

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

**FINAL QUALIFYING PAPER
on the topic:**

**FINANCIAL RISK MANAGEMENT OF ENTERPRISE
(based on materials of LOUIS DREYFUS COMPANY UKRAINE, LLC)**

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INTRODUCTION

Actuality of the theme. The political and economic situation in Ukraine intensifies the issue effective development of domestic enterprises, the functioning of which occurs in the face of uncertainty and the risks it entails. Particularly acute in the face of negative economic trends that have become as a result of the global financial crisis, management problems have arisen risks in trading enterprises whose activities are direct determined by the economic situation in the country, region, expectations of potential buyers and their purchasing power.

Finance of the enterprise is an important component of the financial system, the efficiency of which ensures the competitiveness of the economy and creates favorable conditions for the implementation of strategic development of the state. Development of enterprise finance is closely linked to the transformation processes that are under the influence of global trends. This requires prudent approaches to the formation of effective mechanisms for managing financial resources.

To a large extent, this requires the development of financial policies that will allow to evaluate the prospects for development, determine the best ways to achieve strategic goals, justify acceptable areas of financial support for entrepreneurship activities.

In general, the risk management system is not separate from enterprise management systems as a whole. It is organically woven into this system, works throughout the enterprise and is integral to the overall enterprise management systems.

Theoretical and methodological issues of enterprise financial risk management are covered in the scientific works of O.A. Algin, I.I. Balabanov, A. A. Mazaraki, V.I.Uspalenko, M.I. Rogovoy, M.I.Belukha, D Bilyk, , I.O. Blanca,

E. Brigham, M. Golzberg, M.V. Gridchyna, O.Ye. Gudz, G.G. Kireytseva, V.V. Kovaleva, G.M. Kolpakova, O. Kontorshchikov, M.N. Kreinina, L.O. Ligonenko, O.I. Luchkova, V.O. Lyalina, and others.

At the same time, they have not fully investigated and generalized the features of financial risk management in the agricultural sector and the directions of its provision.

The purpose and tasks. The **purpose** of the research is to substantiate theoretical and methodological provisions for substantiation of methodological approaches to the development of financial risk management on the principles of optimization of its parameters in the system enterprise management.

The following **tasks** were set and solved in the final qualifying paper in order to achieve this goal:

- to provide analysis of dynamics of volumes and structure of assets of the enterprise and sources of their formation;
- to analyze the financial position of LOUIS DREYFUS COMPANY UKRAINE, LLC;
- to conduct analysis of the enterprise financial risk management;
- to provide diagnosis of financial risks inherent in the activities of “Louis Dreyfus Company Ukraine” LLC
- to analyze the enterprise financial state in the planned period;

The object of the research is the process of managing the enterprise financial risks.

The subject of the research is theoretical-methodological and practical aspects of enterprise financial risk management of agricultural enterprises.

Empirical basis of the study. LOUIS DREYFUS COMPANY UKRAINE, LLC. Location – Kyiv, Sportyvna Square, 1-A, BC «Gulliver». Type of activity by NACE code: 46.21 Wholesale of grain, unmanufactured tobacco, seeds and animal feeds (main); 46.90 Non-specialized wholesale trade; 52.10 Warehousing.

Methods of the research. In the process of writing a work, the following research methods were used: monographic study of literary sources, analytical

method for analysis of the financial state of the enterprise, methods of statistical data processing, method of analysis and synthesis, methods of mathematical processing of research results.

The main method used during practical part was linear regression analysis compared with descriptive and inferential analyses were conducted using Microsoft Excel.

The **information base** for research are the laws of Ukraine, financial statements LOUIS DREYFUS COMPANY UKRAINE, LLC, research of domestic and foreign scientists on the issues of work and materials of scientific-practical conferences.

Practical meaning. The result of the research is to substantiate the feasibility of using the agrarian sector enterprises offered methodical approaches to the effective management of financial risks.

Approbation. The results of the study were presented at the enterprise for their further application and published in the collection of master's articles «Economics and Finance of Enterprise» in an article on the topic: «FINANCIAL RISK MANAGEMENT AS A BASIS OF ECONOMIC SECURITY OF THE ENTERPRISE». Scientific bulletin KPI, 2019. – №1. - p.48-54.

Structure of the paper. The logic of the research resulted in the structure of the work: introduction, 3 chapters, conclusions and proposals, references, 10 appendices. Total amount of pages in the work with appendices is 123 pages.

CHAPTER1.

THEORETICAL BACKGROUND OF FINANCIAL RISKS MANAGEMENT OF THE ENTERPRISE

There are several ways in which we may define financial risk. In understanding the impact of financial risk on the organisation, the nature of the cash flows or transactional exposures needs to be understood. The risk is in both the amount involved and its timing. The most obvious way to understand such risks is in terms of the impact of changes in the risk factors on the organisation's accounting numbers [1, p. 45]. Changes in the reported earnings will be indicative of the different outcomes experienced by the organisation. However, as mentioned earlier, financial risk will extend to contingent exposures; that is, expected future transactions. But there is a further, more general type of financial risk, known as economic exposure, that comes from the interaction between changes in macroeconomic variables and an organisation's overall competitive position. Note that all of these ultimately relate to the value of the firm, and – in financial terms – this can be considered as the present value of the future cash flows that the firm will generate [2, p. 145].. There are a lot of possible risk definitions:

1. Risk equals the expected loss (Willis, 2007)
2. Risk equals the expected disutility (Campbell, 2005)
3. Risk is the probability of an adverse outcome (Graham and Weiner, 1995)
4. Risk is a measure of the probability and severity of adverse effects (Lowrance 1976).
5. Risk is the fact that a decision is made under conditions of known probabilities (Knight, 1921).

6. Risk is the combination of probability of an event and its consequences (ISO, 2002).

7. Risk is defined as a set of scenarios, each of which has a probability and a consequence (Kaplan and Garrick 1981; Kaplan 1991)

8. Risk is equal to the two-dimensional combination of events/ consequences and associated uncertainties (will the events occur, what will be the consequences) (Aven 2007). [3, p. 25].

9. Risk refers to uncertainty of outcome, of actions and events (Cabinet Office 2002) 10. Risk is an uncertain consequence of an event or an activity with respect to something that human's value (IRGC, 2005).

In order to manage effectively financial risks, it is advisable to classify them by a number of features, including:

1) By species: The main types of financial risks include:

- the risk of reducing the financial stability of the enterprise. It is caused by the imperfection of the capital structure (an excessive share of borrowed funds used), which give rise to an imbalance in the volume of cash flows of the enterprise. In the composition of financial risks by the degree of danger (the threat of bankruptcy of the enterprise), this type of risk plays a significant role; [7, p. 222].

- the risk of insolvency of the enterprise. It is caused by a decrease in the level of liquidity of current assets, which leads to an imbalance of positive and negative cash flows of the enterprise in time. By its financial implications, this type of risk is also one of the most dangerous [9, p. 35].;

- investment risk. This type of risk is associated with possible financial losses in the course of the investment activity of the enterprise. According to the types of this activity, they distinguish the risk of real investment and the risk of financial investment;

- inflation risk. In the context of inflation, it is separated into an independent type of financial risks. This type of risk is associated with the possibility of

depreciation of the real value of capital as well as the expected income from financial transactions in the context of inflation[12, p. 142].;

- interest rate risk. It arises if the interest rate on the financial market (both deposit and credit) changes unexpectedly. The reason is: changes in the financial market environment under the influence of state regulation; increase or decrease in the supply of free cash etc. The negative financial consequences of this type of risk arise in the issue activity of the enterprise (in the issue of both shares and bonds), in its dividend policy, in short-term financial investments and in some other financial transactions; [13, p. 64].

