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The course book “Economy and Business” is aimed to provide the
theoretical and practical training of bachelors of economic specialties and
economic training of bachelors of technical specialties. In addition to the
theoretical material, the course book includes theoretical questions and a list of
recommended literature and information resources, which contributes to the
organization of effective independent work of students.

The course book is intended for students of higher education institutions.

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PART 1

THEORETICAL ASPECTS OF THE ECONOMY AND BUSINESS

SECTION 1

BUSINESS AS A BASIS FOR ECONOMIC DEVELOPMENT

1.1 Development of economic thinking as a basis for growth in entrepreneurial activity among the population

1.2 Entrepreneurship and entrepreneur: essence and types

1.3 Deciding to undertake entrepreneurial activities and developing a business idea

1.4 Establishing an individual enterprise

1.1 Development of economic thinking as a basis for growth in entrepreneurial activity among the population

Economic thinking is a subjective phenomenon directly related to the economic life of society being an organic part of it.

On the one hand, economic thinking is the process of reproducing economic relations, with all relevant economic laws, by human mind in a certain logical sequence. On the other hand, it is a process of people's comprehending and rethinking, assimilating economic knowledge accumulated by society.

Economic consciousness can be considered as a consequence of reproducing economic conditions by economic entities in the form of economic ideas, views, theories, or concepts which determine social stratification and express the attitude to economic activity in a particular historical period.

Economic thinking is determined by various social factors, first of all, the economic one. It is formed under the direct influence of a number of elements of the economic structure of society.

Degree of maturity of economic thinking depends on the existing system of economic laws with the corresponding mechanism of action and application. It is the system of economic laws, with their objective character and subjective mechanism of manifestation, as well as their cognition and conscious use in managing socio-economic processes that act as an underlying basis determining economic thinking. The

more complete the knowledge about economic laws, their complex contradictory interaction and interrelation is, the more mature economic thinking is.

Economic thinking, as economic cognition of economic life, is formed in two ways.

On the one hand, it should be analyzed at the level of formation of economic consciousness theoretically, i.e., through assimilating, justifying the laws and categories of economic theory, concepts of the whole set of economic disciplines using different forms of dissemination of economic information (the mass media, various educational programs). On the other hand – at the level of everyday consciousness, i.e., forming the economic structure empirically, based on the practice of economic life.

Economic behavior is a purposeful activity which is determined by objective processes, economic interests, economic thinking and aimed at meeting material needs. Economic behavior of people is an important economic factor influencing their livelihoods.

It is not only an economic but a historical category filled with qualitatively new content in every socio-economic formation and transformed in the future spiritual formation of economic behavior. As any economic category it has *two forms*:

- 1) material form – working time, cost of direct and past work, its product;
- 2) socio-economic form – social relations arising among subjects in the process of their economic behavior.

1.2 Entrepreneurship and entrepreneur: essence and types

Entrepreneurship is an independent, initiative, systematic, at the sole risk economic activity carried out by economic entities (entrepreneurs) in order to achieve economic and social results and profit.

Entrepreneur as a subject of economic activity can be considered in terms of three aspects:

- 1) economic (performance of economic functions);
- 2) managerial (implementation of certain tasks);
- 3) psychological (manifestation of personality traits).

Therefore, *an entrepreneur* is an individual who performs a special economic function through implementation of certain tasks.

An entrepreneur as an economic agent creates economic effects, which imply:

- 1) combining economic factors;
- 2) ensuring effectiveness of market relations;
- 3) perceiving risk;
- 4) maximizing investment income;
- 5) processing market information.

An entrepreneur as a manager takes on certain tasks, namely, those related to:

- 1) management and ownership of an organization;
- 2) establishment of a new organization;
- 3) attraction of innovations to the market;
- 4) search for market opportunities;
- 5) application of expertise;
- 6) provision of leadership and performance of manager functions.

An entrepreneur as a person has the following features:

- 1) outstanding abilities;
- 2) low social adaptability;
- 3) unique personality traits;
- 4) ability to socially progressive development;
- 5) cognitive capabilities.

Thus, *an entrepreneur* is a person who combines production factors in an innovative way (usually in the form of a new business) to create economic value.

The fundamental background for the existence of entrepreneurship is the presence of a factor of uncertainty, since, if everything is known, there is no need for entrepreneurs. Every person at a certain stage of their life face a choice: to become an entrepreneur or an ordinary worker, and this choice may change over time, as it depends on the utility of each option. There is a general rule: entrepreneurial activity can bring more profit compared to that of a regular employee in an enterprise, but it is more risky. The choice is also conditioned by differences among people in terms of their entrepreneurial talent and attitude to risk.

Extensive studies in the field of entrepreneurship have resulted in developing a wide range of its modern typologies and classifications.

All entrepreneurs can be divided into four types depending on high or low level of perception of innovation and risk. Correspondingly, a perfect entrepreneur is one who provides a high degree of innovation and accepts high risks.

Depending on the stage of business development, the following main types of entrepreneurs can be singled out:

- seed-stage entrepreneur, who deals with the creation of a new business (before the startup is officially registered);
- startup-stage entrepreneur, who has recently officially started carrying out entrepreneurial activity but has no experience in this field;
- growth-stage entrepreneur, who has been involved in repetitive entrepreneurial activity and, thus, gained experience.

Entrepreneurial activity can be carried out both in the public and private sectors of the economy.

Accordingly, there is a distinction between public and private entrepreneurship. Each of these forms has distinctive features, but the basic principles of their operation mainly coincide. In both cases, the implementation of such activity involves initiative, responsibility, innovative approach and desire to maximize profits.

