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PECULIARITIES OF ANALYSIS OF FINANCIAL RESULTS OF AGRICULTURAL ENTERPRISE

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Abstract. *The article is devoted to the analysis of financial results on the example of PJSC JV «Chornomorska perlyna», the main types of analysis of financial statements and articles specific only to agricultural enterprises. In the process of writing the article, the following research methods were used: horizontal analysis, vertical analysis, trend analysis, elimination, factor analysis. As a result, the specifics of items of expenses and income from the initial recognition of biological assets and agricultural products were studied.*

Keywords: *financial analysis, horizontal analysis, vertical analysis, trend analysis, elimination, reporting period.*
JEL: M00, M41, C81

Introduction

The agricultural sector occupies a significant place in the economy of Ukraine: one-fifth of GDP and half of the country's foreign exchange earnings. On this basis, stable and dynamic pace of development of agricultural enterprises on the basis of their efficient operation is very important. An important role is played by the analysis of the formation of financial results, focused on finding possible reserves for profit growth and maximizing their market value, which is a prerequisite for ensuring the concept of business continuity, the concept of capital preservation provided by international financial reporting standards.

The choice of the research topic was formed on the basis of the importance of agricultural enterprises for the Ukrainian economy. The selected enterprise is a striking example of one of the typical agricultural enterprises located in the Tatarbunary district of Odessa region, where there is a fairly favorable climate for the development of this type of enterprise.

The aim of the study is to substantiate the main directions of growth of profits of agricultural enterprises, based on the peculiarities of its analysis, taking into account the specifics of the formation of financial results in this sector of the economy.

In the process of research such methods as horizontal analysis, vertical analysis, trend analysis, elimination were used.

In general, the research process takes place in three stages. The first was used to determine the dynamics of indicators, the second - their share in the total. At the third stage, the impact of operating costs on UAH 1 of sold products was determined. This made it possible to draw reasonable conclusions and formulate the main directions of growth of operating income.

Basic content

Mandatory requirement for the analysis of financial results is the use of horizontal, vertical and trend analysis, as required by International Standards on Auditing 520 «Analytical Procedures» [1]. The use of these analytical procedures allows the analyst to identify changes in individual items (absolute and relative indicators), their structure, trend, is the basis for further factor analysis and on this basis - the analytical justification of management decisions. The source for such an analysis is Form 2 «Statement of Financial Results», which is provided by Ukrainian National Accounting Standard 1 «General requirements for financial reporting» [2].

Table 1. Horizontal analysis of financial performance of PJSC JV «Chornomorska perlyna»

Item	Line code	2019, thds. UAH	2020, thds. UAH	Divergence	
				Absolute, thds. UAH	Relative, %
Net income from sales of products (goods, works, services)	2000	73989	41052	(32937)	(44,52%)
Cost of goods sold (goods, works, services)	2050	(48345)	(24804)	(23541)	(48,69%)
Gross profit	2090	25644	16248	(9396)	(36,64%)
Other operating income	2120	18242	14513	(3729)	(20,44%)
Income from initial recognition of biological assets and agricultural products	2122	13024	4046	(8978)	(68,93%)
Administrative expenses	2130	(4774)	(5534)	760	15,92%
Selling expenses	2150	(232)	(230)	(2)	(0,86%)
Other operating expenses	2180	(17510)	(8574)	(8936)	(51,03%)
Costs of initial recognition of biological assets and agricultural products	2182	11070	3620	(7450)	(67,30%)
Financial result from operating activities: profit	2190	21370	16423	(4947)	(23,15%)
Other income	2240	908	1074	166	18,28%
Financial expenses	2250	(13050)	(13445)	395	3,03%
Other expenses	2270	(212)	(467)	255	120,28%
Pre-tax financial result: profit	2290	9016	3585	(5431)	(60,24%)
Net financial result: profit	2350	9016	3585	(5431)	(60,24%)

The conducted horizontal analysis allows to draw conclusions. The company is profitable as evidenced by gross, operating, financial results before and after tax. According to all these indicators, there is a significant decrease in them, which may further threaten their functioning.

