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Financial statement analysis: Case study of Kamila LLC (2016-2018)

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Abstract

The main source of information for financial analysis is the financial statements. Analyzing financial statements helps in making the best decisions possible by maximizing profit and minimizing costs. This paper analyzes the income statement and balance sheet for the manufacturing company Kamila in Kosovo. A wide variety of techniques can be used to assess the financial viability of an organization. In this paper are included the methodologies of horizontal analysis, vertical analysis and report analysis for three years, respectively for the years 2016, 2017 and 2018. Through the above and comparative analysis over the years, we reach a conclusion by clarifying the status of assets, liabilities, capital and business profits, and answering the research questions of the paper why the business during the three years has had the same sales turnover and different profit and why the company realized higher profit in 2017 and lower profit in 2018. Finally, it is recommended that Kamila LLC will focus on increasing its own production and increasing exports to international markets.

Keywords: Financial Analysis; Financial statement; Kamilla LLC, Kosovo.

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I. Introduction

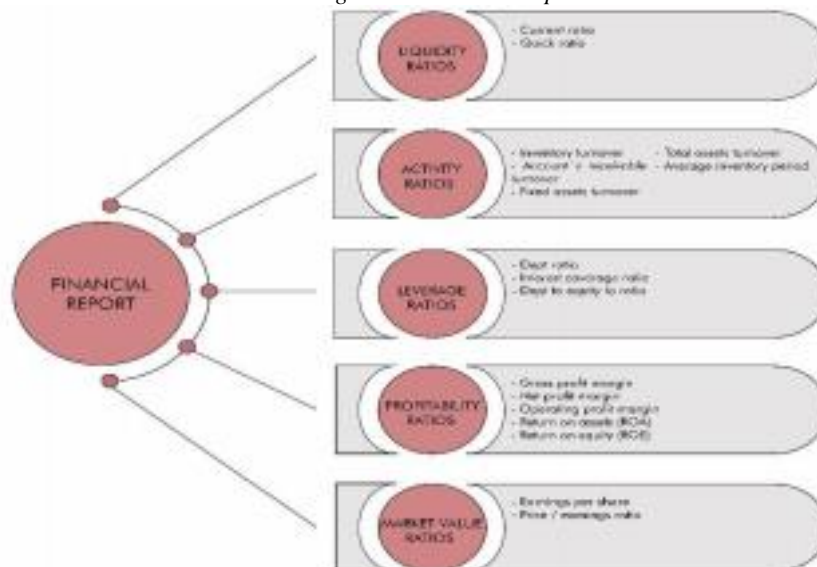
Financial analysis is the evaluation of a business in order to determine its profitability, liabilities, strengths and potential for future profits. Financial analysis helps companies determine the risks they face, how to grow and expand the business processes that make them work more effectively, and whether organizations' investments are focused on the right areas. The purpose of this paper is to analyze the financial statements of the company Kamilla for the periods 2016, 2017 and 2018. This paper provides answers to the questions why the business during the three years has an average sales turnover but different profit? Then, why in 2017, the company has a bigger profit and in 2018, has a smaller profit? A wide variety of techniques can be used to assess the financial viability of an organization, including the most common methodologies of horizontal analysis, vertical analysis, and financial report analysis. Most analytical methods include company financial statements and internal or external audits. In this paper, through the above-mentioned analyzes, the two main financial statements have been analyzed, such as: Balance sheet and income statement for the three-year period of the enterprise.

II. Review of literature

Understanding the notion of Financial Statement Analysis, expresses the totality of procedures and methods used to extract from the financial statements the right information based on which the existing condition of an enterprise can be assessed and the appropriate decisions can be made. By financial analysis we mean the study of the financial condition of the enterprise by analyzing its constituent parts (which reflect the state of the enterprise through various indicators). From a management standpoint, financial analysis is essential to a company's success because it highlights weaknesses and strengths that directly affect competition. (Anon., 2020) Financial analysis can also help companies consider product profitability across different sales channels and customers, which market segments will add more profit to the business, and what may have an impact on the business in the future. (Rouse, 2019) The law requires all public enterprises to have their financial statements audited from outside. (Anon., 2020) The main source of information for financial analysis are the financial statements of a business, which are the output of accounting. Accounting is a system that will provide the reports and information you need. (Gladin, 2003) Simply put, the whole economy relies on keeping accurate and reliable books for internal and external users. (Anon., 2015) Financial statements are often audited by government agencies, accountants, firms, etc. to ensure accuracy and for tax, financing or investment purposes. (Murphy, 2020) Financial statements are the primary source of financial information for most decision makers. This is why accounting and financial reporting place a high emphasis on the accuracy, reliability and relevance of the information in these financial statements. (Anon., 2020). When people perform a financial analysis of a company, they look at the income statement and balance sheet. (Anon., 2020) It is also important that companies submit financial statements once a year. (States, 2020) Financial statements are important to investors because they can provide a wealth of information about a company's income, expenses, profitability, debt burden, and ability to meet its short

