluctuations in the indicators of profitability of the enterprise are not significant, however, indicators are characterized by a rather low level. All calculated profitability

indicators have such values due to the reduction of EBIT and net income, and according to low level of their amounts.

It is important for the company to raise the volume of income by increasing the volume of sales of goods and increasing demand for own products. Company should do marketing investigation to understand all troubles which effect its activity.

Let's determine the factor impact on the return on assets of the company based on the DuPont Model (Table 2.12).

*Table 2.12*

**Analysis of the impact of the profitability of the turnover and the ratio of assets turnover on the ROA of the LLC “Clever C” (2016-2017 years)**

Indicators	2016	2017	Absolute increment (+,-)
1. Return on assets, % (ROA)	0,28	0,07	-0,21
2. EBIT Margin, %	0,33	0,11	-0,23
3. Ratio of assets turnover	0,83	0,63	-0,20
4. Change in the return on assets by changing the turnover of assets, %		-0,07	
5. Change in the return on assets by changing the EBIT Margin, %		-0,14	

*Source: developed and calculated by the author on the basis of financial statements of the LLC “Clever C”*

According to the conducted factor analysis, it can be noted that the profitability of assets decreased by 0.21% due to:

- a) decrease of EBIT Margin by 0,23% → profitability of assets declined by 0,14%;
- b) decrease of ratio of assets turnover by 0,20% → profitability of assets declined by 0,07%.

So, after analyzing the key indicators of the financial and property status of the company, the following aspects can be noted.

Among the solvency ratios, none corresponds to the optimal value within the criterion limits. It means that it is very important to the enterprise to attract more quickly liquid assets and optimize the resources of the company. The enterprise has a large share of low-liquid assets.

The ratios of financial stability are characterized by sufficient level in accordance with criterion values and indicate the independence of the enterprise from borrowed sources.

Negative dynamics of increasing the turnover of operational and financial cycles indicate irrational use of current assets and slowdown of the process of release of funds.

It is important for the company to raise the volume of income for increasing the profitability coefficients.

KPIs help the company identify problem areas in its activities and make quick decisions that will solve these problems for faster achievement of strategic and operational goals of the enterprise. Deviations between actual and planned indicators show what the company should pay attention to in the first place.



## **CHAPTER 3**

### **JUSTIFICATION OF PROPOSALS FOR IMPROVING THE SYSTEM OF FINANCIAL CONTROL AT THE LLC “CLEVER C”**

#### **3.1 Improvement of the system of organizational and informational support of financial control at the enterprise**

Enhancement of the financial control system at the enterprise is important for increasing the efficiency of the company and for improving its financial state. Organizational and information systems have a significant impact on the effective implementation and functioning of financial control, that is why it is important to identify the possible problems of the functioning of these systems.

First of all, let's consider the organizational system of controlling at the enterprise. The company doesn't have a financial controller, which in turn shows the distribution of employees' obligations and the lack of centralized control over the financial controlling process. Accordingly, the company needs such a position as a financial controller.

During the analysis of the activity of the enterprise there was a negative tendency in financial performance, therefore hiring a new employee for this post is not effective. A decision in this situation may be the appointment of a responsible person among existing employees of the company.

The functions of the person responsible for financial control are:

- coordination of information flows and a planning process;
- participate in the development of a financial strategy of the enterprise;
- planning and budgeting;
- budget control;
- internal consulting;
- internal audit.

Particular importance in the company should be given to strategic controlling, which reveals the potential of enterprise development, helps to determine the main direction and purpose of activities, opportunities and risks, impact and the state of the

external environment. There are such tools of strategic controlling: VBM, ABC method, Benchmarking, SWOT, PEST analysis etc.

So, let's analyze the environment of the LLC "Clever C" with the help of such methods as SWOT and PEST analyses.

SWOT-analysis is a method of analysis and evaluation of the business environment, aimed at determining the strategy of development of the object under consideration, taking into account the impact of the external and internal environment at the same time. SWOT analysis allows you to assess the potential of the enterprise, see the threats and weaknesses, and specify the urgent needs.

There is a SWOT matrix of the LLC "Clever C" at Figure 3.1.

<ol style="list-style-type: none"> <li>1. Quality products;</li> <li>2. Affordable prices;</li> <li>3. Organized sales network;</li> <li>4. Highly qualified staff;</li> <li>5. A wide range of products;</li> <li>6. Flexibility to market needs.</li> </ol>	<ol style="list-style-type: none"> <li>1. Outdated equipment;</li> <li>2. Incomplete production capacity;</li> <li>3. Lacks in advertising policy;</li> <li>4. Reduction of sales proceeds;</li> <li>5. Low level of investment;</li> <li>6. Lack of novelty products.</li> </ol>
<ol style="list-style-type: none"> <li>1. Expansion of the production line;</li> <li>2. Access to new markets;</li> <li>3. Modernization of production;</li> <li>4. Investment attraction;</li> <li>5. Improvement of management;</li> <li>6. Increase in demand for products.</li> </ol>	<ol style="list-style-type: none"> <li>1. Material price increases;</li> <li>2. Highly competitive market;</li> <li>3. Failures in supply of products;</li> <li>4. Unfavorable changes in tax policy;</li> <li>5. Unstable situation on the market;</li> <li>6. Bankruptcy.</li> </ol>

Figure 3.1. SWOT-analysis of the LLC "Clever C"

The elements of the SWOT analysis have the corresponding meanings.

S-strengths: positive characteristics of the company, helping it move towards strategic goals.



W-weaknesses: a negative side of the organization, which determines its inhibition in the process of moving to achieve strategic goals.

O-opportunities: trends and events in the external environment, through which the enterprise can significantly quicker achieve a set of strategic goals.

T-threats: trends or events in the external environment, which, in the absence of an appropriate reaction of the enterprise, can lead to negative consequences.

