

MINISTRY OF EDUCATION AND SCIENCE OF UKRAINE
SIMON KUZNETS KHARKIV NATIONAL UNIVERSITY OF ECONOMICS

**REGISTRATION OF BUSINESS
AND PREPARATION OF BUSINESS FINANCIAL
STATEMENTS**

**Guidelines to practical tasks
for Bachelor's (first) degree students
of all specialities**

**Kharkiv
S. Kuznets KhNUE
2022**

UDC 338.24:334.012(07.034)

R35

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Затверджено на засіданні кафедри фінансів.

Протокол № 8 від 06.12.2021 р.

Самостійне електронне текстове мережеве видання

Registration of Business and Preparation of Business Financial
R35 Statements [Electronic resource] : guidelines to practical tasks for
Bachelor's (first) degree students of all specialities / compiled by
I. Aleksieienko, M. Berest, S. Leliuk et al. – Kharkiv : S. Kuznets
KhNUE, 2022. – 49 p. (English)

The main issues of the topics which are studied according to the plan of lectures on the academic discipline, practical tasks and guidelines to them are provided. Tasks for individual work, questions for self-assessment and topics for writing essays are offered.

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

UDC 338.24:334.012(07.034)

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Introduction

Every entrepreneur, starting their activity, should be clearly aware of their future needs and sources of receipt of financial, material, labor and intellectual resources, and also be able to precisely calculate the efficiency of the use of resource 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 provisions that are applicable to almost all areas of commercial activity and to different firms.

The purpose of the academic discipline is to create the foundation of knowledge in the field of entrepreneurship and business.

The tasks of mastering the academic discipline are: consideration of laws and principles governing the way a business develops; studying the existing problems from the point of view of the employee, manager, owner of the enterprise and society as a whole; learn the mechanism for creating enterprises, the organization of business and its effective management.

The goals and objectives of the academic discipline are to give students the necessary knowledge and skills, including:

theoretical knowledge of the nature and types of entrepreneurial activity, the external and internal environment of functioning of enterprises, financial and credit sources of ensuring their economic activity, the advantages and disadvantages of the main organizational and legal forms of management, the advantages and problems of the development of small business;

applied knowledge in the field of organizing one's own business, developing a business plan, state registration and licensing of entrepreneurs. Successful mastering of the academic discipline will allow students to master the special terminology and vocabulary of this discipline, as well as apply the knowledge gained in practice in the field of entrepreneurship.

The subject of the academic discipline is the theoretical and methodological bases of financial activity of business entities in the conditions of organization of their own business.

As a result of studying the academic discipline students are expected to form the necessary competences with the following outcomes:

Competences	Outcomes
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 conduct strategic market analysis
The ability to register and support one's own business in tax and financial aspects	The ability to choose the most suitable form of business organization
	The ability to understand advantages and disadvantages of the general tax system. The procedure and features of determining the object of taxation
	The ability to generate and analyze financial statements of a business

The student's practical work is provided with a system of teaching aids designed for the study of the academic discipline. The aids are located on the S. Kuznets KhNUE site of personal educational systems [18]. For each topic, the students can find tasks for practical classes with guidelines to them as well as other additional materials on the academic discipline.

Content module 1. Market analysis and business planning

Topic 1. Market analysis

1.1. The market analysis methods and tools.

1.2. The characteristics of industries and the choice of a niche for creating a business.

1.3. The competitive environment analysis.

Practical tasks

Task 1.1

You have an unlimited budget and are planning to start your own business. It is necessary to think over which sphere in Ukraine is attractive for opening a new business now.

Please don't concentrate on COVID-19.

Justify the choice of the sphere for starting your business.

Think over the stages of launching the project and ways to develop it successfully.

The detailed description of the task:

1. Your budget is unlimited.
2. You need to choose the area where you would like to start your business. Justify your choice.
3. What will you produce? What service will you provide? Why this particular area?
4. Think about what kind of specialists your team should consist of.
5. What is the mission and purpose of your business?
6. How will you control the success of your business, by what indicators?
7. What social effect will you achieve if the business is successful?

Task 1.2

From the list below, select information that can be obtained from the company's internal reporting, external current information, and market research. Enter the result in Table 1.

The list: number of company employees; company profit; exchange rate; information about the economy of the region; company's sales volume in the previous period; consumer motives; working capital; industry business news; competitors' activities; statistics on customer requests; market reaction to a new product.

Table 1

Sources of information

Internal reporting	External current marketing information	Marketing research
1	1	1
2	2	2
3	3	3
4	4	4
5	5	5

Task 1.3

To complete the task, independently choose any company. The ownership and size do not matter. For the selected company, you must:
 write which subjects and factors are a microenvironment for you;
 what factors of the macroenvironment should be considered by the enterprise;
 in each group of macroenvironment factors, choose the most significant ones.

Task 1.4

For any enterprise you choose, identify the political, economic, social and technological factors that influence its operations. Assess the degree of influence of each of the factors on a 5-point scale. Try to predict the impact of these factors in the future (will increase, remain unchanged, decrease). Enter the results in Table 2.

Interpret the results obtained. Give examples of the influence of various factors on companies that you know.

Table 2

Factors and their influence

Factor groups	Factors affecting the enterprise	Degree of influence (where 1 is the lowest degree, 5 is the maximum)	Degree of influence (where 1 is the lowest degree, 5 is the maximum)
Political	1	1	1
	2	2	2
	3	3	3
	4	4	4
	5	5	5
Economic	1	1	1
	2	2	2
	3	3	3
	4	4	4
	5	5	5
Social	1	1	1
	2	2	2
	3	3	3
	4	4	4
	5	5	5
Demographic	1	1	1
	2	2	2
	3	3	3
	4	4	4
	5	5	5

Task 1.5

Analyze the goals specified in Table 3 and indicate which of them meet the SMART criteria.

Table 3

Enterprise goals

Goal	S (specificity)	M (measurability)	A (reachability)	R (focused on results)	T (correlation over time)
1	2	3	4	5	6
Increase sales by 20 % next year					

Table 3 (the end)

1	2	3	4	5	6
Sign a new contract with the customer within a month					
Participate in seven exhibitions this year					
During the current year, sell one house per month in a cottage settlement					

Task 1.6

Make up a questionnaire (at least 15 questions) to study the consumer preferences of coffee buyers. When writing questions, use different types of closed and open questions.

