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SIMON KUZNETS KHARKIV NATIONAL UNIVERSITY OF ECONOMICS

**Business Registration and Preparation
of Business Financial Statements**

**Guidelines to independent work
for Bachelor's (first) degree students
of all specialities**

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Guidelines to independent work of students are given. Test tasks, multiple choice tasks, tasks to be performed independently, cases, questions for self-assessment of the received knowledge and the acquired skills are offered to develop the professional competences that a student should possess after studying the academic discipline.

For Bachelor's (first) degree students of all specialities.

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Introduction

Each entrepreneur, starting his activity, should have a clear idea of the future needs for financial, material, labor and intellectual resources, where to get them from, and be also able to accurately calculate the efficiency of the resource use in the business process. This is due to the fact that in the modern economy it is enterprises that produce the bulk of goods and services that satisfy human needs.

In a market economy, entrepreneurs will not be able to achieve stable success if they do not clearly and efficiently plan their activities, constantly collect and accumulate information about the status of target markets, the position of competitors in them, and about their own prospects and opportunities. For all the variety of forms of entrepreneurship, there are key issues that are applicable to almost all areas of commercial activity and to different firms.

The purpose of the given academic discipline is to create basic knowledge of entrepreneurship and business. The tasks of mastering the academic discipline are: consideration of laws and principles based on which a business develops; the existing problems from the point of view of the employee, manager, owner of the enterprise and society as a whole; the mechanism for creating enterprises, the organization of business and its effective management.

In the process of studying the academic discipline special attention is focused on independent work of students – performance of the provided tasks under the methodical guidance of the teacher. The purpose of independent work is to master the curriculum in full and form general and professional competences that play a significant role in the formation of a highly qualified specialist. The tasks offered in the guidelines contain questions for self-assessment, test tasks, multiple choice tasks, tasks to be performed independently, cases.

Guidelines to independent work will contribute to the proper mastery of the basic issues of the academic discipline, the formation of such competences as the ability to develop a business idea for creating your own enterprise, conduct market analysis and develop a business plan for an entrepreneurial idea, the ability to register and accompany your own business in the tax and financial aspects. The results of studying the academic discipline are: the ability to conduct strategic market analysis, to choose the most suitable form of business organization, to understand advantages and disadvantages of the general tax system, the amount of taxes and fees payable to the budget and trust funds, to generate and analyze financial statements of a business.

Content module 1. Market analysis and business planning

Topic 1. Market analysis

Cases

Case 1.1

A woodworking enterprise is located in Kharkiv and is engaged in the production of double-glazed windows from larch. Larch wood is a very strong, beautiful and durable material due to its moisture resistance. The company considers its area of work to be promising and relies on the fact that in northern European countries with a similar climate, wooden and wood-aluminum double-glazed windows hold a market share exceeding 85 %. The company has established a full production cycle: from sawing and drying to manufacturing products. The company is also independently engaged in the sale, delivery and installation of finished products. Larch is purchased from the timber industry enterprises of the Krasnoyarsk Territory. Due to natural conditions, wood harvesting in the places of its growth is possible only from November to April. The demand for the installation of double-glazed windows has a pronounced seasonality (it drops to almost zero in the period from December to March and increases in the summer). Such seasonal fluctuations pose a threat to the internal state of the enterprise. Irregular production leads to equipment failures, the need for additional commissioning. The lack of working capital leads to the postponement of promising programs for the development of the enterprise. There were also cases of delays in the salaries of employees.

Questions:

1. How to reduce the dependence of the enterprise on seasonal fluctuations in demand?
2. How to increase the financial stability of the enterprise?
3. If you were faced with the task of calculating the market potential for this type of product, what indicators would you rely on?

Case 1.2

Conduct market research for the area in which you would like to start your own business.

Guidelines to cases 1.1, 1.2

When you start a business, do you just wing it? Or, do you take time to plan and research your strategies before you jump into the market? If you're like most entrepreneurs, you probably prepare your business before taking the plunge.

Before diving into a market or switching up a strategy, you need to do thorough research. Otherwise, your business could quickly sink.

If you want to stay afloat in the business world, you need to know how to conduct a market analysis.

A market analysis is the process of gathering information about a market within an industry. Your analysis studies the dynamics of a market and what makes potential customers tick.

A market analysis may seem complex, but it's necessary if you want to lead your business in the direction of success.

When you conduct a market analysis, you learn the following:

Who are my potential customers?

What are my customers' shopping and buying habits?

How large is my target market?

How much are potential customers willing to pay?

Who is my competition?

What are my competitors' strengths and weaknesses?

Your market analysis can make or break your startup. Analyzing markets helps you reduce risks because you can better understand your customers and market conditions.

Your analysis also helps you clarify what makes you different from the competition. That way, you know what makes you stand out. Or, you know what you need to do to set yourself apart.

Whether you're starting a venture, introducing a new product, or growing your small business, market research can help take you to the next level.

How to conduct a market analysis: 7 steps.

1. Determine the purpose of your study.

There are many reasons why businesses might conduct market research. You may use them to assess business risks (e.g. threats), reduce issues, or create opportunities.

You can look at past problems to decrease future risks and analyze past successes to see what you need to continue to do in the future.

Before starting any market research, determine whether the analysis is for internal or external purposes. Internal purposes include things like improving cash flow or business operations. External purposes include trying to convince lenders to give you a business loan.

Your analysis is a critical part of your small business plan. It shows lenders that you know your industry like the back of your hand and that your business has growth potential.

The kind of research you conduct varies depending on your analysis' purpose. For example, say you conduct a study for internal purposes. Because it's for internal purposes, you likely won't need to collect as much data as you would with an external purpose.

Make sure you determine whether your study will be internal, external, or both before proceeding with your research.

2. Look at your industry's outlook.

In your analysis, outline the current state of your industry. Include where the industry is heading using metrics such as size, trends, and projected growth. Be sure to have relevant data to back up your claims.

This section will let investors or lenders see that you've done your homework on your business's industry. And, it will show them whether or not your industry is worth their time and money.

3. Pinpoint target customers.

The truth is, not every person will be your customer. But that's OK! When you analyze the market, you must determine who your potential customers are. This part of the process is called a target market analysis.

You need to fully understand who your customers are and where they come from. Your research should paint a clear picture of your potential customers. Look at things like:

- age;
- income;
- gender;
- location;
- occupation;
- education level;
- marital or family status.

Once you narrow down who your customers are, find out their needs, interests, personalities, and demographics.

Consider also creating customer personas based on your research. Many businesses have multiple customer personas. After you compile different customers' characteristics, build different personas to represent your typical customers.

Pinpointing your target market can help you better cater to future customers and market more efficiently.

As your business grows, your potential customers may evolve or change. Revisit your target market from time to time to ensure they still fit your business.

4. Compare your competition.

To further analyze the market, you need to understand your competition. And, you must know who your competitors are trying to target.

Take the time to research what other businesses are out there. Look at things like your competition's offerings, location, targeted customers, and disadvantages in the market.

Make a list of all of your main competitors. Go through each one on the list and determine their strengths and weaknesses (SWOT analysis). What does their business have that you don't? Why would a customer pick a competitor's business over yours? Do they pose any threat to your business?

Once you outline your competitors' strengths, weaknesses, opportunities, and threats, rank them from most to least threatening. Then, determine your startup's advantages and marketing position.

5. Gather additional data.

Information is your greatest ally when it comes to conducting a market analysis. The more information you gather and have, the better off your business will be.

