Електронне наукове фахове видання "**Ефективна економіка**" включено до переліку наукових фахових видань України з питань економіки
(Наказ Міністерства освіти і науки України від 29.12.2014 № 1528)
www. economy.nayka.com. ua | № 1, 2018

UDK 65.012.7: 338.1

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PRACTICAL IMPLEMENTATION OF THE CONCEPT OF FINANCIAL CONTROL IN LOSS-MAKING ENTERPRISE

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ПРАКТИЧНА РЕАЛІЗАЦІЯ КОНЦЕПЦІЇ ФІНАНСОВОГО КОНТРОЛІНГУ НА ЗБИТКОВОМУ ПІДПРИЄМСТВІ

In the article, as a result of the conducted research, the practical aspects of realization of the concept of financial controlling on the industrial enterprise of the electric power industry of Ukraine are highlighted. The use of financial controlling tools allowed to identify systemic problems in the enterprise by studying the trends of changes in key indicators of financial and economic activity. It is emphasized that the management potential of the enterprise is not flexible, and the competence of the highest level of management is not sufficient to address the strategic business needs and is aimed only at solving current production problems. The systemic financial problems that need to be addressed by adjusting the financial concept are identified and substantiated.

У статті, в результаті проведеного дослідження, висвітлено практичні аспекти реалізації концепції фінансового контролінгу на промисловому підприємстві *електроенергетики України. Використання інструментарію фінансового контролінгу дозволило виявити системні проблеми в діяльності підприємства шляхом дослідження тенденцій змін ключових показників фінансово – господарської діяльності. Наголошено, що управлінський потенціал підприємства є не гнучкий, а компетенція вищого рівня менеджменту не достатня для вирішення стратегічних потреб бізнесу і спрямована лише на вирішення поточних виробничих завдань. Виявлено та обґрунтовано системні фінансові проблеми, що потребують вирішення шляхом коригування фінансової концепції.*

***Key words**: financial control, concept, financial management, financial analysis, balance of payments, assets, capital, financial results.*

***Ключові слова:** фінансовий контролінг, концепція, фінансовий менеджмент, фінансовий аналіз, платіжний баланс, активи, капітал, фінансові результати.*

Problem definition in general and its connection with important scientific or practical tasks. Scientific researches and achievements in the field of management of financial and economic activity of enterprises testify that both the theory and practice of financial management require further improvement, search of new scientific and methodical approaches in connection with significant changes and destructive phenomena taking place in economic, legal and the political environment of Ukraine. From 2014, most domestic industrial enterprises, whose portfolio of orders is 75% or higher, consists of government orders, are suffering from the problem of low capacity of production, due to the lack of government contracts, in particular, it concerns electric power companies. Under such conditions of operation, industrial enterprises require the development of effective practical measures relating to the stabilization of the financial condition by applying the concept of controlling, in particular - financial control. The instrument of financial control or controlling financial activity is very relevant for loss-making enterprises that are on the brink of a financial crisis, which can lead to bankruptcy.

The purpose of the article is to substantiate the practice of implementing the concept of financial control in the loss-making enterprise of the electric power industry, operating in the current unstable economic environment of Ukraine.

Analysis of recent research and publications. Scientific research on the use of financial controlling as an instrument for preventing bankruptcy is elucidated in the works of M.S. Pushkar and R.M. Pushkar [1], V.V. Prokhorova, A.S. Martyusheva, N.Yu. Petrusevich [2], V.G. Margosova, R.G. Horn, V.V. Vyhovskaya [3], S.V. Ivakhnenkova, O.V. Melih [4] and other native scientists. Most scientific works are devoted, along with the further development of the theory of controlling, the study of controlling in the functional areas of enterprises. Despite scientific achievements and significant contributions to the practice of using the controlling instruments, in our opinion, due to the increase of economic instability in the domestic market environment, changes in the tax legislation, significant changes in the legislative acts on the implementation of economic activity, enterprises and further integration of Ukraine into the European Community, the methodical tools for controlling financial activity require additional development.