term and long-term financial obligations. (Maverick, 2020) More specifically, investors and creditors need to know where their money went and where it is now. (Way, 2019) The main analyzes used on the financial statements are: 1) Horizontal analysis, through which you will be able to see two current data for consecutive years and will be able to compare each of them. And based on that, you can predict the future and understand the trend. (Kacie, 2020). 2) Vertical analysis, otherwise called as static analysis. Under this type of analysis, reports are calculated from the balance sheet for one year and / or from the profit and loss account for one year. Used only for short-term analysis. In the balance sheet e.g., total assets are denoted 100% and each asset is presented as a percentage of total assets. (Anon., 2020). As well as 3) Analysis of financial reports, which expresses quantitative methods to obtain knowledge on the liquidity, operational efficiency and profitability of a company by studying its financial statements such as balance sheet and income statement. Financial reports are a cornerstone of fundamental business analysis. Investors and analysts use financial statements to assess the financial soundness of companies by checking past and present financial statements. Comparative data can demonstrate how a company is performing over time and can be used to assess potential future performance. This data can also compare a company's financial condition with industry averages while measuring how a company clashes with others within the same sector. (Bloomenthal, 2020) The financial reports in more detail are presented in the figure below, which are then applied to the company in question.

Figure 1. Financial Reports



Source: Authorized lectures of Prof. Fidane S. Gjilkolli

III. Methodology

The theoretical part of the paper is based on secondary information from books, authors, articles and various publications by domestic and foreign authors. While the analysis of the paper is based on primary data authorized by Kamilla Company in Kosovo, respectively from the financial statements of

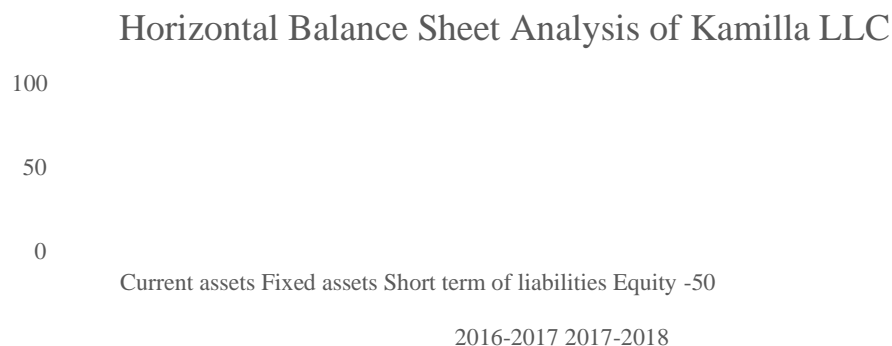
the company. The data are analyzed from the balance sheet and income statement for the periods 2016, 2017 and 2018. Using the methods of analysis, statistical and comparative through horizontal, vertical analysis and financial reports, we achieve the purpose of the paper. The following ratios have been calculated in the analysis of financial reports: Liquidity ratio through current ratio and acid test or quick ratio; Activity ratio through accounts receivable turnover, merchandise inventory turnover ratio, total assets turnover ratio; Leverage ratio through debt ratio, interest coverage ratio, and debt to equity ratio; Profitability ratio through gross profit margin, net marginal profit, operating profit margin, return on equity (ROA) margin and return on equity (ROE); Market value ratio through earnings per share and price-earnings ratio. Data were calculated by authors with Microsoft Excel '10.