1. Gross profit decreased by UAH 9,396 thousand, or by 36.64%. This is due to the fact that sales decreased by UAH 32,937 thousand, and costs decreased by only UAH 23,541 thousand. The positive in this case is that the percentage reduction in cost is greater than the percentage reduction in net income, which allowed the company to somehow regulate gross profit and reduce possible losses from sales.
2. Profit from operating activities decreased by UAH 4947 thousand, or by 23.15%. This was influenced by a large number of indicators, of which income from the initial recognition of

biological assets and agricultural products, other operating expenses and costs from the initial recognition of biological assets and agricultural products underwent the greatest changes. As with the previous indicator, a significant share of cost reduction than revenue played an important role.

3. The financial result before tax was affected not only by previous indicators, but also by other income, financial expenses and other expenses. The latter, having increased by about 2 times, played a significant, though not decisive, role in determining this indicator.

When conducting the analysis of financial results, accounting features of agrarian enterprises should be taken into account. Items such as 2122 «Income from initial recognition of biological assets and agricultural products» and 2182 «Expenses from initial recognition of biological assets and agricultural products», as they are not typical for ordinary enterprises and, as a rule, in the financial statements of ordinary enterprises missing. Recognition of biological assets is regulated by Ukrainian National Accounting Standard 30 «Biological Assets», which determines the methodological basis for the formation of accounting information about biological assets and additional biological assets and agricultural products obtained in the process of their biological transformation and disclosure of information about them in financial statements [3]. At the international level, this type of asset is regulated by IAS 41 «Agriculture» which aims to determine the accounting approach, as well as the disclosure of information related to agricultural activities [4].

Comparing IAS 41 and Ukrainian National Accounting Standard 30, domestic scholars emphasize that the International Standard does not take into account one of the main properties of assets – the economic benefits of using an asset – when interpreting a «biological asset». It turns out that at the international level, there is no attachment of the biological asset to the asset in general and the processes that generate it [5]. In terms of their impact on the financial result, these items do not differ from others and have exactly the same impact on the financial result as other reporting items, but they are specific only to agricultural enterprises.

Further analysis involves vertical (structural) analysis – a method of analysis of financial statements, in which each item is determined as a percentage of the bottom line. The generally accepted approach to the vertical analysis of financial results, according to R.B. Sokolskaya, is that ... net income from sales of products (goods, works, services) (when analyzing the statement of financial results) is taken as 100%, and all other items of the relevant financial statement are a fraction of the accepted base value [6]. Unlike the previous type of analysis, it determines the share of each indicator in the total financial result (Table 2).

Table 2. Vertical analysis of financial performance of PJSC JV «Chornomorska perlyna»

Item	2019		2020		Divergence, %
	thds. UAH	%	thds. UAH	%	
Net income from sales of products (goods, works, services)	73989	100,00	41052	100,00	-
Cost of goods sold (goods, works, services)	(48345)	65,34	(24804)	60,42	4,92
Gross profit	25644	34,66	16248	39,58	(4,92)
Other operating income	18242	24,66	14513	35,35	(10,69)

Income from initial recognition of biological assets and agricultural products	13024	17,60	4046	9,86	7,74
Administrative expenses	(4774)	6,45	(5534)	13,48	(7,03)
Selling expenses	(232)	0,31	(230)	0,56	(0,25)
Other operating expenses	(17510)	23,67	(8574)	20,89	2,78
Costs of initial recognition of biological assets and agricultural products	11070	14,96	3620	8,82	6,14
Financial result from operating activities: profit	21370	28,88	16423	40,01	(11,13)
Other income	908	1,23	1074	2,62	(1,39)
Financial expenses	(13050)	17,64	(13445)	32,75	(15,11)
Other expenses	(212)	0,29	(467)	1,14	(0,85)
Pre-tax financial result: profit	9016	12,19	3585	8,73	3,46
Net financial result: profit	9016	12,19	3585	8,73	3,46

Trend analysis is designed to forecast the main financial indicators of the enterprise on the basis of calculated for previous reporting periods. This type of analysis has already been used by us in two previous calculations and allowed us to trace the dynamics of changes in indicators for individual years.

