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**FINANCIAL RISK MANAGEMENT OF INTERNATIONAL BUSINESS  
ENTERPRISES**

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Qualification (master's) thesis

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## SUMMARY

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The paper investigates the principles of forming a mechanism for managing the financial risks of international business enterprises, in particular, the financial nature of risks, factors of influence and aspects of their manifestation for international business enterprises, and conceptual approaches to managing the financial risks of international business enterprises. The article analyzes and evaluates the impact of financial risks on international business enterprises. In particular, the macroeconomic manifestation of financial risks in Ukraine in the conditions of war is analyzed, the impact of risks on the activities of ELITDAH LLC is assessed, and the financial risks of ELITDAH LLC are analyzed.

The paper also develops proposals for improving the efficiency of the financial risk management mechanism at the enterprise «ELITDAH» LLC, namely, proposals for the formation of a risk reduction program for the enterprise and a forecast of technical, economic and financial indicators of the enterprise through the implementation of a risk reduction program.

The main scientific result of the study is the development of proposals to improve the efficiency of the financial risk management mechanism at the enterprise «ELITDAH» LLC, which aims to identify financial risks of the enterprise with the significant level of impact, increase the level of financial stability and reduce the likelihood of bankruptcy of the enterprise.

Keywords: financial risk, international business, financial risk management, financial stability, probability of bankruptcy, SWOT analysis, profitability.

95 p., 27 tables, 13 figures, 3 appendix, 50 sources.

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## INTRODUCTION

**Relevance of the topic.** Financial risk management in multinational enterprises is a critical area in today's globalized and integrated business environment. Multinational enterprises operate in highly volatile markets, especially in foreign exchange, and face increasing volatility and the prevalence of structural breaks. The current situation calls for a rethinking of how multinationals manage risk, especially in unstable and/or conflict-affected regions of operation. The international context of their operations affects investment and financing decisions, adding complexity due to currency risk. The importance of studying this topic is that it allows to increase the efficiency of enterprises in creating strategies to reduce losses and maximize profits.

The scientific literature identifies several problems in this area. One important problem is related to the financing of enterprises, inadequate financial structure, and inappropriate investment methods, which can lead to the loss of solvency of the enterprise, which will lead to a decrease in the expected returns to investors. Another problem is the risk of exchange rate fluctuations and potential political instability, which could lead to an increase in crime and violence.

At the same time, based on today's realities, it is extremely relevant to study the relationship between international business and society in conflict-affected or unstable regions of operation, which is underdeveloped and tends to focus on negative (risk avoidance) aspects rather than positive (value creation) opportunities. In addition, existing risk indicators also suffer from certain conceptual difficulties that impede their use for assessing international business risks associated with private investment decisions.

**Objective of the study.** The aim of the study is to develop conceptual approaches and provide practical suggestions for improving the efficiency of the financial risk management mechanism in an international business enterprise.

**The objectives of the study are:**

1. To determine the financial nature of risks, factors of influence and aspects of their manifestation for international business enterprises;

2. To develop conceptual approaches to financial risk management of international business enterprises;
3. Analyze the macroeconomic manifestation of financial risks in Ukraine in times of war;
4. To assess the impact of risks on the activities of LLC "ELITDAH";
5. To analyze the financial risks of ELITDAH LLC;
6. To develop proposals for the formation of a mechanism for reducing the risks of the enterprise;
7. To develop a forecast of technical, economic and financial indicators of the enterprise through the implementation of the risk reduction mechanism.
8. To develop recommendations for managing the financial risks of ELITDAH LLC using hedging instruments.

**The object of the study** is risks in the activities of enterprises.

**The subject of the study** is the system of financial risk management in the activities of international business enterprises.

**Research methods.** The theoretical section, first of all, included a comprehensive literature review. In particular, the study of existing theories, models and concepts related to financial risk management in international business enterprises. In writing the analytical section, the following research methods were used: comparison, analysis of statistical indicators, analysis of financial indicators, SWOT analysis and PEST analysis. In the project part of the work, attention was focused on the use of forecasting methods, financial modeling, comparison, analysis and synthesis.

**The theoretical significance of the results obtained** is the contribution to the existing body of knowledge in the field of financial risk management in international business enterprises. The study provides a comprehensive understanding of the financial risks faced by multinational enterprises, especially in volatile markets such as Ukraine during the war. It identifies gaps in existing theories and models and proposes new approaches to managing these risks.

**Practical significance of the research results** is that it provides practical recommendations for businesses operating in international markets. The study presents a financial risk reduction program that companies can implement to mitigate these risks.

The study has developed a financial risk mitigation program for ELITDAH LLC, which focuses on developing a unique offer that meets the current state of the company and its needs. The study of the probability of the company's bankruptcy revealed that further inactivity of the company may lead to an increase in the risk of bankruptcy.

**Testing of the research results.** The main theoretical provisions and proposals of the master's thesis were presented and discussed in 2023 at the All-Ukrainian Scientific and Practical Conference dedicated to the 55th anniversary of the Department of Finance and Banking "Actual Problems of Finance Development in the Context of Digitalization of the Ukrainian Economy".

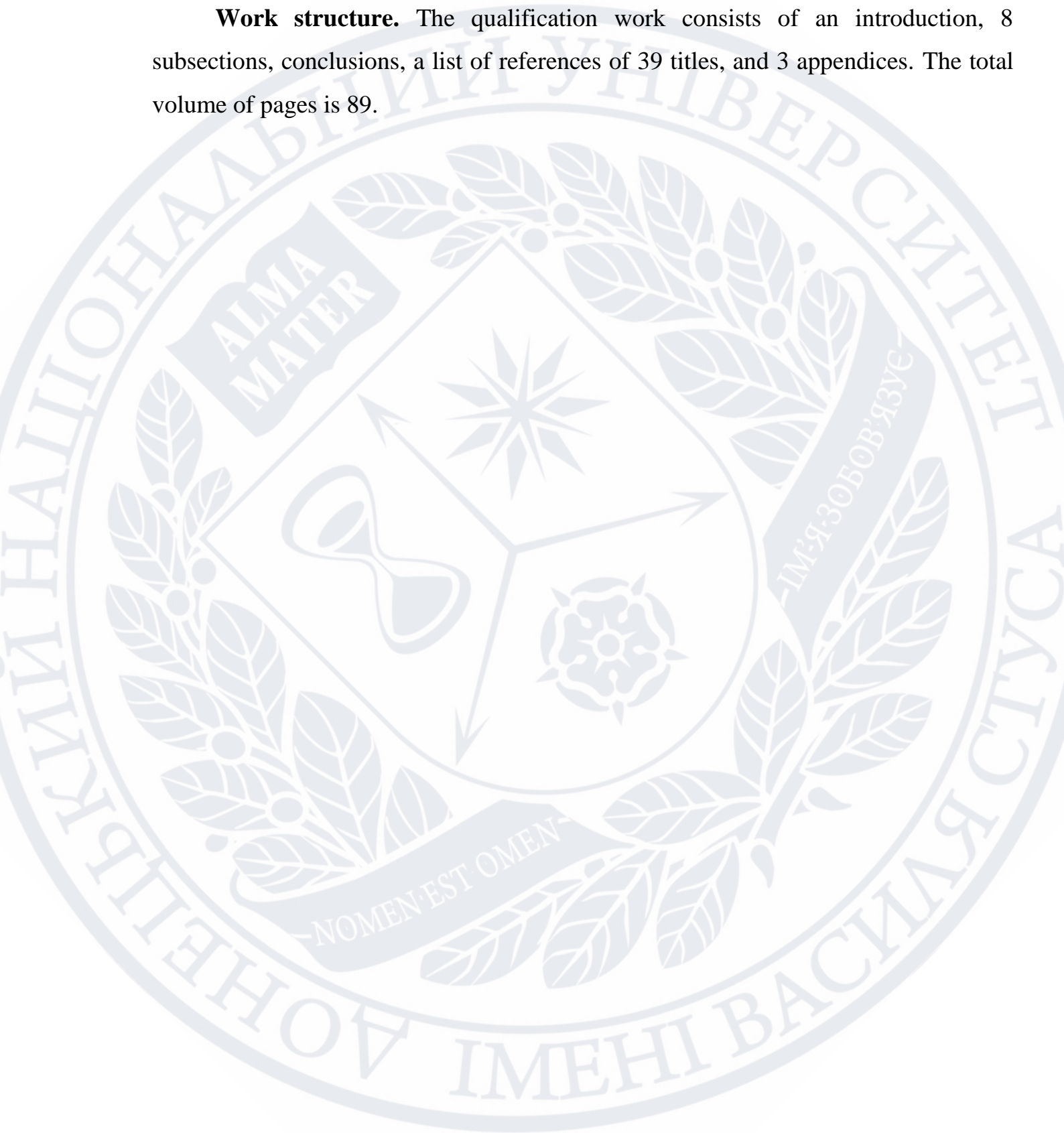
Ryzhova A. M. Financial risks for international businesses. Actual problems of development of finance in the conditions of digitalization of the Ukrainian economy: material. All-Ukrainian scientific and practical conference dedicated to the 55th anniversary of the Department of Finance and Banking (April 27, 2023, Vinnytsia). Vinnytsia: Vasyl' Stus DonNU, 2023. C.81-83.

**Provisions submitted for defense.** Based on the results of the master's thesis, proposals for building a mechanism for reducing the risks of ELITDAH LLC were developed, the main difference of which is the focus on the specifics of the financial activities of the selected enterprise, in particular, the use of factoring operations and attracting investments to increase the level of financial stability and reduce the level of dependence on external financing.

The master's thesis defines a scheme for neutralizing the currency risk of ELITDAH LLC, with the help of which recommendations for managing financial risks are developed - the conclusion of forward contracts when exporting metal doors and the use of a currency swap operation. Both solutions are effective for the

company and are developed taking into account the peculiarities of the financial activities of the business entity.

**Work structure.** The qualification work consists of an introduction, 8 subsections, conclusions, a list of references of 39 titles, and 3 appendices. The total volume of pages is 89.



# CHAPTER 1

## THEORETICAL AND METHODOLOGICAL BASES OF FORMATION OF THE MECHANISM FOR MANAGING FINANCIAL RISKS OF INTERNATIONAL BUSINESS ENTERPRISES

### **1.1. Financial nature of risks, factors of influence and aspects of their manifestation for international business enterprises**

In today's world, international businesses face a number of financial risks that can have a decisive impact on their operations and profitability. Financial risks arise as a result of changes in the global financial environment, currency fluctuations, political and economic crises, changes in legislation, changes in consumer trends and many other factors.

One of the main factors affecting the financial risk of international operations is currency fluctuations. Currency fluctuations can significantly change the value of a company's assets and liabilities, affecting its profitability and competitiveness. For example, an increase in the value of the national currency may reduce the competitiveness of exporters, while a decrease in the value of the currency may have a positive impact on exports but increase import costs.

Another factor is political risk, which is associated with changes in the political environment in countries where international trade is conducted. Political conflicts, changes in legal regulation, corruption and legal uncertainty can significantly complicate business operations, distort contracts and reduce profitability.

Economic crises are another important risk factor for international operations. Global economic fluctuations, regional crises, and changes in consumer trends can reduce demand for a company's products and services, resulting in reduced production and lower profitability.

In addition, technological innovations and developments can also be a source of risk for international operations. Rapid technological innovations can lead to the loss of relevance of the goods and services offered by companies, forcing them to change their strategies and business models.



In light of the above, international companies need to carefully analyze and manage their financial risks through effective financial planning, risk diversification, the use of financial instruments to reduce currency risk, and the implementation of risk management strategies.

Ukrainian scientists are actively researching the concept of the financial nature of risks and contribute to the development of this field of knowledge (Table 1.1).

Table 1.1 - Concept of the financial nature of risks

The scientist	Definitions
Ivanov Igor	defines the financial nature of risks as a set of features and manifestations of risks arising in the financial sphere of enterprises' activities. He emphasizes that financial risks arise from market volatility, changes in exchange rates, changes in the state of the financial system, financial regulators, and other factors.
Gritsenko Volodymyr	considers the financial nature of risks as the relationship between financial factors and risks that may affect the financial condition of an enterprise. He emphasizes that financial risks are associated with losses or uncertainty of financial flows, violation of financial stability and the ability of an enterprise to fulfill its financial obligations.
Kolesnik Igor	considers the financial nature of risks as a process of emergence and distribution of hazards associated with the financial activities of an enterprise. He emphasizes that financial risks arise as a result of unpredictable changes in financial indicators, price fluctuations in the markets, changes in financial policy, and other factors.

*Source: compiled by the author based on [37].*

The financial nature of risk includes a wide range of undesirable events that may adversely affect the financial stability and profitability of companies operating internationally. These risks arise from various sources and can be classified into several categories. The main ones are as follows [2]:

1. Currency risk. This is the risk associated with fluctuations in foreign exchange rates. For international companies that import or export goods and services, changes in foreign exchange rates can affect the value of their assets, liabilities and revenues. For example, an appreciation of the local currency may make goods more expensive for foreign buyers and thus reduce the competitiveness of exporting companies. On the other hand, a weaker currency can increase the competitiveness of exporters, but it can also increase the cost of imported goods [3].

2. Political risks. Risks associated with changes in the political environment of countries where international operations are conducted. Political conflicts, regulatory changes, corruption and uncertainty in the legal system may affect the stability and predictability of the business environment. For example, government decisions to change tax rates, tariff barriers and trade agreements can have a significant impact on business profitability [13].

3. Economic risks. Risks associated with economic factors that may affect the market environment and the company's operations. These include global economic fluctuations, regional crises, changes in consumer trends and demand for goods and services. For example, an economic recession may reduce consumer purchasing power and affect the demand for the company's goods and services [19].

4. Technological risks. These are the risks associated with changes in the technological environment and technological innovations. Rapid technological innovations can lead to the loss of relevance of the company's products and services, which can negatively affect its competitiveness and profitability. Companies must innovate to prepare for change, improve their technology and remain competitive.

These risks interact with each other and can reinforce or weaken each other. Financial risk management requires careful analysis, forecasting and implementation of risk minimization strategies, diversification of asset portfolios and the use of financial instruments to reduce currency risk.

Corporate financial risk has several key characteristics that determine its nature and impact on the financial stability and success of an organization. The main characteristics of corporate financial risk are as follows [36, p. 209]:

1. Uncertainty. Financial risk is associated with uncertainty and unpredictability of events and conditions that may affect the company's financial performance. This means that an entity cannot fully predict or control all factors that affect its financial stability.

2. Losses and threats. Financial risks involve potential losses or threats to the company's financial performance. They may include losses from unexpected changes in the value of assets, losses from changes in market conditions, losses from credit

risk and other similar risks that may adversely affect the financial position of the entity.

3. Probability of occurrence. Financial risk reflects the probability of an undesirable event or circumstance occurring. The greater the probability of a particular risk occurring, the more significant the risk is to the entity. An entity shall assess the likelihood of a risk occurring and develop management strategies to reduce the likelihood of the risk occurring or to mitigate the impact of the risk.

4. Relationship to financial performance. A company's financial risks have a direct impact on its financial performance. For example, rising interest rates can increase a company's financial expenses and reduce its profitability. Therefore, effective financial risk management involves analyzing and monitoring financial indicators, developing strategies to ensure financial stability and achieving financial goals.

Financial risks are divided into the following groups depending on the object of assessment:

1) Risks associated with an individual financial transaction. They characterize the general financial risk inherent in a particular financial transaction (for example, the risk of buying a particular share);

2) Risks of different types of financial activities. Risks of different types of financial activities (for example, risks of investment or lending activities of an entity).

3) Risks of the financial activities of the entity as a whole. The complexity of different types of risks inherent in the financial activities of an enterprise depends on such characteristics as the organizational and legal form of its activities, capital structure, composition of assets and the ratio of fixed and variable costs.

Depending on the totality of financial instruments, financial risks are divided into the following groups:

1) Individual financial risk. Determines the amount of risks inherent in individual financial instruments.

Individual financial risk has many different aspects and is manifested in the following key characteristics [25]:

a) Loss of income: this type of risk occurs when a person loses his or her main source of income, for example, due to unemployment, a reduction in wages, or inability to work due to illness or disability. Loss of income can have a significant impact on financial stability and the ability to meet current and future financial obligations.

b) Market volatility: A person's financial risks may also include risks arising from changes in market conditions, such as rising prices, falling asset values and fluctuations in foreign exchange rates. This can affect the value of a person's investments, savings and property.

в) Credit risk: Personal financial risk is the ability to repay loans and credit obligations. Failure to fulfill obligations under loans and credit cards may result in fines and interest charges, deterioration of credit history and loss of reputation with creditors.

г) Medical and insurance risks: Unexpected medical expenses and accidents may create financial risks for individuals. Lack of adequate health insurance or insufficient coverage may result in high costs of medical services and medicines.

д) Long-term financial goals: The risk of not achieving long-term financial goals, such as retirement, children's education, or the purchase of real estate, can also be an important aspect of financial risk for an individual. Insufficient savings, inappropriate investments, or changes in economic conditions can affect the achievement of these goals.

2) Portfolio financial risk. It is the sum of the risks inherent in similar financial instruments combined into a portfolio (corporate loan portfolio, investment portfolio).

a) Systematic risk: a risk that cannot be avoided through portfolio diversification. It is associated with general economic, political and market instability that can affect all assets in the market. For example, an economic downturn or financial crisis could cause most stocks and bonds to fall in price.

b) Unsystematic risks: These are risks that can be avoided or reduced by diversifying the portfolio. They arise from factors that affect a particular asset or group of assets. For example, negative news about a particular company can cause the share price of that company to fall, but this risk can be reduced if the portfolio includes assets from different companies or sectors [34].

c) Currency risk: If the portfolio includes foreign assets or assets traded in foreign currencies, fluctuations in exchange rates may affect the value of the portfolio. Changes in exchange rates may have a positive or negative impact on the yield and value of foreign assets.

r) Liquidity: A portfolio may face liquidity risk if it is unable to sell or liquidate assets quickly without significant loss of value. Lack of liquidity can cause problems when funds need to be quickly withdrawn from the portfolio [15].

r) Interest rate and inflation risk: The risk of changes in interest rates and inflation can affect the return on an investment portfolio. Rising interest rates can reduce the value of bonds, and inflation can reduce the real value of income and profits [8].

Financial risks can also be divided into two groups according to their insurance nature:

1) Insured financial risks. An insured risk is an event or series of events against which insurance can be provided. There are two forms of this type of insurance: self-insurance and external insurance.

2) Uninsured financial risks. They are a type of risk for which no appropriate insurance product is offered in the insurance market. Losses from the realization of uninsured risks are covered only at the expense of the company's own funds.

Depending on the type, financial risks are divided into the following groups (Table 1.2):

- 1) Short-term or long-term financial risks;
- 2) Systemic (market) or non-systemic (specific) financial risks; and
- 3) Local (firm-level) or global (country-level) financial risks.

Table 1.2 - Types of financial risks

Types of financial risks	Description.
Short-term risks	Short-term risks that typically arise from price differences, liquidity and limited access to funding. Examples include currency risk, liquidity risk and interest rate risk.
Long-term risks	Long-term risks that affect financial stability and profitability. Examples include cost volatility risk, interest rate risk and political instability risk.
Systemic (market) risks	Risks related to general economic and market conditions. They affect the market as a whole or individual companies, sectors or countries. Examples include economic crises, changing market trends and globalization.
Non-systemic (specific) risks	Risks that affect individual companies or sectors and are not common to the market as a whole. These can be company, product, market, or regulatory risks. Examples include technological risks, consumer demand risks, and competitive risks.
Local risks	Risks arising at the level of an individual company or organization. They may relate to management, financial resources, human resources, etc. For example, risks of dependence on a single supplier, risks of internal financial manipulation, risks of staff outflow, etc.
Global risks	Risks affecting the economy of a whole country or many countries. They may be related to economic, political or social processes at the international level. Examples include geopolitical crises, global economic instability, and risks of international financial relations.