So, having conducted the SWOT analysis of the LLC “Clever C”, it can be noted that the company has many strong points that manifests itself in quality products at affordable prices, organized and proven sales systems, and highly skilled personnel. However, such aspects as outdated equipment, its overload, insignificant attention to advertising measures and low investment, slow down the company's development, and are currently reflected in the negative tendency of financial results. The company has a wide range of opportunities to grow and improve its operations, but at the moment there are threats in the external environment that can negatively affect the company.

Therefore, it is important for the enterprise to identify the main strategic directions of development to improve its situation. In this case, the functions of the financial controller should be the definition of the system goals of the enterprise, the ways to achieve them, the definition of the responsible persons for processes, the formation of a system of indicators for monitoring and controlling, consideration of possible risks and their consequences.

At the moment, it is important for the company to invest in the development of production, to increase the financial performance by increasing sales and reducing costs. One of the threats to an enterprise is the possibility of becoming a bankrupt. Therefore, it is important to analyze the possible level of bankruptcy of the company using the five-factor model of Altman.

Analytical "Z Score Model" is an algorithm for an integrated assessment of the threat of bankruptcy of an insolvent enterprise, based on a comprehensive accounting of the most important indicators that help identify the financial crisis of the enterprise.

Table 3.1 shows the formula of the model and the calculation of indicators for the LLC “Clever C”.



Table 3.1

**Altman 5-factor Z-score model for the LLC “Clever C”**

<b>Z-score=1,2X<sub>1</sub>+1,4X<sub>2</sub>+3,3X<sub>3</sub>+0,6X<sub>4</sub>+0,999X<sub>5</sub></b>		
X1	Working Capital/ Total Assets	0,72064
X2	Retained earnings/Total Assets	0,00058
X3	EBIT/Total assets	0,00068
X4	Marker value of equity/Book Value of Total Debt	14,3571
X5	Sales/Total Assets	0,63207
<b>Z-score</b>		<b>10,11</b>

*Source: developed by the author*

The Z-score is a linear combination of five common business ratios, weighted by coefficients. Factor X1 characterizes the liquidity of the balance; X2, X3, - profitability of assets; X4 - capital structure; X5 - asset turnover.

Zones of discrimination for Z-score indicator are:  $>2,99$  – “Safe” Zone;  $1,88 < Z < 2,99$  – “Gray” Zone;  $Z < 1,88$  – “Distress zone”.

According to the calculations it can be noted that the company is in a “Safe” Zone. Such a high value of Z-score has reached due to a high coefficient of own equity and liabilities ratio, which reflects the high financial autonomy of the enterprise.

The essence of PEST analysis is to identify and evaluate the impact of macro factors on the results of the current and future activities of the enterprise. The purpose of the PEST analysis is to track changes in the macro environment in the four main areas (Political, Economic, Social, Technological) and identify trends, events, uncontrollable by enterprise, but having an impact on strategic decisions.

The political factor of the environment is studied first of all in order to have a clear idea of the intentions of state authorities regarding the development of society and the means by which the state assumes the implementation of its policy.

The analysis of the economic aspect of the environment allows us to understand how economic resources are formed and distributed at the state level.

The study of the social component of the external environment is aimed at understanding and assessing the impact on business of such social phenomena as the

relationship of people to work and quality of life, mobility of people, activity of consumers, etc.

Analysis of the technological component allows to predict the opportunities associated with the development of science and technology, timely re-focus on the production and implementation of a technologically advanced product, to predict the moment of failure of the technology used.

Figure 3.2 shows elements of PEST-analysis components for the LLC “Clever C”.

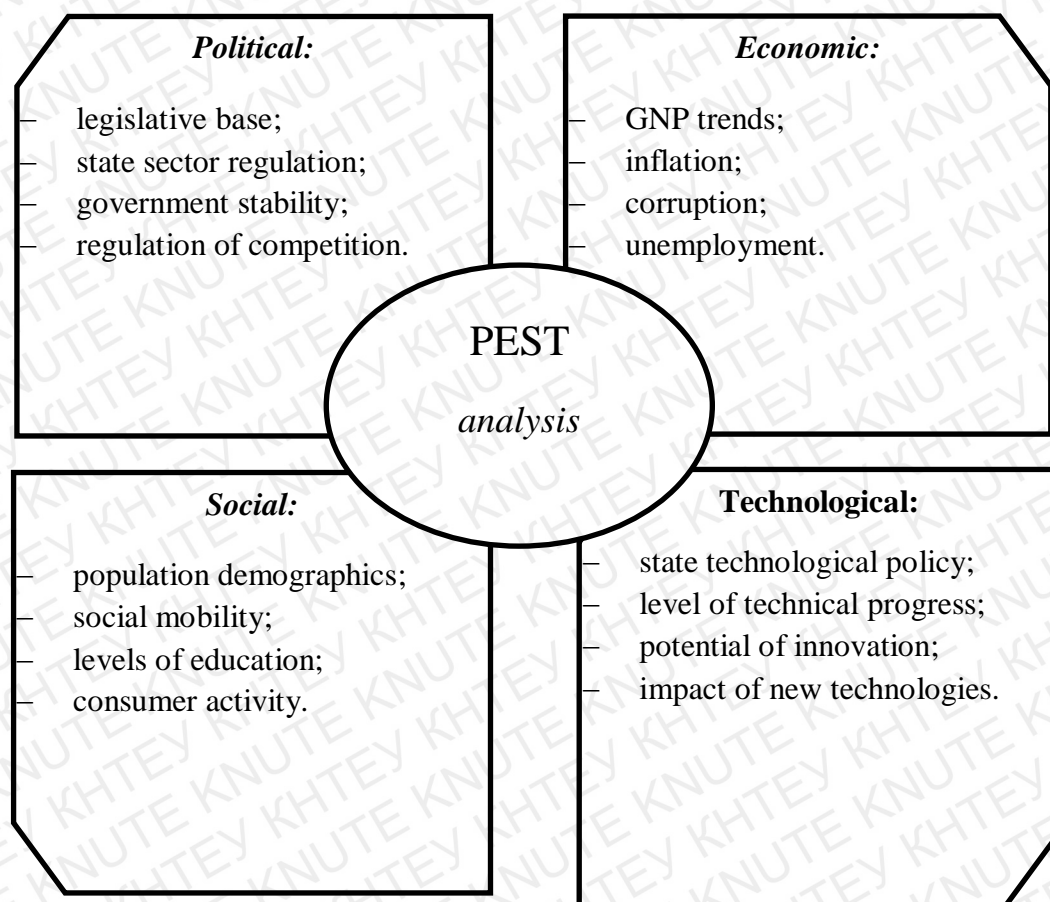


Figure 3.2. PEST-analysis of the LLC “Clever C”

