

Financial performance

Business



Introduction The profit of the company is the most important performance indicator and the source of its vitality under the conditions of market economy, and it is the basis for economic development.

Profit growth creates a financial framework for the implementation of company's expanded reproduction and meets social and material needs of shareholders and employees. Under the influence of the market conditions, there is a need for more effective use of the methods of financial management due to the high level of uncertainty in the external environment, which affects an increase in risks and losses in process of making financial decisions, crisis financial status of the most enterprises, the need to optimize the use of available financial resources, improves the accuracy of forecasting and planning the financial and economic activities. Providing financial and business performance information The crisis of the economy have led to decreasing working capital of enterprises, the annual decreasing output, inefficient using of production capacity, increasing input intensities and unprofitability. This paper aims on analyzing the main financial indicators of the given company. It also focuses on studying the percentage of deviation from the average on the market, and determining its strong and weak sides.

The liquidity indicators characterize the company's ability to meet the claims of the holders of short-term debt obligations. Current ratio is calculated by dividing current assets on current liabilities and amounts to 1.4 in our case. Current ratio indicates whether enterprise has enough resources that can be used to repay the short-term obligations. The interpretation of this indicator is associated to an important hypothesis about the proper organization of

financing — the company should not use short-term funding sources for the purchase of long-term assets.

Accordingly, the usual recommended value of current ratio is from 1 to 2. The Quick ratio is the ratio of the most liquid part of the current assets (cash, accounts receivable, short-term financial investments) to short-term obligations. Typically, the recommended value of this indicator should be more than 1, but in our case it is 0.87, which is a little bit lower. Such indicates that the company should increase the amount of cash or decrease short-term obligations. Debtor turnover ratio indicates the average time required for debt collection.

The larger the number, the faster the receivable turns into cash, and therefore increases the liquidity of the capital of the enterprise. A low value may indicate problems with the collection of accounts receivable, which in our case indicates 34.6. On one hand, the inventory turnover ratio reflects the speed of the inventory realization and is 31.88. On the one hand, the higher this indicator, the better the company's resources are used.

In addition, high inventory turnover increases the requirements for stability of supplies and goods and can affect the sustainability of the business. The financial leverage ratio characterizes the company's dependence on external loans, indicating 1.1 in our case. The higher the value of the coefficient, the more loans the company has and the higher the risk of insolvency. High value of this indicator also reflects the potential danger of the lack of cash and funds.

Gross profit ratio is calculated by dividing gross profit on total revenue and reflects the overall profitability of the company's sales, which in our case is 24%. Calculating the net profit ratio indicates a not bad result of 4.09%. This indicator means that for every dollar generated in sales, the company has only 24 cents of profit to cover basic operating costs. The earnings per share indicator depicts the percentage of the net profit (money) per one ordinary share and is determined by the ratio of the net profit to the number of ordinary shares, which indicates 0.4 dollars for this company.

Times interest earned characterizes the degree of protection of creditors from the non-payment of interest for credit and demonstrates how many times during the reporting period, the company earned funds to pay interest on loans. In our case it is 2.33. It also allows manager to define the allowable reduction of profits used for the payment of interest. Return on shareholders' equity under these circumstances standing on 17.57%, allows one to determine the efficiency of the capital invested by owners of the enterprise or shareholders.

The return on equity shows how much money of net profits is earned by each dollar invested by the owners or shareholders of the company. Eventually, in process of calculations and analysis, one can see that the financial condition of the company is good: indicators of inventory turnover and debt are high. It signifies that the company has time to scroll through available funds without resorting to additional lending, although net profit, liquidity, return on equity and earnings per share are quite low. From the financial statements we can see that spending on marketing and administration in comparison to the market indicators have decreased by 3%, but the costs of production

increased by 8%. This leads to low net income after taxation that is smaller in 2 times than the average market indicators. This creates the need to reduce production costs, while maintaining the same high quality of the product, to search for new suppliers and substitutes.

On the basis of the given data we can see that the market value exceeds its actual value. It means that the company has good reputation and trust of consumers to the brand. The company has a very small volume of liquid assets and rarely resorts to long-term credits. The inventory does not exceed the norm while the maintenance of it is cheaper; receivables are smaller, although certain actions must be held to protect interests of the company. Due to the unstable market situation clear limits of deliveries and payment terms for clients must be established, penalties for late return of money should be set (without prior arrangement) both for customers and sales agents, who ought to monitor the debt and take action on its return. Often, when the volume of production increases the cost of production per one unit of the item is decreasing, so under the conditions of existing constant demand management should consider the possibility of expanding production.

In our case the company needs to get 300 0000 dollars. The company has two possible ways of getting them: long-term loans and sale of shares. At the moment, venture capital is formed of 47. 6% from the money received from the sale of common shares, that is for 5. 6% more than average indicator of the market, and by 52.

4% of credit means that is for 5.6% less than average indicator of the market. I believe that after determining of the break-even point for defined output, while reducing cost of production per unit, increase of profitability and liquidity and low interest loans, the company can take a long-term credit for at least 3 years. Conclusion The limited financial resources of enterprises and their involvement in process created necessity of optimization of the use of available financial resources, to improve the accuracy of forecasting and planning financial activity of the enterprise. The experience of the most companies' shows that in market conditions the maximum use of the methods of financial management is essential for enterprise survival and growth and in the other hand a financial planning system at the enterprise is essential for attracting investors and creditors.