*Source: compiled by the author based on [31].*

Our financial risks are affected by a variety of factors that vary in level and nature. The main factors affecting financial risk are [31, p. 17-18]:

1. Economic factors: general economic and market conditions have a significant impact on a company's financial risk. Economic factors, such as economic growth, inflation, interest rates, exchange rates and consumer demand, can change the financial stability and performance of the company.

2. Market factors: market conditions and competition affect financial risk. Changes in demand, prices, technological trends and the introduction of new products and services by competitors may affect revenues and profitability.

3. Financial factors: A company's financial performance and policies are important to its financial risk. Factors such as debt levels, liquidity, solvency, credit ratings, and capital expenditures can affect a company's financial strength and ability to meet its financial obligations.

4. Political and legal factors. Political and legal developments in a country or region, such as changes in legislation, tax systems, tariffs, trade restrictions, and political unrest, may affect the financial risks of an entity.

5. Geographical factors: Risks associated with the geographical location of the entity and regional factors, such as natural disasters, local political instability, and foreign exchange risks, may affect financial risks.

6. Risk management. The capacity and effectiveness of the risk management system affects the financial risks of the organization. Effective risk management can reduce the impact of adverse factors and enhance the organization's ability to manage and capitalize on opportunities.

A threat to the financial security of an entity is the state of a factor of the external or internal environment of an entity or other factors of the external or internal environment (or their combination) directly or alternatively have a negative impact on the financial condition and/or financial interests of an entity and lead to a decrease in its financial interests or have a negative impact on the financial condition and/or financial interests of an entity, which leads to a decrease in its financial stability or obstacles.

The main threats to financial security are [29, p. 27-28]:

1. Opacity of the product pricing mechanism;
2. High transaction costs incurred by market participants;
3. A large and constantly growing share of transaction costs of market participants reduces the profitability of their production and economic activities;
4. The institutional environment for enterprise development is not perfect;
5. Multiple enterprises producing different types of products;
6. Institutional barriers, including incomplete legal framework for regulating financial relations;
7. Unstable political and economic situation in the country. This leads to delays and non-payments for delivered products, performed works and rendered services;

8. Insufficient investment attractiveness of certain industries. Insufficient investment attractiveness of the industry hinders the process of attracting additional financial resources to the activities of enterprises.

Financial risks of international companies have their own specific manifestations. The main types of financial risks for international companies are:

1. Currency risk: international companies face the risk of currency fluctuations. Fluctuations in exchange rates can affect the cost of goods, production costs, market prices and business profitability. Failure to manage currency risk can lead to financial losses for the business [24, p. 41].

2. Political risks. International business also faces political risks associated with political instability, changes in legislation, political conflicts and other similar factors. Political risks can affect the company's activities, legal status, taxation system, relations with partners and access to markets [24, p. 41].

3. Market risk: international operations face market risks associated with changes in demand, competition, tariffs, regulatory policies and other aspects of market activity. Market fluctuations can affect sales volumes, prices, profitability and business development strategies [24, p. 41].

4. Credit risk: international operations may be exposed to credit risk associated with the risk that counterparties will fail to fulfill their financial obligations or default on loans and borrowings. Improper management of credit risk can lead to financial losses and liquidity problems [7].

5. Logistics risks: international business deals with complex logistics processes, including transportation, storage and delivery of goods in different countries. Delays, loss, damage, or theft of goods can have a financial impact on the business [20, p. 10].

6. Tax risks: tax laws are complex and vary from country to country. International businesses must take into account tax requirements and risks related to tax accounting, income tax, international tax treaties and tax strategies [11].

Thus, financial risk is an integral part of entrepreneurial activity in the world of international business. Financial risk arises as a result of undesirable changes in the



financial condition of an enterprise and can have a serious impact on the financial performance and sustainability of an enterprise.

Factors affecting financial risk include economic and political changes, fluctuations in foreign exchange rates, changes in market competition, changes in costs and revenues, changes in laws and regulations, and risks associated with the repayment of loans and investments.

Elements of financial risks in international business include loss of gross income, foreign exchange losses, asset impairment, increased costs, reduced liquidity, problems with debt repayment and unexpected financial expenses - all of which can affect the financial stability of a company.

Financial risk management is a key issue for international businesses. It involves analyzing, assessing and controlling risks, using financial instruments to mitigate them and developing a balanced risk management strategy, as well as continuous monitoring and adaptation to changing market conditions.

## **1.2. Conceptual approaches to financial risk management of an international business enterprise.**

Financial risk management is one of the key elements of successful international business management. In the context of economic globalization, rapid development of financial markets and increasing instability of the global economic system, effective financial risk management is becoming a key factor in gaining competitive advantages and ensuring corporate sustainability.

The conceptual approach to financial risk management in international business focuses on identifying, measuring, controlling and managing various types of risks that may affect the financial stability of an enterprise. The main concepts of financial risk management are the principles of diversification, cost minimization, the use of financial instruments to reduce risk exposure, and the creation of effective monitoring and control systems.

One of the conceptual approaches is to use diversification strategies to reduce financial risk. This means diversifying assets and investments across different

countries, sectors, and financial instruments. This approach reduces dependence on specific markets and helps to mitigate the impact of unfavorable events on the company's financial stability. Another conceptual approach is based on cost reduction and effective financial risk management. This means implementing strategies to optimize financial operations, rationalizing business processes and using financial instruments to reduce costs and minimize financial risks.

In addition, financial risk management requires the active use of financial instruments to reduce the impact of risks. This includes financial derivatives, insurance, options, and other financial instruments that can help reduce financial losses in the event of unfavorable changes in financial markets.

Finally, successful financial risk management requires the establishment of effective monitoring and control systems. This means continuously monitoring market conditions and financial indicators and responding to changes in a timely manner to ensure the company's financial stability.

In the international business world, the concept of financial risk management is a comprehensive approach to identifying, measuring, controlling and managing various types of risks that may arise in the company's financial area. Let's take a closer look at each of these stages (Fig. 1.1):

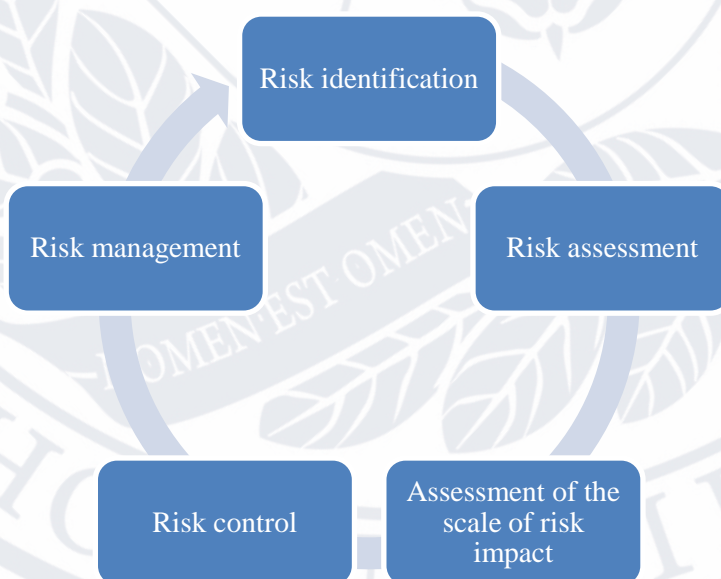


Figure 1.1 - International concept of risk management

Source: compiled by the author based on [16; 6, 33, 14].

1. Identification of risks. The first step is to identify potential risks that may affect the company's financial stability. These include such risks as exchange rates, interest rates, counterparty insolvency, changes in legislation, etc. It is important to analyze all aspects of the company's activities to identify potential sources of risk [16, p. 118].

2. Once risks are identified, their magnitude and impact on the company's financial performance should be assessed. This involves measuring the likelihood of the risk materializing and the potential losses associated with it. It is important to have a clear methodology and metrics for measuring risk to enable informed decision-making [16, p. 119].

3. Risk control. After quantifying the risks, it is necessary to establish a control system to timely identify and respond to changes in the risk environment. This includes establishing monitoring, analysis, and reporting mechanisms to provide timely information about changes in the risk environment.

4. Risk management. The next step is to make risk management decisions. This may include the development and implementation of strategies and policies aimed at reducing risks, rebalancing asset and investment portfolios, using financial instruments to reduce risk exposure, and developing action plans in the event of adverse events [6].

The use of diversification strategies is one of the main conceptual approaches to financial risk management in international business. This approach is based on the principle of spreading the risk of investments and assets across different countries, industries and financial instruments. The main purpose of diversification is to reduce dependence on specific markets, assets and regions, as well as to reduce the impact of adverse events on the company's financial stability (Figure 1.2).

The main principles of a diversified investment strategy are [17, p. 678]:

1. Asset portfolio allocation: The distribution of investments and funds among different types of assets, such as stocks, bonds, real estate, and commodities. This reduces risk because a decline in one sector can be offset by growth in another.

2. Geographic diversification: involves spreading investments or operations across different countries or regions. This can reduce the impact of political, economic and currency risks, as unfavorable events in one country can be offset by favorable events in another.

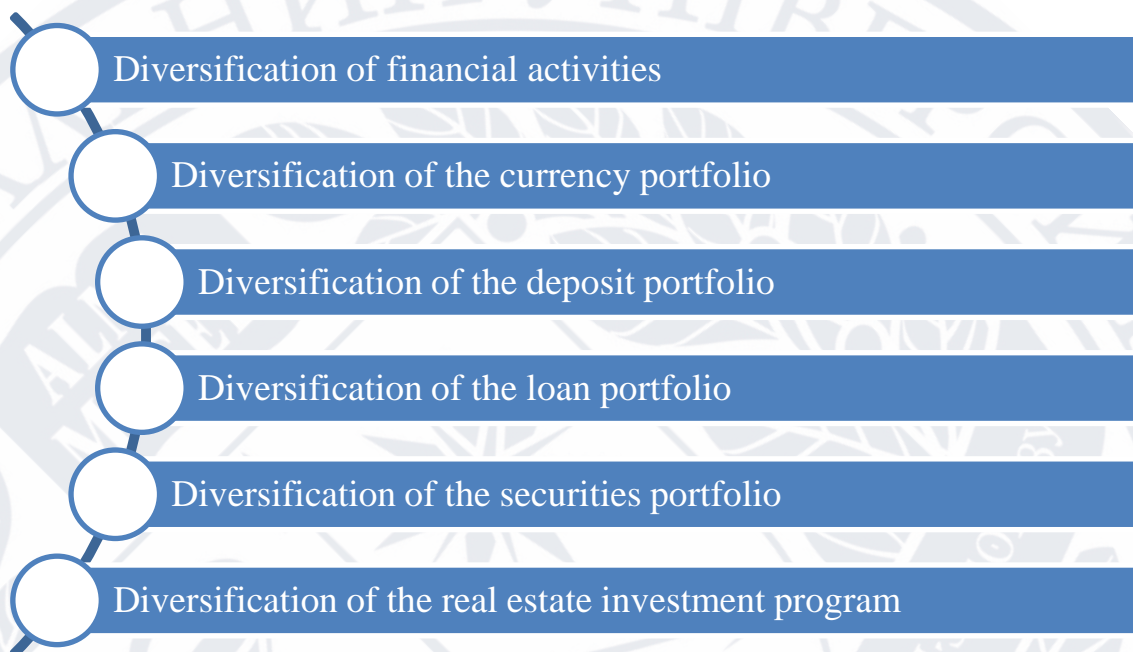


Figure 1.2 - Forms of diversification of financial risks of the enterprise

*Source: compiled by the author on the basis of [17, p. 678, 12].*

3. Various financial instruments: Companies use various financial instruments, such as derivatives, insurance, and options, to reduce risk and protect themselves from unfavorable market movements. For example, the use of forward foreign exchange contracts can help protect against currency fluctuations.

4. Sharing risk across business units: Large companies may spread risk across different business units. This can help reduce the impact of unfavorable events on the company's overall financial position, as a decline in one area can be offset by growth in another.

A key element of a successful diversification strategy is risk analysis and proper portfolio management. Companies should have a clear asset allocation strategy and regularly evaluate the effectiveness of their diversification strategy. Risk analysis involves assessing the likelihood of risks materializing, identifying possible consequences, and developing a plan to manage them.

In general, diversification strategies are an effective way to reduce financial risks in international trade. Diversification strategies are an effective way to mitigate financial risks in international trade, allowing companies to balance risks and ensure greater flexibility and stability in a complex global environment.

Another conceptual approach to managing financial risks in international trade is to reduce costs and effectively manage these risks. This approach aims to reduce the company's financial costs and optimize the risk management process. Let us consider in more detail how this approach is implemented in practice [4, p. 23]:

1. Risk analysis and assessment. First, the risks faced by the company's financial activities are analyzed in detail. This involves identifying risks, determining their probability and potential impact on the company. Risk assessment helps to prioritize risks and ways to manage them [1].

2. Optimization of financial processes. Companies should strive to effectively organize their financial processes to reduce costs and increase efficiency. This includes automating financial operations, optimizing budgeting and planning, reducing bureaucratic procedures, and implementing effective risk management systems [35].

3. Rational use of financial instruments. Companies should actively use financial instruments to reduce risks and costs. This may include the use of financial derivatives, such as options and futures, to hedge against fluctuations in commodity and currency prices. Effective risk management also includes the use of insurance to protect against unforeseen events, such as natural disasters and legal risks.

4. Cost management and budgeting. Effective cost management is an important aspect of financial risk mitigation. Companies should carefully analyze their expenses and look for opportunities to reduce and optimize them. It is also important to set realistic budgets and constantly monitor their implementation to avoid financial deviations and cost overruns.

5. Control and monitoring of risks. Effective financial risk management requires constant control and monitoring of risks. The company must have mechanisms in place to monitor and respond to risks in a timely manner. This

includes regular reporting, analysis of key risk indicators and development of crisis and emergency management plans [39, p. 238].

Using this approach to financial risk management will reduce costs, increase efficiency and stabilize the company's financial performance. Given the specifics of international business, it is important to adapt risk management strategies to specific situations.

Active use of financial instruments is an important component of effective financial risk management. Some of the most common financial instruments that can be used to mitigate the effects of risks are as follows:

1. Derivatives: Derivatives, such as futures, options, swaps and forwards, allow companies to hedge their financial positions against changes in prices, exchange rates, interest rates and other risk factors. For example, options protect against unfavorable price movements by giving the right to buy or sell an asset at a fixed price in the future [21, p. 11].

2. Insurance is an effective way to reduce financial risks. Companies can enter into an insurance contract to protect themselves against a number of risks, such as fire, theft, natural disasters, and third-party liability. With insurance coverage, the insurance company compensates for losses and thus reduces financial losses [28].

3. Placement of securities. Companies can invest their free funds in securities such as stocks, bonds, and other financial instruments. This allows them to diversify risks and earn income from their investments. To reduce risk, it is important to follow the principles of diversification and rational asset allocation [38].

4. Financial analysis and forecasting. Effective financial analysis and forecasting allows companies to more accurately assess risks and make informed decisions. Analysis of financial indicators such as profitability, liquidity and financial stability can help identify potential risks and the need for hedging [9, p. 52].

5. Currency risk management. Companies that operate in different currencies are exposed to currency risk due to fluctuations in exchange rates. To minimize this risk, financial instruments, such as currency forwards and options, or hedging can be used to take an unfavorable position in foreign currency transactions [22].

Thus, financial risk management in international business requires a comprehensive and systematic approach to effectively regulate and protect the financial performance of the enterprise. The conceptual approach to financial risk management includes understanding and identifying risks, measuring the scale and impact of risks, developing a risk management strategy and policy, using various tools and methods to reduce risks, as well as monitoring and controlling the implementation of risk management measures.

In general, effective financial risk management in international trade is a key element in ensuring the stability and success of a company. Understanding the conceptual approach and its application can help companies mitigate the negative effects of risks and take advantage of opportunities that arise in the global business environment.

### **Conclusions to chapter 1**

This chapter of the master's thesis examined the theoretical and methodological foundations of the formation of a mechanism for managing financial risks of international business enterprises. The main purpose of the chapter was to study and analyze various approaches and methods of financial risk management, as well as to determine the basic principles and elements of the mechanism for managing these risks.

As a result of the study, it was found that financial risk management in international business is a complex and multifaceted process that requires an integrated approach and the use of various tools and methods. One of the key elements of the management mechanism is the identification of financial risks, which involves identifying and analyzing possible threats and identifying potential problems associated with variable factors such as currency fluctuations, interest rates, political stability, etc.

To successfully manage financial risks in international business, it is important to develop and implement effective risk management strategies and policies. This may include the use of hedging, portfolio diversification, the use of financial

derivatives and other instruments to reduce risks and optimize the company's financial performance.

In addition, successful financial risk management involves constant monitoring and control over their realization. This includes monitoring market conditions, evaluating the effectiveness of risk management measures taken and making necessary adjustments if necessary.

Thus, the development and implementation of a financial risk management mechanism for international business enterprises is based on a comprehensive analysis, planning and implementation of risk management strategies and policies. Effective financial risk management allows enterprises to reduce the negative impact of risks and ensure the stability of financial indicators, which is an important factor for achieving success in international business..



## CHAPTER 2

### ANALYSIS AND ASSESSMENT OF THE IMPACT OF FINANCIAL RISKS ON INTERNATIONAL BUSINESS ENTERPRISES

#### **2.1. Analysis of the macroeconomic manifestation of financial risks in Ukraine in the context of war**

Since the outbreak of full-scale war, Ukraine's economy has suffered huge losses in the first months. The loss of tangible assets and human capital, coupled with the difficult security situation, means that GDP recovery will be very slow. Inflation has accelerated as expected, but is not out of control. Currently, the prevailing expectation is that inflation will begin to slow from the beginning of 2023. External imbalances remain very large, as the economy has lost some of its export potential, and capital outflows remain significant. The one-step devaluation of the hryvnia in late July had a quick positive effect on the foreign exchange market, but several more rounds of devaluation may be needed by the end of 2023 to reduce excessive demand for foreign currency. The Ukrainian economy will remain critically dependent on international financial assistance in the coming years. Foreign grants and loans will be needed to finance budget expenditures and replenish the NBU reserves. External financing will reach about \$30 billion in 2022, but its inflow is likely to decline next year. According to the macroeconomic review by V. Vavryshchuk [4], the economy will need at least \$20 billion in 2023 to operate without significant shocks. A substantial part of this financing is likely to be provided by the IMF. For the purposes of our analysis and forecast, we assume that the situation at the front will not change significantly until the end of 2023.

In the medium term, the dynamics of GDP change will be L-shaped, as in April 2022, GDP fell by 45% due to the full-scale invasion of Russia. The war led to an almost complete shutdown of the economy in Ukraine by almost 40%. After the Russian army was pushed back from the northern territories, the economy began to gradually recover. According to economists, GDP has improved, and the decline is

currently 30-35%. However, there is potential for GDP growth due to the following factors

- Improved logistics due to the resumption of transportation and the establishment of fuel supplies, albeit at a much higher cost;
- the return of refugees to Ukraine. The return migration is unlikely to be massive, but it will still allow for a partial restoration of the labor force in key sectors;
- less uncertainty in macroeconomic indicators. They are still mostly not optimistic, but it is now possible to make forecasts and plan business operations with an acceptable level of uncertainty.