Pest analysis reflects the company's external environment, helping to focus on certain factors that may affect company performance. This type of analysis is individual for each industry and for the country in which the company operates. The Figure reflects the environment for the LLC “Clever C” and for others small companies that produce furniture in Ukraine.

In order to more accurately determine the influence of external factors on the company's activities, it is necessary to assess the significance of the occurrence of each event for the company, as well as assess the degree of influence of each factor.

Therefore, a survey was conducted among five experts, each of them was able to assess the possible impact of each factor on a five-point scale. The results of the research are shown in the Table 3.2.

Table 3.2

### Assessment of the impact of factors on the activity of the LLC “Clever C”

Description of the factor	Influence of the factor	Expert review					Average rating	Weighted rating
		1	2	3	4	5		
<b>Political</b>								
Legislative base	1	3	4	2	3	3	3	0,09
State sector regulation	2	4	5	4	4	4	4,2	0,25
Government stability	2	4	4	5	5	2	4	0,24
Regulation of competition	1	3	3	4	4	4	3,6	0,11
<b>Economic</b>								
GNP trends	2	3	5	2	4	4	3,6	0,22
Inflation	3	5	4	4	5	5	4,6	0,42
Corruption	1	3	3	1	2	2	2,2	0,07
Unemployment	3	4	4	5	4	4	4,2	0,38
<b>Social</b>								
Population demographics	2	3	3	4	4	4	3,6	0,22
Social mobility	2	3	4	3	3	4	3,4	0,21
Levels of education	1	2	2	1	3	4	2,4	0,07
Consumer activity	3	5	4	5	5	5	4,8	0,44
<b>Technological</b>								
State technological policy	2	4	4	3	5	2	3,6	0,22
Level of technical progress	3	4	4	3	2	2	3	0,27
Potential of innovation	2	3	4	4	3	4	3,6	0,22
Impact of new technologies	3	4	5	2	4	3	3,6	0,33
<b>Total</b>	33							

Source: developed by the author

According to the conducted research, it can be noted that the most influential factors on enterprise activity are economic factor - inflation and social factor - consumer activity. Their weighted ratings are 0,42 and 0,44 respectively. As for the least



influential factors, according to the research are levels of education (social) and corruption (economic).

The tools of strategic financial control will help the person responsible for financial control at the enterprise, clearly analyze the external and internal environment of the company, more clearly define the company's main objectives to achieve its main strategic goal.

It is also important to consider the information system of financial control, which should ensure the correct communication between the employees of the company for the strict execution of each of its functions and for more convenient monitoring and control.

Controlling is an element of the company's information support system and is focused on collecting, processing and verifying information for making managerial decisions. The concept of an information function is aimed at providing information support to the planning and control process. The financial management information system is intended to provide the necessary information not only to management personnel and owners of the enterprise itself but also to satisfy the interests of a wide range of its external users.

The high role of financial information in the preparation and adoption of effective management decisions leads to high requirements for its quality in the formation of an information system of financial management, among which highlight the requirements for its relevance, completeness, timeliness, reliability, comprehensiveness, comparability, efficiency.

The information management system is a circulatory system that ensures achieving the goals of the company by delivering organized, clearly structured and timely information. Therefore, for successful development, it is needed a complex management system that combines all aspects of management.

The key to success for an enterprise is the adaptation of business processes to maximize the impact of the use of modern information technology. The work of production is practically impossible without the use of specialized information system, which ensures accounting of all necessary resources and costs and allows to control the processes occurring in the production.

Since the enterprise is small, its operation is provided by such programs as 1C and M.E.Doc. The company also uses simple software organizers such as Microsoft Outlook. For this volume of activity there is no need for large expensive integrated management systems.

The information system in the enterprise should have the following characteristics:

- reliability (guaranteed data storage and availability, ensuring effective data protection);
- possibility of growth (scalability, extensibility, modularity);
- degree of automation of various activities in addition to accounting;
- possibility of integration with electronic document circulation;
- adaptation to business;
- available price.

So having analyzed the organizational and information systems of financial controlling on an enterprise, it can be noted that there are a number of shortcomings in these systems.

At the enterprise, there is no person responsible for the process of financial control in general. Delegation powers are also effective in controlling certain aspects of the activity, but it is important an availability of a person that is responsible for the overall controlling process. Since at the moment the company cannot afford a separate position of the financial controller, the chief accountant or CEO may take additional powers. It is also important for the enterprise to focus on strategic control. The formation of a strategic goal and a number of ways to achieve it will help companies to increase performance and improve the effectiveness of functioning.

As for the information system, at the moment the software meets the needs of the enterprise and meets the specified characteristics. In the future, with the successful development of the company, it will also be important to pay attention to integrated management systems that are convenient and effective for large enterprises.

### 3.2 Formation of the system of priorities of controlled indicators and development of quantitative control standards at the enterprise

After analyzing the financial and property status of the LLC “Clever C”, it can be noted that there is a negative tendency in the results of financial activity. This indicates that the management of the company should pay attention to increasing the effectiveness of its activities.

First of all, it is important to create a system of controlled indicators and identify quantitative control standards. Let's consider the system of priorities of controlled indicators for operating financial controlling (Table 3.3).