Presentation of the main research material. Domestic classic of theory of financial management, I.O. Blank defines financial control as a control system, which ensures concentration of control activities in the most priority areas of financial activity of the enterprise, timely detection of deviations of its actual results from the foreseen and adoption of operational management decisions that ensure its normalization [5, p. 55]. Financial control can be defined as a fundamentally new concept of financial management of the enterprise, which is aimed at ensuring its activity through optimization of management functions. Financial control, as one of the methodological systems of financial management, provides control over the formation, distribution and use of financial resources in the process of their circulation. All managerial decisions in the area of formation, distribution and use of financial resources of the enterprise are interconnected and affect the effectiveness of its activities (profit, profitability, volume of resources, which are in constant circulation, etc.).

Today, due to the fact that the environment of domestic enterprises is so variable that managers can’t timely take into account and prevent the risks that accompany financial and economic activity, there are problems related to the definition of capital requirements, loading operational capacity, operational balance of cash flow plans and the like. A set of difficult predictable factors influencing financial and economic activity of the company is constantly changing and contradictory. In order to ensure timely response to negative environmental impacts, the concept of financial management of an enterprise needs to be constantly adjusted.

The subject of financial control is the microeconomic processes and phenomena in the enterprise, characterized by certain indicators - indicators in their dynamics and macroeconomic processes in the country that directly affect the economy of the enterprise. The toolbox for financial control is the systems and methods of financial analysis. The results of the use of the financial analysis toolkit for the purpose of establishing the negative tendencies of the operation of the electric power company LP "Zaporizhzhya high-voltage equipment plant

Vakatov" and the Company" (hereinafter referred to as LP "ZZVA ") during 2014-2017 and adjusting the concept of financial control are given in Table 1.

Table 1.
Dynamics of key indicators of financial and economic activity of LP "ZZVA" in 2014 - 2017

Key Indicators	2014 year	2015 year	2016 year	2017 year
1	2	3	4	5
Net income (revenue) from sales of products, thousand UAH.	39433	108087	68328	7009
Cost of sold products (goods, works, services), thousand UAH.	41489	79013	60078	6267
The share of the cost in net sales,%	105,21	73,1	87,93	89,41
Share of administrative expenses and sales expenses in net realizable sales	38,81	19,5	30,3	134,53
Labor Fund, thousand UAH.	18311	19452	22136	10717
Gross profit (+), loss (-), thousand UAH.	-2056	+29074	+8250	+742
Financial result of operating activities, thousand UAH.	-24164	+2401	-20718	-12031
Net loss, thousand UAH.	-21005	-2054	-25329	-23755
The share of fixed assets,%	84,4	82,8	81,4	82,4
Average annual cost of accounts payable, thousand UAH, incl.	52131	69503	85625,5	87196,5
Short-term loans of banks, thousand UAH.	20600	20356	20006	19750
Accounts payable for goods, works, services, thousand UAH.	10420	13141	15699,5	14521,5
Accounts payable on payroll calculations, thousand UAH.	5627,5	7145,5	8799,5	13489,5
Accounts payable on received advances, thousand UAH.	4742	9661,5	20223	20829
Accounts payable on insurance calculations, thousand UAH.	2741	3792,5	3736	5883
Average annual value of accounts receivable for goods, works, services, thousand UAH.	15443	15268	14893	13037
Retained earnings (uncovered loss) of past years, thousand UAH.	-48971,5	-60870,5	-74902,5	-73470

The electric power company LP "ZZVA" has been producing measuring current and voltage transformers for 65 years. The strategic consumers of the products are the State Enterprise NEC "Ukrenergo" and the NNEGC "Energoatom". On the example of LP "ZZVA" it is expedient to reveal the following: the significance of the timely application of the concept of financial control to enterprise management, the objective need not to neglect economic features of the crisis and timely response to systemic problems, the neutralization of which may not be possible in cases of irreversible destructive phenomena in the enterprise.

