ANALYSIS OF THE FINANCIAL SITUATION OF BEVERAGE MANUFACTURER COMPANIES

KATONA Flóra, RÉDAINÉ KOVÁCS Ivett, KOVÁCS Szabolcs
University of Debrecen, Faculty of Economics and Business, Debrecen, Hungary
kovacs.szabolcs@econ.unideb.hu

Abstract: *Managers of a company are able to make the right decisions in order to improve the business activities of the company concerning the future, if they have the necessary and appropriate information to judge and evaluate the operation of the company. Thus, they require information that provides a reliable and realistic picture about the company. Creating an accurate picture of the company is of great importance not only for the managers but also for those who are related to the company (for example: investors, creditors, etc.). The accounting statement of the company helps obtain sufficient in-depth information to become familiar with the situation. However, the data acquired from it must be interpreted and analysed in order to obtain relevant information about the wealth, financial and income situation of the company. In the present study, the objective is to present the financial situation of three alcoholic beverage manufacturer companies.*

Keywords: *analysis of the financial situation; economic analysis; capital strength; liabilities.*

JEL Classification: *G30.*

1. Literature review

Making correct decisions is of essential importance for every company in order to operate successfully. In the globalized, accelerated world of the present time, economic competition is intensifying, resulting in reduced reaction time, while the complexity of the problems to be solved is constantly increasing. As a result, fast and high-quality decision-making is very important. In order for the management of a company to be able to make the most appropriate decisions, they need accurate and reliable information about the operations of the company, supported by in-depth economic and financial analysis. Obviously, in addition to all the above, it is necessary for the manager to have the appropriate professional knowledge and experience to recognize the causes of the events, to comprehend the interconnections and to be able to choose the most appropriate proposal from those presented to him.

Economic analysis is an indispensable tool for the managers of the company, with the help of which they are able to obtain information by which the economic operation of the company can be known, evaluated and thus improved (Béhm et al., 2016).

The purpose of economic analysis is to identify and evaluate the circumstances affecting the economic management of the enterprise. Based on the performed analyses, the preparation of management decisions, the efficiency of the measures

already implemented and the activities performed so far, as well as the increase of economic results can be qualified (Musinszki, 2014).
An appropriately prepared business plan, sustainable economic management, continuous evaluation of business activities and analysis of past performance are of key importance to the success of the enterprise, as these activities reveal the weaknesses and strengths of the business. The most important goals of companies are efficiency, profitability, efficient and competitive operation and increasing the value of the company, which can be achieved primarily by eliminating past problems (Musinszki, 2016).
Assessing a business requires a relatively uniform information system that must be consistent across both the business and its environment. This requirement is primarily met by the accounting system of enterprises, the regulatory framework of which is defined in Hungary by Act C of 2000 on Accounting (hereinafter referred to as the Accounting Act). According to the currently prevailing law, companies are required to keep some type of accounting records of economic events that have occurred in the given financial year and to close them at the end of the financial year. Following the closing of its books, this must be supplemented by the preparation of a report specified by law, which is a report that provides an objective, reliable and realistic overview of the wealth, financial and income situation of the company (Fenyves et al., 2019a).
The report is available to the public (§4, §12 and §153 of the Accounting Act), therefore this accounting compilation is the main source of information not only for internal but also for external stakeholders, which enables a comprehensive analysis. Key players to be considered as external stakeholders: investors, creditors, market partners such as: customers or suppliers. Internal stakeholders include business managers, owners and employees. Information needs of stakeholders differ as they are examine the acquired knowledge from different perspectives and apply it for different decisions (Böcskei, 2015.; Zéman et al, 2016). The most important thing for the owners is to know the financial situation of the company (Szekeres – Orbán, 2019). They are interested in the ability of the company to generate income and what proportion of the generated income can be deducted in the form of dividends. Investors need information to know how much risk they are taking with their investments or how much they can get in return (Fenyves, 2014). Creditors are interested in the security of lending, i.e., whether a company is able to repay instalments and interest on time. Customers and suppliers are concerned about the durability and security of their built relationships. For management and employees, it is important that their jobs are stable and thus their income is secured (Kerezsi-Erdey, 2019).
The purpose of the annual statement is to document the impact of economic events in a given year, to inform stakeholders, and to assist in determining dividends (Fenyves et al., 2019b).
Despite the fact that the mandatorily prepared annual statements are public, companies disclose this fact less, therefore currently the mystique of access to economic data of market participants and interested parties is still largely present (Böcskei - Hágen, 2017).