Table 3.3

#### The system of priorities of controlled indicators for the LLC “Clever C”

Priorities of the first level	Priorities of the second level	Priorities of the third level
The amount of Net Income	Net proceeds from the sale	Product price level
		Volume of sales
		Product structure of sales
	Amount of expenses	Volume of production
		Structure of production
		Level of tariffs and prices for products and services
	Tax payments	Changing of the taxation system
		Tax rates
		System of tax privileges

Source: developed by the author

One of the most common financial analysis systems that can be used for controlling is the analysis of financial ratios characterizing various aspects of financial activity of an enterprise. The following groups of financial ratios have been most widely used in financial management: coefficient of solvency (liquidity) of an enterprise; coefficients of estimation of assets turnover (capital); financial stability ratios, coefficients of profitability.

The table shows the most common system of key financial ratios and their indicators (Table 3.4).



Table 3.4

### The system of key financial ratios

<b>Solvency ratios</b>	<b>Assets turnover ratios</b>
Current solvency ratio	Ratio of assets turnover
Fast solvency ratio	Ratio of current assets turnover
Absolute solvency ratio	Ratio of inventory turnover
<b>Financial stability ratios</b>	Ratio of accounts receivable turnover
Financial autonomy ratio	Ratio of accounts payable turnover
Ratio of financing	<b>Profitability ratios</b>
Debt ratio	Return on assets, (ROA)
Agile equity ratio	Return on equity, (ROE)
	Profitability of turnover

Source: developed by the author

After the formation of the list of controlled indicators, it is necessary to establish quantitative estimates for each of them. These estimates are issued in the form of standards set in absolute and relative terms.

In order to determine the quantitative parameters of these indicators, it is necessary to carry out forecasting of the performance of the enterprise. The calculation of the Plan of revenues and expenses and the Balance plan of LLC “Clever C” for 2018 is shown in Table 3.5 and Table 3.7, respectively.

Table 3.5

### Plan of revenues and expenses of the LLC “Clever C” for 2018 year, ths UAH

<b>Elements</b>	<b>2018</b>
Net proceeds from the sale	6849
Prime cost of product sold	4934
Grossprofit	1915
Otheroperatingincome	226
Administrativecosts	1875
Distributioncosts	171
Otheroperatingcosts	48
<b>Earnings before interest and taxes (EBIT)</b>	<b>47</b>
Otherfinancialincome	0
Otherincome	0
Financialcosts	0
<b>Earningsbeforetax (EBT)</b>	<b>47</b>
<b>Netincome</b>	<b>47</b>

Source: developed by the author

Indicators of the revenues and expenses plan were calculated accordingly:

Net proceeds from the sale in prognosis and according to the analysis conducted in 2018 should increase by 5% (3.1).

$$\text{NPS pl} = \text{NPS}_{2017} \times \text{Tp} (\uparrow 5\%), \quad (3.1)$$

**NPS** – net proceeds from the sale.

Prime cost of product sold was weighed on the level of cost in the last reporting year (3.2).

$$\text{COGS pl} = \text{L}_{\text{COGS}} \times \text{NPS pl} = (\text{COGS}_{2017} \div \text{NPS}_{2017}) \times \text{NPS pl}, \quad (3.2)$$

**COGS** – cost of goods sold;

$\text{L}_{\text{COGS}}$  – level of cost of goods sold.

Other operating income remained at the level of the reporting year.

Administrative costs increase in line with the growth rate for the period under review, distribution costs changed in relation to their level relative to net proceeds from the sale, other operating costs remained unchanged.

To better understanding of the dynamics of planned indicators let's consider Table 3.6.

Table 3.6

**Dynamics of performance indicators compared to the forecast for 2018 year,**

**UAH ths**

Elements	2017	2018	Growth rate, %
Net proceeds from the sale	6523	6849	5
Prime cost of product sold	4699	4934	5
Gross profit	1824	1915	5
Other operating income	226	226	0
Administrative costs	1832	1875	2
Distribution costs	163	171	5
Other operating costs	48	48	0
<b>Earnings before interest and taxes (EBIT)</b>	<b>7</b>	<b>47</b>	<b>578</b>
Other financial income	0	0	0
Other income	0	0	0
Financial costs	0	0	0
<b>Earnings before tax (EBT)</b>	<b>7</b>	<b>47</b>	<b>578</b>
<b>Net income</b>	<b>6</b>	<b>47</b>	<b>691</b>

Source: developed and calculated by the author on the basis of financial statements

Thus, according to the calculations in Table 3.5, it can be noted that in the planned year net proceeds from the sale and gross profit will increase by 5%, the other operating income will remain unchanged.

With regard to expenditure, the volume of administrative costs will increase by 2%, and the volume of distribution expenses - by 5%. Other operating expenses will remain at the level of the reporting year.

In order to calculate the key performance indicators of the company it is necessary to develop its forecast balance plan.

Table 3.7

**Balance plan of the LLC “Clever C” for 2018 year, ths UAH**

<b>Elements</b>	<b>2018</b>	<b>Elements</b>	<b>2018</b>
Incomplete capital investment	12	Registered capital	328
Fixed assets	2236	Retained profit (uncovered loss)	9329
<b>Non-Current Assets</b>	2248	<b>Equity</b>	9657
Inventories	8354	Bank loans	408
Accounts receivable	152	Accounts payable:	476
Cash and cash equivalents	4	Current provision	162
<b>Current Assets</b>	8511	Other current liabilities	55
<b>Total Assets</b>	10758	<b>Current Liabilities</b>	1101
		<b>Total Capital</b>	10758

*Source: developed and calculated by the author on the basis of financial statements*

The balance plan of the enterprise was calculated on the basis of the formulas given below.

The planned amount of fixed assets at residual value was determined as follows:

$$FA_{pl} = FA_{2017} - N_{am}(FA) \times FA_{ic2017} \quad , \quad (3.3)$$

FA- fixed assets at residual value; FA<sub>ic</sub> – fixed assets at initial cost;

N<sub>am</sub>– depreciation rate.