- currency risk. It is peculiar to enterprises engaged in foreign economic activity (import raw materials, semi-finished products; export finished goods). It arises as a result of the direct effect of changes in the exchange rate of the foreign currency used on the expected cash inflows from the foreign trade operations of the enterprise. Thus, by importing raw materials, the company loses from the increase in the exchange rate of the corresponding foreign currency against the national currency. The decrease in this rate causes the financial losses of the enterprise when exporting finished products;

- deposit risk. It appears relatively infrequently and is associated with an incorrect assessment or poor choice of a commercial bank to make a deposit business [1, p. 190].;

- credit risk. The form of its manifestation is the risk of non-payment or untimely settlement of the finished product on credit to the enterprise, as well as exceeding the amount of the estimated budget for debt collection;

- tax risk. It has the following manifestations: the likelihood of introducing new types of taxes and fees for the implementation of certain aspects of economic activity; the possibility of increasing the rates of current taxes and fees; changing the terms and conditions of individual tax payments; likelihood of cancellation of existing tax benefits in the field of business activity of the enterprise[22, p. 98].;

- structural risk. This type of risk is caused by inefficient financing of the enterprise's running costs, which leads to an increase in the share of fixed costs in

their total amount, a decrease in the gross amount of positive cash flow from the operating activities of the enterprise[43, p. 122].;

- criminogenic risk. In the sphere of financial activity of enterprises, it arises in the form of declaration by its partners of fictitious bankruptcy; falsification of documents ensuring the misappropriation of monetary and other assets by outsiders; theft of certain types of assets by their own personnel, etc .;

- other types of risks. The group of other financial risks is quite significant, but it is not likely to be as significant for the enterprises as discussed above in the likelihood of occurrence or level of financial loss. These include the risks of natural disasters, the risk of late settlement of cash and cash transactions, emission risk, etc

2) distinguish the following groups of financial risks by the characterized object:

- the risk of a separate financial transaction. It characterizes in a complex the whole range of financial risks inherent in a particular financial transaction (for example, the risk associated with the acquisition of a particular stock) [25, p. 87].;

- the risk of different types of financial activity (for example, the risk of an investment or credit activity of an enterprise);

- risk of financial activity of the enterprise as a whole;

3) the complexity of the study distinguish the following risk groups [23, p. 8].:

- simple financial risk. This type of financial risk is not broken down into individual sub-types. An example of a simple financial risk is inflation risk;

- complex financial risk. It characterizes the type of financial risk, consisting of a complex of subspecies considered. An example of complex financial risk is investment risk, which may include risks of not timely preparation of an investment project, untimely completion of construction works, untimely opening of financing, etc .;

4)the sources of origin distinguish the following financial risks:

- external (market) risk. This type of risk is common to all participants in financial activities and financial transactions. It occurs when certain stages of the economic cycle change, the financial market conditions change, and in a number of other similar cases that an enterprise cannot influence in the course of its activity. This risk group may include inflation risk, interest rate risk, currency risk, tax risk and partly investment risk (if macroeconomic investment conditions change) [15, p. 122].

- internal risk. It may be related to unqualified financial management, inefficient asset and capital structure, excessive attachment to high-risk (aggressive) financial transactions, undervaluation of business partners and other similar factors, the negative effects of which can be largely prevented by effective management financial risks [36, p. 173].;

5) by financial consequences the risks are divided into the following groups:

- risk that causes only economic losses. In this type of risk, the financial consequences can only be negative (loss of income or capital);

- the risk that causes the loss of profit. It characterizes a situation where an entity, subject to objective and subjective reasons, is unable to complete a planned financial transaction[39, p. 42].;

- the risk that causes both economic losses and additional income. This type of financial risk is often referred to as speculative financial risk because it is related to the conduct of speculative (aggressive) financial transactions;

6) the nature of the manifestation in time distinguish two groups of financial risks:

- persistent financial risk. It is characteristic of the entire period of the financial transaction and is related to the effect of constant factors. An example of such financial risk is interest rate risk, currency risk and the like [32, p. 42].;

- temporary financial risk. It is permanent, occurring only at certain stages of the financial transaction. An example of this type of financial risk is the risk of insolvency of a functioning enterprise;

7) according to the level of financial losses risks are divided into the following groups:

- acceptable financial risk. It is related to financial losses that do not exceed the amount of the profit on the transaction;
- critical financial risk. This risk is characterized by financial losses not exceeding the amount of gross income in the course of a financial transaction;
- catastrophic financial risk. It causes financial losses that are determined by the partial or total loss of equity (this type of risk may be accompanied by the loss of borrowing capital) [46, p. 135].;

8) on the possibility of insurance distinguish:

- financial risks that are subject to insurance. These include the risks that may be passed on to outside insurance to the relevant insurance organizations;
- non-negotiable financial risks. These include those for which there is no offer of relevant insurance organizations in the financial market.

Of the wide variety of methods offered, in our opinion, we can distinguish the following main approaches to the financial risks assessment:

1. A comprehensive method of risk assessment. Risk can be measured in absolute and relative values. In practice, determining the magnitude of risk in absolute terms expressions, simplified approach is used. Its essence is that the degree of impact of risk on the main indicators of the enterprise is estimated. Thereafter, a conclusion is reached as to the expediency of taking this risk and implementation of this type of activity.

2. Systematic method of risk assessment. Systematic risk is assessed coefficient β , which determines the level of fluctuations in the results of the industry about the performance of the market or the entire economy. In financial analysis it is also called the coefficient of sensitivity. [19, p. 265].

An important practical value of the coefficient β is the possibility of use to estimate how much earnings are expected for a particular type of stock offset the risk of investing in these stocks. The coefficient β is also used when making

investment decisions in a particular sector of the economy. This ratio can be used to compare the activity of an enterprise or industry with the whole market.

3. Statistical methods. The essence of statistical methods of risk assessment is in determining the likelihood of loss based on statistics previous period and setting of risk area (zone), risk factor etc. The advantages of statistical methods are the ability to analyze and evaluate different developments and take into account different risk factors within one approach. The main disadvantage of these methods is the need for use they have probabilistic characteristics. The following statistics may be used methods: estimation of probability of execution, analysis of probable flow distribution payments, decision tree, risk simulation, and technology risk metrics and more. [17, p. 175].

The method of estimation of probability of performance allows to give the simplified statistical estimating the likelihood of executing decisions or decisions by calculating fate executed and unfulfilled decisions in the total amount of decisions made.

The method of analysis of probabilistic distributions of payment flows allows for the known probability distribution for each element of the payment stream to estimate possible variations in the cost of payment flows from the expected. Stream to the smallest variation is considered less risky. The decision tree is commonly used to analyze the risks of an event have a substantial or reasonable number of development options. They are especially useful in situations where decisions made at time $t = n$ are highly dependent from the decisions made earlier and, in turn, determine the scenarios for the future events. [52, p. 545].

Simulation modeling is one of the most powerful methods of economic analysis systems; in the general sense, it is the process of conducting experiments on computers with mathematical models of complex systems of the real world. Imitative modeling is used when conducting real ones. Experiments (for example, with economical systems) are expensive and costly impracticable in practice. In addition, information is required when there is no actual data, it is replaced by the

values obtained during the simulation process experiment (that is, computer generated ones).

The study of possible variants of entrepreneurial activity shows that in practice there are various situations that lead to changes in the level of profitability and economic security of the enterprise. [37, p. 432]. These situations include:

- strengthening the activity of competitors in the entrepreneurial market segment;
- appearance of more efficient in terms of product technology;
- price reductions by competitors;
- crisis of major suppliers of materials and components;
- changes in the financial market;
- changes in prices and terms of supply of consumed resources;
- an increase in the interest rate on the loan;
- change of goals of business activity;
- change in tax legislation;
- technological innovations.

To manage financial risks, it is necessary to investigate the factors that influence their level. When examining the level of financial risks, it is necessary to pay attention to their potential areas. Identification of potential financial risk areas is to compare possible financial losses with the estimated amount of profit (income) or equity of the enterprise. Depending on the magnitude of the potential financial loss, there are four main areas of financial risk[37, p. 163].:

- risk-free zone: the risk is very low, there are practically no financial losses, the financial result in the amount of the estimated amount of profit is guaranteed;
- tolerable risk area: average risk, possible financial losses in the amount of the estimated amount of profit;
- critical risk zone: the risk is high, there may be financial losses in the amount of gross income;
- catastrophic risk area: the risk is very high, there may be financial losses in the amount of equity.