The analysis of the report may be important for the specific external or internal stakeholders due to different interests, therefore it is expedient to classify them into three groups:
-Information function: aims to explore connections and facts that cannot be directly established from the statement.
-Monitoring function: supports the evaluation of the business and backs and reviews managerial decisions (and checks their results).
-Planning function: the goal is to contribute to future optimal decisions (Zéman, 2017).
It is possible to prepare annual reports not only in accordance with the Hungarian accounting rules, but also in accordance with the International Financial Reporting Standards (IFRS). The Accounting Act regulates in detail which group of companies may choose to prepare annual financial statements in accordance with IFRS (Orbán – Kiss, 2017, Takács et al., 2017).

2. Material and method of the study

Data from the annual statements of the companies included in the analysis were collected or the last 5 years (2014 to 2018). After collecting the data in a Microsoft Excel spreadsheet software and including it in spreadsheets, the software was used to calculate the indicators for assessing the financial situation.

3. Analysis of the companies by quartiles

Both vertical and horizontal indicators can be used to analyse the financial situation of a company. For the analysis of the financial position, so-called asset structure indicators can be formed from the data on the asset side of the balance sheet, and on the basis of the data on the liability side of the balance sheet, capital structure indicators can be formed for the analysis of the financial situation.
The capital strength indicator is a widely used vertical indicator that shows the ratio of equity to balance sheet total. It shows the extent to which the owners provide the business with their own resources. When assessing the indicator, the capital demand of the business activity must be taken into account. In terms of the development of the indicator over time, growth can typically be considered favourable. The low value of the indicator indicates the need for external funding. The minimum expected value of capital strength is 30%.
The development of the capital strength indicator of Joaner Ltd. for the period from 2014 to 2018 is summarized in Table 1. The value of the indicator approaches the acceptable level of 30% in the first 3 years at the closest. Although equity showed a steady increase in absolute value, the growth rate of equity did not exceed the growth rate of all liabilities to the extent that it could achieve it. From 2015 onwards, the indicator shows a continuously decreasing trend, and continuing the development direction, it hardly reaches 3% by 2017, as a result of which the company is in an increasingly critical position. In 2018, the dependence of the company on external sources improved slightly, but still remained below 5%, which is very unfavourable.

Table 1: Evaluation of the capital strength of Joaner Ltd. between 2014 and 2018

Name	2014	2015	2016	2017	2018
Equity (thousand HUF)	385 394	386 526	390 809	47 559	90 676
Total liabilities (thousand HUF)	1 531 681	1 425 410	1 602 272	1 628 617	1 995 095
Capital strength	25.16%	27.12%	24.39%	2.92%	4.54%

Source: own editing based on the annual statements of Joaner Ltd

In the case of VÁRDA-DRINK cPlc., the value of the indicator is above 40% in 2014 and 2016, and above 60% in 2015 and 2017, which can be considered favourable. By 2018, the indicator will be reduced to half of the previous year due to a drastic change in current liabilities, to 29.71%, which is just below the minimum threshold.

Table 2: Evaluation of the capital strength of VÁRDA-DRINK cPlc. between 2014 and 2018

Name	2014	2015	2016	2017	2018
Equity (thousand HUF)	964 351	923 421	1 310 477	1 397 614	1 319 382
Total liabilities (thousand HUF)	2 357 581	1 469 613	2 938 964	2 277 922	4 441 031
Capital strength	40.90%	62.83%	44.59%	61.35%	29.71%

Source: own editing based on the annual statements of VÁRDA-DRINK cPlc.