Public entrepreneurship is a form of business where the functions of making strategic decisions regarding the goals of entrepreneurial activity and exercising control over it are performed by the state.

Private entrepreneurship is a form of business based on private ownership and carried out by private individuals for their own benefit.

It is also possible to single out the following types of entrepreneurial activity: production, scientific, financial, insurance, and commercial one.

Industrial entrepreneurship is a form of business aimed at manufacturing various products, performing works, and providing services to consumers. This type of entrepreneurship can be considered as the main one, since it directly depends on the level of economic development and welfare of the population of a country.

Scientific entrepreneurship is a preproduction stage and is realized in the activity of venture (risky) enterprises.

Venture (risky) enterprises are working to implement a new idea or product and are specialized in conducting research and development. Such enterprises neither return the funds injected in them by an investor nor pay interest on them. However, the investor receives rights to all patented and unpatented know-how, innovations and the founder's profit from activities of risky enterprises in the event of their success. The average return on venture capital in developed countries is about twice the average income of industrial enterprises.

Venture enterprises are established by large companies, banks, insurance companies, which use the entrepreneurial talent of small businessmen, their energy, and creative initiative, and partially shift the risk of innovation to them as well.

Commercial entrepreneurship involves purchasing and selling goods and services. First of all, such activity is characteristic for trade organizations and various intermediaries.

Financial entrepreneurship is the activity of buying and selling money, currency, and securities. It is carried out by commercial banks, stock exchanges, investment funds, etc.

Insurance business is an activity related to risk and indemnity insurance. It is carried out by insurance companies and other organizations.

Entrepreneurs-insurers perfectly understand that insurance premium paid by the insured must exceed the amount spent by the insurer as compensation. Otherwise, the entrepreneur will not receive any profit. Insurance business is based on the general expectation that the probability of accidents, injuries, fires, accidents, thefts is relatively small. Thus, in most cases, there are no grounds for the insured to receive compensation. The money paid by them goes to the entrepreneur completely and does not return. This money is used as insurance reimbursement of aggrieved persons and a source of income of the entrepreneur. Moreover, insurance companies make every effort to minimize the amount to be paid in compensation for the damage suffered by their policyholders.

In addition, in all developed countries there is an independent type of business called advisory (consulting). It covers information, advisory, and marketing services.

The most common *organizational types of entrepreneurship* today are:

- a startup – a temporary organization created to search for a repeatable, scalable, and stable business model;
- corporate venturing – activities of a large company associated with investing in small businesses in exchange for a portion of their income;
- purchasing shares of an enterprise by its own management, other enterprise, or a private person;
- franchising – a type of business where one party (franchisor) provides, for remuneration and within a certain period or without any time limit, to the other party (franchisee) the right to use its know-how, organization of work, technology, name, trademark, etc. in the entrepreneurial activity of selling either its own goods/services or those produced by the franchisor;
- inheritance – all or part of the property/assets of a person given to an heir upon the person's death.

1.3 Deciding to undertake entrepreneurial activities and developing a business idea

Before setting up a business, an entrepreneur should carry out a significant preparatory work, in particular, analytical. First of all, it is advisable to clearly define its purpose and goals pursued. The awareness of this will motivate, discipline, and guide them in the right direction, contributing to successful functioning of the enterprise.

Any business should be based on a business idea. Thus, making an appropriate *business plan* is of utmost importance. At this stage, the circle of potential business partners should be outlined and the form of ownership of the enterprise determined.

Let's consider the reasons for undertaking entrepreneurial activities, the goals people pursue when setting a business of their own, and what they expect from it.

The most common *reasons for making the decision on undertaking entrepreneurial activities* are:

- dissatisfaction with the current work (employer); insufficient salary level; desire to achieve something more than just getting a fixed salary for an 8-hour working day;

- failure to find a job and, consequently, lack of livelihoods. This is strong motivation, especially if, for example, there is the need to keep a large family or to pay off a mortgage;

- a person has a good business idea and understands that it is the time to implement it;

- striving for independence, freedom.

However, it is worth noting that running a business is not only freedom and pleasure, and, in this respect, the following points should be considered:

- carrying out entrepreneurial activities more often involves problems, expenditures, and only then implies receiving income, freedom, independence, and other pleasant things. It is necessary to work diligently, paying almost all attention to the business, since at the initial stage it is extremely unstable and exposed to bankruptcy;

- an entrepreneur is always short of money, no matter how much they earn. With the work of a hired employee, the situation is more predictable. A hired worker receives a salary and, mostly, they get used to live on the amount the employer pays to them) while a business requires continuous improvement and expansion as well as continuous injection of funds;

- success of entrepreneurial activities depends only on entrepreneurs themselves. In case of a failure, they are the only people to blame. Therefore, it is necessary to work hard and do everything possible for the business to be successful.

The basis for setting a business is an entrepreneurial idea (business idea).

An entrepreneurial idea (business idea) is a certain holistic knowledge about the expediency and possibility of carrying out a particular type of entrepreneurial activity as well as a clear understanding of the purpose of such activity, ways and means of its carrying out.

A specific manifestation of an entrepreneurial idea is an idea of creating a new product or service.

Understanding the idea of entrepreneurial activity means to be familiar with a particular type of such activity, ways of creating an enterprise, etc.

Before starting up, a potential entrepreneur should consider the following *aspects*:

1) minimum amount of financial resources to create an enterprise;

2) ways to receive the expected result as soon as possible;

3) insignificant risks in the establishment and operation of the enterprise;

4) the most favorable conditions of material and technical supply;

5) the easiest ways to improve the conditions of marketing to sell the maximum number of goods and services;

6) receiving support from the state, especially within the first years of the enterprise's existence;

7) maximum correspondence of carrying out entrepreneurial activity to the abilities of the entrepreneur and realization of the goal set.