Enterprise risk management is a specific area of financial management, which in recent years has stood out in a special area of knowledge - “risk management”. Financial risk management of an enterprise is a system of principles and methods of development and implementation of risk financial decisions providing comprehensive assessment of various types of financial risks and neutralization of their possible negative financial consequences. Most economic assessments of situations are probabilistic. Therefore, the manager, developing a solution, should always strive to take into account the possible risk and provide for certain measures to reduce its level and compensate for probable losses. The decision maker, in some cases of uncertainty, can achieve acceptable risk. To assess the degree of acceptability of the risk, you should first total, identify certain risk zones depending on the expected value of losses. The general scheme of risk zones is presented in (fig. 1.2.1)

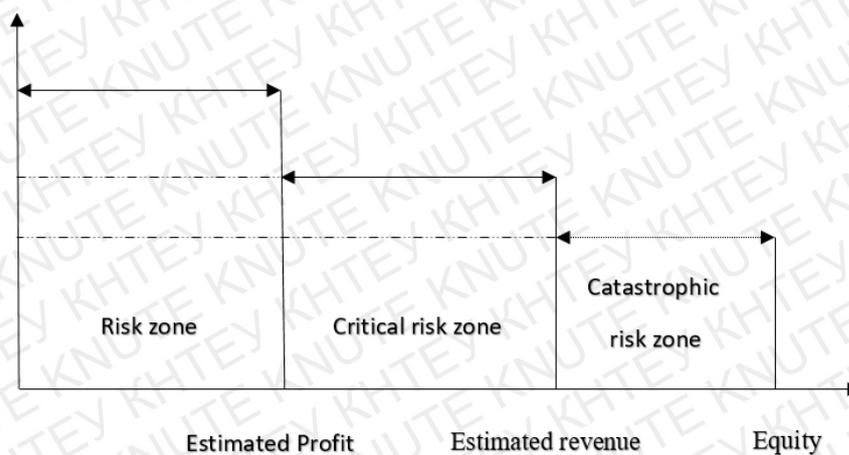


Figure 1.1 Risk zones

Financial risk ratios assess a company's capital structure and current risk level in relation to the company's debt level. These ratios are used by investors when they are considering investing in a company. Whether a firm can manage its outstanding debt is critical to the company's financial soundness and operating ability. Debt levels and debt management also significantly impact a company's profitability, since funds required to service debt reduce the net profit margin and cannot be invested in growth. [32, p. 343].

Some of the financial ratios that are most commonly used by investors and analysts to assess a company's financial risk level and overall financial health include the debt-to-capital ratio, the debt-to-equity ratio, the interest coverage ratio, and the degree of combined leverage.

1) The debt-to-equity ratio (D/E) is a key financial ratio that provides a more direct comparison of debt financing to equity financing. This ratio is also an indicator of a company's ability to meet outstanding debt obligations. Again, a lower ratio value is preferred as this indicates the company is financing operations through its own resources rather than taking on debt.

$$R = D/E \quad (1.1)$$

where, D – debt amount, E – equity amount.

2) The interest coverage ratio is a basic measure of a company's ability to handle its short-term financing costs.

$$R_{int} = \text{Current assets} / \text{Current liabilities} \quad (1.2)$$

3) Absolute Liquidity helps to calculate actual liquidity and for that inventory and receivables are excluded from current assets.

$$R_{absolute\ liquidity} = C + MS + NRD \quad (1.3)$$

where, C – cash, MS- marketable securities, NRD - net receivable and debtors

4) Cash ratio is useful for a company who is undergoing financial trouble. If the ratio is high then it reflects underutilization of resources and if the ratio is low then it can lead to a problem in repayment of bills.

$$R_{cash} = C + MS / CL \quad (1.4)$$

where, CL – current liabilities.

5) Turnover ratio is also known as activity ratio. This type of ratio indicates the efficiency with which an enterprise's resources are utilized. For each asset type financial ratio can be calculated separately.

$$R_{turnover} = CGS / AI \quad (1.5)$$

where, CGS – cost of goods sold, AI-average inventory.

6) The receivable turnover ratio shows how many times the receivable was turned into cash during the period.

$$R = NCS / AAR \quad (1.6)$$

where, NCS – net credit sales, AAR – average accounts receivable

7) Cash conversion cycle is the total time taken by the firm to convert its cash outflows into cash inflows (returns).

$$R = RD + ED - PD \quad (1.7)$$

where, RD – receivable days, ED – event days, PD – payable days.

Enterprise financial risk management is based on certain principles, the main of which are: awareness of risk taking; manageability of accepted risks; independence of individual risk management; the economic rationality of management; accounting for financial policies in certain aspects financial activities; comparability of the level of accepted risks with the level of profitability of financial transactions; comparability of the level of risks with the financial capabilities of the enterprise; consideration of a temporary factor in risk management; profitability of risk management [27, p. 78].

The theory of decision-making under conditions of risk and uncertainty is based on the following starting points:

1. The decision-making object is clearly determined and by he knows the main of the possible risk factors. In financial management, such objects are a separate financial transaction, specific type of securities, group mutually exclusive real investment projects, etc.
2. The indicator that best characterizes the effectiveness of this decision is selected for the decision-making object. For short-term financial transactions, this indicator usually selects the amount or level of net profit, and for long-term financial transactions, net present value or internal rate of return.
3. An indicator characterizing the level of its risk is selected for the decision-making object, financial risks are usually characterized by the degree of possible deviation of the expected performance indicator (net profit, net present value, etc.) from its average or expected value.

4. . There are a finite number of decision-making alternatives (a finite number of alternative investment projects, specific securities, methods of implementing a certain financial transaction, etc.).

5. There are a finite number of situations the impact of changes in risk factors. In financial management, each of these situations characterizes one of the possible future conditions of the external financial environment under the influence of changes in individual risk factors. The number of such situations in the decision-making process should be determined in the range from extremely favorable (the most optimistic situation) to extremely unfavorable (the most pessimistic situation).

6. For each combination of decision-making alternatives and in situations of development of the event, a final indicator of the effectiveness of the solution can be determined (the specific value of the amount of net profit, net present value, etc., corresponding to this combination).

7. For each of the situations under consideration, it is possible or it is impossible to assess the probability of its implementation. Possibility of the implementation of a probability assessment divides the entire system of risk decisions made into the previously considered conditions for their justification (“Risk Conditions” or “Conditions of Uncertainty”).

8. The decision is made according to the best of the considered alternatives. Taking into account the considered goals, objectives and principles of the process financial risk management at each enterprise is carried out consistently in the following main stages. [8, p. 187].

CHAPTER 2.

CONTEMPORARY STATUS STUDY OF FINANCIAL RISK MANAGEMENT LLC “LOUIS DREYFUS COMPANY UKRAINE”

2.1. Analysis of dynamics of volumes and structure of assets of the enterprise and sources of their formation

The basis of economic activity of each enterprise there are assets. In accordance with National Accounting Standard 1, General Requirements for Financial Reporting, assets are resources controlled by an entity as a result of past events, the use of which is expected to lead to future economic benefits.

Investigating the status and structure of an enterprise's assets is a diverse process, so according to A. Basilinskaya, should be divided into the following stages:

- 1) vertical and horizontal asset analysis;
- 2) analysis of asset structure ratios;
- 3) analysis of current and non-current assets;
- 4) qualitative description of fixed assets.

Investigation of the state of assets of the enterprise should start with a vertical and horizontal analysis. At this stage of the analysis formed an idea about the activity of the enterprise, are revealed changes in the composition of its property and sources, interrelated different indicators. According to T.V. Momot, vertical analysis shows the structure of property of the enterprise, indicators structures are calculated as a percentage of the balance sheet currency [3]. A horizontal analysis of the reporting is building one or more analytical tables in which absolute figures are supplemented by relative growth rate (decrease).

The analysis is started with the dynamics of non-current and current assets volume for the selected period, which are presented in Table 2.1.

Table 2.1.

**Dynamics of non-current assets volumes of Louis Dreyfus Company
Ukraine at 2014-2018, kUAH**

Non-current assets	2014	2015	2016	2017	2018	Deviation			
						2018/2014		2018/2017	
						absolute	gross rate,%	absolute	gross rate,%
Intangible assets	293	190	131	71	605	312	106	534	752
Construction in Progress	203	2448	2069	2363	246	43	21	-2117	-90
Fixed assets	4620	6626	6801	8087	486821	482201	10437	478734	5920
Long term financial investments: that participates in the capital of other enterprises	-	87080	220085	220085	220085	220085	100	0	0
Deferred Tax Assets	2614	2112	1793	1809	3016	402	15	1207	67
Total non-current assets	7730	98456	230879	232415	710773	703043	9095	478358	206

During the analyzed period, we see that the non-current assets of the enterprise from 2014 to 2018 increased from 7730 thousand hryvnias to 710773 thousand hryvnias, which caused an increase of 9,095 percent.

The highest investment volume was invested in fixed assets in 2018 FY and the amount increased on 10 437%. In 2015, the company participates long-term financial investments: that participate in the capital of other enterprises and by 2018 they grew to the level of 220 085 thousand UAH.

From 2014 to 2018, there was a moderate increase in current assets. Trends in changes in non-current assets we can see in the graph in Fig. 2.1.