IV. Analysis

The analysis was made for the company Kamila in Prizren, Republic of Kosovo, as a limited liability company, registered on 27.12.2007, with NOB: 70464787 and fiscal number: 600108741, which deals with the production of cocoa, chocolate and sweets. The average number of employees in the company during 2018 is 94 employees. Its products are certified by ISO and HACCP, where so far it exports to 35 different countries of the world including the Middle East, Africa, South America and Europe. First, we analyze the horizontal balance sheet (see graph no. 1) and the income statement (see graph no. 2) for the period 2016-2017 and 2017-2018, which are expressed in percentage. Then, we analyze the vertical analysis of the balance sheet (see graph no. 3) and the income statement (see graph no. 4) for the periods 2016, 2017 and 2018, which are presented and expressed in percentage. And at the end, the results of financial reports analysis are calculated and presented (see table no.1).

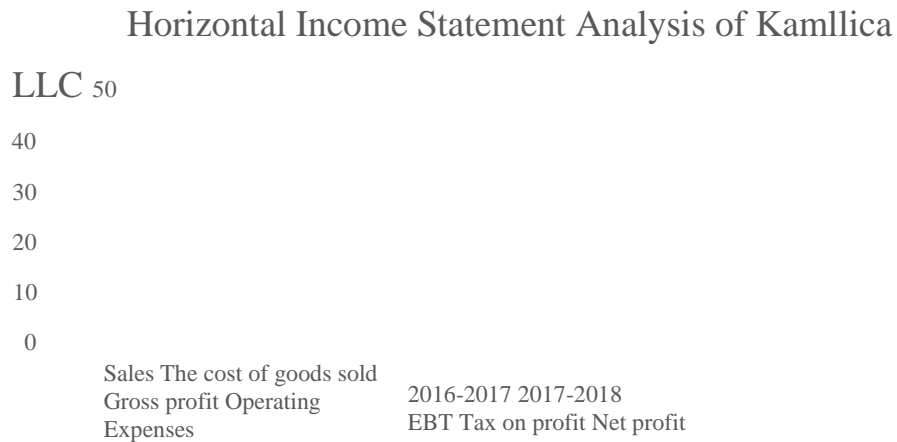
IV.1. Horizontal Analysis

Graph 1. Horizontal Analysis of the Balance Sheet, 2016-2017 and 2017-2018



Source: www.kamillachocolate.com, 15.07.2020, Authors' calculations

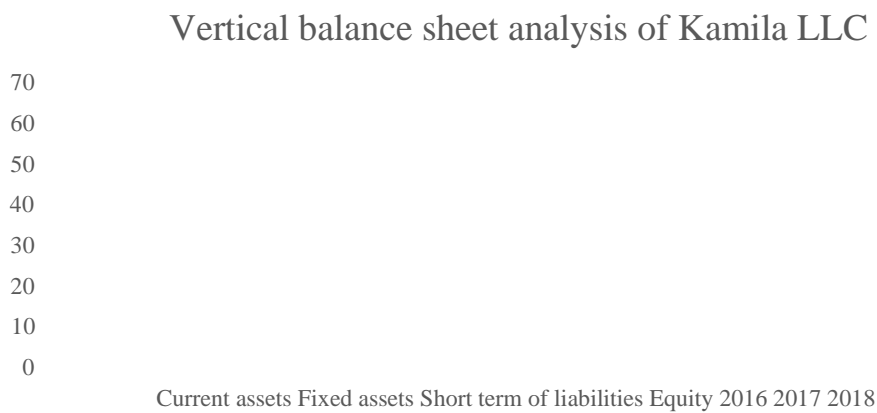
Graph 2. Horizontal Analysis of Income Statement, 2016-2017 and 2017-2018



Source: www.kamillachocolate.com, 15.07.2020, Authors' calculations

IV.2 Vertical analysis

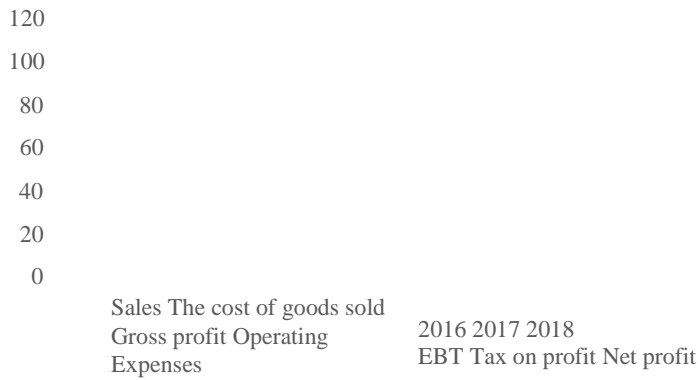
Graph 3. Vertical Analysis of Balance Sheet for 2016, 2017 and 2018