Task 1.7

Design a marketing research scheme for the following situations:

- a) in the network of dry cleaners, the number of orders has fallen sharply compared to last year;
- b) a mobile application development company wants to create a new version of the application;
- c) the demand for ice cream did not increase in the grocery store during the hot summer;
- d) an individual entrepreneur wants to open a hairdressing salon in the area where he lives.

Prepare a presentation on the results of the marketing research.

Task 1.8

Conduct marketing research. Answer questions like these in your research:

- Where is the product sold (online or offline)?
- Who is the main target audience?
- What is the pricing policy for this item?
- What are the features of the product?
- How does the product differ from others?

What are the sales volumes of this product?

What is the significance of the product for the Ukrainian economy?

Do not focus on services. Make your market research presentation colorful and informative. Use different sources of information.

Task 1.9

Write a description of Chanel Coco eau de parfum.

Use the following paragraphs in the description (all paragraphs are mandatory):

brief description;

gender;

fragrance notes;

image;

aroma category;

age.

Explain your views on each component and characteristic of the fragrance.

Questions for self-assessment

1. What is marketing research?

2. What is market analysis designed 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?

Essay topics

1. Forms and methods of conducting marketing research.

2. The difference between marketing research for existing and new businesses.

3. What types of market analysis can be especially useful for Ukrainian companies and why?
4. Goal setting as a tool for successful business development.
5. Identification of the negative impact of environmental factors on the development of Ukrainian companies.

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

- 2.1. What is SWOT analysis?
- 2.2. SNW analysis.
- 2.3. PEST analysis in strategic management.

Practical tasks

Task 2.1

Fill in the PEST analysis matrix for the company you have chosen. Determine the needs and sources for competitive intelligence, promote and facilitate discussions of potential threats from each of the four forces: social, technological, economic and political factors (Table 4).

Table 4

The PEST analysis matrix

P (political)	Weight	Point	Score	E (economic)	Weight	Point	Score
1.				1.			
2.				2.			
3.				3.			
...				...			
n				n			
Total	1	–		Total	1	–	
S (social)	Weight	Point	Score	T (technological)	Weight	Point	Score
1.				1.			
2.				2.			
3.				3.			
...				...			
n				n			
Total	1	–		Total	1	–	

Guidelines to task 2.1

The key purpose of PEST analysis is to identify potential market threats to a company's value proposition. PEST analysis considers and assesses the potential risks from the five forces: entry, buyers, suppliers, substitution, and competition. It is a good way to identify market threats that companies might not otherwise consider. But it is difficult to identify all threats and associated level of risks. They differ in every industry and constantly change.

PEST analysis can provide an advance warning of potential threats and opportunities, encourage businesses to consider the external environment in which they operate and can help companies understand external trends.

The first stage of PEST analysis will involve researching and gathering evidence for each group of factors. This stage is also named "brainstorm factors". It aims to evaluate and score each of the factors for "likelihood"; how likely it is to happen and "impact"; how big an impact it could have on your company.

First, brainstorm the changes happening in the business environment that will likely impact the organization, focusing on the four key areas of PEST – politics, the economy, socio-cultural changes, and technology.

Political factors include government regulations, and legal factors are assessed in terms of their ability to affect the business environment and trade markets. The main issues addressed in this section include political stability, tax guidelines, trade regulations, safety regulations, and employment laws.

Through *economic factors*, businesses examine the economic issues that are bound to have an impact on the company. This would include factors like inflation, interest rates, economic growth, the unemployment rate and policies, and the business cycle followed in the country.

With the *social factors*, a business can analyze the socio-economic environment of its market via elements like customer demographics, cultural limitations, lifestyle attitude, and education. With these, a business can understand how consumer needs are shaped and what brings them to the market for a purchase.

Technological factors show how technology can either positively or negatively impact the introduction of a product or service into a marketplace. These factors include technological advancements, lifecycle of technologies, the role of the Internet, and the spending on technology research by the government.

The next stage of PEST analysis involves refining your ideas and repeating the process until you have a manageable number of points in each of the four categories.

The score for the factors is determined as follows:

the points for each factor range from 1 to 5;

1 point means that the factor is not taken into account;

5 points means that the impact of the factor is maximum (taken into account in the strategy development).

An example of the PEST analysis matrix filled in according to a standard template is shown in Fig. 1.

No.	Political (P)	Weight	Point	Score	No.	Economic (E)	Weight	Point	Score
1	2	3	4	5	6	7	8	9	10
1	Extent of State influence on industry	0.17	4.8	0.82	1	Supply and demand	0.1	4.2	0.42
2	Political situation	0.16	4.5	0.72	2	Unemployment rate	0.11	4.4	0.48
3	Legislative amendments	0.13	3.7	0.48	3	Inflation rate	0.12	4.9	0.59
4	Level of investment	0.16	4.3	0.69	4	Price and wage ratios	0.11	4.5	0.50
5	Participation in international construction projects	0.14	3.9	0.55	5	Conditions for obtaining credit and changes in the credit system	0.1	4.2	0.42
6	Increased tax pressure	0.12	3.3	0.4	6	Changes in the prices of building materials	0.11	4.5	0.50
7	Trade policy	0.11	3.1	0.34	7	Natural and climatic conditions	0.08	3.3	0.26
					8	Conditions for insurance of construction projects	0.08	3.1	0.25
					9	Accessibility and availability of resources	0.1	3.9	0.39
					10	Competition in the market industry	0.08	3.3	0.26
Total		1	27,6	4,00	Total		1	40,3	4,07
No.	Social (S)	Weight	Point	Score	No.	Technological (T)	Weight	Point	Score
1	Demographic situation	0.14	3.3	0.46	1	State policy in the field of science and technology progress (R&D)	0.15	3.5	0.53
2	Changes in the distribution of the population depending on the income level	0.19	4.5	0.86	2	Impact of technological innovations	0.17	3.9	0.66
3	Changes in consumer preferences	0.17	3.9	0.66	3	Degree of renewal of material base of the construction industry	0.19	4.4	0.84
4	Availability of workers	0.15	3.4	0.51	4	Science and technology regulation	0.18	4.1	0.74
5	Social mobility of the population	0.16	3.8	0.61	5	Support for innovative and active enterprises	0.18	4.2	0.76
6	Reputation of the company in consumers' eyes	0.18	4.2	0.76	6	Access to technology	0.13	2.9	0.38
Total		1	23,1	3,85	Total		1	23	3,90

Fig. 1. The example of a filled PEST analysis matrix

In this way PEST analysis helps a company identify the external forces that could impact their market and analyse how they could directly impact their business.