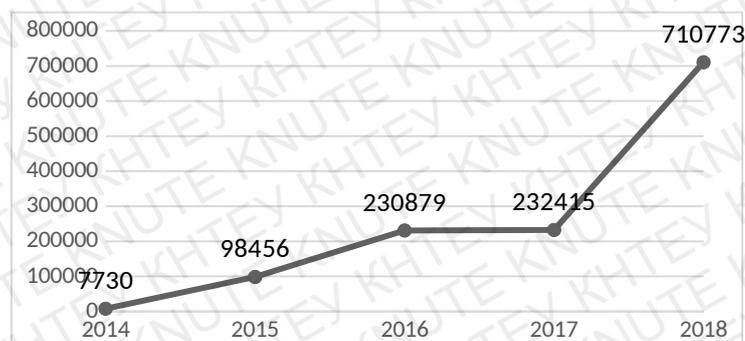


Fig. 2.1. Dynamics of non-current assets volumes of Louis Dreyfus Company Ukraine at 2014-2018, Kuah Next step of our analysis is current assets dynamics analysis which is reflected in (Table 2.2)

Table 2.2.

Dynamics of current assets volumes of Louis Dreyfus Company Ukraine at 2014-2018, kUAH

Current assets	2014	2015	2016	2017	2018	Deviation			
						2018/2014		2018/2017	
						absolute	gross rate, %	absolute	gross rate, %
Stocks	400923	534670	799205	773695	2160738	1759815	439	1387043	179
Accounts Receivable for goods and services	7855	-	-	-	7	-7848	-100	7	100
Accounts receivable (arrears) in payments: on advances issued	3815	5788	17855	41641	55767	51952	1362	14126	34
to budget	21693	21334	329842	336783	697353	675660	3115	360570	107
Including tax	92	3192	6151	-	10655	10563	11482	10655	100
from internal calculations	461333	387276	82366	149520	216383	-244950	-53	66863	45
Other current accounts receivable	13346	7574	9122	9733	20726	7380	55	10993	113
Current financial investments	-	-	-	-	680579	680579	100	680579	100
Cash and cash equivalents	17753	931	448	2368	4581	-13172	-74	2213	93
Expenses of future periods	4502	1736	1190	1430	1911	-2591	-58	481	34
Other Current Assets	157	21053	817	15833	33861	33704	21468	18028	114
Total Current Assets II	931377	980362	1240845	1331003	3871906	2940529	316	2540903	191

Change dynamics in current assets we can see in the graph in Fig. 2.2.

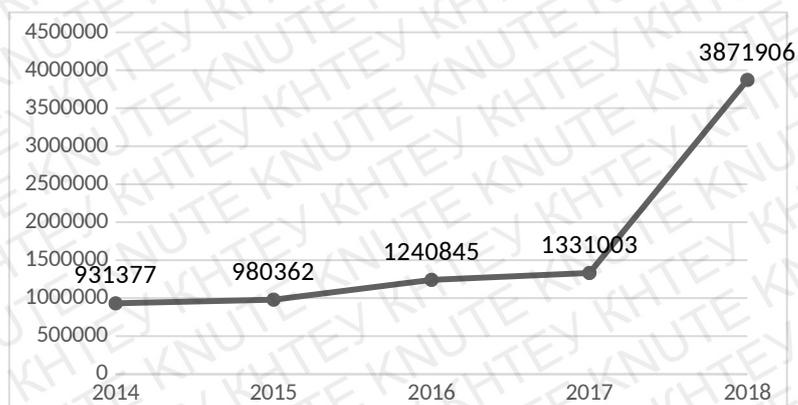


Fig. 2.2. Dynamics of current assets volumes of Louis Dreyfus Company Ukraine at 2014-2018, kUAH

The basis of the property of the enterprise is formed by current assets, which have a moderate dynamics of change, without significantly affecting the indicator. With regard to the dynamics of accounts receivable, it decreased by 18.02% in 2014 (500279 thousand UAH). The reduction in the absolute amount of receivables can be estimated ambiguously. On the one hand, its decrease may be the result of repayment of obligations by customers and repayment of consumer loans, increase of solvency of buyers. However, on the other hand, a decrease in accounts receivable may result from a reduction in business activity and a decrease in the client base of the enterprise, which is more likely to be reduced given the value of the enterprise property. It is also very important to analyse the dynamics of an enterprise's asset structure (Table 2.3).

Changes in equity during the study period were due to retained earnings, so in 2015 there was an increase of 30.63 percent, but in 2016 the situation worsened and Retained Earnings decreased by 39.52 percent, in 2017 there are minor changes, namely an increase in volume by 6 percent, however, again in 2018 there is a significant decrease of 35.48 percent.

During 2016-2018, there is a gradual decrease in the share of Current security, in 2016, their share is reduced by 0.52%, in 2017 - by 0.13% and in 2018 - by 0.97%.

Table 2.3.

Dynamics of an asset structure of Louis Dreyfus Company Ukraine at 2014-2018, kUAH

Assets	Specific weight					Absolute deviation			
	2014	2015	2016	2017	2018	2015/2014	2016/2015	2017/2016	2018/2017
1. Non-current assets									
Intangible assets	0.03	0.02	0.01	0.00	0.01	-0.01	-0.01	0.00	0.01
Construction in Progress	0.02	0.23	0.15	0.15	0.01	0.21	-0.08	0.01	-0.15

Fixed assets	0.49	0.61	0.48	0.52	10.62	0.12	-0.13	0.04	10.11
Long term financial investments	0	8.07	15.52	14.08	4.80	8.07	7.45	-1.45	-9.27
Deferred Tax Assets	0.28	0.20	0.13	0.12	0.07	-0.08	-0.07	-0.01	-0.05

Continue of Table 2.3

2. Current assets									
Stocks	42.69	49.56	53.56	49.49	47.15	6.87	4.00	-4.07	-2.34
Accounts Receivable for goods and services	0.84	0.00	0.00	0.00	0.00	-0.84	0.00	0.00	0.00
Accounts receivable (arrears) in payments: on advances issued	0.41	0.54	1.26	2.66	1.22	0.13	0.72	1.40	-1.45
to budget	2.31	1.98	23.27	21.54	15.22	-0.33	21.29	-1.72	-6.32
from internal calculations	49.12	35.90	4.81	9.56	4.72	-13.23	-31.09	4.75	-4.84
Other current accounts receivable	1.42	0.70	0.64	0.62	0.45	-0.72	-0.06	-0.02	-0.17
Current financial investments	0.00	0	0	0	14.85	0.00	0.00	0.00	14.85
Cash and cash equivalents	1.89	0.09	0.03	0.15	0.10	-1.80	-0.05	0.12	-0.05
Expenses of future periods	0.48	0.16	0.08	0.09	0.04	-0.32	-0.08	0.01	-0.05
Other Current Assets	0.02	1.95	0.06	1.01	0.74	1.93	-1.89	0.96	-0.27
Total	100.00	100.00	100.00	100.00	100.00				

Calculations which will help us to find dependences between assets and sources of their formation, are provided in (Table 2.4) which illustrates changes in equity and current liabilities during the period of analysis.

Table 2.4.

**Dynamics of equity and current liabilities volume of Louis Dreyfus Company
Ukraine at 2014-2018, kUAH**

Equity and	2014	2015	2016	2017	2018	Deviation	
						2018/2014	2018/2017

current						absolute	gross rate,%	absolute	gross rate,%
Liabilities									
Shareholders Equity	14297	14297	14297	14297	14297	-	-	-	-
Retained Earnings	522903	931085	688492	826609	796988	274085	52	-29621	-4
Total part I	537200	945382	702789	840906	811285	274085	51	-29621	-4

Continue of Table 2.4

3. Short-term liabilities									
Short term bank loans	353006	99976	673572	585560	3186102	2833096	803	260054 2	444
Current payables for: Goods and services	3015	5338	32538	65162	84175	81160	2692	19013	0
In payments to the budget	31950	-	2	14876	-	-31950	-100	-14876	-100
In payment of salary	78	-	-	-	-	-78	-100	-	-
with advances received	-	-	-	-	23	23	100	23	100
according to the calculations with participants	-	-	64	-	-	-	-	-	-
from internal calculations	-	6027	37361	29568	449771	449771	100	420203	1421
Current security	10815	21011	20964	20274	14768	3953	37	-5506	-27
Other current commitments	3043	1084	4434	7272	36555	33512	1101	29283	403
Total part III	401907	133436	768935	722512	3771394	3369487	838	304888 2	422
Total Liabilities (and Equity)	939107	1078818	147172 4	1563418	4582679	3643572	388	301926 1	193

If to compare 2014 and 2018 FY current payables could be characterized by steady growth, their amount increased from 0 till 449771 kUAH, which is 100% increase. Shareholders equity is very stable amount in company during the analyzed period, showing no change at all. Short term liabilities were also growing rapidly and reached the amount 3186102 till the end of 2018 FY.