Undoubtedly, businesses in the government-controlled areas will continue to grow and increase their production capacity, but any investment in production expansion is not the main way to improve the economy. Capital investments are likely to have dropped by 80-85% and are unlikely to recover significantly until the prospects for ending the war become clear. Companies will only make capital expenditures aimed at maintaining existing production facilities in working order.

The unblocking of seaports could be an impetus for economic recovery, but it is not realistic to expect that Russia will allow exports of anything other than grains and oilseeds. Other key Ukrainian exports, such as iron ore, metals, and chemicals, will continue to be exported across the western border via the limited railroad.

Overall, we expect real GDP to drop by 32% this year and grow by 4% next year, unless the situation at the front changes dramatically. Key macroeconomic forecasts are summarized in the table below (Table 2.1).

Table 2.1 - Macroeconomic forecasts for Ukraine ICU

Real GDP (%)	2022	2023 p.
Nominal GDP (billion USD)	(32)	4
Consumer price index ( %)	146	129
Hryvnia/US dollar (pp)	30	24
Current account balance ( % of GDP)	40	45
International reserves (USD bn)	4	0
Budget balance ( % of GDP)	23	19
Public debt ( % of GDP)	(21)	(15)
Real GDP (%)	86	99

Source: compiled by the author based on [4].

The NBU and the government of Ukraine are trying to take measures that will avoid the simultaneous impact of all inflationary factors in the future, so that inflation does not get out of control. At the moment, the government's policy is to flatten the inflation curve. The Phillips curve is a graph of the relationship between the average inflation rate in a country and the unemployment rate. A scenario with a longer period of high inflation is preferred over a shorter one. This is considered a rational policy, as it helps to keep inflation expectations more under control. Currently, the acceleration of inflation is explained by the following factors:

1. Logistical problems, which worsened with the outbreak of full-scale war, but such logistical problems have improved in recent months, and their negative impact has diminished but not completely disappeared.
2. Rising energy costs. The price of fuel in August was 68% higher yoy, which increases the cost of delivering goods. However, as of today, fuel prices have already passed their peak. At the same time, the rising cost of gas and electricity is still not being passed on to the end consumer. The government does not plan to change tariffs for households until the end of the next heating season, so higher tariffs will not accelerate inflation in the next 12 months.
3. Hryvnia devaluation, which is likely to continue in the next 12-18 months. The one-step depreciation of the hryvnia against the US dollar in late July will have a limited impact on inflation, as the depreciation has already been largely passed through to consumer prices. It will most likely lead to a decline in importers' margins. However, depreciation pressures will remain, so the NBU will likely have to continue to weaken the hryvnia. By doing so in several stages, the NBU is also trying to flatten the inflation curve and keep exchange rate expectations under control.

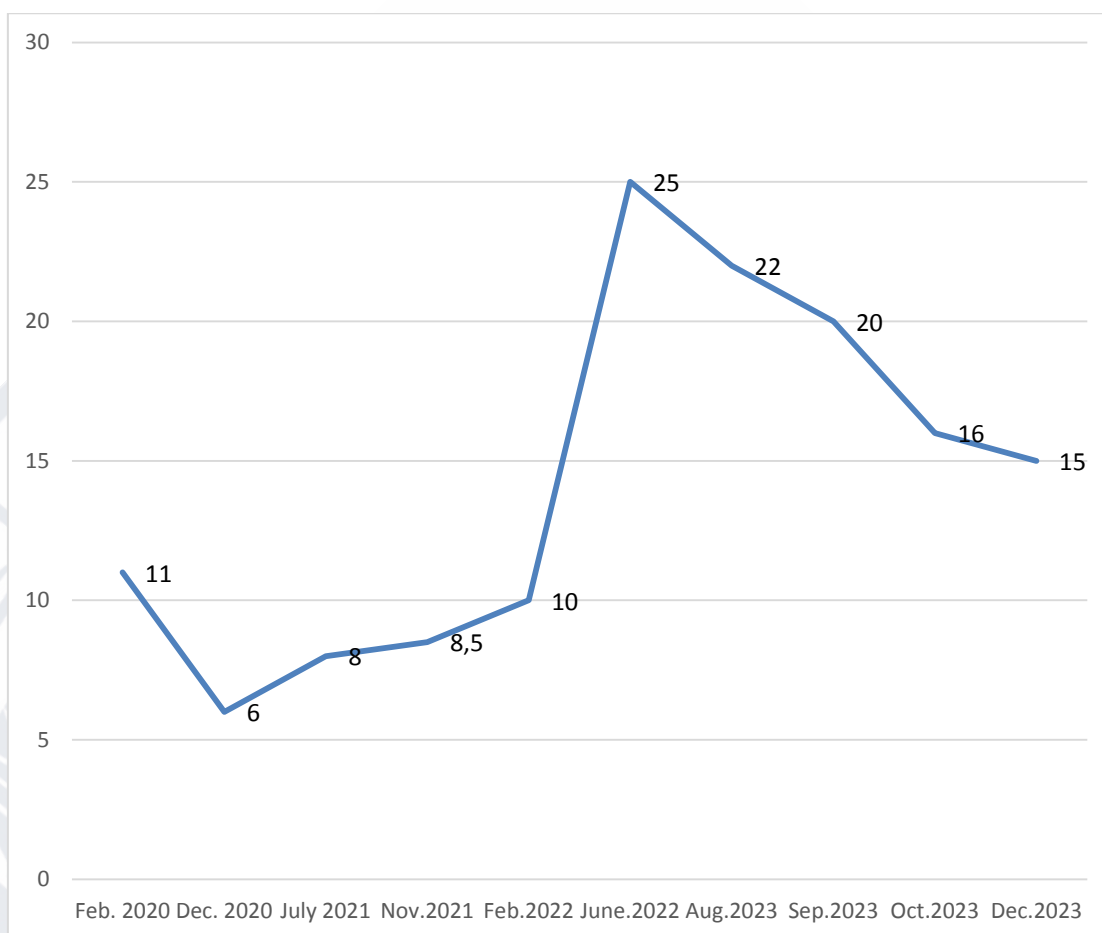


Figure 2.1 - NBU discount rate in 2023, %.

*Source: compiled by the author based on [23].*

Amid high inflation and pressure on the exchange rate, the NBU intends to keep the key policy rate at 25% at least until the end of 2Q2022. An earlier rate cut would pose additional risks to macroeconomic stability, and a further increase would hardly be justified, as the NBU is generally in line with the inflation trend.

In Ukraine, war conditions have a significant macroeconomic impact and increase financial risks for the country. Here are some aspects that should be taken into account when analyzing the macroeconomic manifestation of financial risks in a time of war.

**Currency risk:** War can cause significant fluctuations in the foreign exchange market. For example, a drop in the value of the national currency (hryvnia) may increase the cost of foreign debts and imports. This may have an important impact on budgetary indicators and foreign economic relations.

**Inflation risk:** War can lead to an increase in inflation due to higher defense spending and higher prices for certain goods and services, especially if there are restrictions on the supply and movement of goods.

**Budget risk:** War can put pressure on the budget due to the need for military spending and social programs. Insufficient financial resources may lead to budget deficits and an increase in public debt.

**Investment and external investment risk:** War can scare away investors and reduce foreign investment in the country. This could lead to a reduction in investment in economic development and infrastructure.

**Social risk:** War can lead to a loss of human resources, reduced employment, and exacerbation of social problems. This may lead to an increase in government spending on social programs and support for the population.

**Political risk:** War can have an impact on the stability of the government and the political situation in the country. Political instability can create additional risks for business and investment.

For a country at war, it is important to develop strategies to manage these risks, including increasing reserves, diversifying investments, and developing financial management plans in times of instability. Also, the state can take measures to reduce the impact of financial risks, including financial and economic reforms to strengthen resilience in times of war.

In particular, the inflation rate in Ukraine in January 2023 amounted to 26.5% year-on-year. This is an extremely high rate, which indicates an increase in inflationary risks. The NBU forecasts that inflation may accelerate to 28-30% by the end of 2023.

In 2023, key macroeconomic indicators will continue to show negative dynamics, indicating that high financial risks will persist.

The actual exchange rate of the hryvnia to the US dollar in January 2023 fell to around UAH 40/\$, compared to UAH 27/\$ in early 2022. This means further depreciation of the national currency and increased currency risks in the Ukrainian economy.

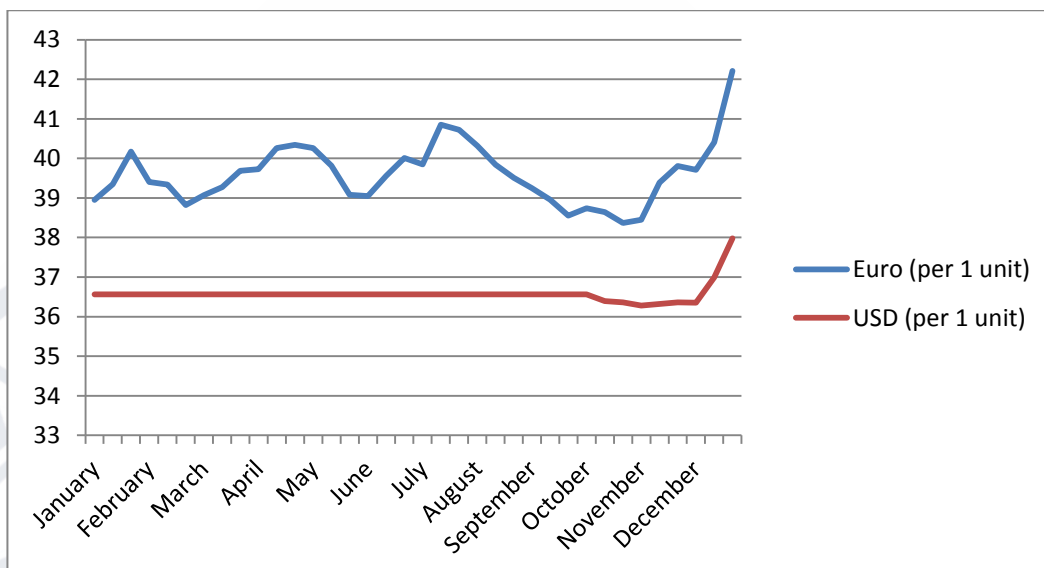


Figure 2.2 - Official hryvnia exchange rate against foreign currencies

Source: compiled by the author based on [18].

According to experts, in 2023, the hryvnia may devalue to the level of 45-50 UAH/\$ due to the instability of external and internal factors. Accordingly, there will be increased currency risks for businesses and individuals.

Thus, the analysis of the exchange rate dynamics shows that in 2023, financial risks in Ukraine will remain high due to Russia's ongoing military aggression. To minimize these risks, effective exchange rate and monetary policy measures need to be implemented.

According to the Ministry of Finance of Ukraine, the state budget deficit in 2022 amounted to UAH 611 billion, or 15% of GDP. This indicates a significant increase in fiscal risks.

In 2023, the state budget deficit is expected to grow further due to the ongoing hostilities and the need to finance defense spending. According to the Ministry of Finance, the state budget deficit in 2023 may reach UAH 650-700 billion, or about 16-18% of GDP.

Such a significant excess of expenditures over budget revenues exacerbates fiscal imbalances and increases the risks to Ukraine's macro-financial stability amid the war. An important task is to find sources of financing the deficit and optimize budget expenditures.

In his speech to the Verkhovna Rada of Ukraine, Minister of Finance Sergii Marchenko presented the priorities of the state budget for 2024.

He noted that the budget is aimed at strengthening defense, protecting the population, supporting veterans, raising social standards and economic recovery. The budget takes into account the main directions of the future Ukrainian Presidential Doctrine.

Spending on security and defense will remain no less than in 2023. The budget also provides for investments in domestic arms production and technological modernization of the Armed Forces.

Pension indexation and teacher salary increases are planned. Twice as much money has been allocated to support veterans as last year. Business assistance programs will also be funded.

Key budget figures:

Revenues - UAH 1 trillion 768 billion

Expenditures - UAH 3 trillion 355 billion

Deficit - UAH 1 trillion 571.5 billion

Most of the funds are allocated to the defense and security sector - UAH 1 trillion 692.6 billion.

Significant amounts are also allocated for social protection, healthcare, education and other sectors.

Public borrowings will amount to UAH 2 trillion 132 billion. Debt repayment is planned in the amount of UAH 627 billion.

In general, the budget is aimed at prioritizing defense, social protection and economic recovery in the context of the war.

The outbreak of war has had a negative impact on lending to the real economy in Ukraine. According to the NBU, in 2022, the loan portfolio to businesses decreased by 5.6% (UAH 129.5 billion) due to increased credit risks.

In 2023, lending is expected to further slow down due to high uncertainty and risks for businesses in the wartime environment. According to the NBU's forecasts, the growth of the loan portfolio for the corporate sector in 2023 may amount to 0-5%.

The reduction in lending to the real economy limits opportunities for business development and investment, which negatively affects economic activity and increases financial risks in the country. Monetary policy easing and support for bank lending are important measures to stimulate Ukraine's economy in times of war.

In 2023, the balance of payments situation is expected to deteriorate further due to a decline in exports and foreign investment amid the hostilities. The NBU estimates that the balance of payments deficit in 2023 could be around USD 20 billion.

The balance of payments deficit increases pressure on the exchange rate, increases the country's external debt, and poses threats to macrofinancial stability. Therefore, restoring the balance of payments is one of the priorities of Ukraine's economic policy for the period after the war.

## **2.2. Assessment of the impact of risks on the activities of ELITDAH LLC**

Risks are an integral part of any enterprise in a market economy, and they increase significantly with the country's transition to a market economy. Financial risks play the most important role and have the greatest impact on the company's operations, as they jeopardize the company's further successful operation.

The peculiarity of financial risks is that they are the result of activities between risk subjects, their property is sealed in the fact that they are constantly changing and are purely individual and characteristic only of this business entity.

Based on the financial statements of ELITDAH LLC, we will consider and analyze the financial risks that currently accompany the company. The company is engaged in the production of metal doors, windows, forging, pressing, stamping, machining of metal products [10].

To assess the impact of risks on the activities of ELITDAH LLC, it is necessary to analyze various factors that may affect the company. To do this, you can use the SWOT (Strengths, Weaknesses, Opportunities, Threats) matrix or conduct a PESTEL (Political, Economic, Social, Technological, Environmental, Legal) analysis, which allows you to identify external factors of influence.



SWOT-analysis (Strengths, Weaknesses, Opportunities, Threats) will help to identify internal and external factors that affect the activities of ELITDAH LLC. It is worth noting that SWOT analysis is always subjective and may vary depending on the context and prospects of the company. Here is an example of a SWOT analysis for ELITDAH LLC (see Table 2.2). A SWOT analysis helps an enterprise identify its strengths, weaknesses, opportunities, and threats, which creates the foundation for developing a strategy to maximize its advantages and minimize its negative impacts. As a result of the analysis, ELITDAH LLC can develop effective strategies aimed at preserving and developing strengths, improving weaknesses, seizing opportunities and reducing threats.

Table 2.2 - SWOT analysis of "ELITDAH" LLC

Strengths	Weaknesses
Experienced and highly qualified management team. High quality products. Stable base of regular customers. Efficient logistics and supply system.	Dependence on a limited product range. Limited geographic presence and low international expansion. High competition in the domestic market. Potential problems with resource and production management.
Opportunities	Threats
Expanding the product range to explore new markets and target audiences. Entering international markets to expand geographic coverage. Use of new technologies to optimize production and automate processes. Development of corporate social responsibility (CSR)	Political and regulatory risks, such as changes in legislation and taxes. Economic risks, including the possibility of economic downturn and inflation. Changes in consumer preferences and market demand. Increased competition in the sale of products

The PEST analysis helps to determine the impact of the external environment on the activities of ELITDAH LLC. PEST includes six key categories of external factors: political, economic, socio-cultural, technological, environmental, and legal. Here is an example of PEST analysis for ELITDAH LLC (Table 2.3). Таблиця 2.3 – PEST-аналіз ТОВ «ЕЛІТДАХ».

Political factors	Соціокультурні фактори
<p>Legislation and regulations: Changes in politics and legislation may affect taxation, trade and other aspects of the business.</p> <p>Political stability: Instability in the political environment can create uncertainty for businesses.</p> <p>Economic factors: Economic downturn: A decline in economic activity may affect demand for products or services.</p> <p>Exchange rate and inflation: Changes in the exchange rate and inflation can affect the cost of imports and consumer prices.</p>	<p>Changes in consumer preferences: Consumer needs and preferences can change over time and affect demand.</p> <p>Demographic changes: Changes in the location and structure of the population can affect the market.</p>
Technological factors	Environmental factors:
<p>Innovation and technological progress: The use of new technologies can improve production efficiency and competitiveness.</p>	<p>Environmental requirements and standards: Changes in environmental regulations may require the company to adapt to more environmentally friendly practices</p>

*Source: compiled by the author.*

PEST analysis helps to identify key factors that can create opportunities or threats to the business. Based on this analysis, ELITDAH LLC can develop a strategy that will take into account these factors and help the company adapt to changes in the external environment.

Identification of risks at ELITDAH LLC is an important stage in risk management and business sustainability. To effectively identify risks, it is recommended to audit and evaluate various aspects of the company's activities. Here are some possible risk factors that may affect ELIDITDAH LLC:

1. Market risk:

- Changes in demand for the company's products or services.
  - Changes in market prices or competition with other companies.
2. Financial risk:
- Losses from currency fluctuations if the company has foreign economic operations.
  - The risk of rising interest rates, which may affect borrowing costs.
  - Credit risk associated with the ability to repay debts.
3. Operational risk:
- Technical or technological problems that may lead to the cessation of production or a decrease in product quality.
  - The risk of losses due to natural disasters or emergencies.
4. Supply chain and logistics risk:
- Problems in the supply of raw materials or other necessary resources.-
- Disruptions in logistics chains that may lead to delays in deliveries or loss of goods.
5. Political and regulatory risk:
- Changes in legislation that may affect the business (e.g., tax laws, environmental standards).
  - Political instability or changes in government policy.
6. Management risk:
- Insufficiently qualified or unstable staff.
  - Problems in internal governance, corruption or other factors that may affect the effectiveness of management.
7. Environmental risk:
- Changes in environmental regulations and standards that may require investment in environmental initiatives.
8. Social risk:
- Reputational risk associated with negative events or customer feedback.
  - Corporate responsibility and employee relations risks.

After identifying the risks, it is necessary to assess their importance, develop strategies for managing these risks and constantly monitor the situation to ensure the sustainability and success of the business of ELITDAH LLC.

In order to provide an economic assessment of the company, it is necessary to use such forms of financial statements as Form No. 1 "Balance Sheet" and Form No. 2 "Statement of Financial Performance".

To determine the volume of the enterprise's resources and give them a brief description, let's combine the necessary indicators in Table 2.4.

Let's consider the absolute and relative deviation of the above indicators, which will allow us to analyze the financial and economic activities of the enterprise in more detail (Table 2.5).