Task 2.2

Fill in the SWOT analysis matrix for the company you have chosen. Determine the needs and sources for competitive intelligence, promote and facilitate discussions of potential *Strengths*, *Weaknesses*, *Opportunities* & *Threats* (Table 5).

Table 5

The SWOT analysis matrix

Internal factors External factors	<i>Strengths (S)</i>	<i>Weaknesses (W)</i>
	S ₁ S ₂ S _n	W ₁ W ₂ W _n
<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
Suggested strategies		
<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 2.1

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 is 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.

SWOT analysis has wide applicability and has been used by virtually every type of organization (products or services, projects, new investment options, for-profit or nonprofit organizations, and even individuals). But its basic model is descriptive and does not in itself generate any specific answers or lead to innovative ideas.

The internal environment of the enterprise is considered in terms of strengths and weaknesses.

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.

The strengths and weaknesses of the product can be analyzed through the following main perspectives:

quality – product quality safety, stability, reliability, aesthetics, applicability, durability, economy, etc.;

price – the same level of product production costs, sales costs, service costs and sales prices (product profitability);

process – production, efficiency, delivery (total production volume, production capacity, comprehensive efficiency, per capita output, per capita value added, and delivery quantity on time; product R&D/production technology; new product design and development capabilities, development cycles, patented technologies, proprietary technologies, and technological innovation capabilities);

sales – a strong sales network, excellent sales team, rich sales experience and skills, flexible market change response capabilities, excellent brand image, brand value and market recognition, good customer relations, loyal customers;

service – perfect after-sales service system, quality service, satisfied customer base etc.

The external environment of the enterprise is considered in terms of opportunities and threats.

Opportunity means that a product has an absolute advantage in a certain area. In this field, the product has a strong competitive opportunity.

Threats are the unfavorable factors of product development in a certain environment. If decisive strategic actions are not taken, this unfavorable trend will lead to the weakening of the company's competitive position.

The procedure for SWOT analysis is as follows:
 conduct necessary research for the business, industry, and market;
 identify business's strengths;
 identify business's weaknesses;
 identify potential opportunities for the business;
 identify potential threats to the business;
 develop a strategy and actions to address issues in the SWOT;
 prioritize the order for the actions to be taken as an implementation plan.

Questions for self-assessment

1. What are the main tools of strategic analysis for business?
2. Describe the meaning of the PEST analysis.
3. What factors affecting an enterprise can be attributed to political ones?
4. What social factors affect an enterprise?
5. What economic factors exist in the external environment of an enterprise?
6. Describe the meaning of the SWOT analysis.
7. What threats exist for an agricultural enterprise in Ukraine?
8. What are the opportunities for a machine-building enterprise in Ukraine?

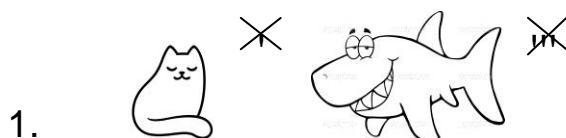
Topic 3. Forms of capital raising and financial settlements

- 3.1. The characteristics of borrowed capital: types and distinctive features.
- 3.2. The fundamentals of financial settlements.
- 3.3. Opening a business as a form of implementation of an investment project.
- 3.4. Real estate for sale.

Practical tasks

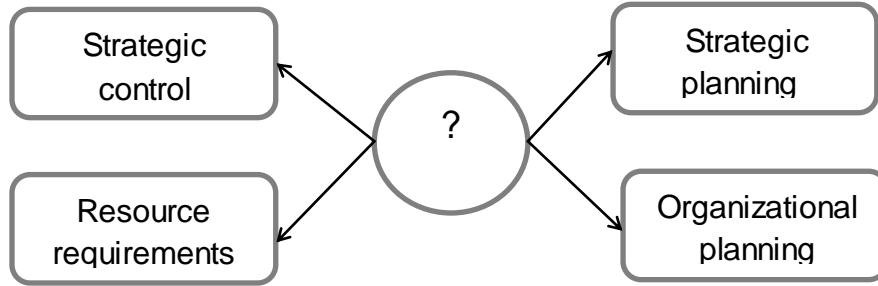
Task 3.1

Solve the puzzles.





3. Determine the name of the strategic four-factor model financing.



4. Make an association.

What accounting method of allocating the cost of a tangible asset over its useful life is used to account for declines in the value over time?



Task 3.2

Based on the results of the company's activities, determine the net cash flow. The results of the implementation of operational, financial and investment activities of the company are presented in Table 6. Identify them as sources and application of funds, and arrange them in a proper manner with the sources of funds on the left and the applications on the right of a tabulated statement for the said period.

Table 6

Incoming information for analysis

The results of the company's activities	Amount, \$
1	2
Increase in cash position	12,000
Decrease in debtors	8,000
Increase in long-term debt	2,500

Table 6 (the end)

1	2
Increase in stocks	26,500
Increase in tax prepayments	2,000
Net profit	35,000
Increase in other accruals	3,000
Additions to fixed assets	4,500
Cash dividends received	15,000
Increase in bank loans	20,000
Increase in prepaid expenses	2,500
Increase in investments	9,000
Repayments of amounts borrowed	5,000
Payments to redeem the entity's share	8,000
Depreciation	6,000

Task 3.3

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 7.

Table 7

Incoming information for analysis

The results of the company's activities	Amount, \$
Depredation and amortization	63,000
Lost on sale of equipment	15,000
Increase in accounts receivable	21,000
Decrease in prepaid expenses	3,000
Decrease in accounts payable	28,000
Capital expenditures	300,000
Proceeds from sale equipment	40,000
Proceeds from issuing debt	200,000
Dividends paid	110,000

Task 3.4

In order to expand the scale of the business, a decision was made to raise additional capital. At the moment, the total amount of investments of owner's funds are 250,000 UAH. Efficiency is characterized by an average annual profit of 45,000 UAH.

A long-term loan of 85,000 UAH is needed to purchase new high-tech equipment 120,000 UAH worth. The expected amount of cash inflow from its operation for each year will be: 55 thousand UAH; 65 thousand UAH; 75 thousand UAH.

Determine the effectiveness of the project at the level of the weighted average cost of the company's capital in the conditions of the loan.

The banks' proposals to attract long-term credit are as follows:

Bank A offers a rate of 42 % per annum, subject to their monthly accrual;

In bank B the rate is 50 % per annum, which is charged once a year.

Guidelines to tasks 3.2 – 3.4

Cash flow and net profit are not the same thing. You could have sufficient profits but insufficient cash flow. Or, your cash flow could be adequate but profits be lacking. A complete set of financial statements and proper analysis of them will show financial strengths and weaknesses.