The data you have should be unbiased, relevant, and factual. You should be able to back up your research and make decisions based on accurate information.

Use credible sources to gather additional data. You can take advantage of different resources, such as:

- the Bureau of Labor Statistics;
- the Census Bureau;
- state and local commerce websites;
- trade journal articles;
- competitors' strengths and weaknesses;

target market surveys or questionnaires;
information from interviews or focus groups within your target market.
6. Analyze your findings.

After you analyze the market, it's time to take a look at your findings. Lay out all of your research and organize it using different sections. Include sections for your purpose, target market, and competition.

Here are some other things you should include in your findings:
an overview of your industry's size and growth rate;
your projected market share percentage;
your outlook for the industry;
discounts you plan on offering;
buying trends;
your business's forecasted growth;
prices of your offerings;
how much customers are willing to pay;
your cash flow projection;
your customer groups;
results of your other analyses.

Based on your research, you will be able to forecast other things for your business, such as your cash flow cycle, gross margin, and customers' buying habits.

7. Put your analysis into action.

Conducting a market analysis might seem like a daunting task, but your business will thank you for it later.

Sure, you'll spend a good chunk of time working on your marketing analysis. But, it's well worth it. Don't put all that extensive research to waste. Put your analysis into action.

For internal purposes, look at how you can use your findings to improve your business. Use your analysis to see if you can make any of your business processes more efficient.

If you conducted an analysis for external purposes, be prepared to speak with lenders about your research and conclusions.

Don't just box up your analysis and pack it away for "later". Revisit your market analysis every now and then for necessary tweaking.

Questions for self-assessment

1. What is marketing research?
2. What is market analysis for?
3. Who can use market research information?
4. What factors of influence on the company can be classified as political?
5. What factors of influence on the company can be classified as economic?
6. What factors of influence on the company can be classified as social?
7. What factors of influence on the company can be classified as technological?
8. What directions for creating a business will be in demand in the next decade?
9. How can a company define its target audience?
10. Why do companies need to study and apply goal setting in practice?

Recommended reading: [23; 24; 26].

Topic 2. The methods of strategic analysis: definitions and practical use

The list of questions for independent work

1. The strategic analysis toolset for business.
2. A strategy map as a visual representation of strategic objectives.

Tasks for independent work

Task 2.1

Fill in the external factor evaluation (EFE) matrix for the company you have chosen. Determine the needs and sources for competitive intelligence, promote and facilitate discussions of potential *opportunities* and *threats* (Table 1).

Table 1

The EFE matrix

External factor		Weight	Rating	Weight score
Opportunities	O ₁	wO ₁	rO ₁	wO ₁ × rO ₁
	O ₂	wO ₂	rO ₂	wO ₂ × rO ₂

	O _n	wO _n	rO _n	wO _n × rO _n
	Total	$\sum wO_n$	–	$\sum (wO_n \times rO_n)$
Threats	T ₁	wT ₁	rT ₁	wT ₁ × rT ₁
	T ₂	wT ₂	rT ₂	wT ₂ × rT ₂

	T _n	wT _n	rT _n	wT _n × rT _n
	Total	$\sum wT_n$	–	$\sum (wT_n \times rT_n)$
Total weighted score		$1 = \sum wO_n + \sum wT_n$	–	$\sum (wO_n \times rO_n) + \sum (wT_n \times rT_n)$

Guidelines to task 2.1

The key purpose of SWOT-analysis is to help an organization understand its strengths, weaknesses, opportunities, and threats from the outside environment. SWOT-analysis is identifying and evaluating four areas: strengths, weaknesses, opportunities, and threats. It's a good way to match the organization's strengths with market opportunities and then protect and develop its internal strengths (or develop weaknesses into strengths) to further leverage market opportunities.

The first part of the SWOT-analysis requires looking outside the company at issues that management cannot control but can manage to enhance or reduce their impact on the business. The external factor evaluation (EFE) matrix is a strategic management tool often used for assessment of the current business conditions.

Using the EFE matrix, the company's management can identify the key external opportunities and threats that are affecting or might affect it. The process of development of the EFE matrix is completed in five steps.

Step 1. Identify key external factors and divide them into two groups: opportunities and threats.

Step 2. Determine the weight of each factor. The value of each weight should be between 0 and 1 according to the following rules:

"0" – the factor is not important;

"1" – the factor is the most influential and critical;

the total value of all weights put together (total weighted score) should equal 1.

Step 3. Assign a rating. Ratings, as well as weights, are assigned subjectively to each factor and show how effectively the company's strategies respond to each opportunity or threat. The ratings range from 1 to 4 for each external factor:

"4" – the response of the strategies of the organization towards that factor is superior (the factor represents a major opportunity);

"3" – the response is above average (the factor represents a minor opportunity);

"2" – the response is average (the factor represents a minor threat);

"1" – the response is poor (the factor represents a major threat).

1, 2, 3, or 4 ratings can be assigned to both opportunities and threats.

If rating scale 1 to 4 is used, then strengths must receive a 4 or 3 rating and weaknesses must receive a 1 or 2 rating.

Step 4. Multiply weights by ratings. The weight of each factor is multiplied by its rating so that a weighted score can be determined (see Table 1).

Step 5. Total all weighted scores. The weighted average scores of all the factors are summed up so that a total weighted score for the entire organization is ascertained. Although there are a number of important opportunities and threats in the EFE matrix, the highest total weighted score that an organization can obtain is 4.

Task 2.2

Fill in the internal factor evaluation (IFE) matrix for the company you have chosen. Determine the needs and sources for competitive intelligence, promote and facilitate discussions of potential *strengths and weaknesses* (Table 2).

Table 2

The IFE matrix

Internal factor		Weight	Rating	Weight score
Strengths	S ₁	wS ₁	rS ₁	wS ₁ × rS ₁
	S ₂	wS ₂	rS ₂	wS ₂ × rS ₂

	S _n	wS _n	rS _n	wS _n × rS _n
	Total	$\sum wS_n$	–	$\sum (wS_n \times rS_n)$
Weaknesses	W ₁	wW ₁	rW ₁	wW ₁ × rW ₁
	W ₂	wW ₂	rW ₂	wW ₂ × rW ₂

	W _n	wW _n	rW _n	wW _n × rW _n
	Total	$\sum wW_n$	–	$\sum (wW_n \times rW_n)$
Total weighted score		$1 = \sum wS_n + \sum wW_n$	–	$\sum (wS_n \times rS_n) + \sum (wW_n \times rW_n)$

Guidelines to task 2.2

The IFE matrix filling algorithm is similar to the steps for EFE matrix.

Strengths mean the ability of a company to surpass its competitors or a company's unique advantage of improving competitiveness.

A *weakness* is an area where an enterprise does not perform well or has failed to do so compared with its competitors, thereby placing itself at a disadvantage compared with its competitors.

Rating captures whether the factor represents a major weakness (rating "1"), a minor weakness (rating "2"), a minor strength (rating "3"), or a major strength (rating "4").

Task 2.3

Fill in the SWOT-analysis matrix for the company you have chosen. Using the EFE & IEF matrix determine the *suggested strategies* (Table 3).