In the case of Győri Likőrgyár cPlc., unlike the previous companies, there are no large fluctuations in the values of the indicator in the analysed period and they are stable above 40%. In 2018, an increase of 30% compared to the base year can be observed, pushing the value of the indicator towards 55%. The level above the minimum threshold and the growth are considered very favourable. Overall, this company is the most balanced in terms of ownership ratio.

Table 3: Evaluation of the capital strength of Győri Likőrgyár cPlc. between 2014 and 2018

Name	2014	2015	2016	2017	2018
Equity (thousand HUF)	996 461	950 617	1 154 505	1 149 683	1 236 138
Total liabilities (thousand HUF)	2 347 145	2 021 497	2 470 726	1 981 014	2 280 580
Capital strength	42.45%	47.03%	46.73%	58.04%	55.47%

Source: own editing based on the annual statements of Győri Likőrgyár cPlc.

The share of liabilities shows the ratio of total liabilities on the liability side. According to the scientific literature, if the value of the indicator reaches or exceeds 70%, it should be considered unfavourable. However, the relative stability or increase in the proportion of liabilities is not necessarily a negative phenomenon, as it may be because the company is expanding its business or is financing its necessary resources with credit to expand its existing activities. However, in the event of a sustained increase in the ratio, the burden of foreign debt will increase and dependence on external resources may become stronger.

Figure 1 illustrates the development of the share of the liabilities of Joaner Ltd. over time. The value of the indicator is also the best for this indicator in 2015. However, the value of 72% still does not reach a favourable level. However, the fact that the company took out an investment and development loan worth 9,473 thousand HUF this year changes the assessment of the indicator. Compared to the total value of investments identified in the scope of the analysis on the asset side, the amount of the loan is not significant. As of 2015, the upward tendency in the value of the indicator indicates that the indebtedness of the company has increased. By 2017, the value of the indicator is 97%, which would be risky even if its investment and development loans did not show a continuous declining trend. If a closer look is taken at the development of the indicator values, it can be seen that the share of the capital strength of the company and the share of its liabilities do not move to the same extent, but in the opposite direction, so if the proportion of equity decreases, that of liabilities increases.

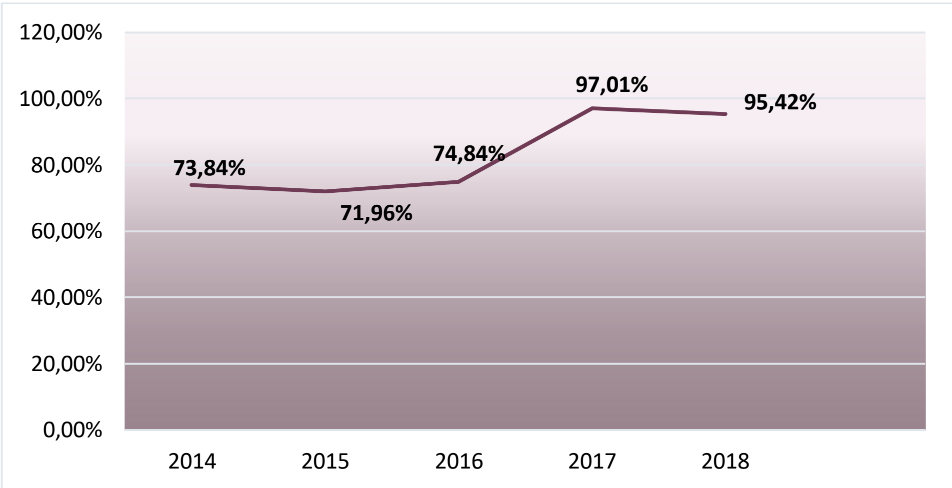

Figure 1: Proportion of the liabilities of Joaner Ltd between 2014 and 2018
Source: own editing based on the annual statements of Joaner Ltd.