Given the importance of gross and operating financial results in the formation of financial results before and after taxation, it is advisable to supplement the horizontal and vertical analysis with a factor analysis of costs per 1 UAH of sold products. In formalized form, this indicator can be represented by:

$$Z\,t\ = \frac{\sum_{i=1}^{n} z_i \times q_i}{\sum_{i=1}^{n} p_i \times q_i} \qquad (1)$$

where, zi - cost and type of products (works, services);
pi - price and type of products (works, services);
qi - physical volume of products (works, services);
n - the number of products (works, services);
Zt - costs per 1 monetary unit of output.

According to Ionin Ye.Ye. «The advantage of this indicator is, first of all, its comparability, which makes it possible to analyze the costs of enterprises for different periods, not only within one industry, but also different industries. The external user can calculate it on the basis of the report on financial results in relation to the volume of sales, while determining the main reasons for changes in financial results. In addition to purely analytical practice, the cost of 1 monetary unit of output is used in financial planning, as one of the options for the analytical method of profit planning». [7, p. 103].

Features of cost analysis for 1 UAH of sold products for the agricultural sector is the presence of two additional items: «Income from initial recognition of biological assets and agricultural products», «Expenses from initial recognition of biological assets and agricultural products», which significantly affect the formation of financial results.

Calculation of the cost indicator for 1 UAH of sold products is given in table 3.

Table 3. Analysis of costs per 1 UAH of sold products

Indicator	2019, thds. UAH	2020, thds. UAH	Divergence
Net income from sales of products (goods, works, services)	73989	41052	(32937)
Other operating income	18242	14513	(3729)
Income from initial recognition of biological assets and agricultural products	13024	4046	(8978)
Total income	105 255	59 611	45 644
Cost of goods sold (goods, works, services)	(48345)	(24804)	(23541)
Administrative expenses	(4774)	(5534)	760
Selling expenses	(232)	(230)	(2)
Other operating expenses	(17510)	(8574)	(8936)
Costs of initial recognition of biological assets and agricultural products	11070	3620	(7450)
Total costs	81 931	42762	(39 169)
Costs per 1 UAH of sold products	110,73	104,17	(6,56)

Factors influencing the change in costs by UAH 1 products, works, services can be grouped into the following groups:

1. Prices for raw materials and supplies, the level of labor and material resources.
2. Selling prices for products.
3. Structural changes in the composition of products.

To conduct such an analysis requires additional information on management accounting. The calculation of the degree of influence of factors most often in the analytical practice of Ukraine involves the use of the method of elimination in the form of chain substitutions or absolute differences. The advantage of this method is the sufficient simplicity of such a factor analysis, the possibility of analytical justification of management decisions focused on the final financial result in the short and long term.

And this is the basis for the formation of tactical and strategic decisions in the framework of mandatory constraints provided by the conceptual basis of IFRS: the going-concern concept, the concept of capital preservation: physical and financial, the main elements of financial reporting: assets, capital, liabilities, income, expenses.

In general, we can say that the indicator of expenses per 1 UAH of sold products tends to decrease by 6, 1 kopecks., which can be assessed positively. But along with this there are items to look out for:

- increase in administrative expenses by UAH 760,000, or by 15.9%;
- with an absolute reduction in sales costs by UAH 2,000, as a percentage of sales, this item increased significantly: in 2019 0.31%; In 2020, 0.56%, ie approximately 2 times increased these costs per 1 UAH of sold products;

Elimination of these two negative manifestations (absolute increase in administrative costs, relative increase in sales costs) is one of the main reserves for reducing the cost of operating activities of PJSC JV «Chornomorska perlyna». In addition, an important reserve is the increase in net sales revenue, which is associated with the possible volume of sales, its promotion in the market. And this in turn affects the range of products, its price, quality and overall market demand.

Conclusions

Thus, the study found that to assess the financial results of the agricultural enterprise can be used such types of analysis as horizontal, vertical and trend. Detailed analysis of financial results should be supplemented by factor analysis of costs per 1 UAH of sold products. This allows for analytical justification of management decisions in the short and long term in accordance with the basic concepts of IFRS.

These types of analysis in different ways highlight the formation of financial results, focus on possible reserves for profit growth and profitability. It should also be noted that the analysis of financial results is not limited to these types of analysis and therefore this issue may require further research.

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