There are several methods for developing and testing a business idea. The ability to transform a business idea into a viable business should be backed up by a feasible business plan.

If business idea is presented at the right time, when an increase in the demand for goods or services the idea deals with is expected, it can lead to the creation of a highly profitable business.

1.4 Establishing an individual enterprise

After deciding to set up a business and develop a business idea, the first official (in terms of legislation) step is the registration of the entrepreneur by relevant authorities. This process has its own peculiarities depending on the chosen organizational and legal form of entrepreneurial activity and its scope.

The main organizational and legal forms of entrepreneurship in Ukraine will be discussed in the sections that follow.

Let us consider the algorithm of registration of an individual entrepreneur (IE) in accordance with the current Ukrainian legislation.

We have taken this organizational and legal form as an example, since it is the one that is most often chosen by entrepreneurs when setting up a business for the first time.

The status of an individual entrepreneur is a legal status certifying the right of a person to carry out entrepreneurial activity. At the same time, the legal status of an “individual entrepreneur” neither affects nor limits any powers of a person arising from their civil capacity.

The stages of the procedure for the registration as an IE are as follows:

1. *Stage One.* Choosing the economic activities to be carried out (according to the Classification of Economic Activities – CEA) and preparing a package of documents for the registration as an IE.

2. *Stage Two.* Filing a set of documents for the registration as an IE.

3. *Stage Three.* Filing a set of documents to manufacture the seal of the IE.

4. *Stage Four.* Opening a current account in a bank institution.

5. *Stage Five.* Registering the IE with the tax authorities, choosing a taxation system, and submitting the required documents to the tax authorities.

6. *Stage Six.* Registering the IE with the Employment Center.

7. *Stage Seven.* Registering the IE with the Pension Fund and Social Insurance Funds.

Vocabulary to Section 1 (Subsection 1.1):

assimilation	засвоєння, асиміляція
certain	певний
comprehending	розуміння
conscious	свідомий
consciousness	свідомість
consequence	наслідок
contradictory	суперечливий
corresponding	відповідний
determine	зумовлювати
discipline	дисципліна
dissemination	розповсюдження

economic thinking	економічне мислення
entity	суб'єкт господарювання
influence	вплив
justification	обґрунтування
manifestation	прояв
maturity	зрілість
primary component	первинний компонент
reproduction	відтворення
rethinking	переосмислення
sequence	послідовність
spiritual	духовний
stratification	розшарування
subjective phenomenon	явище суб'єктивного порядку
underlying	що лежить в основі

Vocabulary to Section 1 (Subsection 1.2):

accordingly	відповідно
advisory	консультативні
accept	приймати/приймати на себе
appropriate	доцільно
attitude to risk	ставлення до ризику
average	середній
carry out	здійснювати
cognitive capabilities	когнітивні здібності
coincide	збігаються
consumer	споживач
currency	валюта
distinctive features	відмінні риси
entrepreneur	підприємець
entrepreneurship	підприємництво
establishment	створення
expectation	розрахунок
implementation	реалізація, втілення
indemnity insurance	страхування відшкодування збитків

insurance reimbursement	страхова виплата
inheritance	спадщина
intermediary	посередник
leadership	керівництво
ordinary	звичайний
outstanding abilities	видатні здібності
perception	сприйняття
perform	виконувати
personality traits	особистісні риси
preproduction stage	передвиробнича стадія
profit	прибуток
purchase	придбання
receive	отримувати
recently	нещодавно
remuneration	винагорода
repeatable	повторюваний
scalable	масштабований
search	пошук
stock exchange	біржа
task	завдання
type	тип
trade organization	торгівельна організація
uncertainty	невизначеність
various	різноманітний

Vocabulary to Section 1 (Subsection 1.3):

adhere	дотримуватися
awareness	усвідомлення
common reasons	поширені причини
conditions of marketing	умови збуту продукції
correspondence	відповідність
demand	попит
diligently	старанно
dissatisfaction	невдоволення
exposed to bankruptcy	схильний до банкрутства
failure	невдача
feasible	здійсненний

guide	спрямовувати
holistic	цілісний
insufficient	недостатній
lack of work	відсутність роботи
livelihoods	засоби існування
mortgage	іпотека
motivation	мотивуючий фактор
preparatory work	підготовча робота
pursue a goal	переслідувати мету
salary	заробітна плата
significant	значний

Vocabulary to Section 1 (Subsection 1.4):

authority	орган влади
Classification of Economic Activities	класифікація видів економічної діяльності (КВЕД)
Employment Center	Центр зайнятості
individual entrepreneur (IE)	фізична особа-підприємець (ФОП)
Pension Fund	Пенсійний фонд
relevant	відповідний
Social Insurance Fund	Фонд соціального страхування
taxation system	система оподаткування

Theoretical questions to Section 1:

1. What is economic thinking?
2. Describe the essence of the category “economic consciousness”.
3. Give the substantive and structural characteristic of the category “economic behavior”.
4. Give the definition of entrepreneurship.
5. What types of entrepreneurship do you know?
6. Name and describe the most common organizational types of entrepreneurship.

7. What is an entrepreneur?
8. What types of entrepreneurs do you know?
9. What is business?
10. What are the common and different features of the categories “business” and “entrepreneurship”?
11. In your opinion, what can be the reason for setting up a business of your own?
12. What goals are often pursued by people when setting up their own business and what do they expect from it?
13. What are the advantages and disadvantages of establishing a business of your own (compared to being hired as a regular employee)?
14. What is a business idea?
15. What can be the source of a business idea?
16. What is a “new product”?
17. What is a business plan and what is the purpose of its development?
18. What is the status of an individual entrepreneur (IE)?
19. What is the procedure for the registration as an individual entrepreneur (IE) in Ukraine in accordance with the current legislation?