Identifying, or calculating, the source of cash on a statement of cash flows is simple. One of the benefits to the statement of cash flows, and the reason it is often preferred over other financial statements, is the clarity it provides regarding sources and uses of cash during the statement period.

The company's cash flow is formed as a result of such activities:

operating activities – capital generated and used by your business's basic operations, including expenditures for administrative expenses and receipts from customers;

financial activities – capital generated through debt agreements or cash that's been issued to pay off debts or pay out dividends;

investing activities – capital generated by profitable investments or cash issued to make an investment or purchase fixed assets.

It is often difficult to conceptualize just what "cash" is and what "cash equivalents" are. Cash need not be physical money; it can take other forms:

1) cash in hand and deposits repayable on demand with any bank or financial institution;

2) cash equivalents: short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value;

3) cash resulting from operating activities: principal revenue-producing activities of the company and other activities that are not investing or financing activities. The reconciliation between the operating profit reported in

the profit and loss account and the net cash flow from operating activities must show the movements in stocks, debtors and creditors related to operating activities;

4) returns on investments and servicing of finance.

Cash inflows from these sources include:

interest received, also any related tax recovered;
dividends received.

Cash outflows from these sources include:

1) interest paid;

2) dividends paid;

3) interest element of finance lease payments;

4) taxation: these cash flows will be those to and from the tax authorities in relation to the company's revenue and capital profits, i.e. corporation tax;

5) investing activities: the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

Cash receipts include:

1) receipts from sales or disposals of fixed assets (or current asset investments);

2) receipts from sales of investments in subsidiary undertakings net of any cash or cash equivalents transferred as part of the sale;

3) receipts from sales of investments in other entities;

4) receipts from repayment or sales of loans made to other entities.

Cash payments include:

1) payments to acquire fixed assets;

2) payments to acquire investments in subsidiary net of balances of cash and cash equivalents acquired;

3) payments to acquire investments in other entities;

4) loans made and payments to acquire debt of other entities;

5) financing: activities that result in changes in the size and composition of the equity capital and borrowings of the enterprise.

Financing cash inflows include:

1) receipts from issuing shares or other equity instruments;

2) receipts from issuing debentures, loans, notes and bonds and so on.

Financing cash outflows include:

1) repayments of amounts borrowed;

2) the capital element of finance lease rental payments;

3) payments to reacquire or redeem the entity's shares.

The net cash flow formula is:

$$\begin{aligned} \text{Net Cash Flow} = & \text{Net Cash Flow from Operating Activities} + \\ & + \text{Net Cash Flow from Financial Activities} + \\ & + \text{Net Cash Flow from Investing Activities.} \end{aligned} \quad (1)$$

This can be put more simply, like this:

$$\text{Net Cash Flow} = \text{Total Cash Inflows} - \text{Total Cash Outflows.} \quad (2)$$

Questions for self-assessment

1. What is cash flow?
2. What is the difference between net income and cash flow?
3. How do I convert profit into cash flow?
4. Why is cash flow important for my business?
5. How to increase your cash flow?
6. How do I do cash flow analysis?
7. Can cash flow be negative?
8. What happens when cash flow is negative?
9. Can cash flow be sheltered by depreciation?
10. How do I calculate operating cash flow?
11. How do I know if cash flow statements are correct?

Topic 4. Making a business plan for the project

- 4.1. The stages of the business planning process.
- 4.2. The features of creating a marketing plan.
- 4.3. The features of creating a production plan.
- 4.4. The features of drawing up an organizational plan.
- 4.5. The features of drawing up a financial plan.

Task 4.1

To open the company, capital was attracted from own and external sources in a 50/50 ratio. The required rate of return on equity capital is 17.8 %, borrowed capital is attracted at 25 % per annum. Determine the weighted average cost of the firm capital.

Task 4.2

Determine the weighted average cost of capital, provided that the average annual amount of equity capital is 79,000 UAH, the amount of net profit received in the reporting year is 16,500 UAH, the total capital of the company is 100,000 UAH, and the interest rate on the bank loan (due to which part of the capital is formed) is 28 %.

Guidelines to tasks 4.1, 4.2

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:

$$\text{WACC} = k_d \times (1 - \text{tax}) \times \frac{D}{E + D} + k_e \times \frac{E}{E + D}, \quad (3)$$

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, %.

Task 4.3

Consider the following investment opportunity.

A machine is available for purchase at a cost of \$80,000.

We expect it to have a life of five years and to have a scrap value of \$10,000 at the end of the five-year period.

We have estimated that it will generate additional profits over its life as follows (Table 8).

Table 8

Net cash flow of the investment project

Year	1	2	3	4	5
Amount, \$	20 000	40 000	30 000	15 000	5 000

These estimates are of profits before depreciation. You are required to calculate the return on capital employed.

Task 4.4

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 4.5

An initial investment of \$8,320 thousand on plant and machinery is expected to generate net cash flows of \$3,411 thousand, \$4,070 thousand, \$5,824 thousand and \$2,065 thousand at the end of the first, second, third and fourth years respectively. Calculate the net present value of the investment if the discount rate is 18 %.

Guidelines to tasks 4.3 – 4.5

The current and future projections of your business financial performance, in short, every financial plan should focus on the following key components. The capital requirements should reflect how much money you need to raise, how you are going to use the money or how much you need from investors. Assumptions in terms of growth or internal components of your business should always be backed with strong evidence and expert opinions, the income statement as the forecast of your business for the coming three to five years, and finally, the cash flow statement showing whether your company is successfully turning its profits into cash.

Conclusions about the success of your business should also be confirmed by calculations of project performance indicators.

Investment assessment methods include:

- the payback period method;
- the accounting rate of return method;
- the net present value method;
- the internal rate of return method;
- the profitability index method;
- the discounted payback period method.

The payback period is usually expressed in years, which it takes the cash inflows from a capital investment project to equal the cash outflows. The method recognizes the recovery of original capital invested in a project. In the

payback period the cash inflows from the project will be equal to the project's cash outflows.

This method specifies the recovery time, according to the accumulation of the cash inflows (inclusive of depreciation) year by year until the cash inflows equal the amount of the original investment. The length of time this process takes gives the "payback period" for the project. In simple terms it can be defined as the number of years required to recover the cost of the investment.

In case of capital rationing situations, a company is compelled to invest in projects having the shortest payback period.

When deciding between two or more competing projects the usual decision is to accept the one with the shortest payback.