2.2. Analysis of the financial condition of the enterprise

The financial condition of the enterprise is the real and potential ability of the enterprise to provide adequate level of financing of economic activity, characterized by aggregate indicators of availability, location and use of enterprise resources and their sources financing. The purpose of the analysis is to evaluate the quality of business activity of the enterprise, to provide information for forecasting calculations of financial status, to ensure the possibility of making a sound management financial statement decisions by external users of reporting information: shareholders, investors, suppliers, creditors, public oversight bodies.

Objectives of the analysis:

- assessment of the financial condition of the enterprise;
- identifying trends and patterns of enterprise development;
- determining the factors of negative impact on the financial condition of the enterprise;
- identifying reserves for optimizing the financial condition of the enterprise [48, p. 45].

Absolute Liquidity Ratio shows which part of arrears it is possible to repay for cash account funds and theirs equivalents. The company's absolute liquidity ratio is very unstable as we can see from the (Table 2.5) Coefficient of current liquidity demonstrates predictive opportunities calculation for obligations for payment terms accounts receivable arrears. This figure is within the range of normal throughout the research period and questions only arise in 2018, when the figure amount is unhealthy. Coefficient common liquidity characterizes sufficiency of negotiable assets of the enterprise to cover commitments. The indicator was at a low level during 2013-2015, but in 2016 it is reaching a stable and favorable indicator. The value of 2018 indicates the mismanagement of assets. Coefficient of liquidity at mobilization stocks reflects the degree of dependencies of enterprise from inventory stocks.

The lower border shows sufficiency of mobilization stocks to cover current obligations. Coefficient of own solvency shows ability of businesses pay off commitments for net account of current assets. During the analysis period, we see that has current assets be enough for cover, but pay attention to 2013, 2016-2018, where the figure is not healthy. Liquidity ratio for mobilization inventory reflects the degree of dependence of the enterprise on inventory. In 2014-2015 the coefficient is insufficient. Coefficient of own solvency shows ability businesses to pay off commitments for clean account current assets. Coefficient of long term financial security demonstrates a degree non-negotiable assets of own capital.

Table 2.5

**Dynamics of liquidity and solvency of Louis Dreyfus Company Ukraine, LLC
2013-2018 FY**

	2013	2014	2015	2016	2017	2018	2018/ 2013	2018/ 2017
Coefficient of absolute liquidity	0,00	0,01	0,01	2,89	2,89	0,07	7	0,02
Coefficient of current liquidity	0,56	0,32	0,32	1,00	1,00	4,01	1,78	4,01
Coefficient of common liquidity	3,98	1,17	1,17	2,64	2,64	9,81	2,46	3,71
Liquidity ratio for stock mobilization	0,56	0,32	0,32	1,04	1,04	4,01	7,1	3,85
Ratio of own solvency	2,76	54,27	54,27	427	427	96,06	34,8	0,22
Long-term financial security ratio	1,35	1,66	1,66	69,50	69,50	9,60	7,1	0,13

The coefficient of financial stability is the ratio of own and loan capital. The Fixed Assets Index reflects the proportion of non-current assets in equity sources. In our example, this indicator decreased 0.74 at the beginning of the study period

to 0.1 at the end. Such a change indicates an increase in the working capital share. Analyzing this indicator, we need to take into account the industry factor (capital or non-capital industry). Ratio of current and non-current assets depends on the industry specific, on the one hand, and the structure of sources of financing the activity of the enterprise, on the other. In our example, the ratio of current and non-current assets changed from 0.09 to 0.1, and the ratio of debt to equity - from 0.11 to 0.88. The enterprise is financially unstable, inequality of coefficients is not maintained.

In 2018 compared to 2014, the biggest changes are made in Current payables and Other current commitments. In 2018, they grew by 2692 percent and by 1 101 percent.

With regard to current commitments, our analysis was more extensive. We have found that, in general, Short-term liabilities are characterized by a variable trend: they increase from year to year and then decrease. Thus, in 2014 their amount was 401 907 thousand UAH, whereas in 2018 it was already 3 771 394 thousand UAH, there was an increase in liabilities by 3 048 882 thousand UAH.

Table 2.6

**Dynamics of equity and current liabilities volume of Louis Dreyfus Company
Ukraine at 2014-2018, kUAH**

Equity and current liabilities	2014	2015	2016	2017	2018	Deviation			
						2018/2014		2018/2017	
						absolute	gross rate, %	absolute	gross rate, %
1. Owner's Equity									
Shareholder's Equity	14297	14297	14297	14297	14297	-	-	-	-
Retained Earnings	522903	931085	688492	826609	796988	274085	52	-29621	-4
Total part I	537200	945382	702789	840906	811285	274085	51	-29621	-4
3. Short-term liabilities									
Short term bank loans	353006	99976	673572	585560	3186102	2833096	803	2600542	444
Current payables for: Goods and services	3015	5338	32538	65162	84175	81160	2692	19013	0

In payments to the budget	31950	-	2	14876	-	-31950	-100	-14876	-100
In payment of salary	78	-	-	-	-	-78	-100	-	-
with advances received	-	-	-	-	23	23	100	23	100

Continue of Table 2.6

according to the calculations with participants from internal calculations	-	-	64	-	-	-	-	-	-
	-	6027	37361	29568	449771	449771	100	420203	1421
Current security	10815	21011	20964	20274	14768	3953	37	-5506	-27
Other current commitments	3043	1084	4434	7272	36555	33512	1101	29283	403
Total part III	40190 7	133436	768935	722512	377139 4	336948 7	838	304888 2	422
Total Liabilities (and Equity)	93910 7	107881 8	147172 4	156341 8	458267 9	364357 2	388	301926 1	193

In 2018 compared to 2014, the biggest changes are made in Current payables and Other current commitments. In 2018, they grew by 2692 percent and by 1 101 percent.

With regard to current commitments, our analysis was more extensive. We have found that, in general, Short-term liabilities are characterized by a variable trend: they increase from year to year and then decrease. Thus, in 2014 their amount was 401 907 thousand UAH, whereas in 2018 it was already 3 771 394 thousand UAH, there was an increase in liabilities by 3 048 882 thousand UAH. Such fluctuations in liabilities are mainly caused by Short-term bank loans.

Current payables from internal calculations are characterized by steady growth throughout the period. In general, their volume for 2014-2018 increased by UAH 449 771 thousand or 100%. Also in 2018 reached 0 such payables as In payments to the budget and payment of salary.

To clarify the current situation, let us identify trends in the capital structure (Table 2.7). In the course of economic activity, the enterprise gives commodity credit to the consumers of its products, that is, there is a gap in time between the sale of goods and the receipt of payment for them, resulting in receivables. The receivables turnover ratio shows how many times a year the funds invested in the calculations have turned. As a rule, the higher this figure is, the faster company pays the bills. On the other hand, the provision of commodity credit to buyers is one of the tools to promote sales, so it is important to find the optimal length of the credit period. Accounts Payable Ratio indicates the expansion or decrease of the commercial credit provided to the enterprise. An increase in the ratio means an increase in the rate of payment of debt of the enterprise, a decrease - an increase in purchases on credit.

Operating cycle is the period of time between the acquisition of inventories for the implementation of activities and the receipt of funds from the sale of products manufactured from them.

Table 2.7

**Dynamics of equity and current liabilities structure of Louis Dreyfus
Company Ukraine at 2014-2018, kUAH**

Equity and current liabilities	Specific weight					Absolute deviation			
	2014	2015	2016	2017	2018	2015/2014	2016/2015	2017/2016	2018/2017
1. Owner's Equity									
Shareholder's Equity	1.52	1.33	0.97	0.91	0.31	-0.20	-0.35	-0.06	-0.60
Retained Earnings	55.68	86.31	46.78	52.87	17.39	30.63	-39.52	6.09	-35.48
3. Short-term liabilities									
Short term bank loans	37.59	9.27	45.77	37.45	69.52	-28.32	36.50	-8.31	32.07
Current payables for: Goods and services	0.32	0.49	2.21	4.17	1.84	0.17	1.72	1.96	-2.33
In payments to the budget	3.40	0.00	0.00	0.95	0.00	-3.40	0.00	0.95	-0.95
In payment of salary	0.01	0.00	0.00	0.00	0.00	-0.01	0.00	0.00	0.00

from internal calculations	0.00	0.56	2.54	1.88	9.81	0.56	1.98	-0.66	7.93
Current security	1.15	1.95	1.42	1.30	0.32	0.80	-0.52	-0.13	-0.97
Other current commitments	0.32	0.10	0.30	0.47	0.80	-0.22	0.20	0.16	0.33
Total	100.00	100.00	100.00	100.00	100.00	X	X	X	X

Business activity is manifested in the dynamic development of the enterprise, the speed of turnover of funds of the enterprise. The criteria for business activity are the level of efficiency of use of the resources of the enterprise, the sustainability of economic growth, the degree of fulfillment of the task by the main indicators of economic activity, etc

However, the main criteria for the efficiency of the enterprise is its profitability, therefore, in carrying out economic activities the enterprise should try not only to accelerate the movement of funds, but also to get the maximum return.