Table 3

The SWOT-analysis matrix

Internal factors	<i>Strengths (S)</i>	<i>Weaknesses (W)</i>
	S ₁ S ₂ S _n	W ₁ W ₂ W _n
External factors		
<i>Opportunities (O)</i>	SO Strategies	WO Strategies
O ₁	SO ₁	WO ₁
O ₂	SO ₂	WO ₂
....
O _n	SO _n	WO _n
<i>Suggested strategies</i>		
<i>Threats (T)</i>	ST Strategies	WT Strategies
T ₁	ST ₁	WT ₁
T ₂	ST ₂	WT ₂
....
T _n	ST _n	WT _n

Guidelines to task 2.3

The internal environment of the enterprise is considered in terms of strengths and weaknesses (the EFE matrix). The external environment of the enterprise is considered in terms of opportunities and threats (the IFE matrix). The SWOT matrix comprises four strategic groups:

competitive strategies (SO) – which focus on internal strengths and external opportunities; they are proposed to utilize available priorities in order

to develop entrepreneurship. *Competitive strategies* show how the strengths are used to take advantage of opportunities;

diversification strategies (ST) – which focus on the internal strengths and external threats; they are presented to provide some requirements for development of entrepreneurship in order to meet the threats. These strategies show how the strengths are used to reduce the impact of threats;

overview strategies (WO) – emphasizing the internal weaknesses, that an enterprise tries to take advantage of external opportunities to address weaknesses facing entrepreneurship. These strategies show how the weaknesses are reduced by taking advantage of opportunities;

defensive strategies (WT) – which put emphasis on removing the vulnerability of the studied area. These strategies show how the weaknesses that will make threats a reality are addressed.

Task 2.4

Based on the results of the SWOT-analysis, identify goals for financial, customer, internal and learning and growth perspectives, make a strategic map for the selected enterprise. Use the diagram (Fig. 1).

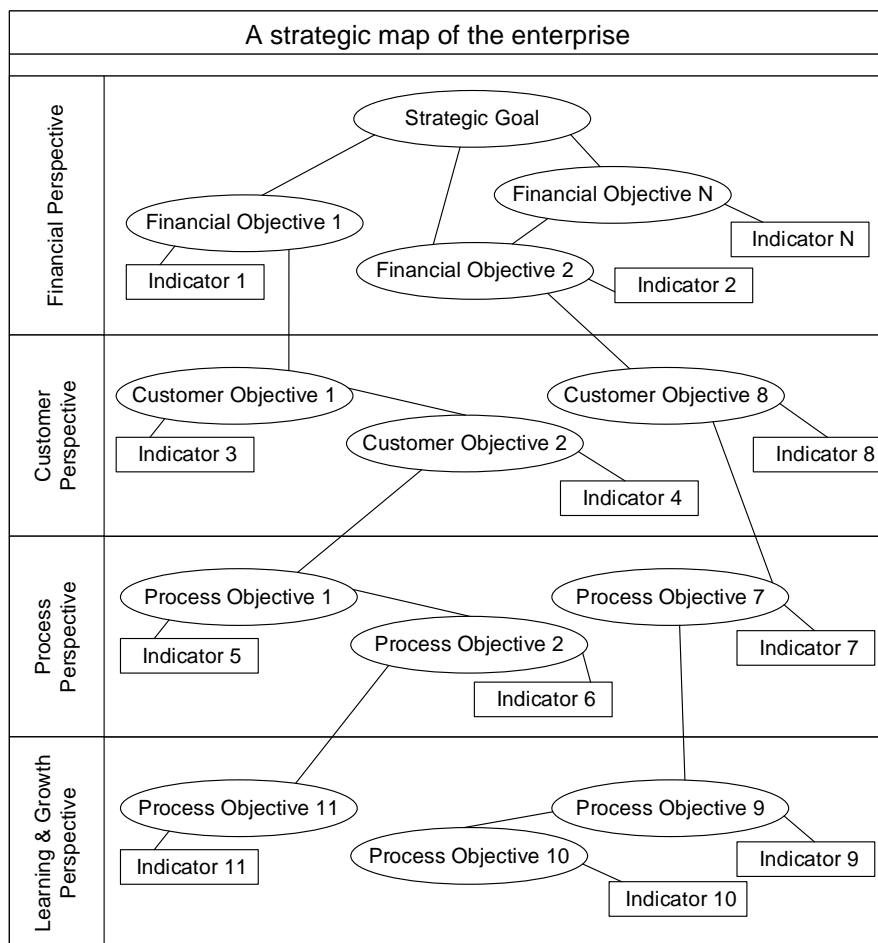


Fig. 1. The enterprise strategy map template

Guidelines to task 2.4

A strategy map is a diagram that describes how a company can create a value by linking strategic objectives in a cause-and-effect relationship in a simple visual form. It is often made as a simple visual representation of the strategic objectives and four perspectives: financial, customer, internal business process, and learning & growth. All objectives in a strategy map should ultimately logically lead to the desired ultimate outcomes (e.g. financial objectives). Generally, although not necessarily, learning and growth objectives should help drive internal business process objectives, which in turn help drive customer objectives, which ultimately lead to meeting the financial objectives. These paths are illustrated using arrows connecting the objectives.

The financial perspective shows what the most financial outcomes are, *the customer perspective* demonstrates how the company's management should appear to customers, *the process perspective* illustrates what the company needs to excel or fulfill customer expectations, *the learning & growth perspective* helps to understand how the company will sustain its ability to improve.

Questions for self-assessment

1. What are the main tools of strategic analysis for business?
2. What economic factors exist in the external environment of an enterprise?
3. Describe the meaning of the SWOT analysis.
4. What threats exist for an agricultural enterprise in Ukraine?
5. What are the opportunities for a machine-building enterprise in Ukraine?

Recommended reading: [2; 7; 21; 22; 25; 27; 28].

Topic 3. Forms of capital raising and financial settlements

Questions for self-study

1. The necessity and essence of credit. A bank loan.
2. Credit as a form of value movement on a reverse basis.
3. The principles and methods of bank lending.
4. The mechanism of bank lending.
5. The main features of loan capital.

6. The theory of the value of money in time.
7. Modern and future capital cost.
8. Compounding and discounting processes.
9. The economic essence and content of investments.
10. Forms of attracting investment resources.
11. Assessing the value of investment resources.
12. How to evaluate an investment project.
13. Assessment of the value of property. Liquidation cost.
14. The basics of calculations of the value of real estate.

Test tasks

1. Match the terms and their definitions.

1. A pro forma cash flow statement	A. The sum of the total price of an asset and the operational costs of ownings
2. The source and application of funds	B. A company's report on the sources of funds and their use in the reporting period, reflecting the company's cash receipts classified according to the main sources and its cash payments classified according to the main areas of use during the period
3. The cost of the equity capital	C. It is the rate of return that a firm theoretically pays to its shareholders to offset the risk they take in investing their capital
4. Business ownership costs	D. It is usually produced to show the various sources of funds received during the period in question and how those funds have been spent

2. Cash equivalents are ...

- a) the property, land, buildings, air rights above the land and underground rights below the land;
 - b) short-term highly liquid investments which are relatively easy to convert into cash without a significant risk of losing their value;
 - c) the money a business pulls in after accounting for all expenses.
3. ... is the amount or level of payment expressed by the relative value:
 - a) cash flow;
 - b) income;
 - c) rate.

4. The cost of borrowing refers to ...

- a) the amount of money an individual or business pays for an insurance policy;

b) the total expense incurred in reaching a particular level of output; if such total cost is divided by the quantity produced, average or unit cost is obtained;

c) the total amount a debtor pays to secure a loan and use funds, including financing costs, account maintenance, loan origination, and other loan-related expenses.