Test tasks 1:

1. Purchase and sale of goods for their further resale at a higher price is ...

- a) production entrepreneurship (business);
- b) commercial entrepreneurship (business);
- c) financial entrepreneurship (business);
- d) all answers are correct.

2. Purchase and sale of national and foreign currency, securities are ...

- a) production entrepreneurship (business);
- b) commercial entrepreneurship (business);
- c) financial entrepreneurship (business);
- d) all answers are correct.

3. *What are the main positive aspects of your own business:*
a) more freedom and independence;
b) the possibility to obtain "shadow" profits;
c) the ability to manage their own time;
d) more ability to realize themselves and their personal ambitions.

4. *What is the basis for starting your own business?*

- a) start-up capital;
- b) entrepreneurial idea (business idea);
- c) support of relatives;
- d) the desire for enrichment.

5. *What is the first official (in terms of legislation) step in the organization of their own business?*

- a) entrepreneurial idea;
- b) availability of fixed assets;
- c) availability of start-up capital;
- d) registration with the relevant authorities.

Practical task 1:

Imagine that you want to set up your own business. Provide clear answers to the following questions:

1. What particular product (or service) will you offer to customers (a detailed description of the product or service, the main consumer characteristics: size, weight, period of use, aesthetics, design)?

2. What needs will satisfy your product?

3. What is the feature of your product?

4. Why consumers will distinguish your product from the goods of your competitors?

5. Describe the advantages of your product.

SECTION 2

ENTERPRISE AS AN ECONOMIC ENTITY

2.1 Enterprise: essence, features, types

2.2 Legal forms of enterprises

2.3 Legal framework for conducting business in Ukraine

2.1 Enterprise: essence, features, types

Under modern conditions, the main subject of economic activity is an enterprise.

An enterprise is an independent economic entity created by a competent government or local self-government body, or other entities to meet social and personal needs through systematic implementation of industrial, research, commercial, and other economic activities.

As an economic entity an enterprise has the following main *features*:

- production and technical unity (suitability of manufacturing processes to products manufactured, relevant composition of productive assets, unified technical policy, harmonized work of auxiliary and service facilities);
- organizational and social unity (presence of a labor collective, the head and administration; having the rights of a legal entity and requisites);
- financial and economic independence (the ability to independently determine the areas of economic development, structure, output volumes, directions of distribution of the enterprise's profits, forms and amounts of material incentives; the unity of the planning and accounting systems).

The *classification of enterprises* used in the world practice is almost completely formed (Tbl. 2.1).

Table 2.1

International Classification of Enterprises

Classification features	<i>Types of enterprises</i>
Purpose of activity	<ul style="list-style-type: none"> - for-profit - not-for-profit
Legal form	<ul style="list-style-type: none"> - sole proprietorship - partnership - association of enterprises
Ownership of capital and control	<ul style="list-style-type: none"> - national - foreign - with foreign investments - joint-stock - multinational
Scope of activity	<ul style="list-style-type: none"> - international - transnational - offshore
Types and nature of economic activity	<ul style="list-style-type: none"> - industrial - trading - agricultural - construction - motor transport - finance and credit - insurance - tourist - consulting - others
Technological (territorial) integrity and degree of subordination	<ul style="list-style-type: none"> - principal (parent); - subsidiaries; - branches
Enterprise size (according to certain criteria)	<ul style="list-style-type: none"> - micro- - small - medium-sized - large
Ownership	<ul style="list-style-type: none"> - individual (sole) - family - private - state-owned

	<ul style="list-style-type: none"> - employee-owned - municipal - mixed
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Let us consider in more detail types of enterprises registered in Ukraine in terms of the classification criteria “purpose of activity”, “legal form”, “size” and “form of ownership”.

A for-profit organization is a legal entity, the main purpose of which is receipt of profit and its distribution among the founders.

For-profit organizations are: business partnerships; production cooperatives; state or municipal unitary enterprises.

A not-for-profit organization is a legal entity for which receipt of profit and its distribution among the founders is not the main objective, and the profit gained is used for self-development and achievement of the statutory goals of the organization.

Not-for-profit organizations include: consumer cooperatives; religious organizations; charitable and other types of foundations; non-governmental organizations (NGOs); associations and unions formed by for-profit and not-for-profit organizations; fully self-financing institutions.

A sole proprietorship (an individual private company) is a company owned by one person. There may be other people employed as well.

A partnership is a legitimate voluntary association of two or more persons acting as co-owners of the company and managing it for the purpose of receiving profit.

Amalgamation of enterprises is usually carried out on a voluntary basis and involves uniting industrial, commercial, or other activities.

The organizational and economic forms of amalgamation of enterprises can be: associations, corporations, consortia, concerns, cartels, syndicates, trusts, holdings, financial and industrial groups.

A micro-enterprise is an entity of any legal form and form of ownership where the average number of employees for a reporting period (a calendar year) is less than 10 persons, and the annual income from any activity does not exceed an amount equivalent to EUR2

million calculated based on the annual average exchange rate published by the NBU.

A small enterprise is an economic entity of any legal form and form of ownership where the average number of employees for a reporting period (a calendar year) is less than 50 persons, and the annual income from any activity does not exceed an amount equivalent to EUR10 million, calculated based on the annual average exchange rate published by the NBU.

A medium-sized enterprise is an economic entity of any legal form and form of ownership which cannot be classified as a micro-enterprise, small or large enterprise.