Table 2.6

Analysis of financial stability of the enterprise

	2013	2014	2015	2016	2017	2018
Coefficient of financial stability	0,13	0,24	0,24	1,34	1,34	7,08
Coefficient of financial independence	0,11	0,19	0,19	0,57	0,57	0,88
Debt ratio	0,89	0,81	0,81	0,43	0,43	0,12
Security ratio own working capital	0,03	0,09	0,09	0,57	0,57	0,86
Coefficient of maneuvering	8,14	4,58	4,58	1,73	1,73	1,04
Fixed Assets Ratio	0,74	0,60	0,60	0,01	0,01	0,10
Ratio of current and non-current assets	0,09	0,13	0,13	0,01	0,01	0,10

Business activity analysis is to study the levels and dynamics of various financial ratios - turnover ratios. Since the amount of annual turnover depends on

the rate of turnover of the funds, so with the size of the turnover and, accordingly, the turnover associated with the value of contingent costs: the faster the turnover, the less each turnover accounts for the sum of these costs.

Table 2.7

Analysis of business activity of the enterprise

	2013	2014	2015	2016	2017	2018
Total asset turnover ratio	0,10	0,88	0,66	0,35	0,45	0,00
Receivables turnover ratio	4,10	6,43	5,33	3,92	7,06	4,61
Term of one receivable turnover	89,05	56,81	68,47	93,00	51,73	79,21
Ratio of accounts payable	1,12	0,64	0,64	2,00	2,00	8,01
Term of one turnover of accounts payable	325,30	571,82	571,82	182,95	182,95	45,55

The main factor behind the decline is the constant increase in the amount of receivables for goods and services. Given that sales volumes remain relatively stable over the study period, an increase in receivables for goods and services is a negative phenomenon. To increase the turnover of current assets, it is necessary to take measures of return of funds of the company. In order to eliminate the risk of a problem in the future, it is necessary to develop a comprehensive strategy for commercial lending to clients. The strategy should split all buyers into groups, depending on the history of collaboration, their financial status and their importance to the company. The bulk of commodity (commercial) loans should fall on the most reliable and important customers [36, p. 165].

Financial autonomy is one of the most important factors for financial sustainability. The company has different goals - to generate profit on the one hand, and to remain stable in the medium and long term on the other. Therefore, the normative value of the indicator is in the range of 0.4 - 0.6. A lower value may indicate a high level of financial risk. A value of financial autonomy above 0.6 will indicate that the company is not using its full potential. Indicator of financial autonomy in a critical company acquired only in 2013 and 2018.

2.3 Diagnosis of financial risks inherent in the activities of “Louis Dreyfus Company Ukraine” LLC

A SWOT analysis of the company was conducted, which allowed us to draw the following conclusions. The main competitive advantages of the company are the high quality of the products and the confidence that the company has earned over the years of cooperation, so it is worth continuing to work on strengthening its image.(Table 2.8) The company has purchased many wagons that it plans to use not only for its own transportation, so it is necessary to strengthen the network of contacts, which is easy to reach at the expense of the conference, which also helps to find ways to implement the idea with sugar.

Table 2.8

SWOT analysis of Louis Dreyfus Company Ukraine: Strengthes and possibilities

Strengths
Qualitative goods
Long-term contractual relations
High level of trust in the company
Possibilities
Sugar
Provision of own wagons for additional transportation
Storage of your own goods on your own elevator

Increase minimum purchase volume
Reduction of the minimum volume of the forging

The company must cooperate, either directly with the farmers or with the first intermediary, to verify the quality control certificates of the products and also to expand product range within business.(Table 2.9). By advertising a price higher than its competitors, the company thereby commits itself to delivering the goods and providing guarantees of their quality, which makes the price more reasonable.

To counteract the major threats, it is necessary to have a constant flow of products sold. It is also a must to take into account inflationary processes when setting the annual budget. It is also important to increase the efficiency and motivation of workers. In the course of identification and assessment of financial risks, various graphical methods are used to give a clear idea of the distribution of risks across time, by type of activity, by stages of the business process, in space (for example, on premises), by the amount of loss identified, etc. But the most versatile information visualization tool widely used in risk management is the so-called risk map.

Table 2.9

SWOT analysis of Louis Dreyfus Company Ukraine: Strengthes and possibilities

Weaknesses
Poor product quality
A change in the \$ exchange rate, which causes too high a price
The best price for competitors at the time of the agreement
Limited number of product specifications
Not a very wide product line
Threats
Low yield
Bad weather causing product damage

The disappearance of demand for products
The emergence of new powerful players in the market
Bad climatic conditions
Fertilization of fertilizers
Wage inflation
Increase in prices for gasoline and fuel

It is built on the basis of a register of risks and their qualitative and quantitative characteristics obtained in the measurement process. As part of our research, the financial crisis, which is most widespread and can cause, is of particular interest termination of the enterprise as a whole. Also about the signs the existence of this crisis should be signaled by financial diagnostics state of the enterprise. The financial crisis in an enterprise is characterized by the following parameters: sources (factors) of the origin and stage of crisis development. The identification of these signs makes it possible to correctly identify the diagnosis of financial failure of the enterprise and to select the most effective remedial measures. To do this, it is first necessary to identify the reasons for the financial failure of the entity. Factors that can cause a financial crisis in an enterprise are commonly divided into external or exogenous (independent of the enterprise) and internal or endogenous (dependent on the enterprise).

The main exogenous factors of a financial crisis in an enterprise may be:

- the downturn in the economy as a whole;
- reduction of purchasing power of the population;
- a significant level of inflation;
- instability of economic and tax legislation;
- instability of financial and currency markets;
- increased competition in the industry;
- the crisis of an individual industry;
- seasonal variations;
- strengthening of market monopoly;

- discrimination of the enterprise by the authorities and management;
- political instability in the country where the enterprise is located or in the countries of the suppliers of raw materials (consumers of products);
- conflicts between the founders (owners).

The impact of external factors of the crisis is usually strategic nature. They can cause a financial crisis in an enterprise if management erroneously or timely responds to them, if there is no early warning and response system, one the tasks of which are bankruptcy forecasting. A large number of endogenous financial crisis factors can be identified. In order to organize them, they can be grouped into the following blocks:

1) deficiencies in operating activities (poor quality of management, including production, low level of qualification of personnel, deficiencies in organizational structure, inefficient cost structure, low level of use of fixed assets, miscalculations in the field of supply, low level of marketing, loss of markets products and others);

2) 2) shortcomings in the investment activity shortcomings (miscalculations in investment policy, lack of innovation and innovation; inefficient investment management, etc.);

3) 3) shortcomings in financial activities (inefficient financial strategy, inefficient structure of assets and liabilities, financing deficits, excess of acceptable levels of financial risks, inefficient financial management, complete lack of controlling or poor performance of its services, etc.).

4) The study analyzed changes in the main balance sheet items, income statement and cash flow statement of the enterprise for the years 2013-18. The analysis of liquidity indicators revealed that the current assets of the enterprise for the majority of the studied periods are not sufficient for regulatory coverage of current liabilities, therefore, it is recommended to increase the current assets of the enterprise. It should also be noted that there is a negative tendency to decrease the amount of working capital (due to an

increase in current liabilities, which indicates an increase in the debt of the enterprise. This problem can be solved by attracting new investors and increasing the amount of equity due to additional contributions of participants enterprises.

5) The analysis of business indicators showed that despite the increase in the amount of equity, its turnover is decreasing. The solution to this problem is to increase efficiency in financial and economic work and to more strict adherence to the system of agreements between consumers and suppliers. This problem is solved only by reducing the period of receivables turnover by further careful selection of the receivables. Analysis of financial stability indicators revealed the problem of lack of financial independence of the enterprise. Financial independence has decreased compared to 2013 (assets were generated by 11.2% in 2013 from equity, and by 8.3% in 2018), however, further increase in equity is needed, and as a consequence, changing the structure of assets (in order to increase the share of equity). The analysis of profitability indicators revealed the problem of decrease in the gross sales index, which indicates a decrease in revenue in 2018 compared to 2017 (from UAH 6571108 thousand to UAH 4517687 thousand). The solution to this problem is a more detailed study of the market demand, consideration of opportunities diversification and expansion of the sales market. Also the risk matrix was build and the following results were reached.(Table 2.9)

Overall, the financial position of Louis Dreyfus Company Ukraine LLC has improved compared to 2013, most of the problems at this stage do not pose a threat to the crisis, but increasing total current assets, increasing sales, maintaining and raising profits, increasing equity and reducing payables will ensure financial stability and equilibrium over the long term.