The formula for determining the payback period is:

$$PP \text{ (Payback Period)} = \frac{IC \text{ (Invest Capital)}}{CF \text{ (Cash Flow)}}. \quad (4)$$

The accounting rate of return is also known as "return on investment" or "return on capital employed" method employing the normal accounting technique to measure the increase in profit expected to result from an investment by expressing the net accounting profit arising from the investment as a percentage of that capital investment.

The method does not take into consideration all the years involved in the life of the project. In this method, most often the following formula is applied to arrive at the accounting rate of return:

$$\text{Accounting Rate of Return} = \frac{\text{Average Annual Profit After Tax}}{\text{Average or Initial Investment}} \times 100. \quad (5)$$

Sometimes, initial investment is used in place of average investment. Of the various accounting rates of return on different alternative proposals, the one having the highest rate of return is taken to be the best investment proposal.

Implementation of a business idea is a project of capital investment for profit. Indicators of evaluation of the effectiveness of investment projects are also used to assess the effectiveness of doing business.

The indicators are net present value of the project (NPV), profitability index (PI), payback period (PP), internal rate of return on investment (IRR).

The net present value of the project is the sum of the present values of the cash inflows and outflows.

The formula for determining the net present value is:

$$NPV = \sum_{i=1}^k \frac{CF_i}{(1+r)^i} - IC, \quad (6)$$

where CF_i is the net cash flow;

r is the discount rate which indicates the rate of change in the value of money over time. This can be calculated as the weighted average cost of capital;

IC is the invested capital;

i is the number of time periods.

The internal rate of return (IRR) is a percentage discount rate used in capital investment appraisals which brings the cost of a project and its future cash inflows into equality. It is the rate of return which equates the present value of the anticipated net cash flows with the initial outlay. The IRR is also defined as the rate at which the net present value is zero.

The rate for computing IRR depends on the bank lending rate or opportunity cost of funds to invest which is often called the personal discounting rate or the accounting rate. The test of profitability of a project is the relationship between the IRR of the project and the minimum acceptable rate of return.

The IRR can be stated in the form of a ratio as shown below:

$$\text{Cash Inflows} / \text{Cash Outflows} = 1.$$

$$\text{PV of Cash Inflows} - \text{PV of Cash Outflows} = \text{Zero}.$$

The IRR is to be obtained by trial and error method to ascertain the discount rate at which the present values of total cash inflows will be equal to the present values of total cash outflows.

The profitability index method is a method of assessing capital expenditure opportunities in the profitability index. The profitability index (PI) is the present value of the anticipated future cash inflows divided by the initial outlay.

The formula for determining the profitability index is:

$$\text{Profitability Index} = \frac{\text{PV of Future Cash Flows}}{\text{Initial Investment}}. \quad (7)$$

The only difference between the net present value method and the profitability index method is that when using the NPV technique the initial outlay is deducted from the present value of the anticipated cash inflows, whereas with the profitability index approach the initial outlay is used as a divisor.

Limitations:

The profitability index cannot be used in capital rationing problems where projects are indivisible. Once a single large project with high NPV is selected, the possibility of accepting several small projects which together may have higher NPV than the single project, is excluded.

Sometimes the project with lower profitability index may have to be selected if it generates cashflows in the earlier years, which can be used for setting up of another project to increase the overall NPV.

With *the discounted payback period method* the cash flows involved in a project are discounted back to the present value terms as discussed above. The cash inflows are then directly compared to the original investment in order to identify the period taken to payback the original investment in the present values terms.

The method is a variation of the payback period method, which can be used if discounted cash flows methods are employed. This is calculated in much the same way as the payback, except that the cashflows accumulated are the base year value cashflows which have been discounted at the discount rate used in the NPV method (i.e., the required return on investment).

The formula for determining the discounted payback period is:

$$\begin{aligned} & \text{Discounted Payback Period} = \\ & = \text{Year Before the Discounted Payback Period Occurs} + \quad (8) \\ & + \frac{\text{Cumulative Cash Flow in the Year Before Recovery}}{\text{Discounted Cash Flow in the Year After Recovery}} \end{aligned}$$

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.

Questions for self-assessment

1. What is a business plan?
2. What is a business plan in a standard format?

3. How do I write a professional business plan?
4. What is a business plan and why does it matter?
5. Who needs a business plan?
6. How to make a business plan and seven components every plan needs.
7. Business plan structure.
8. What is lean startup format?

Content module 2. Business registration and support in tax and financial aspects

Topic 5. Forms of business organization

- 5.1. General characteristics of possible forms of business organization.
- 5.2. Types of companies.
- 5.3. Advantages and disadvantages of individual forms of business organization.
- 5.4. Legal aspects of setting up an enterprise.
- 5.5. Legal aspects of registration of an individual entrepreneur.

Practical tasks

Task 5.1

Give a general description of the main forms of business organization. Fill in Table 9.

Table 9

Forms of business organization

Characteristics	Partnership	Corporation	Sole (individual) proprietorship	Cooperative
Legal status				
Owner's liability				
Management				
Tax status				
Duration				
...				

Task 5.2

Describe the main types of business structures in Ukraine. Fill in Table 10.

Table 10

The most popular business structures in Ukraine

Types of business structures	Main characteristics
Limited liability company	
Joint stock company	
Private enterprise	

Task 5.3

Describe the nuances of the activity of joint stock companies and characterize the distinguishing features of public joint stock companies and private joint stock companies. Fill in Table 11.

Table 11

Characteristics of joint stock companies

Public joint stock company	Private joint stock company
1.	1.
2.	2.
3.	3.
...	...

Task 5.4

Describe the advantages and disadvantages of different forms of business organization. Fill in Table 12.

Table 12

Advantages and disadvantages of different forms of business organization

Forms of business organization	Advantages	Disadvantages
Partnership		
Corporation		
Sole (individual) proprietorship		

Guidelines to tasks 5.1 – 5.4

Starting a business involves making decisions in selecting the right form of business. There are five basic forms of business organizations in the modern world: partnership, corporation, sole proprietorship, cooperative, limited liability company. Using the recommended literature, including Internet sources, students study the features of different forms of business organization, their advantages and disadvantages, characterize the most popular business structures in Ukraine. The results of the conducted studies are recorded in the appropriate tables.

Task 5.5

Study the statistics of the activities of economic entities in Ukraine. Fill in Tables 13, 14. Draw conclusions.