5. This information can be developed as part of the annual budgeting or forecasting process, or it can be created as part of a specific request for cash flow information, as a potential lender or investor may require:

- a) a pro forma cash flow statement;
- b) financing;
- c) repair costs.

6. The cost of equity is ...

a) the return a company requires to decide if an investment meets capital return requirements;

b) a name, term, design, symbol or any other feature that identifies one seller's good or service as distinct from those of other sellers;

c) a corporate expense that changes in proportion to production output.

7. "The increase in receivables during the reporting period relates to cash outflows". Is the statement true or false?

- a) true;
- b) false.

8. The company received an inflow of cash as a result of the repayment of receivables. What kind of activity does this operation include:

- a) financial activities;
- b) operating activities;
- c) investment activities?

9. Is it correct to say that the increase in production reserves in the company's assets is an inflow of cash from operating activities?

- a) correct;
- b) incorrect.

10. The economic relations of the lender and the borrower in which the contractual conditions of repayment and payment transferred from the lender to the borrower money or its equivalent in the form of securities, goods, services and other valuables and assets. It is:

- a) the essence of the loan;

- b) a loan;
- c) the price of credit.

11. Which classification is correct with respect to the type of loan "payment by installment":

- a) the term of the loan;
- b) loan repayment;
- c) the goal of the loan?

12. Is the process of determining the present value of a payment or a stream of payments that is to be received in the future

- a) discounting;
- b) compounding?

13. This is the average interest rate for all sources of company financing:

- a) weighted average cost of capital;
- b) profitability;
- c) interest rate.

14. It is a series of equal cash flows, or payments, made at regular intervals:

- a) present value;
- b) future value;
- c) annuity.

Tasks to be performed independently

Task 3.1

Determine the weighted average cost of capital, provided that the total capital is 35 000 UAH, the amount of equity capital is 47 000 UAH, the rate of return on the equity capital is 17.9 %, and part of the borrowed capital is attracted at 30.5 %.

Task 3.2

Determine the weighted average cost of capital, provided that the average annual amount of the equity capital is 59 000 UAH, the amount of net profit received in the reporting year is 26 500 UAH, the total capital of the company is 90 000 UAH, and the interest rate on the bank loan (due to which part of the capital is formed) is 22 %.

Task 3.3

Determine the weighted average cost of capital, provided that it is formed from three sources: equity in the amount of 100 000 UAH used with a yield of 19 %; a bank loan in the amount of 35 000 UAH issued at a rate of 30 % per annum; part of the capital formed through leasing of equipment (an external source of capital attraction) in the amount of 45 000 UAH which requires interest payment in the amount of 27 % per annum.

Guidelines to tasks 3.1 – 3.3

Both equity and debt capital from various sources can be attracted for doing business. Then its value will be determined as the indicator of the weighted average cost of capital WACC that is the average interest rate for all sources of company financing.

The calculation takes into account the share of each source of funding in the total cost. The indicator characterizes the relative level of expenses of each source of financing and their number in the capital structure.

The formula for determining the weighted average cost of capital is:

$$\text{WACC} = k_d \times (1 - \text{tax}) \times \frac{D}{E + D} + k_e \times \frac{E}{E + D}, \quad (1)$$

where E is the equity of the enterprise;

E + D is the total capital value of the enterprise;

k_e is the market rate of return on equity of the enterprise, %;

D is the borrowed capital;

k_d is the market value of the borrowed capital, %;

tax is the income tax rate, %.

The cost of the equity of an enterprise in the reporting period is determined by the formula:

$$\text{The cost of equity} = \frac{\text{net profit}}{\text{the average annual amount of equity}} \times 100 \%. \quad (2)$$

The cost of a bank loan is determined by the interest rate set by the bank as a payment for the use of the loan.

$$\text{The cost of a bank loan} = \frac{\text{Loan interest rate} \times (1 - \text{income tax rate})}{1 - \text{The level of borrowing costs}}. \quad (3)$$

Task 3.4

Based on the results of the company's activities, determine the net cash flow. Separately determine the result of the formation of cash flow from operating, financial and investment activities. The results of the implementation of operational, financial and investment activities of the company are presented in Table 4.

Table 4

Incoming information for analysis

The results of the company's activities	Amount, \$
Capital expanders	450 000
Decrease in accounts payable	42 000
Decrease in prepaid expenses	4 500
Depreciation and amortization	94 500
Dividends paid	165 000
Increase in accounts receivable	31 500
Lost on sale of equipment	22 500
Proceeds from issuing debt	300 000
Process from sale equipment	60 000

Guidelines to task 3.4

The net cash flow formula is:

$$\begin{aligned} \text{Net cash flow} = & \text{net cash flow from operating activities} + \\ & + \text{net cash flow from financial activities} + \\ & + \text{net cash flow from investing activities.} \end{aligned} \quad (4)$$

This can be put more simply, like this:

$$\text{Net cash flow} = \text{total cash inflows} - \text{total cash outflows.} \quad (5)$$

Task 3.5

Match the terms and definitions (Table 5).

Property valuation terms and definitions

Concept	Definition
Value	a real estate valuation measure used to compare different real estate investments
Real estate income	real property that consists of land and improvements, which include buildings
Retail	the monetary, material, or assessed worth of an asset, good, or service
Capitalization rate	profit made from real estate
Real estate	process of selling consumer goods or services to customers through multiple channels of distribution to earn a profit
Commercial property	real estate that is used for business activities
Farmland	typically, land devoted to agriculture

Essay topics

1. The essence of economic categories of money, banks, credit and their applied value.
2. Development of credit service, its advantages and disadvantages.
3. Alternative lending.
4. Loans for business development in Ukraine.

Recommended reading: [8; 11; 17 – 18; 20].

Topic 4. Making a business plan for a project

Questions for self-assessment

1. What is a business-plan?
2. The role of research in making a business plan.
3. The purpose of creating a business plan. A company profile.
4. What is a marketing plan?
5. Marketing planning: meaning and types of marketing plans.
6. Basics of production planning.
7. Sales and operations planning.
8. The types of organizational structure.
9. Total investment, the structure of project funding sources, an income and expenditure plan, a cash flow plan.

Test tasks

1. Which project is not profitable to participate in if the following indicators of their effectiveness are known:

- a) NPV = 0;
- b) $I = 1.2$;
- c) IRR = 16 %, and it's less than the discount rate of 2 %?

2. If the company's pre-tax profit was 391 thousand UAH, then what is the amount of the income tax paid:

- a) there is no right answer;
- b) 57.42 thousand UAH;
- c) 63.8 thousand UAH;
- d) 60.61 thousand UAH.

3. What does a market segment identify:

- a) competitors;
- b) groups of people with similar buying habits;
- c) all the products in the market?

4. What is the first step for a new business:

- a) to attract advertising;
- b) to attract repeat purchases;
- c) to attract trial purchases?

5. Why do businesses use market research:

- a) to sell goods and services;
- b) to advertise;
- c) to identify customer needs?

6. A document setting out how the project will be implemented is:

- a) a summary of the project;
- b) a business plan;
- c) the project structure.

7. If the ROI is less than one ($ROI < 1$), then:

- a) the project is profitable and can be recommended for implementation;
- b) the project is unprofitable;
- c) the situation of uncertainty.

8. Which of the models is used to estimate the future income of the asset for investors:

- a) the weighted average cost of the equity estimation model;
- b) the capital asset valuation model;

c) a model for assessing the optimal capital structure according to the criterion for determining the effect of financial leverage?