Table 2.4 - Performance indicators of ELITDAH LLC in 2020-2022

№	Name of the indicator, UAH thousand	Years		
		2020	2021	2022
1	2	3	4	5
2	Property, plant and equipment	232,8	442,2	292,3
3	Current assets	12 984,4	20 658,2	50 860,9
4	Shareholders' equity	1 194,6	1 910,7	-
5	Income (revenue) from sales of products (services)	65 251,0	96 162,9	113 910,6
6	Cost of goods sold	57 915,0	87 725,4	118 551,8
7	Net profit (loss)	358,1	716,0	2 897,3
8	Profitability, %.	0,5	0,75	2,42

Source: compiled by the author based on Annexes A, B, C

Table 2.5 - Dynamics of performance indicators of ELITDAH LLC in the period from 2020 to 2022

№	Name of the indicator, UAH thousand	Relative deviation (%)	Absolute deviation	Relative deviation (%)	Absolute deviation
		2021-2020	2021-2020	2022-2021	2022-2021
1	2	3	4	5	6
2	Property, plant and equipment	189	209,4	66	149,9
3	Current assets	159	7 673,8	246	30 202,7
4	Shareholders' equity	159	716,1	-	-
5	Income (revenue) from sales of products (services)	147	30 911,9	118	17 747,7
6	Cost of goods sold	151	29 810,4	135	30 826,4
7	Net income (loss)	-199	357,9	404	2 181,3

*Source: compiled by the author based on Annexes A, B, C*

The dynamics of the decrease in the share of fixed assets during the period from 2021-2022 is positive in conditions of stable or growing production and indicates that the company is adjusting to a decrease in market capacity and crisis processes. In the period from 2022-2020, we can observe an increase in current assets, which is a very positive indicator. Positive dynamics has a good effect on the development of the enterprise. The growth of this ratio indicates an increase in financial independence and a decrease in the risk of financial investments.

In the period from 2022-2020, we observe a gradual increase in revenue from sales, which indicates a positive development of the company.

In the period 2022-2020, we can observe a gradual significant increase in net profit, namely by UAH 357.9 thousand in the period 2021-2020 and by UAH 2181.3 thousand in the period from 2022 to 2021.

The company's profitability in the period from 2020-2022 is a steadily growing indicator, which means that the company is operating successfully.

For a successful analysis of the financial risks of the enterprise, we will analyze the following economic indicators that characterize the efficiency of the use of financial resources and include the turnover ratio of working capital, the duration of one turn of normalized working capital, and the return on investment (Table 2.6).

Table 2.6 - Indicators of the use of financial resources at the enterprise "ELIDTAH" LLC in the period from 2020-2022.

№	Name of the indicator	Years		
		2020	2021	2022
1	2	3	4	5
1	Asset turnover	4,7	4,5	2,2
2	Duration of one turnover, days	76,6	80	163,6
3	Return on investment, %.	12,7	9,6	4,1

*Source: compiled by the author based on Annexes A, B, C*

It is impossible to calculate the return on investment in 2022, because in 2022 "ELITDAH" LLC

Let's consider the absolute and relative deviation of the above indicators, which will allow us to analyze the financial and economic activities of the enterprise in more detail (Table 2.7).

In theory, an increase in asset turnover is considered positive, as it means that the company is effectively using the assets at its disposal. In the period from 2020 to 2021, we can observe a slight decrease in this indicator, which is within the permissible range of fluctuations. However, already in 2022, we can observe a rather significant decrease in this indicator by 51.1 percent. This is due to Russia's full-scale invasion of Ukraine at the beginning of the year, in February 2022. During this period, Ukraine's economy was paused and temporarily shut down.

Table 2.7 - Deviations in the performance indicators of ELITDAH LLC in 2020-2022

№	Name of the indicator	Relative deviation (%)	Absolute deviation	Relative deviation (%)	Absolute deviation
		2021-2020	2021-2020	2022-2021	2022-2021
1	2	3	4	5	6
1	Asset turnover	(4,3)	(0,2)	(51,1)	(2,3)
2	Duration of one turnover, days	4,4	3,4	104,5	83,6
3	Return on investment, %.	(24,4)	(3,1)	(57,3)	(5,5)

*Source: compiled by the author based on Annexes A, B, C*

It is desirable to reduce the duration of one asset turnover during the study period. However, we can observe the maximum increase in this indicator in the period from 2022 to 2021, namely by 83.6 days. In the same period, the return on investment decreased significantly. This means that the company was not able to use its assets and investments rationally.

The next indicator we will consider is liquidity, which characterizes the ability of a firm to meet its current (short-term) obligations with current assets (Table 2.8).

Table 2.8 - Analysis of the liquidity indicator at the enterprise "ELITDAH" LLC in the period from 2020-2022.

№	Name of the indicator, UAH thousand	Years		
		2020	2021	2022
1	2	3	4	5
1	Absolute liquidity ratio	0,7	1,7	2,9

*Source: compiled by the author based on Annexes A, B, C*

Let us consider the absolute and relative deviation for the above indicators, which will allow us to analyze in more detail the financial and economic activities of the enterprise (Table 2.9).

Table 2.9 - Deviation of the liquidity indicator at the enterprise "ELITDAH" LLC in the period from 2020-2022

№	Name of the indicator, UAH thousand	Relative deviation (%)	Absolute deviation	Relative deviation (%)	Absolute deviation
		2021-2020	2021-2020	2022-2021	2022-2021
1	Absolute liquidity ratio	242	1	170	1,2

*Source: compiled by the author based on Annexes A, B, C*

Liquidity of an enterprise is its ability to ensure timely fulfillment of its monetary obligations due to the balance between the maturity and amounts of its assets and the maturity and amounts of its liabilities, as well as the maturity and amounts of other sources and uses of funds. In order to maintain liquidity, the company must have a certain reserve of funds to meet unforeseen obligations that may be caused by changes in the money market and the financial condition of customers or partners.

The dynamics of the absolute liquidity ratio is shown in Fig. 2.3.

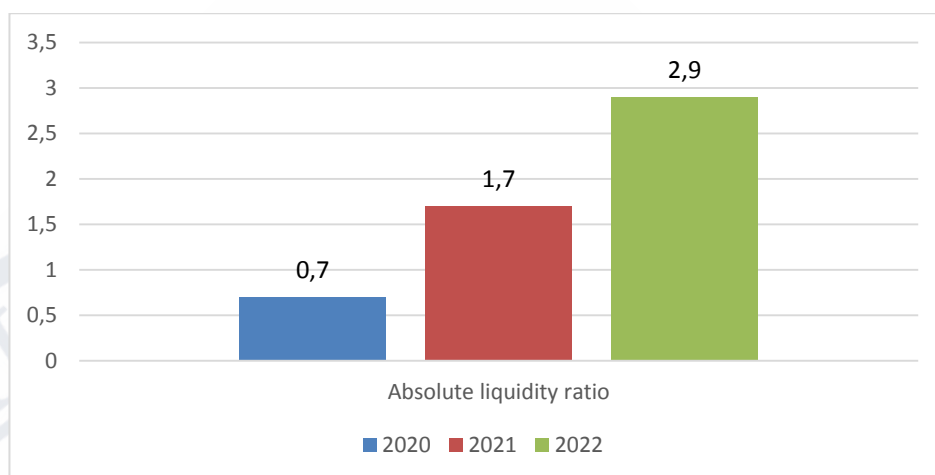


Figure 2.3 - Absolute liquidity ratio in 2020-2022

Source: compiled by the author based on Annexes A, B, C

. In 2022 and 2021, we observe that the value of the coefficient is significantly higher than 1, which means that the company has a significant amount of free resources that were formed from its own sources even in a full-scale war. From the point of view of the company's creditors, this option of forming working capital is the most acceptable.

Another important indicator that characterizes the financial activity of an enterprise is its solvency, which is the ability to fulfill its short-term and long-term obligations at the expense of its own assets. This indicator measures the level of financial risk, i.e. the probability of bankruptcy of the enterprise (Table 2.10).

Table 2.10 - Analysis of the solvency of ELITDAH LLC in the period from 2020-2022

№	Name of the indicator	Years		
		2020	2021	2022
1	2	3	4	5
1	Financial autonomy ratio	0,08	0,09	0,08
2	Financial dependence ratio	11,4	11,4	11,3
3	Equity maneuverability ratio	0,4	0,7	0,9
4	Gearing ratio of borrowed capital	0,9	0,9	0,9
5	Debt to equity ratio	10,4	10,04	10,3
6	Current solvency, UAH thousand	718,2	2348,6	10098,0

Source: compiled by the author based on Annexes A, B, C



We can conclude that despite the full-scale war in the country, the company is trying to develop and increase production, which is a good prospect. The company is solvent and successful in spite of everything.

The next stage of the enterprise analysis is the analysis of such indicator as profit from sales - defined as the difference between revenue from sales (excluding value added tax and excise duty) and the total cost of production (Table 2.11).

Table 2.11 - Profit from sales of products at the enterprise "ELITDAH" LLC in the period 2020-2022

№	Name of the indicator, UAH thousand	Years		
		2020	2021	2022
1	2	3	4	5
1	Profit from sales	1,12	1,09	0,96

*Source: compiled by the author based on Annexes A, B, C*

In Table 2.12, we determine the deviation of the profit from sales indicator, the value indicates the share of the company's revenue that remains after deducting all expenses for the current period. The value also allows us to roughly predict how much the company's net profit will increase if the level of sales increases by one hryvnia. Unfortunately, we can observe a decline in this indicator in the period from 2020-2022. This is quite rationally justified by the full-scale invasion of Ukraine by Russia in February 2022, which resulted in a decrease in production and sales.

Table 2.12 - Deviations in profit from sales of products at the enterprise "ELITDAH" LLC in the period 2020-2022.

№	Name of the indicator, UAH thousand	Relative deviation (%)	Absolute deviation	Relative deviation (%)	Absolute deviation
		2021-2020	2021-2020	2022-2021	2022-2021
1	2	3	4	5	6
1	Profit from sales	97	(0,03)	(13)	(0,13)

*Source: compiled by the author based on Annexes A, B, C*

The owner of a business is interested not only in improving the efficiency of the enterprise, but also in increasing the value and capitalization of the business, at what price, if necessary, it can be sold. Also, an important issue in the operation and

development of the enterprise is the identification of all risks, including financial ones. The answer to this question can be obtained by evaluating the company in parallel with calculating its performance. The dynamics of growth in the value of an enterprise indirectly reflects the growth in the efficiency of its functioning, since the growth in the value of an enterprise can occur due to, among other things, reinvested profits, the effect of intangible factors that cannot be valued as part of the expenses of the period.

### **2.3 Analysis of financial risks of "ELITDAH" LLC**

Risk analysis is essential for the effective risk management of any enterprise. It is worth noting that the metal products industry, of which ELITDA LLC is a part, has a number of specific risks that need to be investigated in order to establish efficient production by minimizing risks.

Let us highlight the risks of ELITDA LLC:

1. The risk of increased competition due to the emergence of newly established companies with high development potential in the domestic market.

Consequences of the risk: potential loss of the target audience segment due to product obsolescence and limited assortment.

Factors influencing this risk include:

a) Abandonment of traditional sales channels due to the ongoing war in Ukraine;

b) Decrease in purchasing power of the population, which leads to a decrease in sales in the domestic market;

c) Rapidly changing trends in architectural design and preferences for metal products (doors, etc.);

Mitigation tools or measures:

a) Modernization of outdated equipment and facilities to ensure technological compliance;

b) Diversification of the product portfolio through a variety of metal doors, windows, forging, pressing, stamping and machining of metal products;

b) Increasing brand confidence;

r) Control and monitoring of market price dynamics, strict control of product quality and formation of a reliable marketing strategy for sustainable development.

2. The risk of rising production costs due to rising prices for raw materials and energy resources.

Result or consequence of the risk: depletion of metal reserves, which will lead to higher metal prices, increased production costs, excessive cash costs associated with the replacement of materials, and lower sales volumes both in the domestic and foreign markets.

Factors affecting this risk include:

- Continued metal exports to foreign markets.
- Reduction of raw material sources due to uncontrolled mining.
- Global escalation of demand for metal.
- A long period of recovery in the cost of metallurgical raw materials.
- No government restrictions on the export of raw metal.
- Supply of low-quality or unsuitable metal and additional raw materials.
- Fluctuations in prices for additional raw materials (seasonal price fluctuations).
- Rapid growth in electricity prices.

Mitigation tools or measures:

- Building up significant stockpiles, possibly by setting up its own metal processing plant.
- Diversification of metal suppliers and sources of raw materials.
- Implementation of waste-free and resource-efficient production technologies.
- Introduce penalties and compensatory measures for the supply of low-quality raw materials, including such clauses in contracts and specifications.
- Reduce electricity consumption by replacing more energy-efficient equipment and installing a system for monitoring and controlling electricity use.

3. Implementation and logistics system risk.

Consequences and outcomes of the risk: untimely delivery of steel products to customers, potential damage to products in the warehouse, financial losses during sales, problems in cooperation with partners throughout the sales process.

Factors directly related to the risk include:

- Improper warehouse storage practices.
- Damage to metal products during transportation, for which the seller is fully responsible.
- Difficulties in concluding contracts for the transportation of steel products and allocating responsibility between the manufacturer, carrier and buyer.
- Suboptimal performance in different sales market segments.
- Incorrect decisions on audience targeting.
- Imperfect sales conditions.
- Errors in marketing research.
- Improper organization of the sales process.
- Late fulfillment of obligations by partners.

Tools or measures to reduce risks include:

- Implementation of self-insurance mechanisms.
- Introduction of penalties for failure to fulfill obligations.
- Careful monitoring of sales networks and marketing activities.
- Diversification of sales markets.
- Development and promotion of a reliable trading model.

#### 4. Production risk

Consequences: potential bankruptcy of the company due to a production shutdown and an increase in material and financial costs.

Factors that directly affect the risk

- Reduction of planned production and sales volumes due to reduced labor productivity, lost working hours, equipment downtime, shortage of materials, which leads to an increase in the percentage of defects.
- Increase in material costs due to inefficient use of materials, raw materials, fuel, and higher transportation costs.

- Production of metal products with inadequate physical and mechanical characteristics.

- Equipment failure requiring lengthy repairs.

- Production of low-quality steel products, which will lead to a 0.5% increase in rejects in steel production compared to the previous year.

- Damage to products due to low qualifications of warehouse workers and drivers.

Risk mitigation tools or measures include

- Purchasing higher quality raw materials and semi-finished products.

- Implementation of measures to reuse defective products to maintain the integrity of the transportation of finished products.

- Conducting trainings for key personnel.

In order to find tools to reduce financial risks of ELITDAH LLC, we will identify specific financial risks of the company. The main financial instruments used by "ELITDAH" LLC include short-term bank loans, accounts payable for goods, works, services, loans and borrowings, as well as cash and cash equivalents.

The above financial liabilities are primarily used to finance the Company's day-to-day operations. In addition, the company uses various other financial instruments, including trade receivables and trade payables, which are directly related to its operations.

The following financial risk management program, which can be potentially implemented in the activities of LLC "ELITDAH", is designed to mitigate the impact of uncertainty and inefficiency of the Ukrainian financial market, with a particular focus on minimizing the potential negative impact on the financial position of the company. The management of these risks is the responsibility of the financial department within the company's organizational structure. The main financial risks for LLC "ELITDAH" are liquidity risk, interest rate risk, currency risk, inflation risk, credit risk, and capital adequacy risk.

1. Interest rate risk. The potential impact of fluctuations in market interest rates on the company is mainly related to loans with variable interest rates. During 2019-

2022, ELITDAH LLC used loans and borrowings with a fixed interest rate, which eliminates the impact of interest rate risk on its activities.

## 2. Credit risk.

Credit risk is a potential financial loss that the Company may incur if a customer or counterparty fails to fulfill its contractual obligations related to financial instruments. The main source of credit risk for the Company is its trade receivables. The recorded value of financial assets reflects the highest level of credit risk. Table 2.13 shows the maximum level of credit risk as of 2022.

Table 2.13 - Dynamics of accounts receivable and cash of ELITDAH LLC during 2020-2022

Indicator	2020	2021	2022
Receivables for goods, products, works, services	3 504,5	4 564,4	6 974,8
Cash and cash equivalents	718,2	2 348,:	10 098,0
Total	4 222,7	4 564,4	17 072,8

*Source: compiled by the author based on Annexes A, B, C*

The main approach adopted by the company to manage credit risk related to cash and cash equivalents on the balance sheet is to implement a policy of distributing funds among several banks with high credit ratings. In the case of credit risk arising from trade receivables, the Company applies established credit policies and sets credit limits, monitoring credit risk on a regular basis.

The credit risk associated with LLC "ELITDAH" is limited to the carrying amount of accounts receivable and cash and cash equivalents. The analysis of available information indicates that there is no significant risk of losses of the company, except for previously recognized losses from impairment of assets. It is stated that potential losses for LLC "ELITDAH" as a result of credit risk are not considered to be significant in the context of the company's activities. This statement is especially evident in 2022, when the company's cash and cash equivalents significantly exceeded accounts receivable, indicating a decrease in credit risk.

3. Liquidity risk. Liquidity risk is associated with the potential problem that a company may face in meeting its financial obligations that are settled in cash or alternative financial assets. The companies apply a liquidity management approach,

according to which the priority is to ensure a constant sufficient level of liquidity to meet financial obligations in a timely manner under various conditions, in order to prevent significant losses or damage to the company's reputation.

The liquidity ratio significantly exceeds the normative ones during 2020-2022, and there is also a dynamics of growth in the absolute liquidity ratio. In general, this indicates that "ELITDAH" LLC has liquid assets to meet its maturing obligations, and therefore there is no liquidity risk.

4. Capital adequacy risk. ELITDAH LLC considers both debt and equity capital as the fundamental basis for capital formation. The Company's objective in managing capital is to ensure sustainable operating viability, promote profit generation and provide funding for operating needs, capital expenditures and development strategies.

Management regularly reviews the capital structure, making adjustments to the capital management policies and objectives as necessary in line with the current operating environment, market expectations and development strategies.

In the period from 2020 to 2022, the company had positive equity dynamics, which is explained by the annual steady growth of retained earnings.

In general, the management of ELITDAH LLC is additionally proposed to take measures aimed at redistributing retained earnings, in particular, to submit this issue to the general meeting of shareholders, to direct part of the profit to increase the authorized capital, and to create a reserve fund with a mandatory annual allocation of a certain percentage of net profit. The size of this reserve fund should be at least 25% of the authorized capital and at least 5% of net profit.

Control over the amount of borrowed capital is crucial, and its use should be limited. To reduce the risk of exceeding and using borrowed funds, it is recommended to develop and implement internal financial standards when developing financial programs or activities. Internal financial standards may cover such aspects as the maximum amount of borrowed funds used in production and business activities, the maximum amount of commercial or consumer credit granted to a single client, and the minimum requirement for highly liquid assets.

## 5. Currency risk.

Currency risk inherent in the activities of LLC "ELITDAH" is the possibility of losses associated with outstanding foreign currency accounts sensitive to unfavorable changes in exchange rates. The Company's exposure to foreign currency risks is related, in particular, to fluctuations in the exchange rate of the hryvnia against the euro and the US dollar. These currencies play a significant role in the company's operations as some financial instruments are denominated in them.

It should be noted that LLC "ELITDAH" has not entered into any hedging transactions to mitigate these currency risks. Therefore, the main approach to managing the company's currency risk is to limit open currency positions to a level that is considered acceptable. The sensitivity of the company's profit before tax to potential changes in the exchange rate, with all other variables held constant, shows a decreasing impact over the years (Table 2.14)

Table 2.14 - Sensitivity of ELITDAH LLC's profit before tax to a reasonably possible change in the exchange rate during 2020-2022.