Table 13

The number of business entities in Ukraine

Business entities	Number of business entities	% to the total
Enterprises, units		
Natural entities-entrepreneurs, units		
Total		100,0

Table 14

The number of legal entities according to the organizational and legal forms in Ukraine

Organizational and legal forms of legal entities	Number of legal entities	% to the total
1	2	3
Farm		
Private enterprise		
Public enterprise		
State-run enterprise		
Communal enterprise		
Subsidiary		
Foreign enterprise		
Enterprise association of citizens (religious organization, trade union)		
Enterprise founded by consumer partnership		
Joint-stock company		

Table 14 (the end)

1	2	3
of which		
Public joint-stock partnership		
Private joint-stock partnership		
Limited liability company		
Extended liability company		
Full liability company		
Mixed liability company		
Cooperative		
Public authorities, organizations (establishments, institutions)		
Association		
Corporation		
Consortium		
Concern		
Union of consumer partnerships		
Other associations of legal persons		
Commodity exchange		
Credit union		
Consumer partnership		
Nonstate pension fund		
Political party		
Non-profit organization		
Public union		
Religious organization		
Trade union, association of trade unions		
Creative union (other professional organizations)		
Charitable organization		
Condominium		
Community association of population		
The number of legal units, total		

Guidelines to task 5.5

To study the statistics of the activities of economic entities in Ukraine students should visit the official website of the State Statistics Service of Ukraine [6]. Based on the results of the study, students receive information on the number of economic entities operating in Ukraine – enterprises according to the organizational and legal forms and natural entities-entrepreneurs.

Task 5.6

Give a brief description of the main regulatory legal acts which regulate the activities of business entities in Ukraine. Fill in Table 15.

**Brief characteristic of the main regulatory legal acts
which regulate the activities of business entities in Ukraine**

Regulatory legal act	Original name	No. and date of enactment	Object of regulation
The Commercial (Economic) Code			
The Land Code			
The Labor Code			
The Tax Code			
The Customs Code			
The Administrative Offenses Code			

Guidelines to task 5.6

The students should give a brief description of the main regulatory legal acts which regulate the activities of business entities in Ukraine namely the Commercial (Economic) Code of Ukraine, the Land Code, the Labor Code, the Tax Code, the Customs Code, the Administrative Offenses Code.

The main steps in doing this task are as follows:

- 1) find out the original name of the legal act;
- 2) get to the site of Verkhovna Rada of Ukraine [5];
- 3) search the regulatory legal act;
- 4) find the necessary information;
- 5) fill in the table.

An example of the task execution is shown in Table 16.

Table 16

Regulatory legal act	Original name	No. and date of enactment	Object of regulation
The Commercial (Economic) Code	Господарський кодекс України	436-IV dated 16 January, 2003	Determines basic fundamentals of business activity in Ukraine and regulates business relationships, arising in the process of organization and exercising economic activity between business entities, as well as between these entities and other parties to economic activity

Questions for self-assessment

1. What are the most common forms of legal entities in Ukraine?
2. Give the main characteristics of LLC.
3. What are the types of JSC in Ukraine?
4. Describe the nuances of the activity of joint stock companies.
5. Give the main characteristics of private enterprises in Ukraine.
6. What are the advantages of different business structures?

Topic 6. Systems of taxation for legal entities

- 6.1. The general system of taxation.
- 6.2. Income tax.
- 6.3. Value added tax.
- 6.4. Other taxes and fees and mandatory payments.
- 6.5. A simplified system of taxation for legal entities.

Practical tasks

Task 6.1

Study the following definitions of the term "tax". What keywords define the essence of this term? Put them in Table 17.

Table 17

The definitions of the term "tax"

Definitions	Keywords
Taxes are involuntary fees levied on individuals or corporations and enforced by a government entity – whether local, regional or national – in order to finance government activities	
A tax is a mandatory fee or financial charge levied by any government on an individual or an organization to collect revenue for public works providing the best facilities and infrastructure	
A tax is a charge usually of money imposed by authority on persons or property for public purposes	

Guidelines to task 6.1

When completing the task, it is necessary to analyze in detail the definitions of the term "tax" and highlight its key characteristics. The results of the completed task should be presented in the table.

Task 6.2

Explain the terms given in Table 18.

Table 18

Interpretation of the terms

Terms	Definitions
Levy (n)	
Levy (v)	
Impose (v)	
Exempt (v)	
Abolish (v)	
Charge (n)	
Charge (v)	
Tax (v)	
Involuntary (adj)	
Compulsory (adj)	
Obligatory (adj)	
Mandatory (adj)	

Guidelines to task 6.2

Students should give an interpretation of the terms proposed in the task. To complete this task, it is necessary to visit the site [10] and find the necessary terms there. Additionally, examples of the use of these terms in the appropriate context should be given.

Task 6.3

Describe the principles of the tax legislation of Ukraine. Fill in Table 19.

Table 19

Characteristic of the principles of the tax legislation of Ukraine

Basic principles	Characteristic of the principles
1	2
Generality of taxation	
Equality of all payers before the law, non-admission of any manifestations of tax discrimination	

Table 19 (the end)

1	2
Inevitability of the approach of responsibility determined by the law in case of violation of the tax legislation	
Presumption of legitimacy of decisions of the taxpayer	
Fiscal sufficiency	
Social justice	
Profitability of the taxation	
Taxation neutrality	
Stability	
Uniformity and convenience of payment	
Single approach to establishment of taxes and fees	

Task 6.4

Work in groups. Study the elements of taxes. Describe each of these elements for the selected tax or fee according to the list of required payments:

- corporate income tax;
- individual (personal) income tax;
- military fee (duty);
- value-added tax (VAT);
- excise tax;
- customs duty;
- environmental tax;
- rental payments;
- property tax;
- unified (single) tax;
- parking duty;
- tourism duty.

The choice of the tax (fee) for researching for each students' group is agreed with the teacher. Fill in Table 20.

Table 20

Elements of taxes based on the example of the ... tax (fee)

Elements of taxes	Characteristic of the elements of taxes
1	2
Taxpayers	
Taxation object	

Table 20 (the end)

1	2
Tax base	
Tax rate	
Procedure for calculation of tax	
Tax period	
Term and payment procedure of tax	
Term and procedure for provision of the reporting	

Task 6.5

Calculate the amount due for payment of the corporate income tax. Information on the activities of the enterprise:
 net sales of 6 200 000 UAH;
 cost of sales amounting to 3 950 000 UAH;
 selling and operating expenses making 514 140 UAH;
 general and administrative expenses in the amount of 180 315 UAH.