9. What should the level of profitability of investments be in order for its implementation to be considered expedient, if the level of profitability of deposit operations is equal to 16 %:

- a) more than 16 %;
- b) less than 16 %;
- c) 16 %?

10. What should the value of IRR be in order for an investment project to be implemented if it is known that the cost of investment resources will be 19 %:

- a) more than 19 %;
- b) less than 19 %;
- c) 19 %?

Tasks to be performed independently

Task 4.1

An initial investment of \$2,324,000 is expected to generate \$600,000 per year for 6 years. Calculate the discounted payback period of the investment if the discount rate is 11 %.

Task 4.2

An initial investment of \$3,324,000 is expected to generate \$900,000 per year for 7 years. Calculate the discounted payback period of the investment if the discount rate is 15 %.

Guidelines to tasks 4.1, 4.2

The formula for determining the payback period is:

$$PP \text{ (payback period)} = \frac{IC \text{ (invest capital)}}{CF \text{ (cash flow)}} = 2\,324\,000/600\,000 = 3,87 \text{ years.}$$

The formula for determining the discounted payback period is:

$$\text{Discounted payback period} = \\ \text{year before the discounted payback period} +$$

$$+ \frac{\text{cumulative cash flow in the year before recovery}}{\text{discounted cash flow in the year after recovery}} \quad (6)$$

Solution.

Prepare a table to calculate the discounted cash flow of each period by multiplying the actual cash flows by the present value factor. Create a cumulative discounted cash flow column.

Discounted payback period = $5 + |-106,462| : 320,785 = 5 + 106,462 : 320,785 \approx 5 + 0.33 \approx 5.33$ years.

Thus, in addition to the recovery of cash investment, the cost of financing the investment during the time that part of the investment remains unrecovered is also provided for. It thus, unlike the ordinary payback method, ensures the achievement of at least the minimum required return, as long as nothing untoward happens after the payback period.

The discounted payback period method:

$$\begin{aligned} NPV &= \sum \frac{CF_i}{(1+r)^i} - IC = 600/(1+0.11)^1 + 600/(1+0.11)^2 + 600/(1+0.11)^3 + 600/(1+0.11)^4 + 600/(1+0.11)^5 + 600/(1+0.11)^6 - 2,324 = \\ &= 540,541 + 486,973 + 438,715 + 395,239 + 356,071 + 320,785 - 2,324 = \\ &= 214,323 \text{ thousand UAH (Table 6).} \end{aligned}$$

Table 6

Determination of the cumulative discounted cash flow

Year, n	Cash Flow, CF	Present value factor $PV\$1 = 1/(1+i)^n$	Discounted cash flow $CF \times PV\$1$	Cumulative discounted cash flow
0	-2,324,000	1.0000	-2,324,000	-2,324,000
1	600,000	0.9009	540,541	-1,783,459
2	600,000	0.8116	486,973	-1,296,486
3	600,000	0.7312	438,715	-857,771
4	600,000	0.6587	395,239	-462,533
5	600,000	0.5935	356,071	106,462
6	600,000	0.5346	320,785	214,323

Essay topics

Describe the features and present the key positions of one of the sections of the business plan:

1. Company description.
2. Market analysis.
3. Organization and management.
4. Line of services or products.
5. Marketing and sales.
6. Funding request.
7. Financial projections.

Recommended reading: [9; 10; 12; 17].

Content module 2. Registration and accompanying a business in the tax and financial aspects

Topic 5. Forms of business organization

Test tasks

1. Choose the wrong option:

- a) a limited liability company is the most common form of legal entity in Ukraine;
- b) the number of founders of a limited liability company is limited;
- c) there are no requirements as to the minimum amount of the authorized capital of a limited liability company;
- d) authorized capital of a LLC is divided into shares (parts or stakes), the number of which is determined by the charter.

2. Choose the wrong option:

- a) each member of a LLC has the number of votes corresponding to their shares in the LLC's registered capital;
- b) the general meeting of participants is the highest body of a LLC;
- c) a LLC is liable for its obligations with all assets belonging to it;
- d) authorized capital of a LLC can be only paid in with funds.

3. Choose the wrong option:

a) the founders of a joint-stock partnership can be one, two or more individuals or legal entities;

b) the minimum amount of share capital of a joint-stock partnership is 1500 minimum wages;

c) the joint-stock company incorporation procedure in Ukraine is much more expensive and difficult than any other company type;

d) there are two types of JSC in Ukraine: a public joint-stock company and a private joint-stock company.

4. Choose the wrong option:

a) a public joint-stock company may conduct public placement of shares;

b) stockholders of a public joint-stock company can't sell their stocks without consent of other stockholders or/and the company;

c) a public joint-stock company must be listed and remain in the stock register on at least one stock exchange;

d) a public joint-stock company may conduct private placement of shares.

5. Choose the wrong option:

a) a private enterprise can only be created on the basis of private ownership;

b) a private enterprise can operate on the basis of private property of one or more individuals;

c) a private enterprise can operate on the basis of private property of one legal entity;

d) a private enterprise is the most common form of legal entity in Ukraine.

True or false task

1. A limited liability company in Ukraine can be incorporated either by one person or by several individuals or legal entities.

2. The maximum number of shareholders in a private joint-stock company is 100 persons.

3. Legal entities (foreign or Ukrainian companies) and individuals, regardless of their country of citizenship, can be founders (participants) of a LLC.

4. A private joint-stock company may conduct both public and private placement of shares.

5. A private enterprise can be set up by one legal entity and one individual.

Cases

Case 5.1

Below are the powers of various management bodies of the National Joint-Stock Company "Naftohaz Ukrainy". Whose powers are these? (Table 7).

Table 7

The powers of various management bodies

No.	Powers of various management bodies
1	2
1	Determination of main directions of the Company's business, adoption of the Company's strategy and mission
2	Resolution on whether to hold a regular or an extraordinary general meeting as provided for in the Charter, or in the events provided for in applicable laws
3	Implementation of plans and resolutions of the general meeting
4	Issue of executive orders and instructions pertaining to the Company's affairs
5	Consideration of the Supervisory Board's report
6	Maintaining and keeping the minutes of the general meetings, the Supervisory Board and Supervisory Board committees' meetings
7	Approving the staff schedule of the Company
8	Allocation or distribution of the Company's profits or losses, subject to applicable laws
9	Approval of the terms and conditions of contracts to be entered into with the Chief Executive Officer and Executive board members, determination of the remuneration, and appointment of the person authorized to execute such agreements
10	Resolution on any matters pertaining to organization of business
11	Execution of a collective agreement on behalf of the Company
12	Organization of record-keeping of army reservists and mobilization training
13	Approval of the Company's share offering or placement
14	Approval of Regulations on remuneration of the Executive Board members as required by legislation
15	Administration of the Company's cash and assets
16	Responsibility for the interaction between the Company bodies and the shareholders and investors, and legal entities where the Company is the shareholder (or founder or participant)
17	Approval of anti-corruption and compliance programs
18	Approval of the amount of the annual dividends
19	Approval of the Company divisions' regulations
20	Implementation of plans and resolutions of the Supervisory Board

Table 7 (the end)