A large enterprise is an economic entity of any legal form and form of ownership where the average number of employees in a reporting period (a calendar year) is more than 250, and the annual income from any activity exceeds an amount equivalent to EUR50 million, calculated based on the average annual exchange rate published by the NBU.

An individual enterprise (sole proprietorship) is a business arrangement based on the personal property of an individual and exclusively on their labor.

A family business is an economic entity based on the property and labor of members of one family living together.

Features of a family business are as follows: its participants are answerable for its obligations with all the capital and their personal property; there are no problems with the distribution of profit; the possibility of using labor cooperation, combining different professions in doing business; implicit confidence in the relationship between the members of a family business, a guarantee of preserving business information confidentiality; readiness to work hard with long working hours; the possibility for the heirs to get “family secrets” related to the production technology used.

A private enterprise is an economic entity, based on the property of an individual citizen, with the right to hire a workforce.

A state-owned enterprise is an economic entity based on the public property.

An employee-owned enterprise is an economic entity based on the property of the labor collective of an enterprise, cooperative, another statutory partnership, public or religious organization.

A municipal enterprise is an economic entity based on the property of administrative territories.

A mixed enterprise is an economic entity based on joining up the property of different owners.

After the state registration, an enterprise is recognized as a legal entity.

A legal entity is a subject of civil law which has the following features: independence of its functioning from natural persons which are part of it; availability of its own property separated from the property of the participants; the right to acquire, use, and dispose of the property; the right to implement, on its own behalf, other actions permitted by law; the right, on its own behalf, to resolve disputed issues regarding its activity and conflict situations in court or by arbitration; independent property liability; availability of a settlement account and other accounts in banks, independent balance, seals with its name, trademark, etc.

According to the current legislation, legal entities in Ukraine can have various legal forms.

2.2 Legal forms of enterprises

A market economy involves a large variety of legal forms of enterprises. This is explained by the fact that part of the economy of a country is managed by private citizens, either individually or collectively, while the rest of it – by organizations established by the government or local authorities. Moreover, the scope of business activities carried out by enterprises is different.

Association of natural persons and legal entities for joint activities allows increasing the volume of attracted resources. At the same time, enterprises with several owners are characterized by a low efficiency of decision-making.

In Ukraine, the most common legal form of enterprises is business partnership.

Business partnerships are enterprises, institutions, organizations which are established upon mutual agreement between legal entities and citizens and involve joining up their property and business activities for the purpose of obtaining profit.

Contribution of founders and participants of an economic partnership may be: cash, including in foreign currency; buildings, facilities, equipment; final product; other material values; securities; intellectual resources; property rights, etc.

Types of business partnerships in Ukraine:

- joint-stock partnership;
- limited liability partnership;
- additional liability partnership;
- full partnership;
- limited partnership.

A *joint-stock partnership* is a business arrangement where the charter capital is divided into a certain number of shares of an equal nominal value.

The shareholders' liability in a partnership is limited only to the amount they paid for their shares. Types of joint-stock partnerships are: an open (public) joint-stock partnership, a closed (private) joint-stock partnership.

An *open (public) joint-stock partnership* is a joint-stock partnership whose shares can be distributed via open subscription, bought or sold on stock exchanges.

A *closed (private) joint-stock partnership* is a joint-stock partnership whose shares are allocated among the founders and cannot be distributed via open subscription, bought or sold on stock exchanges.

The founders of a joint-stock partnership must: declare their intention to establish a joint-stock partnership; subscribe for its shares; hold the constituent meeting; carry out its state registration.

Features of creating an open joint-stock partnership:

- open subscription for shares is organized by the founders;
- the founders are obliged to own the company's shares for the amount of not less than 25% of the charter capital;
- the period of open subscription cannot exceed 6 months;
- a joint-stock partnership is considered to be established if the amount of the shares subscribed for is no less than 60%.

In a closed joint stock partnership, the founders must contribute at least 50% of the nominal value of the shares before the date of the constituent meeting.

A limited liability partnership is a business arrangement where the charter capital is divided into shares the size of which is determined by constituent documents.

Features of a limited liability partnership are: the participants' liability is limited only to the amount they contributed; by the time of the registration of the partnership, they are paid the cost of the share of the company's property proportional to their share in the charter capital as well as the one owned by them; when a participant leaves the company, they are paid the cost of the share of the company's property proportional to their share in the charter capital as well as the share of their profit.

An additional liability partnership is a business arrangement where the charter capital is divided into shares, with their size being specified by its constituent documents.

Participants of this type of *partnership* are liable for its obligations to the limit of their contribution to the charter capital, and, in case of insufficiency of these amounts, additionally by the property possessed by them in the amount proportional to their contribution.

A full partnership is a business arrangement where all participants are engaged in joint business activities and jointly liable for obligations of the partnership with all their property.

The liability of participants of a full partnership for repaying its debts is as follows: a participant is responsible for debts of the partnership, regardless of whether they arose after or before their joining the partnership; if upon liquidation of a full partnership it turns out that the available property is not enough to pay all debts, all participants of the partnership are jointly liable for repaying the deficient amount with all their property.

A limited partnership is a company that includes, along with one or more participants liable for obligations of the partnership with all their property, one or more participants (contributors) whose liability is limited to their contribution to the property of the partnership.

The aggregate size of the contributors' shares must not exceed 50% of the partnership's property.

At the time of the registration of a limited partnership, each of the contributors must make not less than 25% of the amount they contribute.

If contributors to a limited partnership conclude an agreement on behalf and in the interests of the limited partnership having no appropriate powers, they: together with fully liable participants repay their obligations to the creditors under the agreement with all their property (in case of approval of the contributors' activities by the limited partnership); repay the liabilities themselves with all their property (if the conclusion of the agreement is not approved).