Financial and economic activity is accompanied by constant movement of cash, which ensures the receipt of funds and their spending. In order to ensure a positive balance, it is necessary to exceed the proceeds of their spending – this is an objective financial reality in any enterprise. The absence of such a positive balance of payments is a primary factor in the financial problems of the enterprise, which with high probability can lead to loss of financial autonomy, balance and bankruptcy. Important in the implementation of the concept of financial control is the establishment of interdependence between the indicators that characterize financial and economic activity. Such information is of great significance for management decisions, but it is not sufficient to draw profound conclusions about the trends of improvement or deterioration of the enterprise. In order to develop changes in the concept of financial control, it is necessary to establish trends, identify system changes, and systematize the factors of influence on financial and economic activity, for which methods of compiling comparative tables, the definition of relative deviations, the study of structure and trends of changes in certain groups of coefficients, etc., are used.

Thus, controlling the assets of the enterprise during the research period shows that the share of non-current assets is more than 80%, which is a sign of capitalization of property; also the degree of depreciation of fixed assets is more than 60%. This approach of managers and owners to the formation of assets suggests ignoring the leadership of the existing systemic problem: catastrophically low capacity of production. There is a need to seek additional financial resources for the maintenance of fixed assets, but this goal can not be achieved due to the volatility of production and sales. The share of non - current assets, which is more than 80%, is also a sign of reduction of production and economic activity and indicates the need to optimize the structure, composition and volume of non – current assets in order to reduce the level of constant costs in the cost price of products.

From data Table 1, we see that the volume of sales in 2014 is 39433 thousand UAH, while the estimated breakeven point in 2014 was 117.5 million UAH. The decline in sales in 2014 is due to the political and economic crisis in the country. LP "ZZVA" is "product-dependent" from any fluctuations on the energy market. The absence of government orders and the absence of tender procedures virtually stop the work of the company, which took place in 2014. During 2015, volumes of production and sales were partially restored to 108087 thousand UAH, which, in terms of budgeting, allowed to obtain a positive result from operating activities (2410 thousand UAH). Obviously, in 2016, the managers of the company carried out commercial activities in such a way that the share of total costs (cost of sales, administrative costs, sales costs) exceeded the prices of sales. Such approach in management is a sign of the deliberate bringing of the enterprise to economic bankruptcy.

The purpose of financial control is, as is known, to ensure the successful long-term existence of business, maintaining the internal equilibrium and stability of the production system [1, p. 127]. The retrospective assessment of the ratio of proceeds from sales of products and total costs (total cost) to the LP "ZZVA" (Figure 1) allows us to state that the company has a systemic problem of loss-making activity for ten years (Year 2017 is not present on Figure 1 due to absence of production activity during this period).