It should be noted that the results of calculations and subsequent comparisons of coefficients from them theoretically sufficient values do not fully characterize the real picture of the financial status of the studied enterprise due to

the following reasons:- first, the normative values of the coefficients do not take into account industry affiliation economic entity, and therefore the related activity specificity and asset structure for it software;- secondly, regardless of industry, businesses have different policies financing of assets.

The financial condition of the enterprise is the result of the interaction of all elements of the system financial relations of the enterprise, and is characterized by a system of indicators. Basic advantages of the method of financial ratios as a tool for financial diagnostics are efficiency and the ease of calculations due to the availability and openness of financial reporting data enterprises.

Table 2.9

LLC Louis Dreyfus Company risk register

Risk	Current probability value,%	Current value of the damage	Expected probability value,%	Expected value of damage, thousand UAH
Fall in GDP	40	2000	40	1000
Exchange rate fluctuations	10	1500	10	300
Increase in interest rates	40	4000	25	1000
Increase in prices for raw materials	20	1000	0	0
Fall in consumer demand	15	2000	15	500
Stock growth	35	700	25	100
Increase in losses, breakdowns, downtime	25	5000	0	0
Reduced quality	60	400	30	100
Increase in commercial and consumer spending	75	200	25	200
Staff turnover	80	600	20	60

Analytical results from the table are shown in the following illustrations: (fig.2.1).

Tolerance boundaries lay in the middle of yellow metric and are satisfying till the eights bubble.

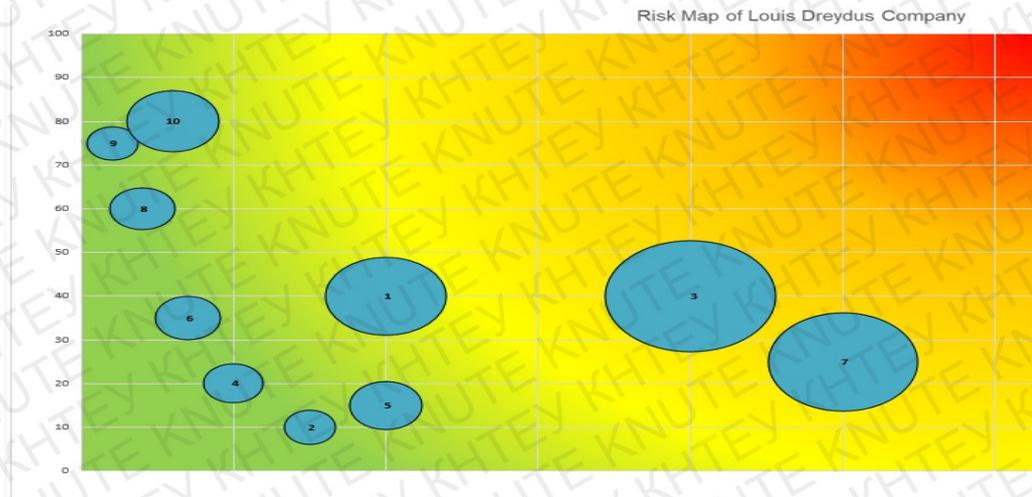


Fig. 2.1 Risk map of Louis Dreyfus Company Ukraine

Analyzing the financial performance of Louis Dreyfus Company Ukraine LLC, it is ascertained satisfactory financial condition of the studied enterprise, directions for its improvement are suggested.

SECTION 3.

DEVELOPMENT OF WAYS TO IMPROVE THE FINANCIAL RISK MANAGEMENT PROCESS OF “Louis Dreyfus Company Ukraine” LLC

The algorithm for determining the forecast indicators of financial solvency of the enterprise consists of the following steps:

- 1) determining the actual financial indicators of the enterprise;
- 2) determining the criteria to be used to calculate the estimated financial solvency of the enterprise;
- 3) determining formulas for calculating forecasts;
- 4) determination of actual and normative coefficients;
- 5) determining the deviation of the actual coefficients of the financial condition of the enterprise from regulatory;
- 6) development of forecast financial performance indicators of the enterprise solvency;
- 7) determination of options for optimal structure of the forecast balance.

Current planning of the financial solvency of the enterprise is developed on the basis of the current balance sheet (form №1), the statement of financial results (form №2), the statement of cash flows (form №3), the statement of equity (form No. 4), notes to the annual financial statements (Form No. 5). When calculating the financial position of the solvency of the company used the calculation and analytical method. If this method is used, the targets are calculated based on the analysis and evaluation of the actual indicators (the liquidity of the enterprise, its financial stability, business activity of financial managers), which are taken as a base, and their changes in the base period. Optimization of planning decisions consists in development of variants of planned calculations in order to choose the most optimal one from them. The criterion for choosing the optimal planning solutions for the options is the normative indicators. The planned metrics for the variants are compared with the normative indicators and the deviation is determined. The current planning of financial condition indicators is an integral

part of a prospective plan, and is, in fact, its specification. The current plan of the financial solvency of the enterprise should have the following components: 1) current indicators of liquidity of the enterprise; 2) current indicators of financial stability (solvency) of the enterprise; 3) current indicators of business activity of financial managers of the enterprise; 4) the current integrated integral indicator of the financial condition of the enterprise.

The activity of Louis Dreyfus Company LLC in 2013-2018 is characterized by a sufficient level of profitability and improvement of economic potential in 2018. The management of Louis Dreyfus Company LLC maintains a positive trend of increase in net income (revenue) from sales of products, works, services, taking into account the development of new areas of activity (purchase of cars and elevators, trading in financial instruments). Therefore, the sales revenue of Louis Dreyfus Company LLC in 2019 can be predicted as follows:

1. Determination of the growth rate of sales revenue by the geometric average (T growth):

$$T \text{ average growth} = 1,07$$

2. The calculation of the net income (revenue) from the sale of products of Louis Dreyfus Company LLC using average growth rate:

$$R=4517687*1.07$$

$$R=4833925$$

3. The cost of sales is assumed at the level of its share in the sales revenue in 2018 - 92%. Therefore, in the planned 2019, its value will be:

$$\text{COS}=4833925*0.92$$

$$\text{COS}=4 447211$$

4. The gross profit of of Louis Dreyfus Company LLC in 2019 will be:

$$\text{GP}=4833925-4 447211$$

$$GP=386714$$

Louis Dreyfus Company LLC plans to keep up with administrative, sales and other operating expenses. Therefore, these cost categories in 2018 can be determined in a similar manner to sales revenue:

5. Determining the growth rate of administrative costs by geometric mean:

$$GR_{\text{Admin cost}} = 1,23$$

6. The calculation of the administrative costs of Louis Dreyfus Company LLC for the application of average growth rate:

$$\text{Administrative expenses} = 60026 * 1,23 = 73831,98 \text{ UAH}$$

7. Determining the growth rate of sales costs by geometric mean:

$$GR_{\text{sales cost}} = 0,99$$

8. The calculation of the costs of sales of Louis Dreyfus Company LLC for the application of average growth rate:

$$\text{Sales costs} = 280654 * 0,99 = 278502 \text{ UAH.}$$

9. Determining the growth rate of other operating expenses by geometric mean:

$$GR_{\text{OOPEx}} = 1,658406$$

10. Calculation of other operating expenses of Louis Dreyfus Company LLC using average growth rate:

$$\text{Other operating expenses} = 1,66 * 111909$$

$$\text{Other operating expenses} = 185768,94$$

Overall, in 2018, Louis Dreyfus Company LLC will receive a positive financial result from operating activities in the amount of:

$$FR = 386714 + 209427,6 - 185768,94 - 278502 - 73831 = 58040,6$$

Louis Dreyfus Company LLC plans to retain financial income (UAH 4,517,687 thousand), other income (UAH 111,733 thousand) and financial expenses (UAH 194,806 thousand) at the level of the previous year, and plans to reduce other expenses to the level of 2015, the amount of other expenses in 2019 will be 149,810 thousand UAH.

