

Analysis and recommendations for improving financial reporting – a case study of the Serbian company “Nectar”¹⁹

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Abstract: This paper presents, in the form of a case study, the process of analysis of financial statements of the business entity "Nectar", which engaged in the processing of fruits and vegetables in the Republic of Serbia (a country with a very large agricultural potential). The time aspect of the research covered the period 2015-2018. The aim of this paper is to evaluate the past achievements of the company and predict future achievements in the function of supporting the decision-making process. Furthermore, the aim of the research is to assess the financial result and financial position of a given company through the analysis of the structure and dynamics of total income and the distribution of total income, profitability and opportunities to improve the financial position. Quantifying the functional relationships that exist between balance sheet items is the goal of enabling a credible assessment of the financial position. The results indicate that “Nectar” operates stably in the observed period; furthermore, there was an increase in short-term placements, as well as capital items. The trend of business revenues shows moderate stagnation, with the largest gain in 2017. Finally, it was concluded that there is room for export activities, since revenues in the country are about 30% higher than revenues abroad, so one of the resulting recommendations is to turn to export activities.

Key words: financial analysis, balance sheet, income statement, “Nectar” company, Republic of Serbia, financial reporting

JEL: Q14, M41

Introduction

Financial analysis deals with the research and quantification of the functional relationships that exist between balance sheet items, balance sheets and success, with the aim of enabling a credible assessment of the financial position and activities of the company [Dimitrijevic, 2015; Anar, 2019]. Generally speaking, the analysis of financial statements is an assessment of the past achievements of the company and the prediction of future achievements in the function of information support to the decision-making process, which

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are essentially financial decisions. The purpose of financial reporting is to provide all stakeholders (stakeholders) with information on the yield, assets and financial position of the company, as well as changes in those positions. In this regard, the financial condition of the company is of interest to all its stakeholders [Janvrin et al., 2017; Milacic et al., 2013]. This paper presents, in the form of a case study, the process of analysis of financial statements of the business entity "Nectar". The paper consists of four parts. The first part gives the theoretical assumptions on which the work is based; the second part presents the methodological framework of the work; the third part presents the results of the research, while the fourth part of the paper consists of the conclusions derived from the paper. The subject of the paper is the analysis of the official financial reports of the limited liability company "Nectar", using the basic ratios of indebtedness, liquidity and profitability. In order to make the analysis more detailed and precise, we will use balance sheets in the period from 2015 to 2018. The very subject of this research has gained importance at this time because quality interpretation provides an opportunity to see the general financial situation in the Republic of Serbia.

Theoretical premises

If we say that the subject of analysis is the balance sheet and income statement, then the goal of any balance sheet analysis is the analysis of financial results - including the structure and dynamics of total income and distribution of total income, sources of financial results, profitability, risk of financial results, as well as an analysis of the financial position, which includes analyzes of long-term and short-term financial balance, reproductive capacity, indebtedness, maintaining the real value of equity and the possibility of improving the financial position. These could be the general objectives of the analysis that financial analysts observe and study [Vidakovic & Petrovic, 2013]. Among the specific goals, we will single out: meeting the needs of stakeholders, analyzing future trends, evaluating the performance of companies, using accounting information to make decisions, determining company policy measures, etc. [Sevkusic, 2018; Vesic et al., 2020]. Financial statements are a direct product of accounting reporting systems that, in essence and purpose, reflect the company's performance for a certain period of time, its financial and structural position, as well as the position of liquidity on the selected balance sheet date [Karim & Suh, 2018]. The main purpose

of their compilation is reflected in the information service of various interest groups that rely on them in the process of making important decisions. As such, they are prepared and presented at the end of the business year, with the possibility of semi-annual or quarterly reports. A financial report is a set of reports on the financial strength and financial position of a particular legal entity. In Serbia, a set of forms is prescribed, which is a regular annual financial report [Vojinovic & Vukasinovic, 2012]. In accordance with the Law on Accounting, these are:

- The balance sheet is a financial report on the balance of assets (assets) and sources of assets (liabilities) on a particular day.
- The income statement is an independent part of the balance sheet, the position of capital in which expenses and income are located in order to establish a profit or loss.
- The statement of cash flows is compiled from the same information as the balance sheet and income statement in order to show all cash inflows and outflows during a certain period.
- The report on changes in equity tells what happens to capital in one time period, i.e., why there was an increase or decrease in capital.
- The other result report is the youngest financial report. It arose as a result of the application of IAS 1 and the amendment of this standard, which requires the presentation of the positions of other capital-related results.
- The notes to the financial statements accompany the above statements and explain them in detail.

Legal regulations stipulate the obligation to compile and publish financial reports. Financial reporting consists of presenting information on the financial position presented in the balance sheet, presenting information on business performance given in the income statement, as well as presenting information on changes in capital and cash flows during the observed reporting period [Vesic & Barjaktarovic, 2020]. The financial report on the business of a company at a certain moment is usually the basic source of information for successful or unsuccessful business of a company [Hopper et al., 2017]. Each of the individual reports presents information that is different from the information presented by other reports, but they are all related and actually represent different aspects of the same thing [Lazic, 2018].