Source: www.kamillachocolate.com, 15.07.2020, Authors' calculations

Graph 4. Vertical Income Statement Analysis for 2016, 2017 and 2018

Vertical Income Statement Analysis of Kamila LLC

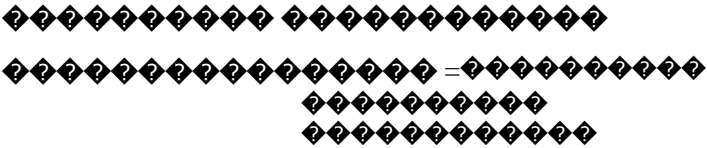
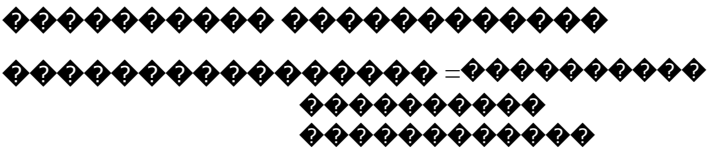

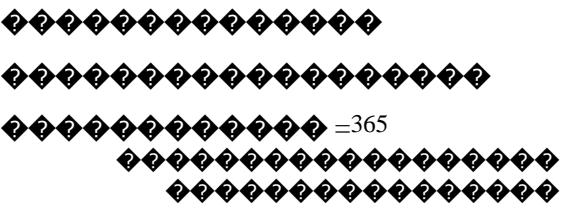
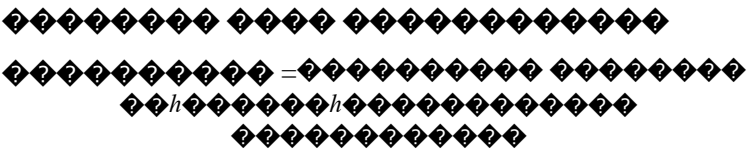
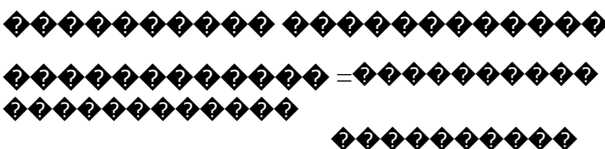
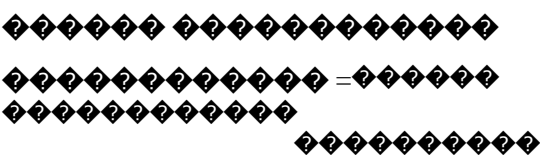





Source: www.kamillachocolate.com, 15.07.2020, Authors' calculations

IV.3 Financial reports analysis

Table 1. Financial Reports Analysis for 2016, 2017 and 2018

No	Financial reports Analysis of Kamilla LLC	2016	2017	2018
1	$\begin{array}{r} \text{Sales} \\ - \text{The cost of goods sold} \\ \hline \text{Gross profit} \\ - \text{Operating Expenses} \\ \hline \text{EBT} \\ - \text{Tax on profit} \\ \hline \text{Net profit} \end{array}$	0.60	0.94	1.13
2	$\begin{array}{r} \text{Sales} \\ - \text{The cost of goods sold} \\ \hline \text{Gross profit} \\ - \text{Operating Expenses} \\ \hline \text{EBT} \\ - \text{Tax on profit} \\ \hline \text{Net profit} \end{array}$	0.26	0.65	0.66
3	$\begin{array}{r} \text{Sales} \\ - \text{The cost of goods sold} \\ \hline \text{Gross profit} \\ - \text{Operating Expenses} \\ \hline \text{EBT} \\ - \text{Tax on profit} \\ \hline \text{Net profit} \end{array}$	3.21	3.31	2.63

6		2.00 €	2.26 €	2.14 €
7		1.20€	0.95 €	0.90€
8		66%	62%	51%
9		114. 1 days	110.3 days	138.8 days
10		1.97	1.62	1.05
11		40%	39%	30%
12		8.3%	10.6%	7.5%
13		9%	11%	8%