Figure 2 shows that the share of liabilities of VÁRDA-DRINK cPlc. has changed significantly every year, but it exceeds the level of 70% only in the last year and even then by only 1 percentage point. Although this value is still moving along the threshold, but it should not be overlooked that it produced a 32% increase over the previous year, largely due to a radical increase in other current liabilities. If the events are considered based on the above, a much more unfavourable picture is revealed in the development of the indicator.

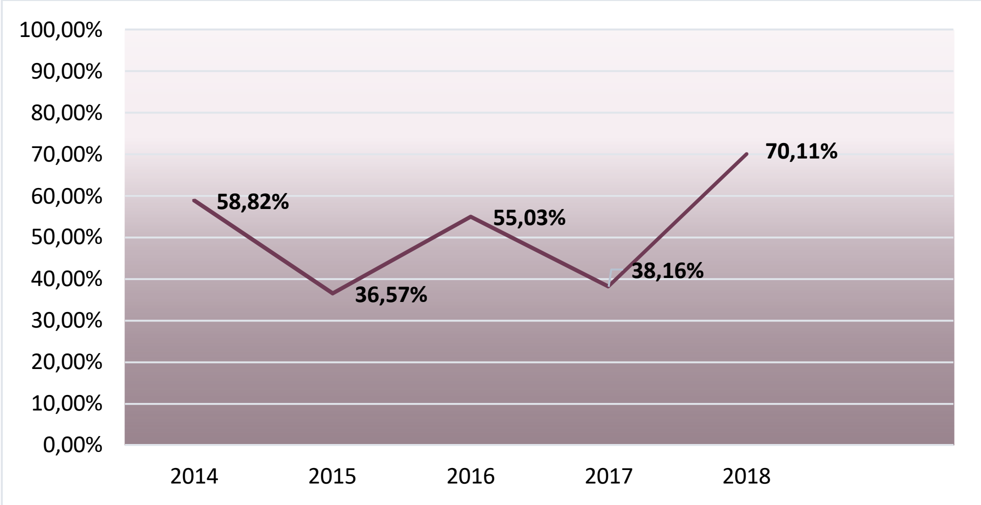

Figure 2: Proportion of the liabilities of VÁRDA-DRINK cPlc. between 2014 and 2018
Source: own editing based on the annual statements of VÁRDA-DRINK cPlc

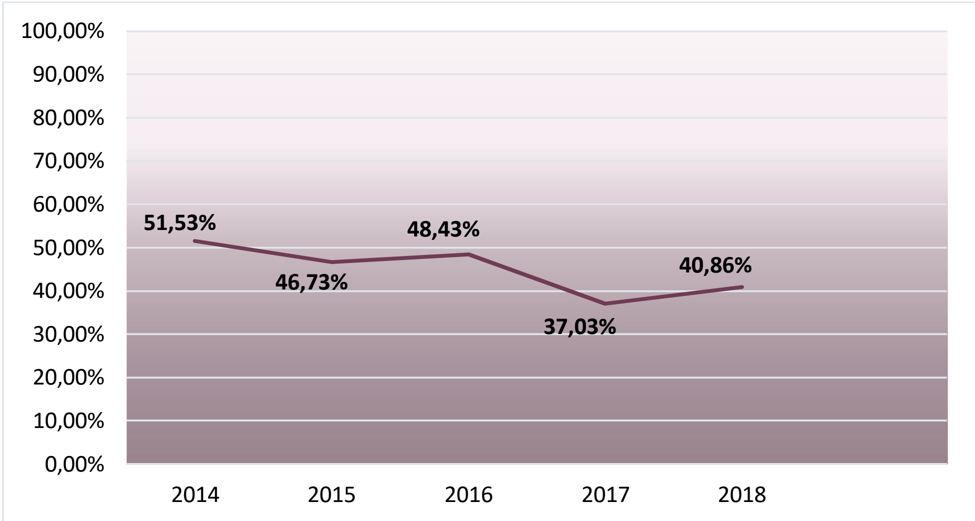

Figure 3: Proportion of the liabilities of Győri Likőrgyár cPlc. between 2014 and 2018
Source: own editing based on the annual statements of Győri Likőrgyár cPlc