Planned volume of inventories, accounts receivable and accounts payable were determined using the period of turnover of each item, respectively. The planned amount of retained profit was determined using the capitalization rate, which, in calculations,



was equal to 1. The volumes of registered capital, current provision and other current liabilities remained at the level of the reporting year.

In order to better see how forecasted indicators affect solvency and financial sustainability indicators let`s calculate the following ratios (Table 3.8 and 3.9).

*Table 3.8*

**Solvency ratios of the LLC “Clever C” according to the projected performance for 2018 year**

<b>Indicators</b>	<b>2017</b>	<b>2018</b>	<b>Absolute increment (+,-)</b>
1. Absolute solvency ratio	-	0,004	-
2. Fast solvency ratio	0,227	0,142	-0,085
3. Current solvency ratio	12,067	7,732	-4,335
4. Ratio of current accounts receivable and payable	0,335	0,320	-0,015

*Source: developed and calculated by the author on the basis of financial statements of the LLC “Clever C”*

Thus, according to calculated solvency indicators in Table 3.7, it can be noted that the forecast of indicators has a negative tendency. The values of all indicators are out of the specified limits. The management of the company should pay attention to these indicators because it reflects the efficiency of using the resources of the enterprise.

In order to raise the indicators, it is necessary to take such measures:

- optimize the resources of the company;
- attract more quickly liquid assets;
- decrease an amount of low-liquid assets;
- modernize production equipment;
- increase the effectiveness of free cash using.

Let`s consider the next batch of key performance indicators - financial stability ratios.

Table 3.9

**Financial stability ratios of the LLC “Clever C” according to the projected performance for 2018 year**

<b>Indicators</b>	<b>2017</b>	<b>2018</b>	<b>Absolute increment (+,-)</b>
1. Financial autonomy ratio	0,935	0,898	-0,037
2. Ratio of financing	0,070	0,114	0,044
3. Debt ratio	0,065	0,102	0,037
4. Current debt ratio	0,065	0,102	0,037
5. Agile equity ratio	0,771	0,767	-0,004

*Source: developed and calculated by the author on the basis of financial statements of the LLC “Clever C”*

The forecasted ratio of financial autonomy is lower than the indicator of the reporting year by 0.037, but it still corresponds to the criterion ( $> 0.5$ ), that indicates the independence of the enterprise from borrowed sources. The current debt ratio is equal to debt ratio because of the absence of long-term liabilities. The debt ratio characterizes the level of indebtedness, and in the forecasted period this indicator is within the normal range ( $<0.5$ ). Regarding the financing ratio, in the forecast period, it increased by 0.04, which confirms the predominance of own equity over borrowing.

Table 3.10 shows profitability indicators of the enterprise based on predicted performance.

Table 3.10

**Profitability ratios of the LLC “Clever C” according to the projected performance**

<b>Indicators</b>	<b>2017 year</b>	<b>2018 year</b>	<b>Absolute increment (+,-)</b>
Return on assets, % (ROA)	0,07	0,44	0,37
Return on current assets, %	0,09	0,56	0,47
Return on equity, % (ROE)	0,06	0,49	0,43
EBIT Margin, %	0,11	0,69	0,59
Net Margin, %	0,09	0,01	-0,09

*Source: developed and calculated by the author on the basis of financial statements of the LLC “Clever C”*

According to calculations, the profitability indicators of the enterprise in the forecast period will increase. This is due to the planned increase in the volume of sales and the corresponding increase in the EBIT and net income. Such results are definitely a positive trend and evidence of the continued successful operation of the company.

Strategic controlling provides management of the company and other users with meaningful information about the strategy of the enterprise. So, from the point of view of strategic controlling, such indicator as profit, is considered not as an internal indicator characterizing the result of the enterprise activity but as an external indicator characterizing the position of the enterprise with respect to existing and potential competitors.

Consequently, the purpose of strategic control is the formation of information about possible priority directions of business enterprise strategy development by identifying causal relationships when comparing data on costs, prices, demand, financial position and others with similar data of competitors, as well as taking measures to regulate emerged deviations and optimization of the "cost-benefit" ratio.

The directions of analysis in the system of strategic control form the business environment of the enterprise and contribute to the development of its optimal strategy, and also necessary for the development of alternatives in making managerial decisions. Such analysis allows:

- elaborate action plans for solving certain situations in case of their occurrence, connected with the influence of external factors;
- determine the boundaries of production and sales opportunities of the enterprise;
- develop a series of measures for the transformation of various aspects of the enterprise, the development of which will give the maximum economic effect in the long term.

The analysis in the system of strategic control implies conducting certain expert actions in the following areas: technical analysis; commercial analysis; institutional analysis; social analysis; ecological analysis; economic and financial analysis.

Table 3.11 shows the essence of these areas of analysis in the system of strategic control.



Table 3.11

### Characteristics of the directions of analysis in the system of strategic control

Direction of analysis	Purpose of the analysis	Impact
Technical	Determination of technical feasibility of predicted indicators	Allow to significantly reduce the technological risks
Commercial	Determination of the perspective of the company's sales market, perspective for the raw materials market	Determines the amount of future costs and revenues
Social	Development of methods to achieve the goals of the enterprise, not contradicting the interests of the social environment and benefiting both external and internal subjects of the market	Formation of a social environment conducive to enterprise development and implementation of its strategic objectives
Institutional	Assessment of the organizational, legal and political environment of the enterprise	Reduction of institutional risk and reduction of expenses of the enterprise
Economic & financial	Combining all the benefits and costs of future business activities	Definition of effects and features detected in other directions of analysis

*Source: developed by the author*

The considered directions of strategic control analysis allow to determine the external and internal environment of the enterprise, to identify the strengths and weaknesses, to determine the occurrence of possible risks and ways to solve them.