2.3 Legal framework for conducting business in Ukraine

The government, regulating any activity, should manage the degree of accessibility of values adopted in the society and necessary to satisfy interests of all its members.

The procedure for the creation of enterprises of various legal forms and governmental control over entrepreneurial activity are regulated by the norms specified in acts issued by legislative and executive bodies.

Activities of economic entities in Ukraine are subject to additional regulation by the provisions enshrined in a collective contract, agreement.

A collective contract, agreement is concluded on the basis of the current legislation, obligations accepted by the parties in order to regulate their production, labor, and socio-economic relations and harmonize interests of the employees and employers involved.

A collective contract is concluded in enterprises which use hired labor and have the rights of a legal entity, regardless of the form of their ownership and management. A collective contract can be concluded in business units of an enterprise within the competence of these units.

A collective contract is concluded between the employer, on the one part, and one or more trade union bodies, or, in the absence of such bodies, representatives of employees elected and authorized by the labor collective, on the other part.

Governmental control of entrepreneurship is a direction of the national policy aimed at improving legal control over economic as well as administrative relations between regulatory or other government authorities and economic entities; preventing the adoption of economically inappropriate and ineffective regulatory acts;

reducing the government intervention in activities of economic entities; eliminating obstacles for the development of economic activities carried out within the powers, in the order and manner established by the Constitution and laws of Ukraine.

The State Service of Ukraine for Regulatory Policy and Entrepreneurship Development is the central body that ensures the formation and implementation of the national policy in the field of development and provision of support for entrepreneurship. Its activities are directed and coordinated by the Cabinet of Ministers of Ukraine.

The main task of this body is to summarize the practice of applying legislation on business issues, work out proposals aimed at its improvement, and form the national policy concerning entrepreneurial activity. In addition, the Service contributes to the development of small businesses, the system for their advisory and information support and prepares proposals for the implementation and improvement of mechanisms for financial and credit support for entrepreneurial activities, including those related to foreign economic activity, coordinates the system for training and retraining of staff, etc.

Limitation (licensing) concerns only those types of entrepreneurial activities which directly affect human health, the natural environment, and national security.

In order to conduct licensed entrepreneurial activities, it is necessary to obtain an appropriate license and observe certain conditions and rules for the implementation of these activities (license provisions), which are established by the Cabinet of Ministers of Ukraine or the body authorized by it.

A *license* is a document issued by the Cabinet of Ministers of Ukraine or an executive body authorized by it, according to which the licensee has the right to carry out certain types of entrepreneurial activity.

Vocabulary to Section 2 (Subsection 2.1):

accounting system	система обліку
achievement	досягнення
administrative territory	адміністративно-територіальна одиниця

agricultural	сільськогосподарський
amalgamation	об'єднання
association	асоціація
auxiliary	допоміжний
business partnership	господарське товариство
cartel	картель
civil law	цивільне право
competent body	компетентний орган
concern	концерн
consortium	консорціуму
construction	будівництво
consulting	консалтинг
consumer cooperative	споживчий кооператив
corporation	корпорації
distribution	розподіл
economic activities	види економічної
	діяльності
economic entity	суб'єкт господарювання
enterprise	підприємство
employee-owned enterprise	колективне підприємство
financial and credit	фінансово-кредитний
founder	засновник
industrial	промисловий
insurance	страхування
legal entity	юридична особа
municipal unitary enterprise	муніципальне унітарне
	підприємство
not-for-profit organization	некомерційна організація
production cooperative	виробничий кооператив
profit	прибуток
receipt of profit	отримання прибутку
social unity	соціальна єдність
sole proprietorship	єдине право власності
syndicate	синдикат
tourist	турист, туристичний
trading	торгівельний
transportation	перевезення

Vocabulary Section 2 (Subsection 2.2):

account	рахунок
allocate	розподіляти
appropriate power	належні повноваження
attracted resources	залучені ресурси
be liable	нести юридичну відповідальність
business association	бізнес-асоціація
charter capital	статутний капітал
contribution	внесок
contributor	учасник
decision-making	прийняття рішень
foreign currency	іноземна валюта
full partnership	повне партнерство
government	уряд
increase	збільшувати
joint-stock partnership	акціонерне товариство
limited liability partnership	товариство з обмеженою відповідальністю
limited partnership	командитне товариство
open subscription	відкрита підписка
partnership	партнерство, товариство
additional liability company	товариство з додатковою відповідальністю
property	власність
property rights	права власності
regardless	незалежно
settlement account	розрахунковий рахунок
share	акція, частка (процент)
shareholder	акціонер

Vocabulary to Section 2 (Subsection 2.3):

agreement	угода
appropriate license	відповідна ліцензія
be engaged	займатися
collective contract	колективний договір

enshrine	закріплювати
ensure	забезпечити
executive body	орган виконавчої влади
governmental control	державне регулювання
government intervention	втручання держави
hired labor	наймана праця
legislative body	орган законодавчої влади
licensee	особа, яка має дозвіл
trade union	професійна спілка

Theoretical questions to Section 2:

1. What is an enterprise?
2. Describe features of an enterprise.
3. How are enterprises classified according to their purpose?
4. What is a for-profit organization?
5. What is a not-for-profit organization?
6. How are enterprises classified in terms of scope of their economic activities?
7. How are enterprises classified in terms of legal status?
8. How are enterprises classified in terms of type and nature of their economic activities?
9. How are enterprises classified in terms of technological (territorial) integrity and degree of subordination?
10. How are enterprises classified in terms of ownership of capital?
11. How are enterprises ranked in terms of the number of employees and volume of gross income from sales of products?
12. How are enterprises classified in terms of form of ownership?
13. Name the main legal forms of enterprises.
14. What is a joint-stock partnership?
15. Describe the types of joint-stock partnerships.
16. Describe the rights and liabilities of shareholders.
17. What is a limited liability partnership?
18. What is an additional liability partnership?
19. What is a limited partnership?
20. What is a full partnership?