14		9%	10%	7%
15		30%	26%	14%

Source: Authors' calculations

V. Conclusions

Through this research we came to the conclusion that financial analysis is very important for the state of the enterprise and its future developments. The objective of the paper has been achieved by carefully analyzing the financial statements of Kamilla for the periods 2016, 2017 and 2018. Financial analyzes have been performed through horizontal, vertical analysis and financial reports of the two main financial statements, such as: balance sheet and income statements. In the paper are presented the statements for three years and horizontal and vertical analyzes are performed for all items of the statements expressing in percentage their increase or decrease. Then, the analysis of financial reports was performed, highlighting the financial performance of the company. At the very end we have given answers to the questions raised at the beginning of the work, why the business during the three years has a turnover in sales of the same average but different profit? Then, why in 2017, the company has a bigger profit and in 2018, a smaller profit?

1) Kamila Enterprise during 2016 and 2017 had approximately the same turnover (sales), while in 2018 it is significantly lower by 553,821.71€ less than in 2017 and 2016. This is because in 2018 the cost of goods sold is much higher compared to products sold, which has reduced gross profit. The company in 2016 and 2017 had approximately the same turnover but the net profit of 2017 is significantly higher than that of 2016, this is because operating expenses are lower in 2017 although gross profit is approximately the same. There were no material expenses in 2017, while in 2016 they were 210,000 and this has affected the increase of net profit in 2017.

2) The most successful year is 2017, because the net profit is higher compared to 2016 and 2018, this is confirmed by the profitability ratios respectively the net marginal profit ratio (10.6%) and operating profit margin (11%). Also, the highest liquidity is in this year because the stocks have circulated 3.31 times within the year and this has affected the revenues or turnover (sales) to be higher compared to the other two years. The faster the stock turnover means the faster the enterprise secures the money and increases its liquidity. In 2017 the company did not make investments, net fixed assets decreased (2.26€), which helped the company to generate higher revenues compared to the other two years. In 2017, the gross marginal profit of the enterprise is 39%, better than in 2018, almost similar to 2016, here it is noticed that the enterprise has produced at a lower cost compared to the price of products sold, thus ensuring raw material with lower cost compared to other years.

3) The most unsuccessful year is 2018, this is because the turnover (sales) are lower compared to 2016 and 2017. Also in this year the company has lost the market in some countries outside Kosovo, where as a result of this There was a reduction of workers, which was observed in the reduction of wages in 2018, then production was reduced and in the meantime the enterprise began to engage in trade (sale and purchase of goods), which has affected the reduction of gross profit, proven to profitability ratios: Gross Marginal Profit (30%) and Net Marginal Profit (7.5%). The liquidity of the enterprise in 2018 has been lower. According to the stock turnover estimate within a year has managed only 2.63 times the stock turnover this year. So, the enterprise has not managed to sell goods or reduce stocks and therefore turnover (sales) are lower compared to the other two years. In 2018, return on investment (ROE) was 14%, much lower compared to the other two years, because net profit has been much lower compared to venture capital.

The Kamila company should focus on increasing its own production, because it has a higher gross profit, and do research on the international market in order to market the produced products. The results of this paper will serve the managers and investors of the company Kamila, and other researchers in this field. If any investor looks at these reports, he can invest equity in this enterprise, as the marginal net profit is over 10% (eg for every 100€ invested, the business earns 10€ net profit which means that the investment returns within 10 years) where this percentage is a good average for enterprises in general.

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VII. Anexess

VII.1. Financial statement of Kamilla LLC

Balance sheet of Kamilla LLC

Zërat	2016	2017	2018
Current assets			
Cash	27,286.17	54,750.58	144,488.00
Accounts receivable	553,805.00	1,686,973.93	1,176,704.75
Stock	742,281.40	769,635.00	957,120.81
Deductible VAT- Lending		26,917.22	39,090.00
Total of current assets	1,323,372.57	2,538,276.73	2,317,403.56
Fixed assets			
Equipment and machinery	1,466,749.95	806,995.70	806,995.70
Accumulated depreciation	628,762.82	194,028.83	274,728.68
Net Value of Equipment	837,987.13	612,966.87	532,267.02
Buildings	1,431,476.99	1,346,884.67	1,346,884.67
Accumulated depreciation - building	282,716.68	149,653.86	216,999.09
Net value of building	1,148,760.31	1,197,230.81	1,129,886.58
Vehicles		36,760.30	36,760.30
Accumulated depreciation		7,907.20	20,801
Net Value of Vehicles		28853.10	15,959.30
Total of fixed assets	1986747.44	1839050.78	1,678,112.90