Indicator	Years			Growth rate	
	2020	2021	2022	2021/2020	2022/2021
USD exchange rate as of 31.12	28,5	27,4	40,8	-3,9	48,9
Change in the exchange rate, %.					
a) increase in the USD exchange rate	10	13	14	30,0	7,7
b) decrease in the USD exchange rate	-10	-15	-16	50,0	6,7
Impact on profit before taxation, UAH thousand					
a) increase in USD exchange rate	-10,8	-9,6	-18,7	-11,1	94,8
b) decrease in the USD exchange rate	13,2	14,7	12	11,4	-18,4

*Source: compiled by the author*

Thus, we can see that the currency risk of ELITDAH LLC is growing every year and may become critical for the company's operational activities. In particular, the methodology of hedging currency risk may become a relevant option for the company.

## Conclusions to chapter 2

This section analyzes the macroeconomic manifestation of financial risks in Ukraine during the war. It has been determined that since the beginning of the war,



the following changes have occurred: loss of tangible assets and human capital, falling gross domestic product, and a significant increase in inflation. These indicators have a negative impact on the dynamics of development and recovery of the Ukrainian economy. Macroeconomic forecasts in Ukraine point to further growth in real GDP, currency appreciation, a fall in the consumer price index and an increase in public debt. The main factors influencing the growth of inflation are logistics problems, rising energy costs, and hryvnia devaluation.

The assessment of the impact of risks on the activities of ELITDAH LLC, namely the SWOT analysis and PEST analysis, revealed that the company may potentially face such risks as market risk, financial risk, operational risk, supply chain and logistics risk, political and regulatory risk, and governance risk. An analysis of the financial indicators of the companies revealed a significant increase in net profit as of 2023 (during 2021-2022, the growth rate was 304%). The indicators of the use of financial resources indicate a drop in the level of return on investment and a decrease in asset turnover, which is a negative impact and manifestation of investment risk at the enterprise. According to the company's liquidity ratio, the company has a sufficient amount of highly liquid assets to cover its liabilities. However, the level of financial stability of the company is rather low, due to non-compliance with the thresholds of autonomy and financial dependence.

## **CHAPTER 3**

### **IMPROVING THE EFFICIENCY OF THE FINANCIAL RISK MANAGEMENT MECHANISM AT ELITDAH LTD.**

#### **3.1 Formation of a mechanism for reducing enterprise risks**

The analysis of the financial condition of ELITDAH LLC revealed a number of problems affecting the financial condition of the company. In particular:

1. Decrease in the company's profitability, as evidenced by the indicators of net income from sales, net profit and profitability of the company. However, the emergence of these risks is influenced more by external factors (rising prices for raw materials, problems with sales activities due to martial law restrictions, loss of suppliers and distributors). In this case, the management of LLC "ELITDAH" is suggested to pay attention to the revision of conditions with existing suppliers of raw materials and the search for more optimal options to reduce production costs, which will increase the amount of gross profit.

2. Despite the fact that the analysis of capital adequacy risk did not reveal any significant problems, it is proposed to take measures aimed at redistributing retained earnings. In particular, to bring this issue to the general meeting of shareholders, to direct part of the profit to increase the authorized capital, and to create a reserve fund with a mandatory annual allocation of a certain percentage of net profit. The size of this reserve fund should be at least 25% of the authorized capital and at least 5% of the net profit.

3. It was found that the company is dependent on currency fluctuations (growth, fall of the dollar and euro). However, it is worth emphasizing that despite the existing currency risk, the company hardly ever conducts currency transactions, as most of the consumers of its products are located in Ukraine. ELITDAH LLC purchases raw materials from Ukrainian suppliers. Thus, despite the existing currency risk, it does not have a significant impact on the company's financial position.

4. During 2020-2022, there was a negative trend in financial stability indicators. In particular, we are talking about the financial autonomy ratio, which did not change in the period from 2020 to 2022 and was equal to 0.08, while the

minimum threshold value is more than 0.5. The inverse of the financial autonomy ratio is the financial dependence ratio, which also remained unchanged in 2020-2022 and amounted to 11.3-11.4, while the norm or threshold value for it is less than 0.5.

The low level of financial stability of ELITDAH LLC is caused by the structure of the company's capital, namely, a large share of current liabilities, which, as a share of the company's total capital, significantly exceeds equity, while the company's equity is based only on retained earnings.

Creating an effective financial risk management system requires active identification and assessment of potential risks. Generalization of financial risks of "ELITDAH" LLC related to its main activity (Table 3.1).

Clarification of Table 3.1:

- "+" means the types of risk associated with the implementation of certain types of activities at the enterprise;

- "\*" - means the severity of the consequences of the risks indicated in the table, where "\*" - insignificant risk; "\*\*" - moderate risk; "\*\*\*" - high level of risk impact on the enterprise's activities.

Thus, we can conclude that for LLC "ELITDAH" the most profound and influential risk is the risk of reducing financial stability. Based on the calculations of financial stability carried out in the second section of the work (see Table 2.8), we can determine that the autonomy ratio and other indicators of financial stability affect the increase in the level of risk of financial stability decline.

Table 3.1 - Distribution of the financial risk portfolio of "ELITDAH" LLC by types of economic activity of the enterprise

Types of financial risks	Types of activities and financial transactions							Risks for ELITDAH LLC
	Production activities	Commercial activities	Financial activities					
			Investment activities	Lending activities (provision of commercial services)	Currency transactions	Tax calculations	Settlement operations	
<b>External risks</b>								
Inflationary	+	+	+	+	+	+	+	**
Deposit risk			+		+			*
Taxation		+			+	+	+	*
Interest rate			+	+				**
Foreign exchange			+					**
<b>Internal risks</b>								
Risk of financial stability decline		+	+	+	+	+	+	***
Solvency risk	+	+			+	+	+	**
Investment risk			+	+				*
Credit risk				+				*
Risk of lost profits	+	+	+	+	+	+	+	**

*Source: compiled by the author based on [37, 26].*

In accordance with generally accepted practice, a qualitative risk assessment involves assigning each type of risk to one of four zones: no risk, acceptable risk, critical risk, and catastrophic risk. Table 3.2 shows the risk zones for different types of risks related to ELITDAH LLC, as well as the potential negative consequences of these risks for the company under study.

Table 3.2 - Qualitative characteristics of financial risks of "ELITDAH" LLC and possible ways to reduce them

Types of financial risks	Risk zone	Negative consequences for the company	Possible ways to reduce the impact of risks
Inflationary risk	Critical risk	Negative impact in the form of asset impairment	Accelerating asset turnover
Deposit risk	Permissible risk	Risk of non-return of funds in case of bankruptcy and depreciation of deposit interest due to inflation	Choosing a more reliable and stable bank for a deposit
Tax risk	Permissible risk	Negative consequences due to high tax liabilities	Researching activities that are exempt from taxation or taxed at preferential rates
Interest rate risk	Critical risk	Non-return of interest to debtors	Strengthening payment discipline
Currency risk	Permissible risk	Currency depreciation in foreign economic activity	Prioritize foreign exchange earnings over expenses
Level of financial stability decline	Catastrophic risk	Increased likelihood of bankruptcy	Optimization of the capital structure
Solvency risk	Critical risk	Lack of liquid assets to repay term liabilities	Strengthening payment discipline
Investment risk	Acceptable risk	Aging and depreciation of production assets	Renewal of production assets
Structural risk	Critical risk	Increase in the share of fixed costs and decrease in the financial strength margin	Saving on fixed costs
Credit risk	Acceptable risk	Non-repayment of loans	Strengthening payment discipline

*Source: compiled by the author based on [37, 26].*

In particular, the area of catastrophic risk for ELITDAH LLC covers one type of risk: financial stability. Thus, in the future, it is necessary to concentrate efforts on developing targeted measures within the strategic concept aimed at reducing these types of risks.

To effectively manage financial risks at "ELITDAH" LLC and minimize their negative impact on the financial and economic activities of the enterprise, it is necessary to conduct a systematic analysis in stages, as indicated in Table 3.3.

Table 3.3 shows that specific measures have been developed to neutralize or minimize the risk of a decrease in the level of financial stability in the future.

Table 3.3 - Step-by-step analysis of financial risks in order to make the right management decision to minimize or neutralize them

Stages of financial risk analysis	The risk of a decrease in the level of financial stability
Study of factors that have a significant impact on the occurrence of risk, thereby increasing the degree of its impact	In the capital structure: a small share of equity and a very large share of current liabilities
Analysis of the level of risk impact on the financial and economic activities of the entity	Influences the deterioration of the company's financial condition
Risk assessment	(see Table 2.8)
Setting a threshold or limit value for the degree of risk	The threshold value is the autonomy ratio (not less than 0.5)
Analysis of possible strategic decisions that can be used to neutralize the risk	Increase in the share of equity and decrease in the share of current liabilities
Development of directions for reducing or neutralizing the negative impact of risk on the financial and economic activities of the enterprise in the future	Conducting factoring operations to pay off accounts payable at the expense of existing receivables (converting them into cash)

Given that the amount that will be withdrawn from trade receivables will not be enough to create a 50/50 ratio between equity and current liabilities, it is additionally proposed to invest in the company's fixed assets to modernize production. Thus, the company will be able to increase production volumes and save raw materials, fuel and electricity.

Thus, the structural and logical implementation plan is as follows (Figure 3.1).

Factoring can be defined as a contract under which the factor must provide at least two services, namely financing, account management, collection of receivables, and protection against credit risks [27].

However, we can also focus on the fact that there is a mechanism for neutralizing certain financial risks. According to this mechanism, the risks of insolvency and reduced financial stability of the enterprise are subject to a neutralization mechanism - limitation.

Limitation, as a risk reduction tool designed to level the peaks of the enterprise's economic activity, allows to establish economically justified limits of the enterprise's systems [32].

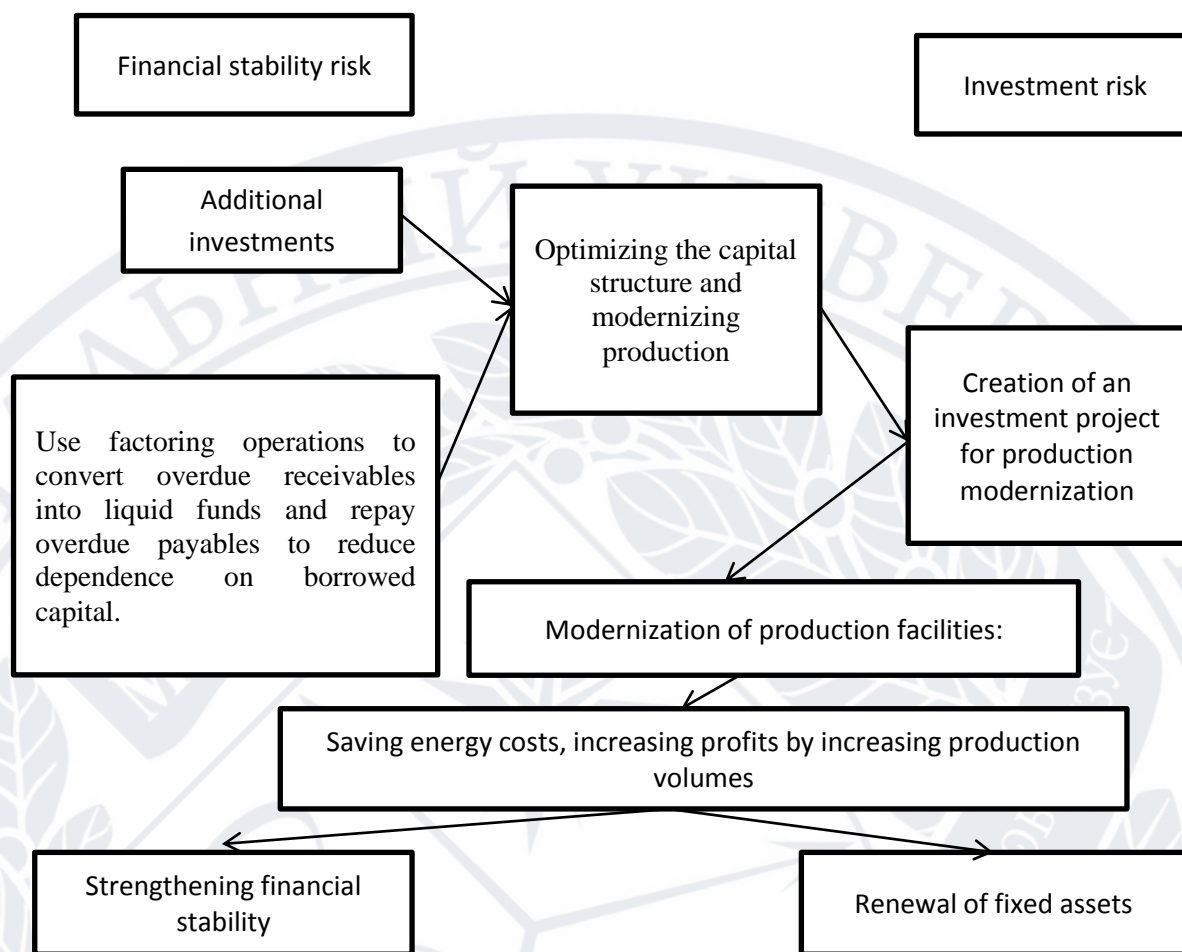


Figure 3.1 - Structural and logical plan for the implementation of measures to avoid financial risks at ELITDAH LLC

An organization can mitigate financial risks by implementing internal financial standards in the planning and execution of specific financial transactions or financial activities in general. The proposed internal financial standards include

- Determination of the maximum permissible level of borrowed funds in the production and economic activities of the enterprise.
- Establishing the maximum amount of commercial or consumer loans granted to an enterprise;
- Setting the minimum threshold of highly liquid assets.
- Formation of the company's reserve capital, which serves as a self-insurance mechanism.

A critical problem for "ELITDAH" LLC is a decrease in the level of financial stability (see Table 2.8). The amount of authorized capital in the capital structure

does not meet the minimum requirements for achieving the minimum level of financial stability. The amount of borrowed funds is 10-11 times higher than the amount of equity (depending on the year under study, but for the period of 2020-2022).

Therefore, we propose the following action plan for limitation as a tool to reduce financial risks:

1. The determination of the borrowing limit includes considerations based on two main conditions:

a) Assessment of the marginal impact of financial leverage, when the total amount of equity is determined in the previous step. This involves calculating the leverage ratio (or gearing ratio) at which its impact is maximized. Taking into account the future equity and the calculated leverage ratio, the maximum amount of borrowed funds that optimally utilizes equity is determined.

б) Ensuring proper financial stability of the company. Taking into account these criteria, the company sets a limit on the use of borrowed funds in its operating activities.

2. Determination of the minimum allowable amount of equity capital of the company. The minimum amount of equity capital in the capital structure is determined using the autonomy and financial dependence ratio. Thus, the minimum permissible level of equity capital according to the autonomy ratio is 0.5, or 50% of the balance of liabilities. Therefore, the equity of ELITDAH LLC should be 50% of the total liabilities of the company in the future.

3. Creation of the company's reserve capital. According to Article 14 of the Law of Ukraine "On Business Associations": "The company shall create a reserve (insurance) fund in the amount established by the constituent documents, but not less than 25 percent of the authorized (share) capital, as well as other funds provided for by the legislation of Ukraine or the constituent documents of the company" [30].

Therefore, the size of the reserve fund of ELITDAH LLC should be UAH 125 thousand (or 25% of UAH 500 thousand, which is the authorized capital of the company).



The outlined areas of neutralization of financial risks of "ELITDAH" LLC require appropriate calculations to determine the feasibility of their implementation and to determine the effect of their implementation by the company's management.

### **3.2 Forecasting the impact of the implementation of the financial risk mitigation mechanism on the financial performance of ELITDAH LL**

To determine the effectiveness of the proposed program for reducing financial risks of ELITDAH LLC, it is necessary to determine the transformation of the company's assets and capital, to forecast the company's financial performance for at least 5 years ahead (2024-2028).

Consider the proposed factoring transaction, as of 2022, the amount of trade receivables amounted to UAH 6,974.8 thousand, which is 20.5% of the asset balance. At the same time, the amount of trade accounts payable amounted to UAH 31,071 thousand, which amounted to 60.7% of the balance sheet as of 2022.

This situation is extremely unsatisfactory, given that more than 50% of the company's resources are concentrated in payments. In addition, overdue accounts payable exceed accounts receivable, which makes it impossible to pay off short-term liabilities in full without resorting to borrowing against less liquid inventory.

The desired capital structure of ELITDAH LLC should be such that it meets the regulatory value of the autonomy ratio (i.e., greater than 0.5 or the threshold value of 0.5), so equity should be half of the company's total capital. However, it should be borne in mind that it is impossible to raise the level of financial stability from 0.08 to 0.5, as this will increase the probability of bankruptcy. It is proposed to first raise the level of financial stability to 0.2 from 0.08.

Let's calculate the potential amount of a satisfactory level of equity capital:

$$51153.2 * 0.2 = \text{UAH } 10,230.6 \text{ thousand.}$$

As of the end of 2022, the company's equity amounted to UAH 4,522.6 thousand, so to restore the company's financial stability, it is necessary to:

$10,230.6 - 4,522.6 = 5,708$  thousand UAH.

Given that it was previously decided to do factoring, which will be used to cover accounts payable. It is proposed to attract 65% of each section of accounts receivable.

The amount of investments attracted for the production modernization project is UAH 5,583.0 thousand.

Approximately this amount should be used for factoring and investments to obtain cash and repay accounts payable.

Based on these data, let's build a forecast structure of the balance sheet of ELITDAH LLC in Tables 3.4 and 3.5.

Table 3.4 - Transformation of assets of ELITDAH LLC under the influence of the developed proposal

Asset	As of 12/31/2022		Forecast on offer	
	thousand UAH	%	thousand UAH	%
Non-current assets	292,3	0,6	6 000,3	14,0
Fixed assets	292,3	0,6	6 000,3	14,0
Current assets	50 860,9	99,4	36 722,8	86,0
Inventories	18 026,1	35,2	18 026,1	42,2
Accounts receivable (goods, services)	6 974,8	13,6	2 441,2	5,7
Receivables from budgetary settlements	10 474,4	20,5	3 666,0	8,6
Other current receivables	4 301,8	8,4	1 505,6	3,5
Cash and cash equivalents	10 098	19,7	10 098,0	23,6
Other current assets	985,8	1,9	985,8	2,3
Balance sheet	51 153,2	100,0	42 723,1	100,0

Table 3.5 - Transformation of liabilities of "ELITDAH" LLC under the influence of the developed proposal

Liabilities	As of 12/31/2022		Forecast on offer	
	thousand UAH	%	thousand UAH	%
Shareholders' equity	4 522,6	8,8	10 230,6	23,9
Registered capital	500	1,0	500	1,2
Additional capital	-	-	5 583	13,1
Reserve capital	-	-	125	0,3
Retained earnings	4 022,6	7,9	4 022,6	9,4
Current liabilities	46 630,6	91,2	32 492,5	76,1
Short-term loans from banks	4 300	8,4	4 300,0	10,1

Trade accounts payable	31 071	60,7	16 932,9	39,6
Other current payables	7 873,1	15,4	7 873,1	18,4
Other current liabilities	3 386,5	6,6	3 386,5	7,9
Balance sheet	51 153,2	100,0	42 723,1	100,0

Thus, the calculations resulted in a new working capital structure, in which equity accounts for 20% of the total capital, accounts receivable were reduced through factoring, which covered part of the company's trade payables. The share of accounts receivable in the asset structure decreased from 13.6% to 5.7%, while the share of trade payables decreased from 60.7% to 39.6%.