One of the important components of the system of financial control over the enterprise is the development of a system of controllable indicators and their quantitative expression. The system of indicators is ranked according to importance (priority levels of the first level select the most important indicators of this type of control, then a system of priorities of the second level is formed, whose indicators are in a factor relation with the indicators of the first level, and so on). In order to determine the quantitative expression of indicators it is necessary to carry out forecasting of the performance of the enterprise. Quantitative expression of indicators are the target strategic standards, indicators of current plans and budgets, the system of state or enterprise standards and norms, etc.

### 3.3 Construction of a system for monitoring the indicators included in the financial control of the enterprise

Controlling system is the most important part of enterprise management. In the general system of controlling financial control is a system that provides concentration of control activities in the most priority areas of financial activity of the enterprise, the timely deviation of its actual results from predictable plans and the adoption of operational management decisions that ensure its normalization.

The monitoring system is the basis of controlling, the most active part of its mechanism. Monitoring systems perform the functions of information support for controlling implementation.

The monitoring system is the mechanism of continuous monitoring of controlled activity indicators, the determination of the size of the deviations of the actual results from the predicted ones and the identification of the causes of these deviations.

Figure 3.3 shows the stages of implementation of the monitoring system.

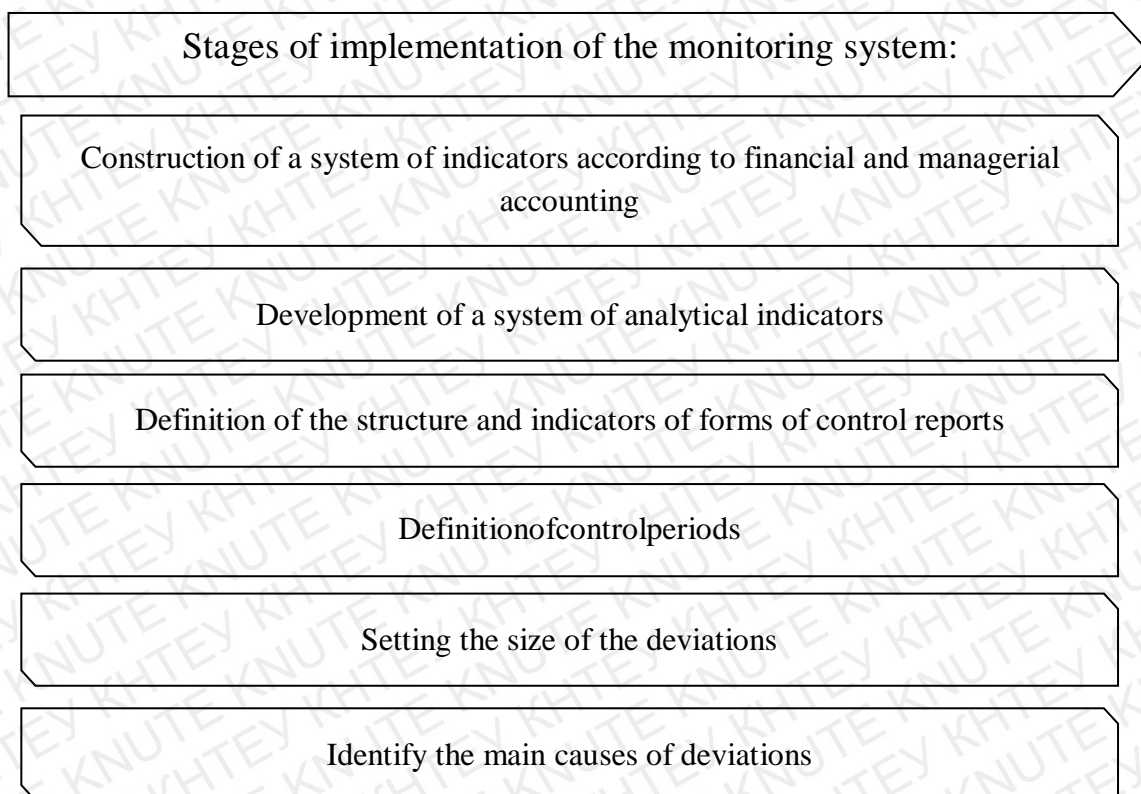


Figure 3.3 Stages of implementation of the monitoring system at the LLC “Clever

The system of indicators on the basis of financial and managerial accounting is a primary information monitoring base. Based on this, absolute and relative indicators are calculated, they characterize the results of the enterprise.

Development of a system of analytical indicators, expressing the results of the enterprise and correspond to the control system. Analytical indicators are determined using developed algorithms of calculation using the primary information monitoring database.

The system of controlled indicators and their quantitative dimension are developed and calculated in the previous section.

Definition of the structure and indicators of forms of control reports, which provides controlling effectiveness and contains the following information: actual value of the monitored indicator, the deviation from the predicted value; factor expansion of the size of the deviation, explanation of the causes of negative deviations for the indicator as a whole and its components.

It is important to define the control periods for each type of controlling and each group of controlled indicators: a weekly control report; monthly monitoring report; quarterly control report.

Establishing the sizes of deviations of actual results of controlled indicators from the established standards is carried out both in absolute terms and in relative indicators. By relative indicators of deviation are divided into three groups: positive deviation; permissible deviation; negative "critical" deviation.

At the enterprise, criteria should be set for the control periods and the groups of indicators. In the form of the criterion of critical deviation it is expedient to accept:

- 20% or more in the weekly period;
- 15% or more in the monthly period;
- 10% or more in the quarterly period.

Identification of the main reasons for the deviations of the actual results of the monitored indicators from the established standards. Detection is made on all critical deviations and less significant deviations of the first level indicators. In the process of detection, are used reports of performers, past experience, expert evaluations.



The developed monitoring system is adjusted when changing control objectives and the system of monitored indicators.

The formation of a system of algorithms for elimination of deviations is reflected at the Figure 3.4.