21. What is amalgamation of enterprises?
22. Name the legal forms of amalgamation of enterprises.

Test tasks 2:

- 1. Uncommercial organizations are:*
 - a) consumer cooperatives;
 - b) charitable foundations;
 - c) municipal unitary enterprises;
 - d) state unitary enterprises.

- 2. What are the characteristics of a not-for-profit enterprise?*
 - a) develops at own expense;
 - b) engaged in profit-making activities;
 - c) operates at the expense of its own funds and develops through profitable activities;
 - d) all answers are correct.

- 3. A for-profit organizations are:*
 - a) business partnerships;
 - b) public organizations;
 - c) production cooperatives;
 - d) religious organizations.

- 4. What are the characteristics of a not-for-profit (non-entrepreneurial) organization?*
 - a) exists at the expense of budget funds;
 - b) cannot have a profit by the nature of its activities;
 - c) is provided by budget financing, since cannot have a profit according to the nature of its activities;
 - d) all answers are correct.

- 5. The compilation of mandatory rules, which regulate the mutual relations of the enterprise with the other business entities, is ...*
 - a) the charter of the enterprise;
 - b) collective agreement;
 - c) industry agreement;
 - d) all answers are correct.

6. Participants of the limited liability company are responsible of the partnership obligations ...

- a) within the limits of their shares;
- b) within the limits of their contributions;
- c) all property which belong to them;
- d) there is no right answer.

7. Identify the attribute of the enterprise. "The company combines all the economic resources for the production of goods":

- a) property liability;
- b) systemic unity of goods for production;
- c) operational and economic independence;
- d) organizational unity.

8. Features by which enterprises belong to a group of small enterprises:

- a) the size of the authorized capital;
- b) the amount of received profit;
- c) the number of employees;
- d) the gross income for the year.

Practical task 2:

The owners of the economic partnership are 3 entrepreneurs. The amount of the contributions of the first participant was 300 thousand UAH, the second participant – 250 thousand UAH, the third participant – 150 thousand UAH. The enterprise received a gross income of 1850 thousand UAH, gross expenses – 2950 thousand UAH. Determine the amount of debt obligations of each partner of the company, if the enterprise is organized in the form of:

- 1) joint-stock company;
- 2) limited liability company;
- 3) additional liability company;
- 4) full partnership;
- 5) a limited partnership where the first participant is a full participant and the second and third participants are depositors.

PART 2

ORGANIZATIONAL ASPECTS OF ECONOMY AND BUSINESS

SECTION 3

ORGANIZATION OF A BUSINESS ENTITY IN UKRAINE

3.1 General conditions for the creation of an enterprise

3.2 Statutory fund of an enterprise and the order of its formation

3.3 State registration and charter of an enterprise

3.4 Responsibility of business entities

3.1 General conditions for the creation of an enterprise

Having chosen the type of entrepreneurial activity to be carried out, the entrepreneur starts establishing an enterprise.

An enterprise is created based on the decision of the owner of the property, authorized by them body of the parent enterprise, organization or by the decision of the labor collective.

The decision to establish an enterprise must be approved by the Antimonopoly Committee of Ukraine.

An enterprise may be created as a result of forced division of another enterprise, in accordance with the Antimonopoly Law of Ukraine, or a splitting off one or more structural units from an existing enterprise, organization, as well as on the basis of a structural unit of going concerns by the decision of their labor collectives with the consent of the owner or the body authorized by them.

In cases where operation of an enterprise requires using natural resources, the permission for their use is issued by the relevant Council of People's Deputies; in cases envisaged by legislative acts – by the Verkhovna Rada of Ukraine, on a submission of the primary natural resource user and in the presence of a positive conclusion of the state environmental inspectorate or the relevant Council of People's Deputies.

In accordance with the procedure established by the Land Code of Ukraine, the land plot may be transferred to the enterprise in the collective ownership or into use, including on lease terms.

An enterprise acquires the rights of a legal entity from the date of its state registration.

3.2 Statutory fund of an enterprise and the order of its formation

Charter capital is the provided to an enterprise or attracted by it in accordance with the current legislation financial resources in the form of cash or investments in the property, values, intangible assets, securities which are allocated to the enterprise on the basis of the right of ownership or economic jurisdiction.

At the expense of the charter capital, an enterprise forms its fixed assets and current assets (working capital).

Entrepreneurs' rights regarding the formation of the charter capital are enshrined in the laws of Ukraine "On Property", "On Business Associations".

The size of the charter capital varies, it may increase due to:

- adding to it a part of the profit earned as a result of the growth of the equity capital;
- putting into circulation capital investments at the expense of the equity funds (profit, amortization deductions);
- increasing the value of fixed assets in the process of their revaluation (determined by the state).

It may decrease due to unprofitable entrepreneurial activity.

State-owned enterprises increase their charter capitals at the expense of their own savings.

For this purpose, the enterprise can use within 30-80% of the amount of income remaining at their disposal after taxes and compulsory payments.

Thus, the value of fixed assets of the enterprise increases and, accordingly, the increase of the charter capital occurs.

Entrepreneurs need to remember that in order to ensure normal functioning of enterprises, it is necessary to increase the charter capital and current assets (working capital).