As a result of investments in production modernization, the company received UAH 5,583.0 thousand, which was used to increase the company's fixed assets, whose share increased from 0.6% to 14%.

Let's build a graph of changes in the trend (or trend) of financial risk based on the indicators of financial stability (autonomy ratio) and investment risk (fixed assets serviceability ratio). Given that the fixed assets serviceability ratio was not previously calculated for the period 2020-2022 and its trend was not determined, it is proposed to do so in Table 3.6.

Table 3.6 - Calculation of the coefficient of depreciation and serviceability of fixed assets of ELITDAH LLC for 2020-2022

Indicator	Years			The ratio of 2022 to 2020
	2020	2021	2022	
Depreciation ratio of fixed assets	0,5	0,4	0,6	0,45
Fixed assets serviceability ratio	0,5	0,6	0,4	0,55

Let's draw a graph comparing the trends in the indicators in Fig. 3.2 and Fig. 3.3.

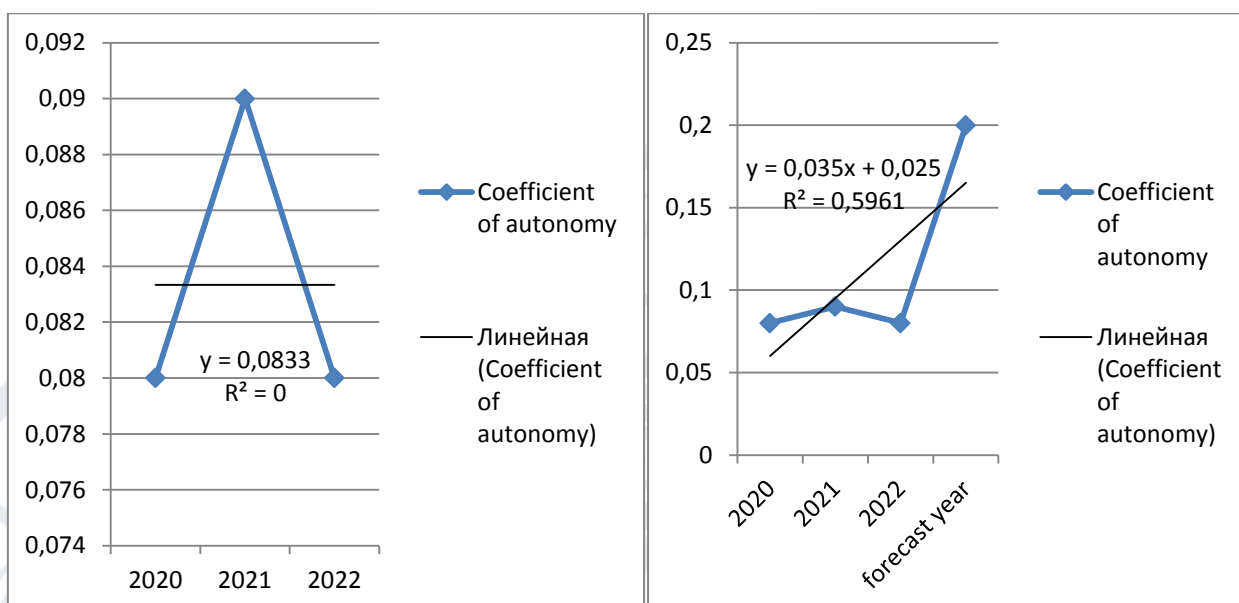


Figure 3.2 - Comparison of the trend of changes in the autonomy ratio, which characterizes the financial stability of ELITDAH LLC after the project implementation

As can be seen from the above figures (see Fig. 3.2 and Fig. 3.3), the project implementation led to a favorable trajectory of evolution of financial risk metrics (in the regression equations, the free coefficient takes on a positive value). Thus, the implemented measures aimed at mitigating the negative impact of two financially dangerous types of risks for the enterprise have demonstrated their effectiveness.

However, in the future, it is proposed to assess the impact of the proposed measures for ELITDAH LLC and to provide calculations of the probability of bankruptcy for the base period 2020-2022 and the forecast year 2023 using the Forest model. First, the model needs to calculate the projected level of profit from sales for 2023 using the trend extrapolation method. To do this, it is necessary to build a trend equation, which involves analytical alignment of the dynamics series and determination of the equation parameters.

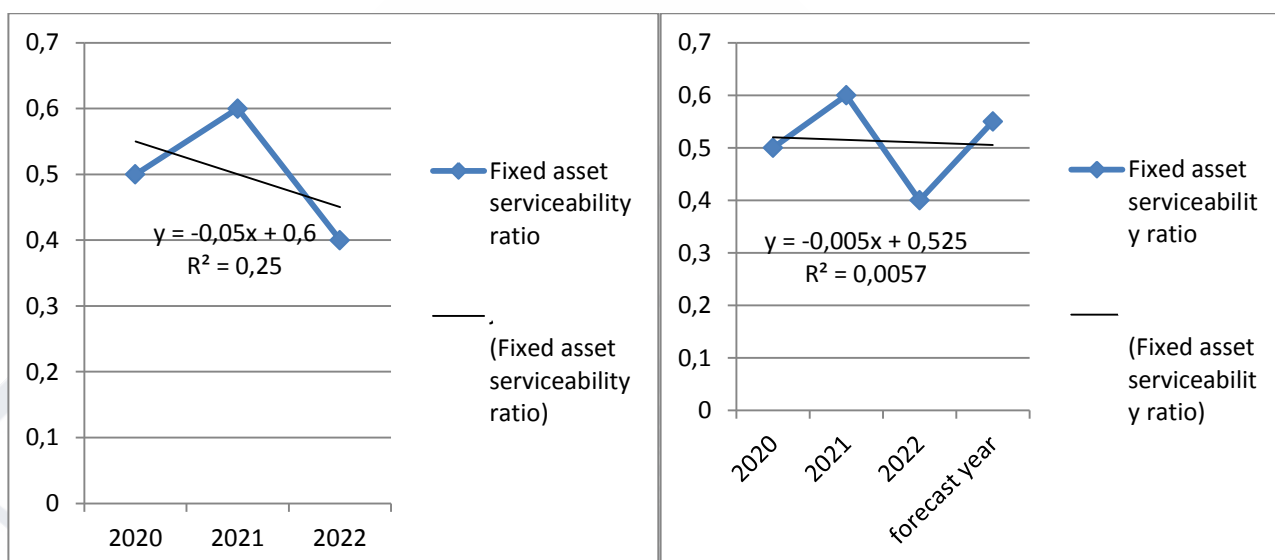


Figure 3.3 - Comparison of the trend of changes in the serviceability of fixed assets of ELITDAH LLC after the project implementation

Let's build a trend equation for net profit from sales with the selected type of trend equation (function) - power function, because this function provides the highest value of the approximation probability indicator  $R^2$  (Fig. 3.4).

Let's substitute the serial number of the period for which the forecast will be calculated ( $t = 4$ ) into the trend equation, the parameters of which were determined using Excel. Thus, as a result, the net profit from sales of products with a forecast for 2023 will be

$$y = 65823 \cdot 40.5128 = 134,002.9 \text{ thousand UAH.}$$

Based on the data obtained, we can make calculations for the Forest model (Table 3.7).

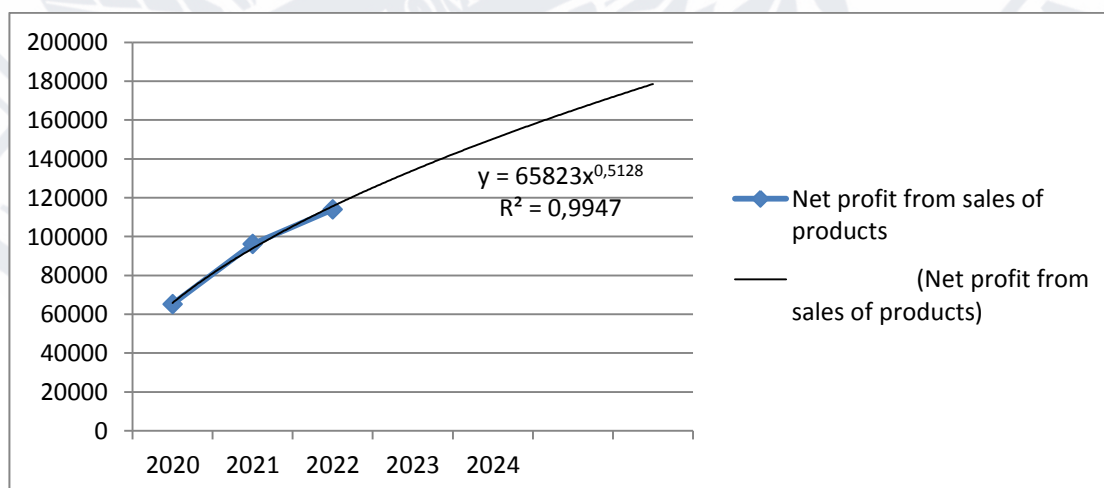


Figure 3.4 - Construction of the projected graph of dynamics of net profit from sales of "ELITDAH" LLC

Table 3.7 - Estimation of the probability of bankruptcy of "ELITDAH" LLC in the forecast period of 2023 according to the Forest methodology

Indicator	Meaning	Years			
		2020	2021	2022	2023
Working capital to total assets ratio	$X_1$	0,950	0,979	0,994	0,860
Profit from sales of all assets to total assets	$X_2$	7,037	4,775	2,227	3,137
Ratio of retained earnings to total assets	$X_3$	0,051	0,067	0,079	0,094
Equity to debt ratio	$X_4$	0,096	0,100	0,097	0,315
$Z = 0,063 * X_1 + 0,092 * X_2 + 0,057 * X_3 + 0,001 * X_4$	Z	0,71	0,50	0,27	0,35

In Fig. 3.5 shows the results of the assessment.

The Forest model, which is used to study the company's susceptibility to bankruptcy based on business activity and profitability, has a critical value of Z at 0.037.

The calculations show that during 2020-2022, there was a steady decline in the assessment of the probability of bankruptcy, which, without the implementation of appropriate measures, could lead to a decrease in the indicator to a critical level. The proposed option of neutralizing financial risks allowed to increase the level of the result, which reduces the likelihood of bankruptcy of the enterprise.

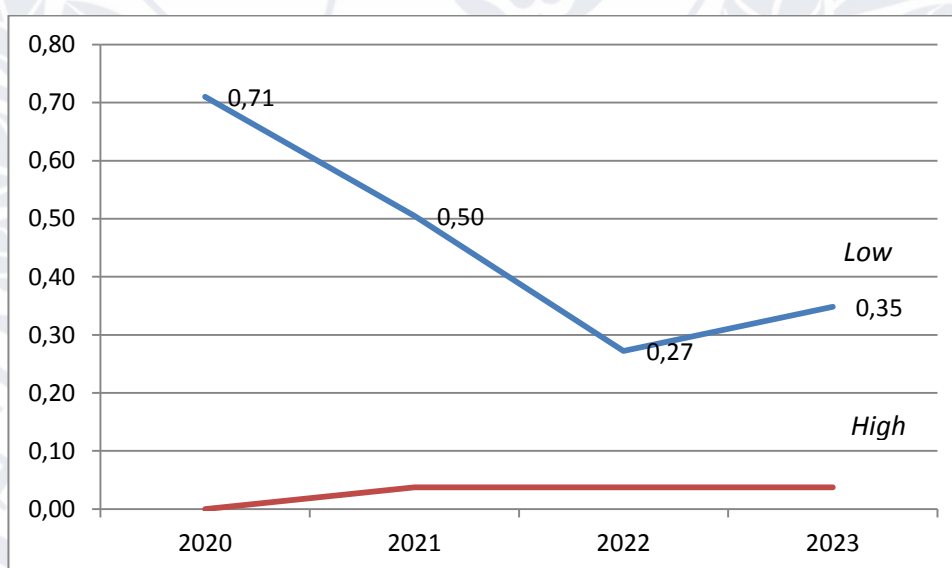


Figure 3.5 - The result of the assessment of the probability of bankruptcy of ELITDAH LLC for the forecasted year 2023

Additionally, it is proposed to use the Altman bankruptcy model, which is developed using the multiple discriminant analysis apparatus, where the value of Z is greater than 2.9, the probability of bankruptcy is low, where the indicator is between 2.9 and 1.23, the probability level is medium, and where it is less than 1.23, there is a high risk of bankruptcy for the enterprise. We present the calculations based on this model in Table 3.8.

Table 3.8 - Estimation of the probability of bankruptcy of "EDITDAI" LLC for 2020-2023, according to the Altman methodology.

Indicator	Meaning	Years			
		2020	2021	2022	2023
Ratio of own working capital to total assets	$X_1$	0,950	0,979	0,994	0,860
Net profit to total assets ratio	$X_2$	0,026	0,034	0,057	0,088
Financial result from ordinary activities before taxation to total assets	$X_3$	0,032	0,041	0,078	0,121
Ratio of equity and debt to total assets	$X_4$	0,096	0,100	0,097	0,315
Net sales to total assets ratio	$X_5$	4,775	4,557	2,227	3,137
$Z = 0,717 * X_1 + 0,847 * X_2 + 3,107 * X_3 + 0,42 * X_4 + 0,995 * X_5$	$Z$	5,594	5,436	3,260	4,321

In Fig. 3.6 shows the results of the assessment.

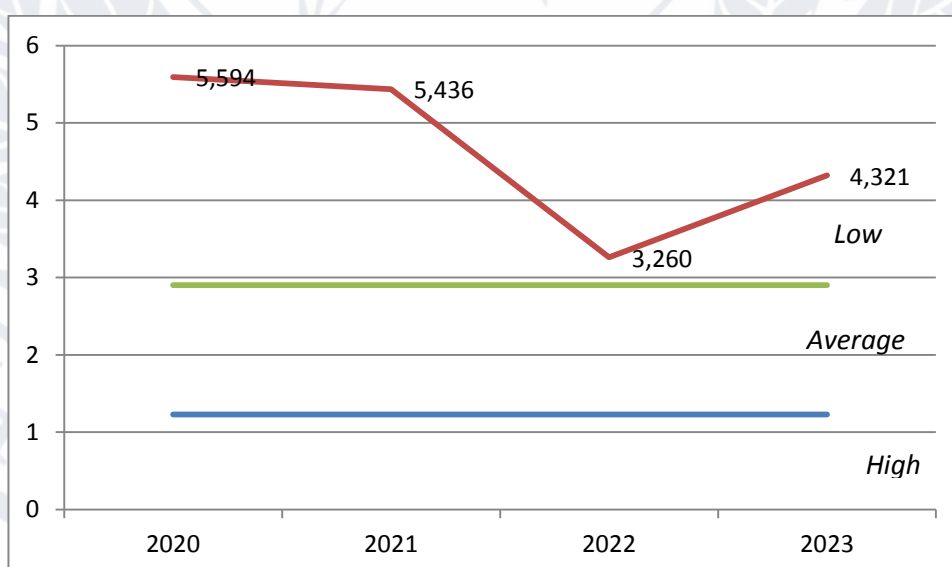


Figure 3.6 - Results of the assessment of the probability of bankruptcy of ELITDAH LLC for 2020-2023 according to the Altman methodology

Thus, from Fig. 3.6, we can see that although the indicators of previous years did not reach the minimum or average value and the probability of bankruptcy for the company was low, the score decreased at a high rate each year, so it is likely that 2023, without intervention and implementation of appropriate steps to minimize financial risks, could potentially lead to the risk of bankruptcy of the company, even despite the constantly growing level of net profit of the enterprise.

In general, the proposed project to minimize or neutralize financial risks can be considered satisfactory, as it reduces the probability of bankruptcy according to the results of calculations of both models.

### **3.3 Recommendations for managing financial risks of ELITDAH LLC using hedging instruments**

The impact and scale of the consequences of financial risks on the activities of non-financial enterprises are inextricably linked to the effectiveness of financial risk management mechanisms at the enterprise. A careful selection and systematic classification of prevention methods, strategies for avoiding and mitigating the negative consequences of relevant risks at the level of individual business entities is crucial. In the context of economic integration and international cooperation, there are numerous methods of counteracting financial risks, but their application and effectiveness depend on factors such as the company's industry, financial balance sheet, and sensitivity to specific types of risks.

The analysis of financial risk management practices of LLC "ELITDAH" shows its inefficiency and the urgent need for appropriate changes that will reduce the impact of critical financial risks. The factors contributing to this include a drop in the level of profitability of the enterprise, unsatisfactory financial condition and a decrease in business activity during 2020-2022. Given these circumstances, it is imperative to develop and implement effective recommendations for managing the negative effects of financial risks that pose a significant threat of significant financial losses or even termination of operations for the entity.



In addition to the proposed direction of minimizing financial risk, namely increasing the level of financial stability of the enterprise by increasing the autonomy ratio (factoring operation) and neutralizing investment risk by investing in the purchase of fixed assets and modernization of production, ELITDAH LLC may also focus on neutralizing currency risk, which has been showing a negative trend in recent years.

ELITDAH LLC carries out international trade, acting as both a seller and a buyer in the international financial market. The company's export activities play a key role in generating cash flows in foreign currency, which exposes it to operational currency risks directly related to exchange rate fluctuations. To solve these problems, the company must implement and consistently use financial hedging instruments for foreign trade operations.

Hedging is a widely used approach to counteracting currency risks in international trade. The strategy is based on the use of derivative financial instruments to prevent or mitigate the negative impact of financial risks. The common types of derivatives used in trading operations are forward and futures contracts, options and swaps, which help to reduce the likelihood of incurring negative financial losses due to currency risk.

The study of the above-mentioned derivatives requires a more detailed study of their effectiveness and availability in the context of the activities of ELITDAH LLC. First of all, it is necessary to delve into the peculiarities of using and concluding forward contracts.

A forward contract is an agreement between two business entities to buy or sell a predetermined quantity of a certain type of underlying asset at a predetermined price at a specified date in the future. By entering into a forward contract, one party (the seller) undertakes to deliver a certain quantity of an underlying asset on a date specified in the contract, which is significantly distant from the date of the contract. At the same time, the other party (the buyer) undertakes to accept the delivery at the agreed price. The process involves pre-determining and fixing the price through forward contracts, which serves as a risk hedging mechanism.

The conclusion of a forward contract allows both parties to the transaction to prevent unforeseen financial losses associated with changes in the foreign currency exchange rate. For example, when purchasing raw materials and other assets, the buyer avoids losses in the event of an exchange rate appreciation, while the seller reduces the risk of financial losses due to a depreciation. The terms of a forward contract help reduce uncertainty in future trading transactions between the parties involved.

A more effective strategy to counteract the negative effects of currency risk in export and import activities is the use of currency options. This derivative is aimed at securing the right to buy or sell a certain asset at a predetermined price within a certain period of time. Unlike forward contracts, currency options provide the buyer with an opportunity to earn additional profit under favorable exchange rate conditions. The choice in favor of foreign exchange options also helps to avoid uncertainty about the value of future cash flows from export and import operations of non-financial corporations.

An important feature of options is their style, which is divided into American, European, or Asian. Importantly, the geographical origin of the option does not matter; for example, an American option can be purchased on a European stock exchange. In the American style, the option contract allows the holder to exercise it on any day before expiration. Conversely, the European style allows the option to be exercised only after the expiration date. The Asian style provides for the exercise of an option at a weighted average price throughout the entire period of its validity from the date of purchase. Transactions with such options take place mainly in over-the-counter markets, most often in the foreign exchange and metal markets.