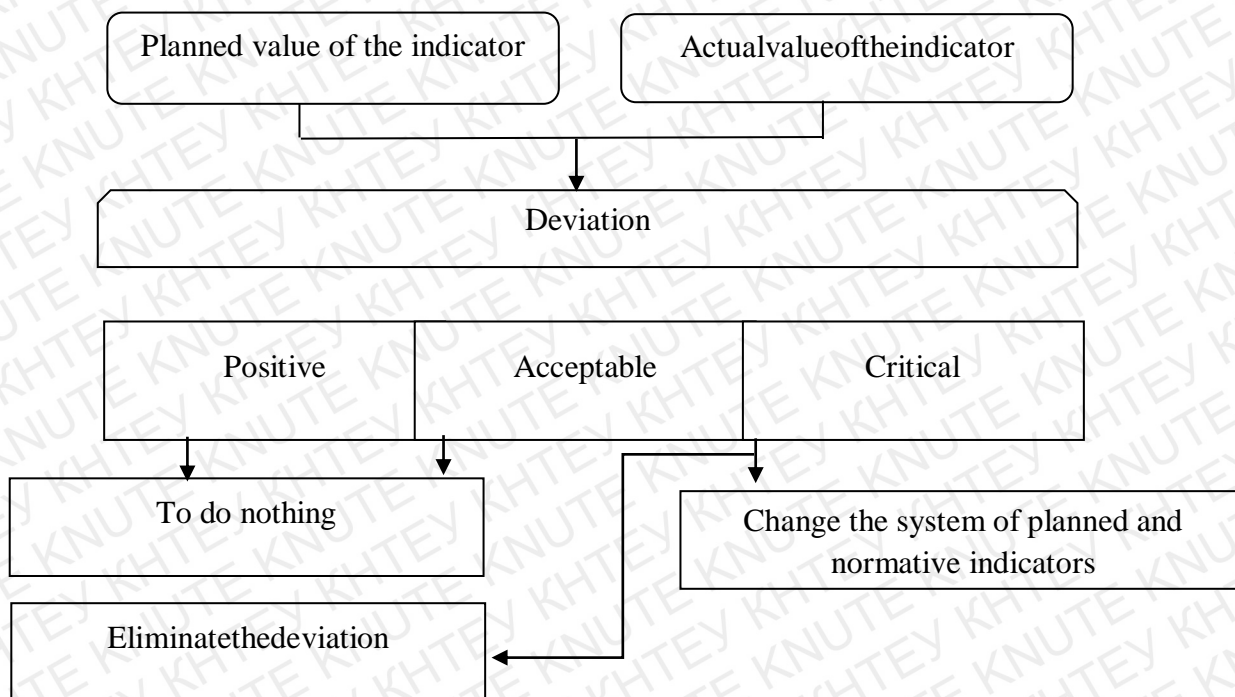


Figure 3.4 System of algorithms for elimination of deviations

The figure shows three actions after the end of monitoring. The "nothing to do" action is foreseen in cases where the size of negative deviations is well below the "critical" level. The "Eliminate deviation" action involves enabling the search and implementation of reserves to ensure performance of the indicators.

Actions "change system of planned or normative indicators" are used if the abilities of eliminating negative deviations are limited or absent altogether. In such cases, the results of the monitoring are considered proposals for adjusting the standards, the termination of individual production, investment or financial projects, as well as individual centers of costs and investments.

The normal functioning of the monitoring system at the enterprise should be ensured by the information, technical, software, organizational, personnel support, which should be sufficient for all functions of the monitoring system.

Monitoring of the current state of the enterprise is carried out for rapid diagnosis, which should promptly signal negative trends in changes in the activities of the enterprise. For this reason, financial indicators used in monitoring should be highly informative. However, the number of such indicators should not be very large. Otherwise, it will be difficult to analyze them together and make an adequate decision.

Indicators that can be used for monitoring should reflect the current state and operational dynamics of the enterprise. For example, the return on assets is formed throughout the year and for this reason it should be calculated and analyzed once a year. At the same time, the liquidity ratio should be calculated and monitored on a monthly basis.

The system of indicators for monitoring the state of the enterprise should include at least the following financial ratios:

- revenue trend;
- relative gross income;
- average period of repayment of receivables;
- inventory turnover;
- quick ratio.

The indicator of the revenue trend is very important, as it is an indicator of the well-being of the enterprise. This indicator reflects the comparison of actual and planned sales. The negative trend of revenue is an indicator of the rapid loss of profits and liquidity of the enterprise. If the revenue is below the planned values, then this means the potential impossibility to cover the transaction costs, which may soon lead to loss of the company's solvency.

Observing the negative change in revenue, the management of the enterprise must make an effective decision. In particular, it may be necessary to develop a new marketing strategy and plan or review the degree of implementation of the current plan. It must be remembered that the modern market environment is very dynamic. Market changes require the development of new strategies: what was acceptable yesterday may be ineffective today.

Tactical tool is the revision of the sales policy and management. In particular, it is worth strengthening advertising, introducing a remuneration system, making organizational changes in the sales system, organizing new routes for delivering goods, creating new channels for selling goods, etc.

Another indicator - relative gross income - characterizes the most dynamic characteristic of a business - the cost of goods sold. If the system of monitoring indicators uses relative operating profit, then administrative and marketing costs will be taken into account.

This indicator is calculated as a whole for the enterprise and for each type of product. The latter provides an opportunity to make a comparative analysis of profitability in the composition of the company's product portfolio. The decrease in this indicator is the result of increasing costs or reduced productivity. Typical causes of increasing costs are excessive waste and losses, rising energy prices, poor procurement policies.

To reduce the cost of goods sold, it is necessary to analyze the cost structure for each type of product, review cost levels and evaluate ways to reduce them, make an attempt to convert fixed costs into variables, assess the consequences of abandoning the production of products with low relative gross income.

Another indicator of monitoring the current activities of the enterprise should use the indicator of turnover of receivables. In contrast to the annual measurement, which is based on annual revenue, it is necessary to use a shorter period of time, such as a quarter.