Thus will receive the following financial result before tax:

$$4517.687 + 111.733 + 58.0406 - 194.806 - 149.810 = 4343 \text{ thousand UAH.}$$

The 18% tax rate will be:

$$4343 * 0,18 = 781.74 \text{ thousand UAH}$$

In the planned year, , Louis Dreyfus Company LLC will receive a net profit of:

$$4343 - 781.74 = 3561,26 \text{ thousand UAH}$$

Net income (sales) from product sales will increase at Louis Dreyfus Company LLC in the planned year by UAH 316,238 thousand., Gross profit will increase by UAH 25,437 thousand, financial result before tax will increase by 1,115 thousand. and net profit by 1208 thousand UAH. The use of net profit to increase the economic potential of Louis Dreyfus Company LLC will be a significant reserve for its growth, but it is also necessary to consider the resource efficiency. We calculate net capitalized profit in 2019 and profit directed at consumption. Capitalized profit characterizes the amount that is intended to finance the growth of the assets of the enterprise and, consequently, to increase its economic potential, and the net profit directed to consumption is that amount that is directed to making payments to the owners, staff or social programs of the enterprise.

To calculate the distribution of profit, it is necessary to determine its capitalization ratio in 2019 and, accordingly, to calculate the amount of net profit allocated to the consumption and accumulation fund:

$$\text{Capitalization Ratio} = (796988 - 826609) / 29621 = 100\%$$

We forecast profit sharing in 2018 based on the planned capitalization ratio:

$$\text{Net profit (capitalized)} = 3561,26 * 100\% = 3561,26$$

$$\text{Net profit (per consumption)} = 3561,26 - 3561,26 = 0$$

The next step in planning the financial and economic activity of the company is to calculate the planned values of the assets of Louis Dreyfus Company LLC. The planning of intangible assets of Louis Dreyfus Company LLC in 2018 should be carried out by the method of direct technical and economic calculations on separate items. The enterprise plans to purchase intangible assets next year, as a result of which their total value at initial cost will be UAH 730 thousand. Accordingly, their values at the end of the planning period will be equal to the residual value for which it is necessary to calculate depreciation amounts. An entity uses a straight-line method of depreciation in its practice. Taking into account volumes of intangible assets in the planned period, we plan the amount of depreciation in accordance with the accounting policy of the company: for intangible assets, which remained on the account from 2018 - at the level of the previous year (UAH 23 thousand), for new intangible assets - according to the straight line depreciation method and useful life of 5 years (UAH 27 thousand). Then the residual value of intangible assets at the end of the planning period, taking into account the accumulated depreciation will be equal to UAH 680 thousand.

The next step in substantiating the planned amount of capital is to determine the planned amount of current liabilities, in particular, their component, which has a direct relationship with production and sales: Current accounts payable for goods, works, and services. It is advisable to determine its planned volume in conjunction with the volume of sales revenue at cost: on the basis of the turnaround time of accounts payable in the reporting period. The turnover period of the individual components of the accounts payable is calculated by dividing the average value of the accounts payable by the volume of cost of sales and multiplying the result by 360 days. Therefore, the planned volume of trade

payables of the enterprise in the planning period is equal to: $468 * 11629 / 360 =$ UAH 15117 thousand.

Thus, in accordance with the planned activities in 2019, Louis Dreyfus Company LLC retains its independence from the borrowed sources of financing, but this indicates the relative inefficiency of using the economic potential of the enterprise and the imbalance of its capital structure. In general, there will be an increase in the economic potential of Louis Dreyfus Company LLC, provided that the marketing department of the enterprise provided reasonable information regarding the prospects of increasing the volume of activity for the future.

Risk radar was built for “Louis Dreyfus Company Ukraine” LLC This activity was provided to evaluate main risk area via subject matter experts of the company: accountant, financial manager, head of HR, head of logistics, risk manager, market and business analysts, 10 main risks were measured in order to find out which risks are on top now, and need deep intention and urgent decisions are need.(Figure 3.1)

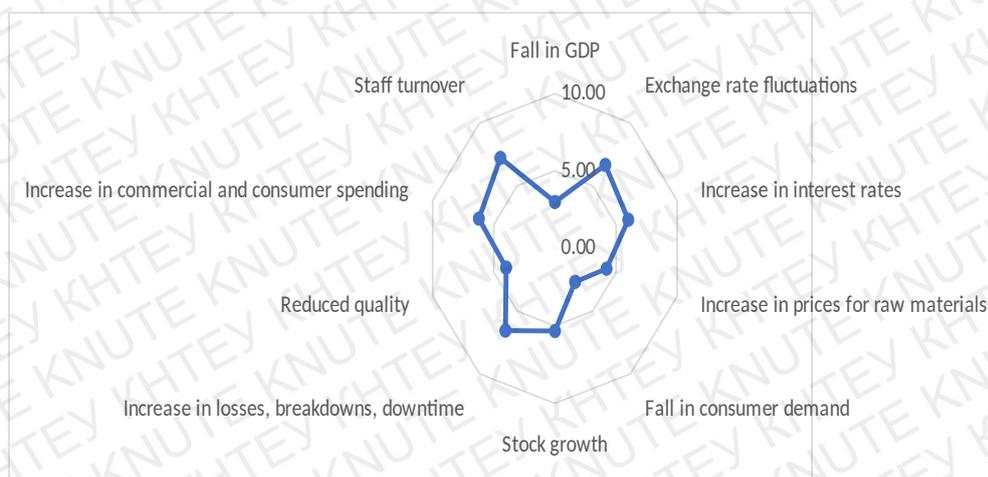


Fig. 3.2 Risk radar of Louis Dreyfus Company Ukraine, LLC

As we can see from radar subject matter experts believe that staff turnover is quite a big risk in the company and could easily occur. This can be explained by hard situation that company faced in 2017 FY when more than half of all the staff moved to new market player with former head of the company. Risk of staff

turnover still occurs and entails finance cost on: recruiting activities, overtimes payback, general employee fatigue and problems with motivation. Another risk, which is also very important is increase in interest rates and exchange rate fluctuations. This risk is very meaningful for the company which main profit is generated via margin. Exchange changes are not always a possibility to earn money. Risk experts suspect increase in losses which can be explained by bad and unfavorable climate and weather situation, bad economic situation in the country and low quality of support and logistic services of providers. In general we can see that experts are ensured that risk of increase of cost on raw materials and decrease in supplier demand are not likely to occur and have a big influence on enterprise financial activity.

CONCLUSIONS AND PROPOSALS

The study of theoretical issues of financial risk management should begin with the definition of conceptual foundations of the concept of "financial risk management". The financial risk is proposed to be regarded as a risk associated with the likelihood of loss of financial resources.

Financial risk management of an enterprise is a system of principles and methods of development and implementation of risk financial decisions providing comprehensive assessment of various types of financial risks and neutralization of their possible negative financial consequences.

The activity of Louis Dreyfus Company LLC in 2013-2018 is characterized by a sufficient level of profitability and improvement of economic potential in 2018. The management of Louis Dreyfus Company LLC maintains a positive trend of increase in net income (revenue) from sales of products, works, services, taking into account the development of new areas of activity (purchase of cars and elevators, trading in financial instruments).

Overall, the financial position of Louis Dreyfus Company Ukraine LLC has improved compared to 2013, most of the problems at this stage do not pose a threat to the crisis, but increasing total current assets, increasing sales, maintaining and raising profits, increasing equity and reducing payables will ensure financial stability and equilibrium over the long term.

Risk radar was built for "Louis Dreyfus Company Ukraine" LLC. Radar subject matter experts believe that staff turnover is quite a big risk in the company and could easily occur. Increase in interest rates and exchange rate fluctuations also came up as a big risk for enterprise, because stable development of enterprises in agrarian sector of the economy is a pledge of the development of the states

economy and a determining segment of international trade in general. Therefore, in the conditions of restrictions lack of own financial resources, agricultural enterprises should be able to attract credit resources on mutually beneficial terms from the state and banks, and from other non – bank financial institutions.

Analyzing the financial performance of Louis Dreyfus Company Ukraine LLC, it is ascertained satisfactory financial condition of the studied enterprise, directions for its improvement are suggested.

A SWOT analysis of the company was conducted, which allowed us to draw the following conclusions. The main competitive advantages of the company are the high quality of the products and the confidence that the company has earned over the years of cooperation, so it is worth continuing to work on strengthening its image. The company has purchased many wagons that it plans to use not only for its own transportation, so it is necessary to strengthen the network of contacts, which is easy to reach at the expense of the conference, which also helps to find ways to implement the idea with sugar.

Thus, the results of the study are of great practical value for the financial management of LOUIS DREYFUS COMPANY UKRAINE, LLC, because of their basis, the company executives can make appropriate management decisions in the field of financial risk management of the company.

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