It has been observed that exchange-traded options are predominantly American in style, while OTC options are usually European or Asian in nature.

It should be noted that the peculiarity of using European options to reduce currency risk is that the option is exercised only on the last day of the contract. Conversely, in terms of the exercise horizon, American options allow for their exercise at any time before the expiration of the option. Consequently, European

options have the advantage of being used as an OTC financial instrument provided by financial institutions or banks, while American options are often classified as exchange-traded derivatives. This classification feature gives American options greater advantages for the buyer, expanding opportunities for additional profit in the event of a positive change in the exchange rate.

An alternative approach to mitigating the negative impact on the activities of non-financial corporations is the use of swaps. The key positive characteristics of swaps include mutual benefits for both parties, which can realize their intentions to obtain sufficient benefits in the planned amount and at the appropriate time in a particular market. The existence of a swap contract allows trading operations to be carried out on more favorable terms than using forward contracts or options.

The recommendation to use the hedging method to counteract the negative impact of currency risk on the activities of Ukrainian business entities is justified by a number of advantages:

1. Hedging provides confidence in the company's ability to achieve the planned result of a trade transaction at a fixed exchange rate in the future;
2. The hedging process goes beyond the company's core business, which avoids direct impact on the economic and production processes of non-financial corporations;
3. The use of derivatives helps to prevent the threat of losses from price risks associated with the purchase of raw materials and supplies and the sale of the company's finished products.

It is important to recognize that the use of hedging instruments has its drawbacks:

1. Additional costs for the company related to payment of transaction fees.
2. The potential for partial loss of profit due to unfavorable changes in the exchange rate.
3. The need to maintain a sufficient level of liquidity to implement and ensure the hedging process.

It is important to understand that the list of advantages and disadvantages may vary, differing at the level of each individual business entity. This is due to the fact that each business entity independently determines and assesses the need for hedging in its foreign economic operations.

It should be noted that the implementation of currency risk hedging processes is not widespread in the domestic market. This is due to the insufficient number of financial institutions capable of facilitating the process of hedging currency risks, as well as insufficient government support that would encourage companies to participate in derivatives transactions.

Based on the consideration of the approach to neutralizing the negative impact of currency risk on the activities of business entities, it is necessary to formulate a system with a consistent list of actions to prevent and eliminate the consequences of currency risk, which are typical for ELITDAH LLC (Fig. 3.7).

Nevertheless, to assess the feasibility of using derivative financial instruments in the export operations of PJSC Vinnytsia OLH, it is necessary to evaluate the effectiveness of hedging. There are different approaches to analyzing the impact of derivatives in the world practice, such as the method of comparing material terms, regression analysis, and the method of dollar compensation.

In this context, we will apply the dollar offset method, which facilitates the analysis by taking into account key indicators such as the fair value of hedged instruments and hedged items. The proposed approach is calculated using the following formula:

$$K_{HE} = \frac{\Delta FV_{H1}}{\Delta FV_{H0}} \quad (3.1)$$

Where  $K_{HE}$  – hedge effectiveness ratio;

$FV_{H1}$  – the fair value of the hedging instrument;

$FV_{H0}$  – the fair value of the hedged item.

In order to investigate the effectiveness of the currency risk hedging proposal for ELITDAH LLC, it is necessary to study the specific effect of the chosen financial

risk management instrument - forward contracts. Let's assume that the company has decided to use forward contracts when exporting metal structures (metal doors). It should be noted that we used conventional notation to calculate the effect (for example, the number of forward contracts concluded).

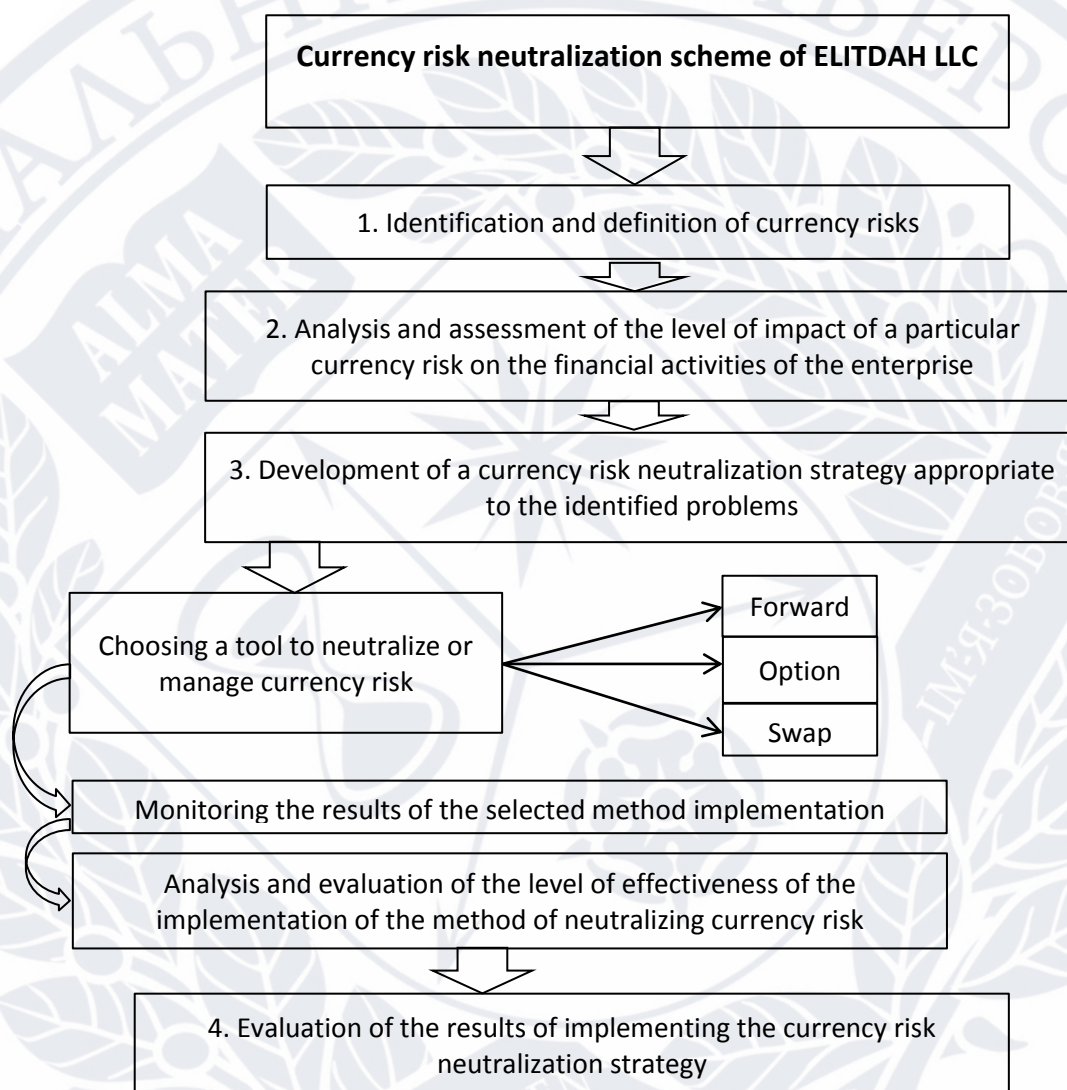


Figure 3.7 - Scheme of the process of neutralization and management of financial risk of "ELITDAH" LLC

The estimated fair value of the hedged item corresponds to the FOB export price in US dollars per metric ton. This value is specifically designated as the FOB export price in US dollars per unit of steel structure (door). At the same time, the fair value of the hedging instrument is determined by the average price observed by Ukrainian metal door producers. It is assumed that the forward contract will be settled at a stable price of USD 320 per unit (metal door), which will be set at

inception in 2024, with the contract maturity in 3 months. Table 3.8 provides a complete list of data on hedging instruments and items for assessing the effectiveness of derivatives in reducing foreign exchange risk.

Table 3.8 - Data on hedged items that will be used to determine the effectiveness of hedging for LLC "ELITDAH"

Information about the hedged item					
Period	Value of the hedged item, USD USD/unit	Number of pieces.	Fair value of the hedged item	Change in fair value (FV) of the hedged item	
I quarter	410	150	61500		
II quarter	404	150	60600	-900	
III quarter	399	150	59850	-750	
IV quarter	393	150	58950	-900	
Data on hedging instruments					
Period	Price in the forward contract, USD/unit.	Price of hedging instrument, USD USD/unit	Change in price in USD. USD/unit.	Number of contracts concluded	Change in fair value (FV) of a hedging instrument
I quarter	320	320	-	150	
II quarter	320	325	5	150	750
III quarter	320	330	10	150	1500
IV quarter	320	336	16	150	2400

In accordance with the data obtained, which are indicators for assessing the effectiveness of hedging for ELITDAH LLC, we will use the dollar compensation method, the results of which are presented in Table 3.9.

The normative value for studying the results of calculating the hedging effectiveness using the dollar compensation method is the threshold value in the range of 0.8-1.25 - the hedging process is effective throughout the entire period, because it does not go beyond the normative value. The indicator may go beyond the above value, which would indicate the inefficiency of forward contracts and their inappropriateness as instruments to neutralize the impact of currency risks. The situation with an increase in the efficiency indicator may occur in the event of volatility of prices for metal doors in the market during the period.

Table 3.9 - Results of the hedge effectiveness assessment for "ELITDAH" LLC

Period	Fair value of the hedged item	Change in fair value of the hedged item	Fair value of the hedging instrument	Change in fair value of a hedging instrument	The ultimate measure of hedge effectiveness
I quarter	61500	-	0	-	-
II quarter	60600	-900	750	750	0,8
III quarter	59850	-750	1500	750	1,0
IV quarter	58950	-900	2400	900	1,0

In order to study the feasibility of using hedging as a means of neutralizing currency risks for ELITDAH LLC, it is necessary to consider the performance indicator when using other financial hedging instruments other than forward contracts. For example, consider a situation in which ELITDAH LLC uses a currency swap to fix the price of its products during export activities.

In order to study the effect of currency swaps, the following financial indicators will be used: income from export activities in 2024, which will be predicted by constructing a logarithmic trend line with a coefficient of  $R^2 = 0.9998$ , which is the highest among other trend lines constructed (Fig. 3.8); average and fixed prices for metal doors in UAH/unit; cost of metal doors sold. Table 3.10 shows the financial indicators that made it possible to assess the effectiveness of using a forward swap as a hedging instrument to reduce currency risk.

It should be noted that as of 2022, the revenue from the sale of metal doors through exports is about 15.6% of the total revenue from sales of ELITDAH LLC.

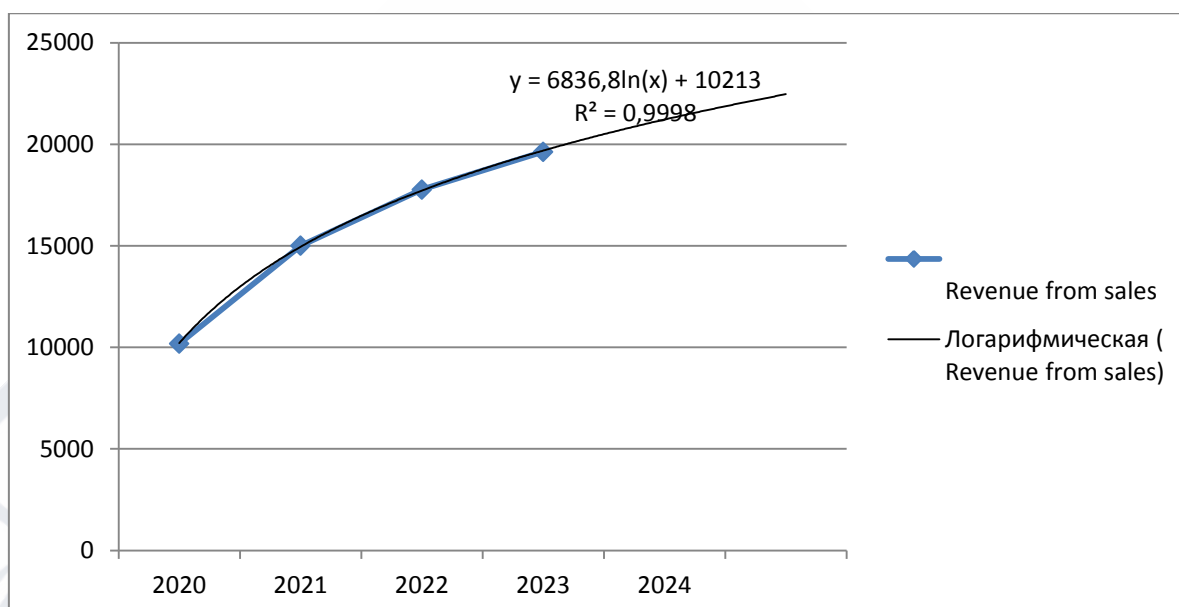


Figure 3.8 - Revenue from export activities of ELITDAH LLC

Table 3.10 - Evaluation of the effectiveness of forward hedging for ELITDAH LLC in 2024

Financial indicators	Without implementing hedges	After hedge implementation
Revenue from exports, UAH thousand	19630,3	21216,6
Price for metal doors, UAH/unit.	11800	12600
Average sales volume, pcs.	1664	1684
Cost price, thousand dollars. USD	18947,3	17219,5
Gross profit, thousand USD USD	683	3997,1
Gross profit margin, %.	3,5	18,8

Based on the results of the calculations, we can conclude that it is advisable for ELITDAH LLC to use forward hedging as a tool to neutralize currency risk. In the case of hedging, ELITDAH LLC will receive a 9.1% reduction in cost and a 15.3% increase in gross margin. Thus, as a result of hedging, ELITDAH LLC will be able to obtain a positive effect during exports (through the use of forward spot).

### Conclusions to chapter 3

In the section of the master's thesis, proposals for the formation of a risk reduction program for the enterprise were developed. Separately, it was established that the activities of ELITDAH LLC are not critically affected by such risks as tax, capital adequacy risk, etc., because the financial condition of the enterprise during



2020-2022 was not affected by these types of risks. However, such risks as investment, financial stability and currency risks are significantly increasing.

In order to neutralize financial risks, it was determined that, to begin with, the financial stability of the enterprise will be raised from 0.08 to 0.2 (according to the autonomy ratio). To do this, it is necessary to supplement the equity by UAH 5708 thousand and attract investments in the amount of UAH 5583 thousand. According to the calculations, the share of accounts receivable in the asset structure decreased from 13.6% to 5.7%, while the share of trade payables decreased from 60.7% to 39.6%. Investments in production modernization resulted in UAH 5,583.0 thousand, which were used to increase the company's fixed assets, whose share increased from 0.6% to 14%.

Additionally, the developed program was evaluated in terms of the probability of bankruptcy (according to the Lis and Altman model) of ELITDAH LLC. It was determined that as a result of the program implementation, the probability of bankruptcy will be reduced, compared to the fact that during 2022 there was a tendency of increasing the probability of bankruptcy. Thus, the developed program is considered effective for ELITDAH LLC.

In the process of developing recommendations for managing the financial risks of ELITDAH LLC using hedging instruments, a general scheme for neutralizing currency risk for the enterprise was determined. The scheme includes three main instruments of currency risk management - forward, swap, and option. Recommendations for financial risk management include the conclusion of forward contracts when exporting metal doors. It has been determined that the chosen direction is effective and complies with regulatory values, but provided that product prices are stable during the contract period. The use of a currency swap will allow the company to increase the gross margin of income received from the export of metal doors by 15.3 % and reduce the cost of production by 9.1 %. Thus, using the developed recommendations, ELITDAH LLC will receive a positive financial effect when exporting products.

## CONCLUSIONS

Financial risk management in Ukraine during the war is an important task to ensure financial stability and reduce the negative impact of the military conflict on the economy. To achieve the goal of the master's thesis, a number of tasks were performed.

The theoretical and methodological foundations for the formation of a mechanism for managing financial risks of international business enterprises are considered. As a result of the study, it was found that financial risk management in international business is a complex and multifaceted process that requires an integrated approach and the use of various tools and methods. One of the key elements of the management mechanism is the identification of financial risks, which involves identifying and analyzing possible threats and identifying potential problems associated with variable factors such as exchange rate fluctuations, interest rates, political stability, etc.

To successfully manage financial risks in international business, it is important to develop and implement effective risk management strategies and policies. This may include the use of hedging, portfolio diversification, the use of financial derivatives and other instruments to reduce risks and optimize the financial performance of the company.

In addition, successful financial risk management involves constant monitoring and control over their realization. This includes monitoring market conditions, evaluating the effectiveness of risk management measures taken and making necessary adjustments if necessary.

The article analyzes the macroeconomic manifestation of financial risks in Ukraine in the context of war. It is determined that since the beginning of the war, the following changes have occurred: loss of tangible assets and human capital, a drop in gross domestic product, and a significant increase in inflation. These indicators have a negative impact on the dynamics of development and recovery of the Ukrainian economy. Macroeconomic forecasts in Ukraine point to further growth in real GDP, currency appreciation, a fall in the consumer price index and an increase in public

debt. The main factors influencing the growth of inflation are logistics problems, rising energy costs, and hryvnia devaluation.

The assessment of the impact of risks on the activities of ELITDAH LLC, namely the SWOT analysis and PEST analysis, revealed that the company may potentially face such risks as market risk, financial risk, operational risk, supply chain and logistics risk, political and regulatory risk, and governance risk. An analysis of the financial indicators of the companies revealed a significant increase in net profit as of 2023 (during 2021-2022, the growth rate was 304%). The indicators of the use of financial resources indicate a drop in the level of return on investment and a decrease in asset turnover, which is a negative impact and manifestation of investment risk at the enterprise. According to the company's liquidity ratio, the company has a sufficient amount of highly liquid assets to cover its liabilities. However, the level of financial stability of the company is rather low, due to non-compliance with the thresholds of autonomy and financial dependence.

Proposals have been developed to formulate a risk reduction program for the company. The company's activities are significantly affected by investment, financial stability, and inflation risks. With regard to the financial stability risk, proposals have been developed for a factoring operation, attracting investments in the modernization of production and the formation of a reserve fund of the enterprise, which will amount to 25% of the authorized capital of the enterprise.

The selected areas and the financial risk neutralization program developed on their basis were analyzed to determine the effectiveness of its implementation. It was determined that initially it is planned to increase the financial stability of the enterprise from 0.08 to 0.2 (by the autonomy ratio). For this purpose, it is necessary to supplement the equity capital by UAH 5708 thousand and attract investments in the amount of UAH 5583 thousand. Based on the results of the calculations, a new working capital structure was obtained, in which equity accounts for 20% of the total capital, accounts receivable were reduced through factoring, which resulted in covering part of the company's trade payables. The share of accounts receivable in the asset structure decreased from 13.6% to 5.7%, while the share of trade payables

decreased from 60.7% to 39.6%. As a result of investments in the modernization of production, UAH 5,583.0 thousand were received, which were used to increase the company's fixed assets, whose share increased from 0.6% to 14%.

Additionally, the probability of bankruptcy (according to the Lis and Altman model) of ELITDAH LLC was assessed. It is determined that as a result of the program implementation, the probability of bankruptcy will be reduced, compared to the fact that during 2022 there was a tendency of increasing the probability of bankruptcy. Thus, the developed program is considered effective for "ELITDAH" LLC.