This indicator is very informative, because it serves as a measure of the quality of receivables, showing how quickly receivables are converted into money. The shorter the average repayment period for receivables, the better. A high value of the indicator indicates the presence of problems with debtors. The average period of repayment of receivables should be commensurate with the term of the loan to the debtor.

If a negative change in accounts receivable, it is necessary to review and change the existing policy of selling on credit, for which it is necessary to tighten the terms of



loans, evaluate and control consumers, use discounts or other motivation to accelerate payments from debtors.

The next indicator is inventory turnover, which can be calculated on a different time basis, starting from the quarter and ending with the year. The reasons for the low inventory turnover should be sought in too large a volume of available inventories, an excessively high product range, an excessive supply of raw materials. To eliminate the negative manifestations with the turnover of inventories it is necessary, first of all, to revise the current situation of inventory management (create control system of inventory; sell excess inventory at a discount; write off inventory that have lost value; produce products on orders).

The last of the mandatory indicators for monitoring is the liquidity ratio. The deterioration of the liquidity of the enterprise is an early symptom of a possible bankruptcy. A set of ways to improve the liquidity of an enterprise includes an increase in cash through: the sale of surplus stocks, equipment and assets; revising the terms and conditions of loans, reducing payables due to revising and changing the procurement policy and existing procurement contracts.

In the process of managing working capital, the company's management must make a compromise decision between effective management of receivables and inventories on the one hand, and liquidity of the enterprise on the other.

The monitoring system is the main component of financial control at the enterprise. Implementation of the monitoring system is divided into six stages, each of which should be provided by information, technical, software, organizational, personnel support.

An important part of developing a monitoring system is the formation of a system of priority indicators, the determination of the frequency of their monitoring, the identification of negative deviations and the adoption of operational decisions to prevent negative consequences.

## CONCLUSIONS AND PROPOSALS

After investigating the essence of the system of financial control, the stages and methodical approaches to its construction, having analyzed the organizational and information system of the LLC "Clever C", as well as financial state and performance of the enterprise activity, let`s consider the following conclusions:

- financial control is a system of financial management of an enterprise in the direction of forecasting and planning of mechanisms and instruments for achieving a stable financial state;
- the main objects of the financial control system are financial flows of the enterprise, costs, risks, investment projects, personnel, business processes;
- financial controlling performs a number of functions: control, analytical, information, organizational, methodological and coordination function;
- depending on the functions performed, financial control is divided into strategic and operational;
- introduction of financial control system requires preliminary research and diagnostics of the enterprise;
- construction of the system of financial control at the enterprise consists of the following stages: the definition of the object controlling, the types and areas of control, the formation of a system of priorities of the monitored indicators, the development of a system of quantitative control standards, the construction of a system for monitoring indicators, the formation of a system of algorithms for action to eliminate deviations;
- the construction of a monitoring system for controlled indicators is an important step that should be adjusted when changing the purpose of financial control and the system of indicators of current plans and budgets;
- after analyzing the organizational and information systems of financial control at the LLC "Clever C", it can be noted that the enterprise doesn`t have a financial controller - the person responsible for the controlling process in general. Functions of the

financial controller are divided among other departments. Each of the departments performs control functions assigned to it;

- in order to ensure the rapid exchange of information, structure it and provide the necessary protection, the company uses such software as 1C and M.E.Doc;
- during the investigated period Net proceeds from the sale and Net income of the enterprise decreased, the sales volume and the amount of production costs declined because of a reduction in the overall range of services and a decrease in demand for products which are provided by the company;
- the main activity of the company is operational, the enterprise doesn't engage in financial activity, accordingly such indicators as EBIT and EBT are the same;
- the largest share in operating costs is material expenses – 49,34% in 2017, personal costs and deductions for social events in the reported year occupy 37,7% and 8,3% of expenses respectively;
- the main part of the assets of the enterprise is current assets, the share of which in the reporting year was almost 79%, the largest share in the total amount of assets is held by inventories because the company is engaged in trading activities - 77% in the reported year;
- the largest share in the capital of the enterprise is held by equity 93,5%, current liabilities held 6,5%;
- the absolute liquidity ratio indicates the deficit of the most liquid funds to cover liabilities, the ratio of fast solvency confirms the need to optimize the resources of the company, the current solvency ratio shows a large share of low-liquid assets in the company;
- the indicator of financial autonomy indicates the independence of the enterprise from borrowed sources, the ratio of financing shows a significant excess of own resources of the company over borrowing;
- periods of operational and financial cycles in the reporting year increased in comparison with previous years, which is definitely a negative trend, as the



slowdown in the process of release of funds is taking place and negative dynamics testify to the inappropriate use of current assets;

- KPIs help the management identify problems in company activity and make quick decisions for faster achievement of strategic and operational goals of the enterprise, deviations between actual and planned indicators show what the company should pay attention to in the first place;
- SWOT analysis of the LLC “Clever C” shows many strong points of the company: quality products at affordable prices, organized and proven sales systems, and highly skilled personnel. But it shows negative characteristics too: outdated equipment, its overload, insignificant attention to advertising measures and low investment;
- according to the Z-score model (level of bankruptcy) the company is in a “Safe” Zone;
- according to PEST analysis the most influential factors on enterprise activity are economic factor - inflation and social factor - consumer activity;
- a system of controllable indicators and their quantitative expression are the important components of the system of financial control that is ranked according to importance;
- the monitoring system is the main component of financial control and its implementation is divided into six stages, each of which should be provided by information, technical, software, organizational, personnel support. An important part of developing a monitoring system is the formation of a system of priority indicators, the determination of the frequency of their monitoring, the identification of negative deviations and the adoption of operational decisions to prevent negative consequences.

Consequently, from the well-organized system of financial control depends on such aspects as the successful functioning of the organization, the adoption and implementation of important management decisions that have a significant impact on the financial and economic activities of the enterprise. The management of the enterprise should pay much attention to the financial controlling system and improve it by applying appropriate methods.

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**APPENDICES**