The capital ratio of Győri Likőrgyár cPlc. developed favourably during the entire analysed period, as there were no major negative differences in the value of the indicator and it was able to represent a downward trend overall (Chart 3). It was able to produce a decrease of 10.67% for the last year compared to a base rate of around 50% per year. While this is not the best performance of the company, it does not lag far behind that. The company has investment and development loans every year, but their amount is the highest in 2015, despite which it has been able to reduce its liabilities compared to the previous year due to a decrease in current liabilities. The best result was recorded in 2017, when both the liabilities side of its balance sheet and its liabilities had the lowest values of the analysed period and the rate of decrease in liabilities exceeded the rate of decrease in total liabilities compared to the previous year.

"The provision is formed each year to cover expected losses, liabilities and other risks at the expense of pre-tax profit. It is characterized by the fact that it has to be reconstituted, but the amount formed in the previous year must be eliminated by accounting for the pre-tax profit, ie it increases the tax base. The increase in the proportion and amount of provisions indicates that an increasing share of the liabilities side is forced to be tied to expected losses and liabilities. At the same time, adequate provisioning reduces the risk to the business. On the other hand, a decrease in the provision indicators may indicate an increase in the security of the company (Trautmann-Papacsek, 1999, p.20). "
Neither Joaner Ltd, nor Győri Likőrgyár cPlc formed a provision, therefore the calculation of the indicator is not relevant in their case. VÁRDA-DRINK cPlc has a provision in three years, so in their case, Figure 4 shows the development of the indicator. In 2015, the company formed a provision of 3,733 thousand HUF, the value of which did not change until 2018, thus the fluctuation of the ratio of the indicator is solely due to the change in liabilities. The company was typically able to keep ratios below 0.3%, which poses no operational risk for the company. However, the lack of provision formation for all companies creates a great deal of uncertainty for the future.

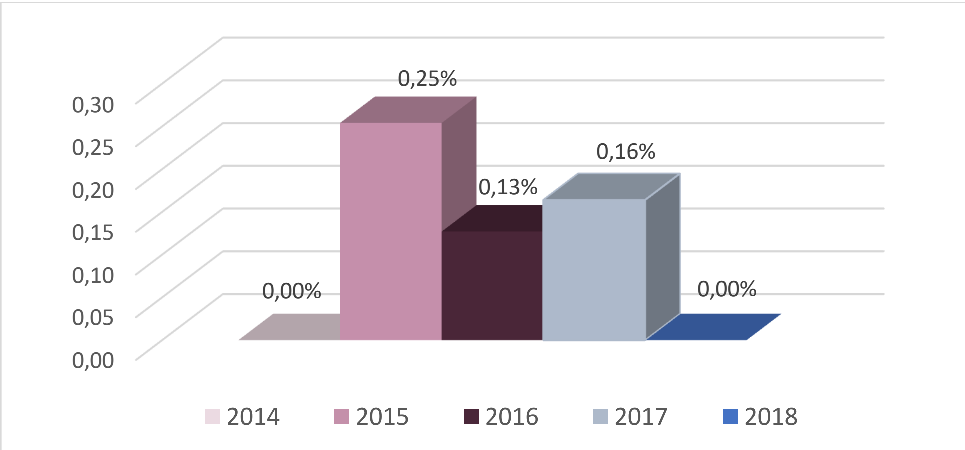

Figure 4: Proportion of the liabilities of VÁRDA-DRINK cPlc. between 2014 and 2018
Source: own editing based on the annual statements of VÁRDA-DRINK cPlc

Businesses can use the after-tax profit in two ways, either by paying dividends to their owners, or by leaving it with the business and spending it on raising equity to achieve longer-term goals. The equity growth indicator expresses the wealth growth of the company (Kardos et al., 2007). It shows how efficiently the persons in charge of management have performed and how much they have been able to achieve with the capital invested by the owners in the given business year. Return on equity is of paramount importance to shareholders and analysts, as they are particularly interested in whether the company in which they have invested is able to generate a return commensurate with the risk. This indicator is considered favourable if it shows the highest possible value. A negative value of the indicator indicates a loss of capital, which is very disadvantageous.