Task 6.6

In the reporting month the company:

- 1) has purchased materials for use in economic activities in the amount of 48 000 UAH (including VAT);
 - 2) has sold goods in the amount of 60 000 UAH (including VAT).
- Calculate the amount of VAT payable to the budget.

Task 6.7

2000 bottles of vodka (0.7 liters) 40 % by vol. strength were produced and sold. Determine the amount of the excise tax.

Task 6.8

The company is going to sell 500 packs of filter cigarettes. The maximum retail price is 62 UAH per pack. Calculate the amount of excise tax to be paid to the budget.

Task 6.9

An employee got a salary in the amount of 12 800 UAH. Determine the amount of taxes and fees due and the amount of take-home salary.

Guidelines to tasks 6.3 – 6.9

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

The principles on which the tax legislation of Ukraine is based are defined in Article 4 of the Tax Code of Ukraine.

Below, a general description of the main mandatory payments is presented.

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.

CIT payers are legal entities that operate in Ukraine and abroad, except for:

- 1) legal entities using the simplified tax regime;
- 2) organizations financed by the State and local authorities;
- 3) charity funds, non-governmental organizations, political parties, pension funds and other non-profit organizations.

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)

Taxpayers

The personal income tax (PIT) is paid by resident and non-resident individuals.

Taxation object

Incomes that are object to personal income tax:

income in the form of salary;

income from renting out movable and immovable property;

income from the sale of movable and immovable property;

gifts, prizes;

passive income (% on deposits, savings certificates, etc.);

inheritance income.

Rate

Currently, a flat rate of 18 % is established for PIT taxpayers. However, for some kinds of income a separate rate is applicable (9 %, 5 %, 0 %, etc.).

Tax base

The monthly (annual) taxable income of taxpayers does not include:

- the interest accrued on certain state securities issued by the NBU;
- the alimony received in accordance with the court ruling or voluntary arrangement of the parties as provided by the Family Code of Ukraine;
- body of the deposit at a bank or a non-bank financial institution;
- the income of a private entrepreneur which is subject to single tax;
- insurance payments, pension payments, etc. received under the long-term life insurance agreement;
- amounts forgiven (annulled) by the lender;
- the income from financial (including international) organizations under the framework of implementation of energy efficiency and energy saving projects;
- the amount of property and non-property contribution to the charter capital of a legal entity;
- the charity aid amounts.

PIT on salaries

Employers paying employment-related income to their employees, as well as legal entities paying compensation to individuals based on the civil law contracts qualify as tax agents in respect of such income.

Tax agents are obliged to withhold and pay PIT to the state budget on behalf of the individuals, to maintain tax records, to submit income reports and are responsible for the violation of these obligations.

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 the 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 from tolling raw materials;
- import excise goods to the customs territory of Ukraine;
- distribute excise goods or transfer them for 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, bodies thereto, motorcycles, vehicles for transportation of 10 or more people, vehicles for transportation of goods;
- electricity, except for the distribution of electricity generated by qualified cogeneration units and/or renewable energy sources.

Transport tax

Taxpayers

Transport tax is paid by individuals and legal entities, including nonresidents, who own vehicles that are registered in Ukraine.

Rate

The rate of transport tax is established in the amount of 25 000 UAH per year per each vehicle.

Tax base

Transport tax is paid per each vehicle, which has been used for up to five years from the date of its manufacture with the average market price of more than 375 minimal wages.

Environmental tax

Taxpayers

Environmental tax is paid by individuals and legal entities carrying out their activities in the territory of Ukraine.

Rate

Rates of environmental tax are provided in the Tax Code of Ukraine for each type of substances.

Tax base

Environmental tax is based on the amount and type of polluting substances released into the air or water objects in Ukraine during operational activities of legal entities.

Rent payments

Taxpayers

Rent payments are paid by individuals and legal entities conducting certain activities in the territory of Ukraine.

Rate

The amount of rent payments is specified in the Tax Code of Ukraine for each type of resource and its use.

Tax base

Rent payments are required for:

- the use of subsoil;
- the use of subsoil for the purposes not connected with mining;
- the use of radiofrequency in Ukraine;
- the special use of water;
- the special use of forest resources;

- transportation of oil and oil products via trunk lines and oil pipelines, transit pipeline transportation of ammonia in the territory of Ukraine.

Local taxes and duties

Local taxes include:

property tax;

unified (single) tax.

Local duties include:

parking duty;

tourism duty.

Questions for self-assessment

1. Give the list of national taxes and fees in Ukraine.
2. Give the list of local taxes and fees in Ukraine.
3. What are the basic principles of the tax legislation of Ukraine?
4. Give a characteristic of direct taxes.
5. Give a characteristic of indirect taxes.
6. Give a characteristic of the elements of taxes.

Topic 7. Taxation systems for entrepreneurs

7.1. The general system of taxation.

7.2. The simplified taxation system for individual entrepreneurs.

7.3. The features of calculation and payment of the value added tax by individual entrepreneurs on the simplified taxation system.

Task 7.1

An entrepreneur subject to the general system of taxation, in the reporting period, received income in the amount of 520 000 UAH. The expenses incurred amounted to 395 000 UAH. Determine the amount of the income tax of the entrepreneur to be paid to the budget.

Task 7.2

An entrepreneur who operates in the 1st group of single tax payers, during the reporting month, received income in the amount of 40 000 UAH. The expenses incurred amounted to 32 000 UAH. Determine the amount of the single tax to be paid to the budget.

Task 7.3

An entrepreneur who operates in the 2nd group of single tax payers, during the reporting quarter, received income in the amount of 196 000 UAH. The expenses incurred amounted to 138 000 UAH. Determine the amount of the single tax to be paid to the budget.

Task 7.4

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 expenses incurred amounted to 194 000 UAH. Determine the amount of the single tax to be paid to the budget.

The entrepreneur isn't registered as a VAT-payer.

Task 7.5

An entrepreneur who operates in the 3rd group of single tax payers, during the reporting quarter, received income in the amount of 462 000 UAH. The expenses incurred amounted to 41 000 UAH. Determine the amount of the single tax to be paid to the budget.

The entrepreneur is registered as a VAT-payer.

Guidelines to tasks 7.1 – 7.5

When performing the tasks, it is necessary to take into account the norms of the Tax Code of Ukraine concerning the taxation of income obtained by a sole proprietor from carrying out their business activity, except for the persons, who have chosen simplified tax system.

According to Article 177 of the Tax Code of Ukraine, income of natural persons-entrepreneurs obtained during the calendar year from carrying out their business activity is taxable at the rate of 18 %.