Pre-accepted and recognized accounting standards determine the structure and content of financial statements, as well as the rules for presenting, recognizing and measuring all elements in financial statements. In Serbia, as in most small countries that do not have their own rules, financial statements are compiled according to international financial reporting standards [Jevtic & Vesic, 2019; Tianjing et al., 2017].

Methodology

"Nectar" company was chosen as the subject of analysis as a company that deals with the production process, from cooperation with fruit growers and the purchase of fruit to finished products: juices, nectars, alcoholic beverages, jams. This paper can be used for scientific purposes, due to the systematic presentation of the business analysis procedure of the company from the financial statements, as well as for social purposes, bearing in mind the importance of the company for the economy of the Republic of Serbia. It is especially important that in the Republic of Serbia, as a country with a very large agricultural potential, companies engaged in the processing of fruits and vegetables operate successfully. The aim of the research is to assess the financial result and financial position of a given company by examining the structure and dynamics of total income and the distribution of total income, as well as profitability and opportunities to improve the financial position. Based on the income statement schemes, we will assess the quality of the profit and where it comes from as much as possible, in order to indicate potential ways to increase "Nectar's" performance in the future.

The paper starts from the general hypothesis that the company "Nectar" operates stably in the observed period. Special hypotheses were added to the general hypothesis:

1. Positive business is expected in the coming period as well.
2. The amount of total revenues recorded a slight increase in the observed period.
3. There is a proctor to increase business in foreign markets.
4. "Nectar" is one of the socially responsible companies.

The scientific goal of the research is to point out the importance of financial reporting of companies, the relationship between the positions of financial statements (ratio indicators), from the point of view of decision-making on the issue of entering into business and financial relations. The social goal of the research is to calculate and interpret the

mentioned indicators and planned balance sheet positions from the company's point of view, in order to support the decision-making process on entering credit and other financial positions in the future. The importance of the research is in a closer understanding of the interpretation of the analysis of financial statements for financial planning, while the relevance of the research lies in the fact that it is very important to monitor the business of companies engaged in production activities [Kryszak & Staniszewski, 2018], which relate to fruit and vegetable processing agricultural areas of high natural value. This is exactly what the Environmental Protection Agency of the Republic of Serbia identified in 2010.

Results

The company's assets are visible in the balance sheet [Konstantinos et al., 2020]. It shows what the company owns, as opposed to liabilities showing where those funds come from [Popovic et al., 2018]. The assets of an enterprise constitute is included in the analysis of financial statements in the analysis of assets. The analysis of the structure of total assets divides the assets into: unpaid subscribed capital, invested capital, operating assets and loss above the amount of capital, i.e., in one word business assets. Operating assets are further divided into fixed assets and current assets. Table 1 also shows the balance sheet items (assets and liabilities) for the period 2015-2018 according to the data from the site of the Agency for Business Registers of the Republic of Serbia.

Table 1. Balance sheet assets of "Nectar" for the period 2015-2018

POSITION	STRUCTURE (%)				INDEX		
	2018	2017	2016	2015	2018	2017	2016
FIXED ASSETS	51,31	51,78	51,92	51,62	1,11	1,05	1,02
Intangible assets	0,13	0,03	0,09	0,008	17,9	4,4	1,23
Property, plant and equipment	16,22	15,08	13,92	13,12	1,38	1,21	1,08
Long term investments	34,91	36,63	37,87	38,45	1,01	1,004	0,99
Long-term receivables	0,05	0,04	0,04	0,04	1,38	0,89	0,93
CURRENT ASSETS	48,69	48,22	48,08	48,38	1,12	1,05	1,01
Supplies	28,39	30,45	30,14	29,07	1,09	1,1	1,05
Short-term receivables	11,82	12,46	10,51	10,88	1,21	1,21	0,98
Short-term financial investments	0,04	0,01	0,01	0,07	0,6	0,23	0,19
Cash equivalents and cash	7,7	4,21	6,21	7,67	1,12	0,58	0,82
Value added tax	0,02	0,23	0,54	0,25	0,1	0,99	2,17
Active accruals	0,71	0,86	0,67	0,44	1,78	2,03	1,52
Total assets	100	100	100	100	1,11	1,05	1,01