1	2
21	Appointment or removal of the Corporate Secretary, Risk Management Officer, Compliance Officer, Anti-Corruption Officer, Chief Audit Executive
22	Approval of the annual report of the Company
23	Resolution on any matters pertaining to accounting, reporting and securities transactions
24	Approval of the Company's principles (code) of corporate governance
25	Distribution of powers among the Executive Board members, including the signatory power among other Executive Board members in respect of executive orders and other executive documents of the Company in accordance with their roles and responsibilities
26	Supervision over implementation of the Supervisory Board resolutions
27	Approval of the increase and reduction of the Company's share capital
28	Submission of proposals regarding changes in the Charter
29	Appointment or removal of the Financial Controller, approval of regulations thereof
30	Hiring and dismissal of the Company's employees, granting incentives or imposing sanctions, and taking decision to hold them financially liable
31	Preparing and holding the General Meetings, the Supervisory Board and the Supervisory Board committees' meetings
32	Appointment of the Company's auditor, determination of the terms and conditions of the agreement to be entered into with such auditor, and determination of consideration for its services
33	Approval of the Company's finance plan, business plan and investment plan
34	Resolution on any matters pertaining to finance
35	Representing the Company, without power of attorney, before governmental authorities, local self-governance authorities, legal entities and individuals, both in and outside Ukraine
36	Appointment and removal of the Chief Executive Officer and Executive Board members
37	Organization of disclosure of the Company's issuer information required to be disclosed by applicable laws
38	Pre-approval of draft annual accounts to be approved at the general meeting

Case 5.2

Study the charter of the National Joint-Stock Company "Naftohaz Ukrainy" and fill in the gaps with the missing words.

1. The Company shall obtain the status of the legal entity from the date of its
2. The Shareholder shall not ... with the day-to-day business operations of the Company.
3. The Company's share capital shall be divided into 190, 150, 481 of common registered ... each having of 1,000 UAH.
4. The Company's shares shall be sold at the ... value.
5. Payment for the Company's shares may be usually made in
6. The Company may allocate any profits to a ... fund or any other fund.
7. The ... capital shall be set aside for the purpose of covering any Company's losses.
8. The labour collective of the Company shall comprise all ... who contribute their labour to the Company.
9. The relationship between the Company's corporate bodies and the labour collective shall be governed by the
10. The powers of the Company's labour collective shall be exercised by the of the labour collective.
11. During the period between the general meetings (conferences) of the labour collective, the labour collective shall be represented before the Company's corporate bodies, by an
12. Amendments to the Charter shall be reserved exclusively to the
13. The Company's termination shall be completed, and the Company shall be terminated, with effect on the date when the respective termination entry is made in the
14. The fiscal year of the Company shall coincide with a ... year.
15. The supervisory board shall organize its proceedings in the form of

Case 5.3

Study the charter of the National Joint-Stock Company "Naftohaz Ukrainy" and say whether the statements given below are true or false.

1. The Company shall maintain current and other bank accounts.
2. The Company's shares shall exist in paper form.

3. The terms of employment and remuneration of the Company's labour collective members, as well as their social benefits shall be as provided for in applicable laws.

4. The Company shall not be liable for its obligations to the extent of the property owned by it.

5. The Shareholder shall comply with the Charter and other Company regulations.

6. Reserve capital shall be equal to 5 per cent of the Company's share capital.

7. The Company shall obtain a corporate seal bearing its name and identification code.

8. The property of the Company shall comprise fixed assets, working capital, shares in business companies, as well as other valuables carried in the Company's books.

9. The Company can't engage foreign professionals.

10. The shareholders shall not be liable for the obligations of the Company, and shall bear the risk of losses as a result of the Company's operations only to the extent of their shares.

11. The Company shall be terminated as a result of reorganization (by way of merger, acquisition, split-off, or transformation) or as a result of liquidation.

12. The number of the Supervisory Board members shall not be less than four members.

13. The Company's capital cannot be formed by loans and borrowings.

14. The Company shall maintain financial accounts and records of its operations, and shall compile statistical statements and administrative data and file them as provided for in the applicable laws.

15. The meetings of the Supervisory Board shall be held at least every month.

16. The Executive Board shall account to the General Meeting and the Supervisory Board, and shall provide implementation of its decisions and resolutions.

17. The rights to each Company's common share shall be identical.

18. The Shareholder shall have no right to participate in the management of the Company.

19. The annual report shall be approved by the general shareholders' meeting.

20. A supervisory board member can be a member of the Company's Executive board at the same time.

21. The general meeting (conference) of the labour collective shall be held at least twice a year.

22. The Shareholder shall have the right to distributed dividends.

23. The Shareholder shall fulfil the resolutions of the Company's general shareholders' meeting or other corporate bodies of the Company.

24. The amendments to the Charter shall be subject to state registration.

25. The Chief Executive Officer shall be appointed by the Executive Board.

26. The Company's property shall be only formed by cash and other assets contributed as payment for the shares.

27. The general meeting (conference) of the labour collective shall be valid if at least three fourth of all Company employees or their proxies are present at such meeting.

Guidelines to cases 5.1 – 5.3

For successful completion of the tasks, it is necessary to study the Charter of the National Joint-Stock Company "Naftohaz Ukrainy". Answers to tasks are contained in the sections of the Charter. Here they are:

the General Provisions;

the Purpose, Businesses and Objectives of the Company;

the Legal Status of the Company;

the Founder and the Shareholder of the Company;

the Company's Property;

the Share Capital of the Company;

the Shares of the Company;

Profits and Recovery of Losses;

the General Meeting;

the Supervisory Board;

the Executive Board;

Other Corporate Bodies and Functions of the Company;

the Risk Management Officer;

the Chief Compliance Officer;

the Anti-Corruption Officer;

the Financial Controller;

the Internal Audit;
the Labour Collective of the Company;
Accounting and Reporting;
Amendments to the Charter;
Company's Termination or Spin-Off.

Recommended reading: [9; 14; 17].

Topic 6. The systems of taxation for legal entities

Test tasks

1. Which of these taxes is direct:
 - a) corporate income tax;
 - b) VAT;
 - c) excise tax;
 - d) customs duty?
2. Which of the following are taxes on what you buy:
 - a) sales taxes;
 - b) individual income tax;
 - c) property taxes;
 - d) inheritance taxes.
3. Give examples of regressive taxes:
 - a) value-added tax (VAT);
 - b) land fee;
 - c) military fee (duty);
 - d) individual income tax.
4. Give examples of local taxes:
 - a) unified (single) tax;
 - b) customs duty;
 - c) environmental tax;
 - d) rental payments.
5. Excisable goods do not include:
 - a) jewelry;
 - b) alcohol;
 - c) electricity;
 - d) fuel.

True or false task

1. A tax is a charge usually of money imposed by authority on persons or property for public purposes.
2. Value-added tax is a local tax.
3. Value-added tax payable to the budget can be calculated as a difference between tax liability and tax credit.
4. The base income tax rate is 18 %.
5. The tax base of the military fee is the same amount of income that is subject to personal income tax.

Fill in the gaps with the missing words

1. If it is a direct tax, there is no ... between the taxpayer and the government.
2. If it is a direct tax, higher earners pay ... (more or less?) based on their incomes.
3. With indirect taxes the taxpayer can ... the burden of the tax to someone else.
4. If it is an indirect tax, the poor pay the same amount of tax as the
5. ... tax is levied on goods or services.
6. ... taxes are usually transparent and certain.

Tasks for independent work

Task 6.1

Calculate the amount due for payment of corporate income tax. The information on the activities of the enterprise is as follows:
net sales make 7 950 000 UAH;
cost of sales is 4 830 000 UAH;
general and administrative expenses amount to 200 160 UAH;
selling and operating expenses are 615 192 UAH.

Task 6.2

In the reporting month a company:

- 1) sells goods in the amount of 95 000 UAH (without VAT included);
- 2) purchases materials for use in economic activities in the amount of 39 000 UAH (including VAT).