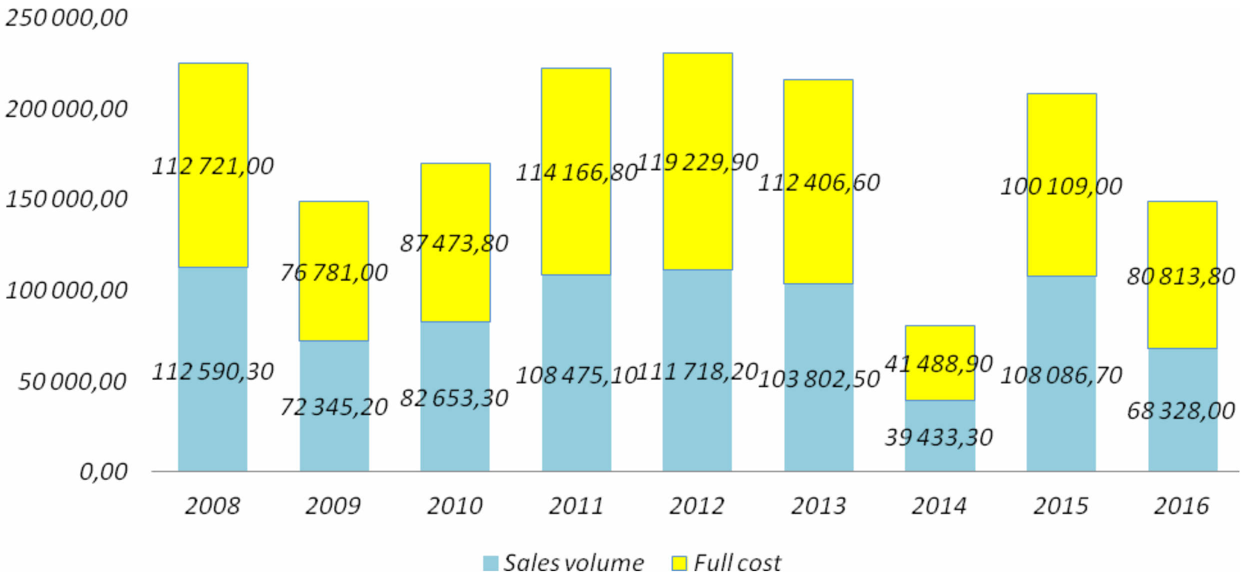

Figure. 1. Comparison of incomes and total cost of LP "ZZVA" during 2008 – 2016

Summing up the review of income and expenses of the enterprise, it can be noted that the management potential of the LP "ZZVA" is not flexible, and the competence of the higher level of management is not sufficient to address the strategic business needs and during the last decade was only aimed at solving current production problems. The higher level of management lacks the ability to implement new strategic programs, which is a sign of its "outdated" culture and politics, as well as an overload of current affairs.

The evidence of overloading top management with current tasks is the status of accounts payable. As can be seen from Table 1, LP "ZZVA" has a short-term loan to the bank. The company has attracted additional financial resources in 2012 and during the last years servicing its credit resources with the ability to pay off the loan. Attention is drawn to the trend of growth of all types of payables. Rapid growth of payables on received advances up to 20 mln. in 2016-2017 indicates that the company receives prepayment for the production of products, and uses the funds for current needs, while the funds are not enough to pay wages. Thus, the arrears of wages during the research period increased 2.4 times, and the arrears in insurance payments increased proportionally. There's a tendency to increase the payables for goods, work, services, that is, along with the consumption of funds from customers for current needs, there is a purchase of materials for production in debt. The reason for this situation is the inadequacy of cash in circulation, which means the inability to generate capital, the loss of control over operations, and the lack of reliable information on costs. It can be argued that LP "ZZVA" is in a financial crisis and the necessary efforts are needed to eliminate its consequences by regulating activities and even determining the appropriateness of doing business.

Accounts receivable for goods, works, services – these are potential means of payment, that is, funds that for a certain period of time are diverted from economic turnover. However, returned to the company on contractual terms. It is noteworthy that the receivables do not significantly change over a long period of time. A more detailed study shows that these bad debts that were formed in 2011-2012, these funds will not return, and costs will be attributed to the losses of the enterprise.

The uncovered losses of previous years (Table 1), which increase annually, testify to the absence of financial development potential of the enterprise. For an enterprise, of course, it is important to generate profit, but it is necessary to focus on tracking the flow of money, the search for sources of funding. The investigated company is experiencing a catastrophic lack of funds for servicing all areas of activity that can only be attracted as additional capital of owners and as a result of sales of products at attractive prices with a profitability of more than 30%. If, however, to rely on the classic analytical conclusion on the results of financial control, then this company is already bankrupt.

The concept of financial controlling on LP "ZZVA" needs to be adjusted and should be grouped according to the following principles:

– the principle of economic feasibility (establishes the relationship between costs and incomes, which will allow to assess the effectiveness of the implementation of the proposed measures in the management system of the enterprise);

– the principle of profit, that is, the achievement of conditions of non-distributive activity and profit in the medium or long-term time gap;

– the principle of financial equilibrium (it is derived from the previous principle and symbolizes the positive result of financial and economic activity as a financial potential of enterprise development);

– the principle of long-term business existence (preventing bankruptcy and preventing business risks).

Conclusions. The results of financial control revealed and substantiated systemic financial problems that need to be addressed by adjusting the financial concept of LP "ZZVA": the sale of products at prices lower than the cost price; unstable volumes of production and sales of products; lack of funds to solve current problems; insufficient competence of the highest level of management; significant dependence on state procurement policy. It is clear that today the levers of control over the activities of the enterprise LP "ZZVA" are lost, which requires the development of an updated monitoring system, taking into account the factors of influence on the internal and external environment of the enterprise and periodic revision of the control principles.

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Стаття надійшла до редакції 20.01.2018 р.