Total of assets	3310120.01	4,377,327.51	3,995,516.46
Short-term liabilities			
Accounts payable	2,196,254.29	2,704,403.00	2,043,132.16
Total of short-term liabilities	2,196,254.29	2,704,403.00	2,043,132.16
Long-term liabilities	0.00	0.00	0
Total of Long-term liabilities	0.00		0.00
Total of liabilities	2,196,254.29	2,704,403	2,043,132.16
Equity			
Owner's equity	393,656.36	549,757.48	560,358.58
Net profit	365,611.54	439,519.03	268,858.69
Retained Earnings	354,597.82	683,648.00	1,123,167.03

Total of equity 1,113,865.72 1,672,924.51 1,952,384.30

Total of liabilities and equity	3,310,120.01	4,377,327.51	3,995,516.46
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Income statement of Kamilla LLC

Description	2016	2017	2018
Revenues	3,978,301.58	4,150,374.54	3,596,553.29
The cost of goods sold	2,382,380.25	2,548,028.35	2,519,954.27
Gross profit	1,595,921.33	1,602,346.19	1,076,599.02
Operating expenses			

Wage expenses	315,430.00	333,200.00	288,059.02
Depreciation expenses	173,294.29	175,298.21	176,214.23
Operating expenses	1,860.61		
Hygiene expenses	6,623.22	7,478.35	4,290.96
Sanitary Expenses	415.00	396.67	2,395.35
Oil expenses	43,630.92	34,975.72	38,679.03
Electricity expenses	77,507.54	70,886.43	73,431.72
Maintenance expenses - Vehicle repairs.			546.68
Banking Expenses	16,875.54	11,968.51	
Postage expenses	8,853.50	5,730.18	
Transport expenses	21,334.73	12,589.46	
Shipping expenses	9,566.00	12,738.50	11,426.00
Tax Expenses	2,019.94	267,266.00	
Accounting Expenses	4,860.00	3,180.00	1,500.00
Maintenance expenses	37,346.72	45,276.27	54,820.52
Rental Expenses	1,600.00		
Advertising expenses	51,942.17	1,515.38	
Food expenses	19,928.17	19,985.81	13,121.95
Hotel expenses	1,828.41		
Representation expenses	21,715.67	21,033.97	
Miscellaneous Expenses	1,903.44	140,000.00	
Phytosanitary expenses	13,360.57	14,584.82	
Material Expenses for Office	3,320.87	3,447.37	5,654.22

Tax expenses	3,216.75		
Licensing expenses	3,070.00	4,507.00	
Quality control expenses	8,306.19	5,072.76	2,221.78

Stock insurance expenses 165.50

Internet expenses	310.92	447.69	
Banking services	108.50		
Inventory Expenses	472.41	889.83	
Communal tax	30.00	3,839.73	
Membership costs	875.00	1,100.00	
Insurance Expenses	6,502.48	8,320.87	
Official travel expenses	811.56	6,464.73	
Pension contribution expenses	15,771.50		
Export transport expenses	132,002.30	149,771.11	84,649.62
Charity Contribution expenses - Donation		1,000.00	
Material expenses	210,000.00		
Auxiliary material expenses	1,617.80		
Rehabilitation-medical expenses	169.39	24.04	
Expenditures of participants in seminars		11,294.59	
Expenses of standards		44.87	
Software and computer maintenance expenses	275.00		
Telephone expenses	2,875.22	1,029.08	389.14

Vehicle insurance expenses	502.14	462.60	
Vehicle registration expenses	260.43	714.70	1,454.29
Veterinary expenses			8,067.70
Travel and entertainment expenses		932.20	
Utilities	261.97	821.87	1,079.54
Expenses for tools and machinery		295.83	
Workers' food expenses	1,003.50		2,920.23
Expenses for security of the facility			6,779.66
Costs for purchasing the program	6,649.42		
Total operating expenses	1,230,309.79	1,113,991.71	777,867.14
Profit before tax	365,611.54	448,354.48	298,731.88
Tax on profit	36,561.15	48,835.45	29,873.19
Net profit	329,050.39	439,519.03	268,858.69