Calculate the amount of VAT payable to the budget.

Task 6.3

A company produced and sold 2000 bottles of sparkling wines (0.75 liters). Determine the amount of the excise tax.

Task 6.4

A company sells 1200 packs of cigarettes without a filter. The maximum retail price is 61 UAH per pack. Calculate the amount of the excise tax to be paid to the budget.

Task 6.5

An employee who is a disabled person of the 3rd group, got a salary in the amount of 14 300 UAH. Determine the amount of taxes and fees due and the amount of the take-home salary.

Guidelines to tasks 6.1 – 6.5

When performing the tasks, it is necessary to take into account the norms of the Tax Code of Ukraine.

Here is a general description of the taxes to be calculated according to tasks 6.1 – 6.5.

Corporate income tax.

Taxpayers. Corporate Income Tax (CIT) is paid by the resident companies, which receive income in Ukraine as well as abroad. CIT is also paid by the non-resident companies, which receive income from Ukrainian sources.

Rate. Currently, a flat rate of 18 % is established for all CIT taxpayers. However, for some activities a separate rate is applicable.

Tax base. The CIT base is the income derived from Ukrainian sources of origin and abroad. The amount of tax is determined by adjustment of financial result (profit or loss) before tax, as calculated in accordance with the Ukrainian accounting standards or IFRS.

Value-added tax.

Taxpayers. The taxpayer is obliged to register as a VAT payer if the aggregate value of supplied goods or services exceeds 1 million UAH for the last 12 months. However, if the value of taxable transactions does not exceed 1 million UAH, the voluntary registration as a VAT payer is available.

Rate. The VAT rate is 20 %. For pharmaceutical products, the VAT rate is 7 %. It should be noted that 0 % VAT rate is applied to export of goods in the customs regime from the territory of Ukraine.

Tax base. VAT is applied to transactions on supply of goods and services in the customs territory of Ukraine, as well as to transactions related to import and export of goods in Ukraine. In addition, services of passengers and luggage transportation by sea, river and air transport are also subject to VAT.

The amount of VAT payable to the budget is calculated as the difference between the amount of tax liability and tax credit. In accordance with the general rules, tax liabilities arise on sale, the right to a tax credit arises upon purchase.

Personal income tax (PIT) paid from the income in the form of salary.

Taxpayers: individuals who receive income.

Rate: 18 %.

Military fee (MF).

Taxpayers. Nationwide MF payment for strengthening the defence capability of Ukraine applies to:

individuals – residents who receive income from Ukrainian sources as well as foreign income;

individuals – non-residents who receive income from Ukrainian sources;
tax agents.

The MF has been extended indefinitely, until its abolishment by the respective legislative act.

Tax base. The tax base of MF is the same amount of income that is subject to PIT.

Rate. The tax rate of MF is 1.5 % of individuals' taxable income.

If MF payer is a tax agent, he/she maintains and pays MF in order and within the time frames provided for PIT.

Excise tax.

Taxpayers. Excise tax is paid by individuals and legal entities that:

- manufacture excise goods in the customs territory of Ukraine, including those made from tolling raw materials;

- import excise goods to the customs territory of Ukraine;
- distribute excise goods or transfer them into ownership or use.

Rate. Excise tax rates are specified in the Tax Code of Ukraine for each type of excise goods.

Tax base. The excise tax is levied upon excise goods, which include:

- ethyl alcohol and other distillates, alcoholic drinks, beer;
- tobacco products, tobacco and manufactured tobacco substitutes;
- fuel;
- cars, trailers and semi-trailers, body thereto, trailers, motorcycles, vehicles for transportation of 10 people or more, vehicles for transportation of goods;
- electricity, except for the distribution of electricity generated by qualified cogeneration units and/or renewable energy sources.

Recommended reading: [15; 17; 29; 30].

Topic 7. Taxation systems for entrepreneurs

True or false task

1. Entrepreneurs who carry out activity in the organization of gambling may not be single tax payers.
2. Simplified tax regime means simplified accounting and reporting.
3. There are 3 groups of simplified tax payers for private entrepreneurs.
4. Private entrepreneurs in the 2nd group of single (unified) tax aren't VAT-payers.
5. Maximum annual income which allows entrepreneurs to carry out activity in the 1st group of single (unified) tax amounts to 167 minimum salaries.

Tasks

Task 7.1

An entrepreneur who operates in the 1st group of single tax payers during the reporting month received income in the amount of 62 000 UAH. The amount of expenses incurred amounted to 48 000 UAH. Determine the amount of the single tax and single social contribution to be paid to the budget and trust funds.

Task 7.2

An entrepreneur who operates in the 2nd group of single tax payers during the reporting quarter received income in the amount of 315 020 UAH. The entrepreneur has no employees. The amount of expenses incurred amounted to 194 070 UAH. Determine the amount of the single tax and single social contribution to be paid to the budget and trust funds.

Task 7.3

An entrepreneur who operates in the 3rd group of single tax payers, during the reporting quarter received income in the amount of 315 000 UAH. The amount of expenses incurred amounted to 194 000 UAH. Determine the amount of the single tax to be paid to the budget. Do calculations for two situations:

- 1) the entrepreneur is registered as a VAT-payer;
- 2) the entrepreneur isn't registered as a VAT-payer.

Guidelines to tasks 7.1 – 7.3

When performing the tasks, it is necessary to take into account the norms of the Tax Code of Ukraine. To facilitate and ease small and medium business accounting, Ukraine introduced special taxation terms for such businesses.

The taxpayers, as private entrepreneurs, may choose to apply for a simplified taxation system in one of the following categories (Table 8).

Table 8

The nuances of the simplified tax regime for entrepreneurs

Indicators	1st group	2nd group	3rd group
1	2	3	4
Permitted activities	Retail sale of goods on markets; domestic services	Services rendered to single tax payers and/or to individuals; production and/or sale of goods; restaurant industry	Without limits
Maximum annual income	167 minimum salaries	834 minimum salaries	1167 minimum salaries
Maximum number of employees	0	10	Without limits

Table 8 (the end)

1	2	3	4
VAT	Does not apply	Does not apply	May register as a VAT payer
Rates	Up to 10 % of the monthly cost of living	Up to 20 % of the minimum salary	3 % of income + VAT or 5 % of income (excl. VAT)

Task 7.4

Calculate the results of the activities of the private entrepreneur in the reporting year and the amount of mandatory payments payable to the budget and trust funds (Table 9).

Table 9

The initial data

Indicators	Group of single tax payers	
	2	3
Entrepreneur's income, UAH	3 700 000	4 563 000
The number of employees and the average salary during 1 – 2 months	2	1
Average salary, % of the minimum wage during 1 – 2 months	105	110
The number of employees during 3 – 8 months	2	2
Average salary, % of the minimum wage during 3 – 8 months	110	110
The number of employees during 9 – 12 months	3	2
Average salary, % of the minimum wage during 9 – 12 months	110	115
Other entrepreneur's expenses*, UAH	3 120 045	3 415 050

*Excluding labor costs, mandatory payments of the entrepreneur.

Guidelines to task 7.4

To perform the task, students have to form tables 10 – 13 and carry out calculations.