The taxable item is the net taxable income, that is the difference between the total taxable income (revenue in specie or in kind) and documented expenses associated with the business activity of such sole proprietor.

A simplified tax regime for entrepreneurs

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 21).

The nuances of the simplified tax regime for entrepreneurs

	1st group	2nd group	3rd group
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
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)

Questions for self-assessment

1. What is the procedure for taxation of entrepreneurs taxed in the 1st group of single tax payers?
2. What is the procedure for taxation of entrepreneurs taxed in the 2nd group of single tax payers?
3. What is the procedure for taxation of entrepreneurs taxed in the 3rd group of single tax payers?
4. Describe the order of calculation and payment of the value added tax by individual entrepreneurs on the simplified taxation system.
5. What is the procedure for taxation of entrepreneurs taxed in the general system of taxation?
6. How is net taxable income calculated?

Topic 8. Financial statements

- 8.1. The general characteristics and the purpose of financial statements.
- 8.2. The composition of financial statements.
- 8.3. The content and procedure of preparation of the Statement of Financial Position and the Statement of Financial Results.

8.4. Financial statements of small and micro enterprises.

8.5. International financial reporting.

Task 8.1

Tables 22, 23 present the data of the financial statements of the enterprise. Fill in the tables and determine, which indicators have grown, draw conclusions.

Guidelines to task 8.1

The balance sheet summarizes the assets, liabilities, and owners' equity of a business at a point in time, while the income statement summarizes revenues and expenses of a firm over a particular period of time.

International and national accounting standard setters are working toward "convergence" in accounting standards around the world. "Convergence" aims to narrow or remove accounting differences so that investors can better understand financial statements prepared under different accounting frameworks.

A conceptual framework for financial analysis provides the analyst with an interlocking means for structuring the analysis. For example, in the analysis of external financing, one is concerned with the firm's fund needs, its financial condition and performance, and its business risk.

Additional insights can be gained by common-size and index analysis. In the former, we express the various balance sheet items as a percentage of total assets and the income statement items as a percentage of net sales. In the latter, balance sheet and income statement items are expressed as an index relative to an initial base year.

The growth of total assets is characterized positively and, mainly, indicates the expansion of production and economic activity and growth of production capacity of the enterprise, but it is necessary to take into account the impact of inflation, revaluation or indexation of assets, etc. The decrease in the total amount of assets indicates a reduction in the company's turnover and may be caused by a number of negative factors: the elimination of fixed assets, curtailment of investments, reduction of inventories and inventories of finished products, etc.

An increase in the share of borrowed funds may indicate the company's heavier dependence on external sources of financing and a higher degree of its financial risk; accordingly, a decrease may indicate higher financial independence of the enterprise.

Analysis of assets

Assets	Regular (thousand \$)		Percentage		Changes in the given period			
	Jan 1, 20	Jan 1, 21	Jan 1, 20	Jan 1, 21	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) × 100	9 = 6 / Σ6 × 100
Cash	178	175						
Accounts receivable	678	740						
Inventories	1329	1235						
Prepaid expenses	21	17						
Accumulated tax prepayments	35	29						
Current assets (total)	2241	2196						
Fixed assets at cost	1596	1538						
Less accumulated depreciation	<u>(857)</u>	<u>(791)</u>						
Net fixed assets	739	747						
Investment, long term	65	-						
Other assets, long term	205	205						
Fixed assets (total)	1009	952						
Total assets (current assets + fixed assets)	3250	3148						

Analysis of liabilities and shareholders' equity

Liabilities and shareholders' equity	Regular (thousand \$)		Percentage		Changes in the given period			
	Jan 1, 20	Jan 1, 21	Jan 1, 20	Jan 1, 21	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) × 100	9 = 6 / Σ6 × 100
Bank loans and notes payable	448	356						
Accounts payable	148	136						
Accrued taxes	36	127						
Other accrued liabilities	191	164						
Current liabilities	823	783						
Long-term debt	631	627						
Total liabilities	1454	1410						
Common stock, \$1 par value	421	421						
Additional paid-in capital	361	361						
Retained earnings	1014	956						
Total shareholders' equity	1796	1738						
Total liabilities and shareholders' equity	3250	3148						

The priority of the share of current liabilities in the structure of borrowed funds indicates an increased risk of loss of financial stability by the company.

The share of long-term liabilities and borrowings in the structure of liabilities is characterized by an improvement in the structure of funding sources in terms of reducing the risk of loss of financial stability.

The growth of non-current assets may indicate an increase in the level of production potential of the enterprise.

The growth of long-term financial investments higher than the growth rate of total assets, also indicates the diversion of funds from core production activities and requires additional verification of the efficiency and soundness of relevant financial investments, the main activity of the enterprise and the growth of its financial results.

The growth of current assets may be associated with an increase in production, which is assessed positively in this case.

Questions for self-assessment

1. Describe the nature and purpose of the preparation and use of financial statements of an enterprise.

2. What are the basic needs of users of financial statements and what do they depend on?

3. What documents regulate the procedure for preparing financial statements of enterprises in Ukraine?

4. Describe the main components of the financial statements of an enterprise.

5. Explain the relationship between the forms of financial reporting of an enterprise.

6. What are the features of financial reporting of small businesses in Ukraine?

7. Identify the main characteristics of International Financial Reporting Standards.

8. Describe the preparation of consolidated financial statements.

9. Make a comparison of the Ukrainian and International Financial Reporting Standards.

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НАВЧАЛЬНЕ ВИДАННЯ

РЕЄСТРАЦІЯ БІЗНЕСУ ТА СКЛАДАННЯ ФІНАНСОВОЇ ЗВІТНОСТІ БІЗНЕСУ

**Методичні рекомендації
до практичних завдань
для студентів усіх спеціальностей першого
(бакалаврського) рівня
(англ. мовою)**

Самостійне електронне текстове мережеве видання

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Коректор *З. В. Зобова*

Подано основні питання тем, що вивчаються за планом лекцій з навчальної дисципліни, практичні завдання та методичні рекомендації до них. Запропоновано завдання для індивідуальної роботи, запитання для самоперевірки та теми для написання есе.

Рекомендовано для студентів першого (бакалаврського) рівня всіх спеціальностей.

План 2022 р. Поз. № 21 ЕВ. Обсяг 49 с.

Видавець і виготовлювач – ХНЕУ ім. С. Кузнеця, 61166, м. Харків, просп. Науки, 9-А

*Свідоцтво про внесення суб'єкта видавничої справи до Державного реєстру
ДК № 4853 від 20.02.2015 р.*