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OFF-BALANCE SHEET ASSETS							
POSITION	STRUCTURE (%)				INDEX		
	2018	2017	2016	2015	2018	2017	2016
CAPITAL	50,25	50,91	47,25	43,95	1,27	1,22	1,09
Basic capital	0,77	0,82	0,85	0,85	1	1	1
Reserves	0,04	0,04	0,04	0,04	1	1	1
Revaluation reserves				2,71			
Unrealized losses	0,004	0,004	0,004	0,05	0,08	0,08	0,08
Retained earnings	49,44	50,05	46,36	40,35	1,36	1,31	1,16
LONGTERM RESERVATIONS AND OBLIGATIONS	20,46	21,97	27,99	30,52	0,74	0,76	0,93
Long-term provisions	0,27	0,27	0,16	0,21	1,36	1,28	0,74
Long-term liabilities	20,19	21,7	27,83	30,31	0,74	0,75	0,93
DEFERRED TAX LIABILITIES	0,23	0,33	0,35	0,45	0,58	0,77	0,81
SHORT-TERM LIABILITIES	29,06	26,79	24,41	25,08	1,29	1,13	0,99
Short-term financial liabilities	14,38	11,32	8,61	8,53	1,88	1,39	1,02
Advances received deposits and bails	2,53	1,48	2,28	4,22	0,67	0,37	0,55
Business duties	10,53	12,69	11,57	10,67	1,10	1,25	1,10
Other short-term liabilities	0,89	0,79	1,63	1,35	0,74	0,62	1,23
Tax liabilities	0,04	0,13	0,04	0,03	1,54	4,87	1,21
Accrued expenses and deferred revenue	0,69	0,38	0,28	0,28	2,70	1,43	0,98
LIABILITIES	100	100	100	100	1,11	1,05	1,01
OFF-BALANCE SHEET LIABILITIES	4,27	5,03	3,51	1,99	2,38	2,65	1,78

Source: own study, based on: (<http://wwwhttp://pretraga3.apr.gov.rs/pretragaObveznikaFI>, retrieved on November 27th, 2019)

Summary

The company "Nectar" is one of the largest processors of fruits and vegetables in the Republic of Serbia. Thanks to their marketing slogan, "it doesn't matter" (which in a short time became one of the most famous and popular slogans), "Nectar" has become one of the most recognizable brands on the shelves of all small and large stores, markets and supermarkets. Through many years of work and very frequent innovations, the company has gained a leading position on the market of the Republic of Serbia, and we believe that the reputation and tradition oblige them to create and nurture the position even more.

The paper performs a financial analysis, based on publicly available data, and we can report conclusions that support the general hypothesis that reads: "The company "Nectar"

operates stably in the observed period". As a consequence of innovations, marketing activities and socially responsible business, the analysis of the balance sheet led us to the conclusion that in the observed period, there was an increase in intangible assets, while the company's fixed assets did not change much in the observed period. Through various campaigns, such as the introduction of packaging of plant origin, investing in green energy, applying for the trademark "guard house" of the Serbian Chamber of Commerce or opening a counseling center and in vitro fertilization center, we could conclude that "Nectar" is one of the socially responsible companies operating in the Republic of Serbia, which supports the confirmation of special hypothesis 4. Secondly, there has been an increase in balance sheet items in regards to short-term receivables, but there has also been a decline in the value of long-term financial investments. Finally, the analysis of capital showed that capital increased in the observed period, to a greater extent in the period 2015-2016, than in the next observed period, but the trend is certainly positive. This may be a consequence of the increase in the value of the item "retained earnings" and positive business in the observed period. Finally, the amounts from the received advances tell us that the customers have confidence in working with the company. On the other hand, the paper analyzes the income statement, whose financial analysis leads us to the following conclusions. Very significantly, the trend of operating revenues shows moderate stagnation in the post-observed period, but we can say that the trend is stable. Analyzing the structure of revenues, we concluded that "Nectar" generated most of its revenues from operating revenues. As a typical company should operate, these percentages are around 90% - in 2015 operating revenues accounted for 93.4%, in 2016 they accounted for 92.3%, in 2017 the share of operating revenues was 89.7% and in 2018, the share of business revenues was 91.99%. Furthermore, while analyzing the income statements, a negative trend of financial revenues was noticed, but also the growth of other revenues. On the expenditure side, the situation is similar, with "Nectar" recording positive results in each of the observed years, with the highest net profit in 2017, when total revenues were the highest. Geographically, sales revenues in the country are about 30% higher than sales revenues abroad, but we should not say that the export of manufactured goods is not a statistically significant item in total revenues. One of the recommendations of this research could be that there is room for improvement of foreign business, which supports the confirmation of the third post-hypothesis. Stable business can be reflected in the increase in the amount of gross wages in the observed period, as well as through the company's

investment in workers' income, provided that there were no major deviations in the increase in the number of workers. This factor analysis could be the beginning of some new, future research. The high difference in the burden of operating income on variable material expenditures in enterprises and competition can be caused by higher physical consumption of materials, fuels, energy and production services by performance in enterprises than in competition, poorer structure of production performance in enterprises than in competition and poorer global parities of sales and purchase prices in companies than in competition, which shows that there is an increase in intangible assets. During the analyzed period, the company achieved a positive financial result from regular operations every year, i.e., it achieved a positive financial result from both financing and operating income. The financial result from other revenues was positive only in 2015. Based on everything that has been done, I believe that the primary goal of the paper has been fulfilled, as well as that the hypotheses set in the methodological framework have been confirmed.

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