Figure 5 shows the ratio of Joaner Ltd's profit for the current year to its equity. The aim is for the indicator to reach at least the central bank base rate. In 2014 and 2015, the company was unable to meet this criterion but in 2016 it managed to exceed it. However, the positive development was followed by a radical downturn in 2017, which it managed to correct in 2018 to such an extent that it achieved by far the best result of the studied period. The value of -557.21% in 2017 is due to the decline in turnover. The company purchased the usual amount of raw materials and started to manufacture its products, however, due to the introduction of NETA, which has already been mentioned several times, its business partners did not buy from them to the usual extent, thus significantly reducing their revenue. However, its expenses did not decrease as expected, which resulted in a negative business result. The result of financial operations also ended in a minus, so its after-tax result also became negative. In 2018, the great breakthrough took place precisely due to these events. Its expenses did not increase as much as its revenues due to the material accumulation and inventory retention of the previous year while its sales increased significantly.

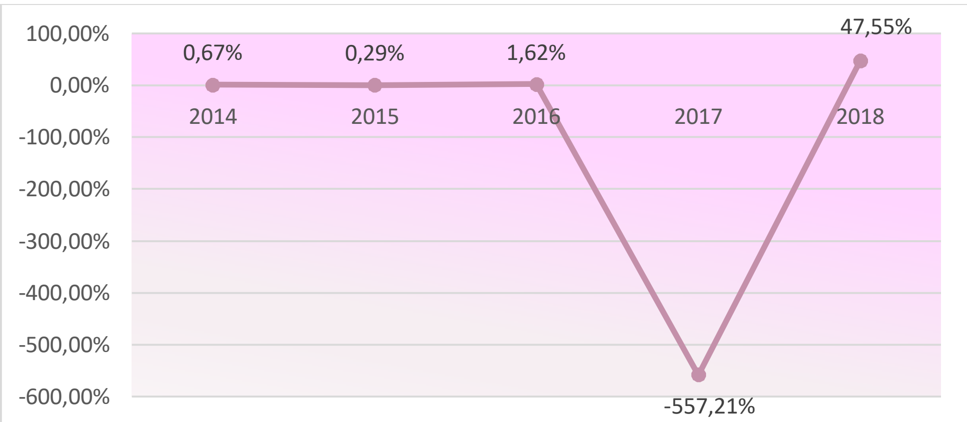

Figure 5: Extent of the equity increase of Joaner Ltd between 2014 and 2018
Source: own editing based on the annual statements of Joaner Ltd

In the case of VÁRDA-DRINK cPlc, the figure clearly shows the growing trend of the indicator at first glance. The rate of increase was significant during the studied period. The company failed to exceed the value of the central bank base rate in the first 2 years. It is important to note that this indicator does not provide information on the profitability of the enterprise. The indicator should therefore be assessed with caution, as the development of the balance sheet earnings depends not only on the management of the company in the current year but also on the dividend policy of the owner. In the present case, it can be said that there was no problem with the financial management of the company during the analysed period. However, in the framework of dividend payments, the balance sheet profit was paid in full among the owners, which resulted **in a balance sheet profit of 0. As of 2016, the value of capital accumulation in the current year was high due to the provisions of the new Accounting Act.**