In the process of developing recommendations for managing financial risks of ELITDAH LLC using hedging instruments, a general scheme for neutralizing currency risk for the enterprise was determined. The scheme includes three main instruments of currency risk management - forward, swap, and option. Recommendations for financial risk management include the conclusion of forward contracts when exporting metal doors. It has been determined that the chosen direction is effective and complies with regulatory values, but provided that product prices are stable during the contract period. The use of a currency swap will allow the company to increase the gross margin of income received from the export of metal doors by 15.3 % and reduce the cost of production by 9.1 %. Thus, using the developed recommendations, ELITDAH LLC will receive a positive financial effect when exporting products.

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## APPENDICES

## Appendix A

Figure A.1 - Financial statements of ELITDAH LLC in 2022

Додаток 1  
до Національного положення (стандарту)  
бухгалтерського обліку 25 "Спрощена фінансова  
звітність"  
(пункт 4 розділу I)

ДОКУМЕНТ ПРИЙНЯТО

## Фінансова звітність малого підприємства

Підприємство	Товариство з обмеженою відповідальністю "ЕЛІТДАХ"	Дата (рік, місяць, число)	2023   01   01
Територія	ВІННИЦЬКА	за СДРПОУ	40972805
Організаційно-правова форма господарювання	Товариство з обмеженою відповідальністю	за КАТОТГГ	UA80000010003837
Вид економічної діяльності	Уходьке штатування та збуття	за КОПФГ	240
Середня кількість працівників, осіб	44	за КВЕД	24.33
Однінця виміру:	тис. грн. з одним десятковим знаком		
Адреса, телефон	вулиця Гонтія, буд. 39-А, м. ВІННИЦЯ, ВІННИЦЬКА обл., 21017		0965590404

І. Баланс на 31 грудня 2022 р.

Актив	Код рядка	Форма № 1-м Код за ДКУД 1801006	
		На початок звітного року	На кінець звітного періоду
1	2	3	4
<b>I. Необоротні активи</b>			
Нематеріальні активи	1000	-	-
Первісна вартість	1001	-	-
Накопичена амортизація	1002	( - )	( - )
Незавершені капітальні інвестиції	1005	-	-
Основи засоби :			
первісна вартість	1010	442,2	292,3
знос	1011	728,0	693,0
Довгострокові біологічні активи	1012	( 285,8 )	( 400,7 )
Довгострокові фінансові інвестиції	1020	-	-
1030	-	-	-
Інші необоротні активи	1090	-	-
<b>Усього за розділом I</b>	<b>1095</b>	<b>442,2</b>	<b>292,3</b>
<b>II. Оборотні активи</b>			
Запаси :	1100	6 906,1	18 026,1
у тому числі готова продукція	1103	-	-
Поточні біологічні активи	1110	-	-
Дебіторська заборгованість за продукцію, товари, роботи, послуги	1125	4 564,4	6 974,8
Дебіторська заборгованість за розрахунками з бюджетом	1135	5 297,0	10 474,4
у тому числі з податку на прибуток	1136	-	26,1
Інша поточна дебіторська заборгованість	1155	898,0	4 301,8
Поточні фінансові інвестиції	1160	-	-
Гроші та їх еквіваленти	1165	2 348,6	10 098,0
Витрати майбутніх періодів	1170	-	-
Інші оборотні активи	1190	644,1	985,8
<b>Усього за розділом II</b>	<b>1195</b>	<b>20 658,2</b>	<b>50 860,9</b>
<b>III. Необоротні активи, утримувані для продажу, та групи вибуття</b>	<b>1200</b>	<b>-</b>	<b>-</b>
<b>Баланс</b>	<b>1300</b>	<b>21 100,4</b>	<b>51 153,2</b>

## Continuation of Annex A

Пасив	Код рядка	На початок звітного року	На кінець звітного періоду
1	2	3	4
<b>I. Власний капітал</b>			
Зареєстрований (паісовий) капітал	1400	500,0	500,0
Додатковий капітал	1410	-	-
Резервний капітал	1415	-	-
Нерозподілений прибуток (непокритий збиток)	1420	1 125,4	4 022,6
Неоплачений капітал	1425	( - )	( - )
<b>Усього за розділом I</b>	<b>1495</b>	<b>1 625,4</b>	<b>4 522,6</b>
<b>II. Довгострокові зобов'язання, пілічне фінансування та забезпечення</b>			
<b>III. Поточні зобов'язання</b>			
Короткострокові кредити банків	1600	4 300,0	4 300,0
Поточна кредиторська заборгованість за:			
довгостроковими зобов'язаннями	1610	-	-
товари, роботи, послуги	1615	8 199,0	31 071,0
розрахунками з бюджетом	1620	5 289,0	7 864,1
у тому числі з податку на прибуток	1621	17,4	-
розрахунками зі страхування	1625	0,1	3,6
розрахунками з оплати праці	1630	2,4	5,4
Доходи майбутніх періодів	1665	-	-
Інші поточні зобов'язання	1690	1 684,5	3 386,5
<b>Усього за розділом III</b>	<b>1695</b>	<b>19 475,0</b>	<b>46 630,6</b>
<b>IV. Зобов'язання, пов'язані з необоротними активами, утримуваними для продажу, та групами вибуття</b>	<b>1700</b>	<b>-</b>	<b>-</b>
<b>Баланс</b>	<b>1900</b>	<b>21 100,4</b>	<b>51 153,2</b>

**2. Звіт про фінансові результати**  
за **Рік 2022** р.

Стаття	Код рядка	Форма № 2-м Код за ДКУД 1801007	
		За звітний період	За аналогічний період попереднього року
1	2	3	4
Чистий дохід від реалізації продукції (товарів, робіт, послуг)	2000	113 910,6	96 162,9
Інші операційні доходи	2120	9 468,1	17,8
Інші доходи	2240	47,6	-
<b>Разом доходи (2000 + 2120 + 2240)</b>	<b>2280</b>	<b>123 426,3</b>	<b>96 180,7</b>
Собівартість реалізованої продукції (товарів, робіт, послуг)	2050	( 118 551,8 )	( 87 725,4 )
Інші операційні витрати	2180	( 876,2 )	( 7 582,1 )
Інші витрати	2270	( - )	( - )
<b>Разом витрати (2050 + 2180 + 2270)</b>	<b>2285</b>	<b>( 119 428,0 )</b>	<b>( 95 307,5 )</b>
Фінансовий результат до оподаткування (2280 – 2285)	2290	3 998,3	873,2
Податок на прибуток	2300	( 1 101,0 )	( 157,2 )
<b>Чистий прибуток (збиток) (2290 – 2300)</b>	<b>2350</b>	<b>2 897,3</b>	<b>716,0</b>



Керівник \_\_\_\_\_ (підпис)  
Головний бухгалтер \_\_\_\_\_ (підпис)

ЕП Іванчук  
Володимир  
Михайлович  
ІВАНЧУК ВОЛОДИМИР МИХАЙЛОВИЧ  
ЕП Зубок Олена  
Іванівна  
ЗУБОК ОЛЕНА ІВАНІВНА

† Кодифікатор адміністративно-територіальних одиниць та територій територіальних громад

## Appendix B

Figure B.1 - Financial statements of ELITDAH LLC for 2021

Деяток І  
до Національного положення (стандарту)  
бухгалтерського обліку 25 "Спрощена фінансова  
звітність"  
(пункт 4 розділу І)

**ДОКУМЕНТ ПРИЙНЯТО**

**Фінансова звітність малого підприємства**

Підприємство <b>Товариство з обмеженою відповідальністю "ЕЛІТДАХ"</b>	Дата (рік, місяць, число) <b>за ЄДРПОУ</b>	<b>Код</b>
Територія <b>ВІННИЦЬКА</b>	<b>за КАТОРТГ</b>	<b>2022   01   01</b>
Організаційно-правова форма господарювання <b>товариство з обмеженою відповідальністю</b>	<b>за КОПФГ</b>	<b>40972805</b>
Вид економічної діяльності <b>Харчове штаткування та готель</b>	<b>за КВЕД</b>	<b>5620000010000001</b>
Середня кількість працівників, осіб <b>48</b>		<b>240</b>
Одиниця виміру: <b>тис. грн. з одним десятковим знаком</b>		<b>24.33</b>
Адреса, телефон: <b>вулиця Гонти, буд. 39-А, м. ВІННИЦЯ, ВІННИЦЬКА обл., 21017</b>		<b>0965590404</b>

**І. Баланс на 31 грудня 2021 р.**

Актив	Код радика	На початок звітнього року	На кінець звітнього періоду
1	2	3	4
<b>I. Необоротні активи</b>			
Нематеріальні активи	1000	-	-
Первісна вартість	1001	-	-
Накопичена амортизація	1002	( - )	( - )
Незавершені капітальні інвестиції	1005	448,1	-
Основні засоби	1010	232,8	442,2
первісна вартість	1011	432,0	728,0
знос	1012	( 199,2 )	( 285,8 )
Довгострокові біологічні активи	1020	-	-
Довгострокові фінансові інвестиції	1030	-	-
Інші необоротні активи	1090	-	-
<b>Усього за розділом I</b>	<b>1095</b>	<b>680,9</b>	<b>442,2</b>
<b>II. Оборотні активи</b>			
Зпаси:	1100	3 986,8	6 906,1
у тому числі готова продукція	1103	-	-
Поточні біологічні активи	1110	-	-
Дебиторська заборгованість за продукцією, товари, роботи, послуги	1125	3 504,5	4 564,4
Дебиторська заборгованість за розрахунками з бюджетом	1135	3 423,3	5 297,0
у тому числі з податку на прибуток	1136	-	-
Інша поточна дебиторська заборгованість	1155	656,0	898,0
Поточні фінансові інвестиції	1160	-	-
Гроші та їх еквіваленти	1165	718,2	2 348,6
Витрати майбутніх періодів	1170	-	-
Інші оборотні активи	1190	695,6	644,1
<b>Усього за розділом II</b>	<b>1195</b>	<b>12 984,4</b>	<b>20 658,2</b>
<b>III. Необоротні активи, утримувані для продажу, та групи вибуття</b>	<b>1200</b>	<b>-</b>	<b>-</b>
<b>Баланс</b>	<b>1300</b>	<b>13 665,3</b>	<b>21 100,4</b>

Пасив	Код рядка	На початок звітного року	На кінець звітного періоду
1	2	3	4
<b>I. Власний капітал</b>			
Зареєстрований (найовий) капітал	1400	500,0	500,0
Додатковий капітал	1410	-	-
Резервний капітал	1415	-	-
Нерозподлений прибуток (неокритий збиток)	1420	694,6	1 410,7
Неоплачений капітал	1425	( - )	( - )
<b>Усього за розділом I</b>	<b>1495</b>	<b>1 194,6</b>	<b>1 910,7</b>
<b>II. Довгострокові зобов'язання, цільове фінансування та забезпечення</b>			
<b>III. Поточні зобов'язання</b>			
Короткострокові кредити банків	1600	-	4 300,0
Поточна кредиторська заборгованість за:			
довгостроковими зобов'язаннями	1610	-	-
товари, роботи, послуги	1615	7 519,7	8 199,0
розрахунками з бюджетом	1620	3 889,1	5 289,0
у тому числі з податку на прибуток	1621	18,2	17,4
розрахунками зі страхування	1625	-	0,1
розрахунками з оплати праці	1630	-7,0	2,4
Доходи майбутніх періодів	1665	-	1 399,2
Інші поточні зобов'язання	1690	1 068,9	-
<b>Усього за розділом III</b>	<b>1695</b>	<b>12 470,7</b>	<b>19 189,7</b>
<b>IV. Зобов'язання, пов'язані з необоротними активами, утримуваними для продажу, та групами вибуття</b>			
Баланс	1900	13 665,3	21 100,4

**2. Звіт про фінансові результати**  
за Рік 2021 р.

Стаття	Код рядка	Форма № 2-м Код за ДКУД 1801007	
		За звітний період	За аналогічний період попереднього року
1	2	3	4
Чистий дохід від реалізації продукції (товарів, робіт, послуг)	2000	96 162,9	65 251,0
Інші операційні доходи	2120	17,8	-
Інші доходи	2240	-	-
<b>Разом доходи (2000 + 2120 + 2240)</b>	<b>2280</b>	<b>96 180,7</b>	<b>65 251,0</b>
Собівартість реалізованої продукції (товарів, робіт, послуг)	2050	( 87 725,4 )	( 57 915,0 )
Інші операційні витрати	2180	( 7 582,1 )	( 6 899,3 )
Інші витрати	2270	( - )	( - )
<b>Разом витрати (2050 + 2180 + 2270)</b>	<b>2285</b>	<b>( 95 307,5 )</b>	<b>( 64 814,3 )</b>
Фінансовий результат до оподаткування (2280 – 2285)	2290	873,2	436,7
Податок на прибуток	2300	( 157,2 )	( 78,6 )
<b>Чистий прибуток (збиток) (2290 – 2300)</b>	<b>2350</b>	<b>716,0</b>	<b>358,1</b>

Керівник

Головний бухгалтер

(підпис)

(підпис)

ЕП Іванчук  
Володимир  
Михайлович

ІВАНЧУК ВОЛОДИМИР МИХАЙЛОВИЧ

(ініціали, прізвище)

ЕП Зубок Олена  
Іванівна

ЗУБОК ОЛЕНА ІВАНІВНА

(ініціали, прізвище)

<sup>1</sup> Кодифікатор адміністративно-територіальних одиниць та територій територіальних громад

## Appendix B

Figure B 1 - Financial statements of ELITDAH LLC in 2020

Додаток 1  
до Національного положення (стандарту)  
бухгалтерського обліку 25 "Спрощена фінансова  
звітність"  
(пункт 5 розділу I)

ДОКУМЕНТ ПРИЙНЯТО

## Фінансова звітність малого підприємства

Підприємство	Дата (рік, місяць, число)	Код	
Товариство з обмеженою відповідальністю "ЕЛІТДАХ"	за ЄДРПОУ	2021	01 01
Територія: <u>ВІННИЦЬКА</u>	за КОАТУУ	40972805	
Організаційно-правова форма господарювання: Товариство з обмеженою відповідальністю	за КОПФГ	0510100000	
Вид економічної діяльності: <u>Харчове підприємство та гурто</u>	за КВЕД	240	
Середня кількість працівників, осіб: <u>48</u>		24.33	
Одиниця виміру: <u>тис. грн. з одним десятковим знаком</u>			
Адреса, телефон: <u>вулиця Гонти, буд. 39-А, м. ВІННИЦЯ, ВІННИЦЬКА обл., 21017</u>			0965590404

## I. Баланс на 31 грудня 2020 р.

Актив	Код рядка	Форма № 1-м Код за ДКУД 1801006	
		На початок звітного року	На кінець звітного періоду
1	2	3	4
<b>I. Необоротні активи</b>			
Нематеріальні активи	1000	-	-
первісна вартість	1001	-	-
накопичена амортизація	1002	( - )	( - )
Незавершені капітальні інвестиції	1005	-	448,1
Основні засоби :	1010	243,8	232,8
первісна вартість	1011	352,7	432,0
знос	1012	( 108,9 )	( 199,2 )
Довгострокові біологічні активи	1020	-	-
Довгострокові фінансові інвестиції	1030	-	-
Інші необоротні активи	1090	-	-
<b>Усього за розділом I</b>	<b>1095</b>	<b>243,8</b>	<b>680,9</b>
<b>II. Оборотні активи</b>			
Запаси :	1100	4 466,2	3 986,8
у тому числі готова продукція	1103	-	-
Поточні біологічні активи	1110	-	-
Дебіторська заборгованість за продукцію, товари, роботи, послуги	1125	4 679,1	3 504,5
Дебіторська заборгованість за розрахунками з бюджетом	1135	766,5	3 423,3
у тому числі з податку на прибуток	1136	-	-
Інші поточні дебіторська заборгованість	1155	17,4	656,0
Поточні фінансові інвестиції	1160	-	-
Гроші та їх еквіваленти	1165	913,6	718,2
Витрати майбутніх періодів	1170	-	-
Інші оборотні активи	1190	634,2	695,6
<b>Усього за розділом II</b>	<b>1195</b>	<b>11 477,0</b>	<b>12 984,4</b>
<b>III. Необоротні активи, утримувані для продажу, та групи вибуття</b>	<b>1200</b>	<b>-</b>	<b>-</b>
<b>Баланс</b>	<b>1300</b>	<b>11 720,8</b>	<b>13 665,3</b>



Пасив	Код рядка	На початок звітного року	На кінець звітного періоду
1	2	3	4
<b>I. Власний капітал</b>			
Зареєстрований (пайовий) капітал	1400	500,0	500,0
Додатковий капітал	1410	-	-
Резервний капітал	1415	-	-
Нерозподілений прибуток (непокритий збиток)	1420	336,5	694,6
Неоплачений капітал	1425	( - )	( - )
<b>Усього за розділом I</b>	<b>1495</b>	<b>836,5</b>	<b>1 194,6</b>
<b>II. Довгострокові зобов'язання, цільове фінансування та забезпечення</b>			
<b>III. Поточні зобов'язання</b>			
Короткострокові кредити банків	1600	-	-
Поточна кредиторська заборгованість за:			
довгостроковими зобов'язаннями	1610	-	-
товари, роботи, послуги	1615	8 588,3	7 519,7
розрахунками з бюджетом	1620	1 456,5	3 889,1
у тому числі з податку на прибуток	1621	26,9	18,2
розрахунками зі страхування	1625	0,5	-
розрахунками з оплати праці	1630	0,1	-7,0
Доходи майбутніх періодів	1665	-	-
Інші поточні зобов'язання	1690	838,9	1 068,9
<b>Усього за розділом III</b>	<b>1695</b>	<b>10 884,3</b>	<b>12 470,7</b>
<b>IV. Зобов'язання, пов'язані з необоротними активами, утримуваними для продажу, та групами вибуття</b>	<b>1700</b>	<b>-</b>	<b>-</b>
<b>Баланс</b>	<b>1900</b>	<b>11 720,8</b>	<b>13 665,3</b>

**2. Звіт про фінансові результати**  
за Рік 2020 р.

Стаття	Код рядка	Форма № 2-м Код за ДКУД 1801007	
		За звітний період	За аналогічний період попереднього року
1	2	3	4
Чистий дохід від реалізації продукції (товарів, робіт, послуг)	2000	65 251,0	60 958,0
Інші операційні доходи	2120	-	-
Інші доходи	2240	-	0,1
<b>Разом доходи (2000 + 2120 + 2240)</b>	<b>2280</b>	<b>65 251,0</b>	<b>60 958,1</b>
Собівартість реалізованої продукції (товарів, робіт, послуг)	2050	( 57 915,0 )	( 54 073,7 )
Інші операційні витрати	2180	( 6 899,3 )	( 6 613,3 )
Інші витрати	2270	( - )	( - )
<b>Разом витрати (2050 + 2180 + 2270)</b>	<b>2285</b>	<b>( 64 814,3 )</b>	<b>( 60 687,0 )</b>
Фінансовий результат до оподаткування (2280 – 2285)	2290	436,7	271,1
Податок на прибуток	2300	( 78,6 )	( 49,2 )
<b>Чистий прибуток (збиток) (2290 – 2300)</b>	<b>2350</b>	<b>358,1</b>	<b>221,9</b>

Керівник

Головний бухгалтер

(підпис)

(підпис)

З/І Іванчук  
Володимир  
МихайловичЗ/І Зубок Олена  
Іванівна

ІВАНЧУК ВОЛОДИМИР МИХАЙЛОВИЧ

(ініціали, прізвище)

ЗУБОК ОЛЕНА ІВАНІВНА

(ініціали, прізвище)