Table 10

The salary fund

Number of months	Number of employees	Average salary, UAH	Salary fund
1 – 2			
3 – 8			
9 – 12			
Total for the year			

Table 11

Obligatory payments at the expense of the entrepreneur, UAH

Indicators	Values of indicators
Amount of income	
Single tax	
Single social contribution from the entrepreneur	
Unified social contribution from employee salaries	
Total	

Table 12

Obligatory payments from employees, UAH

Indicators	Values of indicators
Personal income tax	
Military fee	
Total	

Table 13

The financial results of the entrepreneur's activities, UAH

Indicators	Values of indicators
1	2
Income	
Expenses: Employee salary	

Table 13 (the end)

1	2
Obligatory payments at the expense of the entrepreneur	
Other expenses	
Profit	

Students should also take into account the guidelines to tasks 7.1 – 7.3. Students present the results of their work. A sample report is presented below.

A sample report

I am a private entrepreneur. I operate in ... a group of single tax payers. My main activities include ... (according to section 14 of the Tax Code of Ukraine).

The income from my activities in 2022 is expected to be... UAH.

The first ... months I will work independently without hiring employees.

The maximum number of employees I will hire will be ... people.

The payroll of employees will be... UAH (Table...).

The amount of salary to be transferred to employees' cards will be... UAH.

I plan to end the year with a profit in the amount of ... UAH (Table...).

For the period of my activity, I will pay a single tax in the amount of ... UAH and a single social contribution in the amount of ... UAH, including single social contribution from the payroll of employees in the amount of ... UAH (Table...).

Next year I plan to increase my revenue to... UAH. The number of employees in my business will be... .

Recommended reading: [15; 17; 29; 30].

Topic 8. Financial statements

Case 8.1. Comparative analysis of Ukraine's and International financial statements

Execution of this case involves a comparative analysis of financial statements in Ukraine and abroad.

Guidelines to case 8.1

The student needs to study the principles, forms, standards, components and other characteristics of financial reporting in Ukraine in comparison with the approaches used in Europe, the United States and other countries. It is advisable to consider in detail the principles of financial reporting, assumptions and additional conditions. It is also necessary to present domestic and foreign forms of financial reporting of economic entities, to compare them, to establish similarities and differences.

The result of the case is the student's presentation.

Case 8.2. Analysis of financial statements of an international company

The student must perform analysis of financial statements according to the companies listed on the site of the Wall Street Journal. According to the data of financial statements the student has to fill in Tables 14, 15 and determine, which indicators have grown, draw conclusions.

Guidelines to case 8.2

The balance sheet (or the statement of financial position) is a report that shows the financial position of an enterprise at a particular time, including the firm's economic resources (assets), economic obligations (liabilities), and the residual claims of owners (owners' equity). Assets are usually shown in the order of their liquidity (nearness to cash), while liabilities are presented in the order of their maturity date.

Assets are probable economic benefits obtained or controlled by a particular entity as a result of past transactions or events. Future economic benefits refers to the capacity of an asset to benefit the enterprise by being exchanged for something else of value to the enterprise, by being used to produce something of value to the enterprise, or by being used to settle its liabilities.

Balance sheets are usually presented in comparative form. Comparative statements include the current year's statement and statements of one or more of preceding accounting periods. Comparative statements are useful in evaluating and analyzing trends and relationships.

Financial statement procedures fall into three basic categories:

1) comparisons and measurements relating to financial data for two or more periods;

- 2) comparisons and measurements relating to financial data of the current period;
- 3) special-purpose examination.

A review of financial statements can involve two types of analysis.

Horizontal analysis. Horizontal analysis spotlights trends and establishes relationships between items that appear on the same row of a comparative statement. Horizontal analysis discloses changes on items in financial statements over time. Each item (such as sales) on a row for one fiscal period is compared with the same item in a different period. Horizontal analysis can be carried out in terms of changes in dollar amounts, in percentages of change, or in a ratio format.

Vertical analysis. Vertical analysis involves the conversion of items appearing in statement columns into terms of percentages of a base figure to show the relative significance of the items and to facilitate comparison. For example, individual items appearing on the income statement can be expressed as percentages of sales. On the balance sheet, individual assets can be expressed in terms of their relationship to total assets. Liabilities and shareholders' equity accounts can be expressed in terms of their relationship to total liabilities and shareholders' equity. On the income statement, each item is stated as a percentage of sales. On the retained earnings statement, beginning retained earnings is 100 percent. The percentages for the company in question can be compared with industry norms. The formulas for calculation are presented in Tables 14, 15.

Table 14

Assets analysis

Assets	Regular (thousand \$)		Percentage, %		Changes in the given period			
	Jan 1, 2020	Jan 1, 2021	Jan 1, 2020	Jan 1, 2021	Growth, thousand	Growth, %	Rate of increase, %	Percentage of the increase in assets
1	2	3	4	5	$6 = 3 - 2$	$7 = 5 - 4$	$8 = (6 / 2) \times 100 \%$	$9 = 6 / \Sigma 6 \times 100$
Cash								
Accounts receivable								
Inventories, at lower of cost or market								
Prepaid expenses								
Accumulated tax prepayments								
Current assets (total)								
Fixed assets at cost								
Less: accumulated depreciation								
Net fixed assets								
Investment, long-term								
Other assets, long-term								
Fixed assets (total)								
Total assets (current assets + + fixed assets)								

Liabilities and shareholders' equity analysis

Liabilities and shareholders' equity	Regular (thousand \$)		Percentage, %		Changes in the given period			
	Jan 1, 2020	Jan 1, 2021	Jan 1, 2020	Jan 1, 2021	Growth, thousand	Growth, %	Rate of increase, %	Percentage of the increase in assets
1	2	3	4	5	$6 = 3 - 2$	$7 = 5 - 4$	$8 = (6 / 2) \times 100 \%$	$9 = 6 / \Sigma 6 \times 100$
Bank loans and notes payable								
Accounts payable								
Accrued taxes								
Other accrued liabilities								
Current liabilities								
Long-term debt								
Total liabilities								
Common stock, \$1 par value								
Additional paid-in capital								
Retained earnings								
Total shareholders' equity								
Total liabilities and shareholders' equity								

Questions for self-assessment

1. Indicate the signs of usefulness of financial information for financial analysis.
2. Describe the nature and purpose of the preparation and use of financial statements of an enterprise.
3. What are the basic needs of users of financial statements and what do they depend on?
4. What regulations determine the procedure for preparing financial statements of enterprises in Ukraine?
5. Describe the main components of financial statements of an enterprise.
6. Explain the relationship between the forms of financial reporting of an enterprise.
7. Identify the main characteristics of the International Financial Reporting Standards.
8. Describe the preparation of consolidated financial statements.
9. Compare the Ukrainian and International Financial Reporting Standards.

Recommended reading: [1; 2; 5; 16; 19].

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НАВЧАЛЬНЕ ВИДАННЯ

РЕЄСТРАЦІЯ БІЗНЕСУ ТА СКЛАДАННЯ ФІНАНСОВОЇ ЗВІТНОСТІ БІЗНЕСУ

**Методичні рекомендації
до самостійної роботи студентів
усіх спеціальностей
першого (бакалаврського) рівня
(англійською мовою)**

Самостійне електронне текстове мережеве видання

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Подано методичні рекомендації до самостійної роботи студентів, Запропоновано тестові завдання, завдання альтернативного вибору, завдання для самостійного виконання, кейси, питання для самоперевірки отриманих знань і набутих умінь, виконання яких дозволяє сформувати професійні компетентності, якими повинен володіти студент після вивчення навчальної дисципліни.

Рекомендовано для студентів першого (бакалаврського) рівня всіх спеціальностей.

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