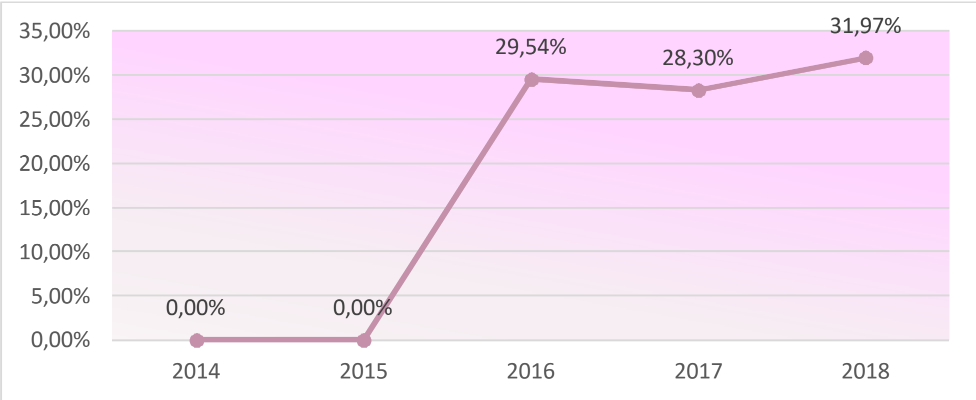

Figure 6: Extent of the equity increase of VÁRDA-DRINK cPlc between 2014 and 2018
Source: own editing based on the annual statements of VÁRDA-DRINK cPlc

In the case of Győri Likőrgyár cPlc, with the exception of 2015, the value of the indicator was well above the central bank base rate every year. In 2015, due to the dividend policy of the company, its balance sheet profit was 0, reducing the ratio to 0. Apart from this, a very favourable picture can be seen due to the constantly growing trend. In 2018, the growth rate of equity increased by 16.58% compared to the first year of the analysed period, thus reaching 29.65%.

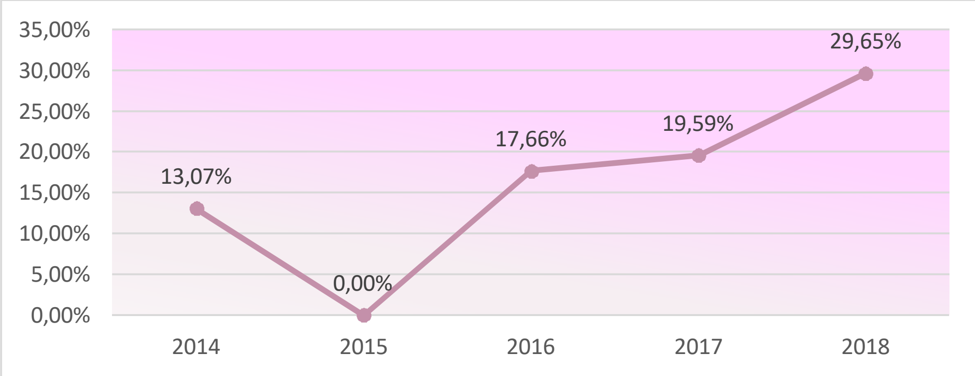

Figure 7: Extent of the equity increase of Győri Likőrgyár cPlc between 2014 and 2018
Source: own editing based on the annual statements of Győri Likőrgyár cPlc

5. In conclusion

The objective was to map the asset situation behind the three alcoholic beverage manufacturer and distributor companies and compare them with each other. By calculating the most important indicators, the aim was to provide as comprehensive a picture as possible of the available knowledge of the chosen topic. For the analysis, the annual reports of Joaner Ltd., VÁRDA-DRINK cPlc. and Győri Likőrgyár cPlc. were utilised. Overall, with the exception of Joaner Ltd., the financial position of the companies can be said to be stable. Based on the examination carried out with the help of the indicators used to present the financial situation, it can be stated that debt capital is present to a large extent in the life of Joaner Ltd. and their presence is not negligible in the case of the other two companies either. According to the debt to equity indicator, in the case of Győri Likőrgyár cPlc, there is more space for equity than for other companies during the analysed period. Joaner Ltd needs to pay more attention to the high debt ratio, including the high percentage of its other current liabilities.

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