Joint-stock partnerships (Am.E. joint-stock companies) form the charter capital through the sale of shares.

Limited liability partnerships (Am.E. limited liability companies) – at the expense of the participants' contributions. These

contributions determine the share of each participant in the charter capital of the enterprise.

The use of the charter capital is characterized through determining indicators reflecting the efficiency of the use of fixed production and current assets (working capital).

3.3 State registration and charter of an enterprise

State registration of an enterprise is carried out in the city executive committee, district council at the place of business or place of residence of the subject of entrepreneurial activity, unless otherwise provided by law.

The following documents are required to be submitted for the state registration of a legal entity:

- decision of the owner (owners) of the property or a body authorized by them to establish a legal entity (except for a private company);
- charter, if required in respect to the organizational form of entrepreneurship being created;
- registration card of a standard form, which is at the same time an application for the state registration;
- document certifying the payment by the owner of the contribution to the charter capital of the subject of entrepreneurial activity in the amount stipulated by law;
- document certifying the payment of the state registration fee.

Citizens intending to carry out entrepreneurial activity without establishing a legal entity submit a registration card of a standard form, which is at the same time an application for the state registration, a copy of the certificate of assignment of the identification number and a document certifying the payment of the state registration fee.

The location of the subject of entrepreneurial activity (legal entity) on the date of state registration may be the place of business (place of residence) of one of the founders or the location at another address, which is confirmed by the lease agreement or other relevant agreement.

The state registration authorities are prohibited from requiring subjects of entrepreneurial activity additional documents not provided for by this law.

State registration of subjects of entrepreneurial activity is carried out in the presence of all necessary documents, upon submission of the application, within five working days.

During this period, the state registration authorities are obliged to enter the data from the registration card in the register of subjects of entrepreneurial activities and issue a certificate of state registration of the established sample with the assigned identification code (for legal entities), which is provided to the state registration authorities by state statistics authorities, or the identification number of the person – the payer of taxes and other mandatory deductions.

Within a five-day period from the date of registration, the state registration authorities forward a copy of the registration card with a mark about the state registration to the relevant state tax authorities and state statistics authorities and submit information on the state registration of the subject of entrepreneurial activity to the Social Insurance Fund and the Pension Fund of Ukraine.

The certificate of state registration of the subject of entrepreneurial activity and a copy of the document confirming its registration with the state tax authority is the basis for opening accounts in any bank of Ukraine and other states at the choice of the subject of entrepreneurial activity and with the consent of these banks in accordance with the procedure established by the National Bank of Ukraine. Within three working days, the subject of entrepreneurial activity must send a notice on the opening or closing of accounts in banks to the state tax authorities where it is registered as a payer of taxes and fees (mandatory deductions).

The charter of an enterprise is a collection of mandatory rules governing the relationship of the enterprise with other entities as well as its individual activities.

The charter is approved by the owner of the property, and – for state enterprises – the owners of the property with the participation of the labor collective.

The charter of an enterprise determines: the owner and name of the enterprise; location; core activities and their purpose; management bodies, procedure for their formation; competence and authority of the

labor collective and its election bodies; procedure for the formation of the enterprise's property; conditions for reorganization and termination of the activities of the enterprise.

The name of the enterprise specifies whether it is a plant, factory, workshop, etc. and its type (individual, private, employee-owned, state-owned, etc.).

The charter of an enterprise determines the body which has the right to represent the interests of the labor collective (the council of the labor collective, council of the enterprise, trade union committee, etc.).

In Ukraine, limited liability partnerships can operate on the basis of a model charter.

The Model Charter is a collection of mandatory rules that establishes the procedure for organization and management of a limited liability partnership, which is approved by the Cabinet of Ministers of Ukraine and at the request of the participants is taken as a basis for the conduct of activities.

The model charter of a limited liability partnership was approved by the Resolution of the Cabinet of Ministers of Ukraine "On Approval of the Model Charter of a Limited Liability Company" dated November 16, 2011 No. 1182. The model charter of a limited liability partnership consists of the following sections:

1. General terms.
2. Legal status of the partnership.
3. Participants to the partnership.
4. Charter capital of the partnership.
5. Property of the partnership.
6. Profit of the partnership and its use. The order of coverage of losses. Funds of the partnership.
7. Corporate bodies of the partnership.
8. General meetings.
9. Executive body of the partnership.
10. Auditing committee.
11. Staff of the partnership.
12. Accounting and Reporting.
13. Procedure for amending the Charter.
14. Termination of the partnership.

3.4 Responsibility of business entities

The essence of the responsibility of subjects of entrepreneurial activity is as follows:

- for breaching the contractual obligations, credit and settlement agreements, tax regulation, requirements for quality of products, and other rules of economic activity, the enterprise carries responsibility in accordance with the legislation of Ukraine;

- payment of fines for breaching the contractual obligations as well as compensation for the losses caused does not relieve the enterprise, without the consent of the other party to contract, of fulfilling responsibilities for the supply of products, works, or services.

The enterprise is obliged to:

- protect the environment; compensate for the damage caused by irrational use of land and other natural resources and environmental pollution;

- ensure industrial safety, sanitary and hygienic standards and requirements for the protection of health of its employees, the population and consumers of products;

- pay fines to the relevant local Councils of People's Deputies, in cases stipulated by law.

Vocabulary to Section 3 (Subsection 3.1):

acquire rights	набувати права
Antimonopoly Committee	Антимонопольний комітет
Council of People's Deputies	Рада народних депутатів
forced division	примусовий поділ
parent enterprise	підприємство-засновник
splitting off	утворення нового підприємства шляхом відокремлення від вже існуючого
Verkhovna Rada of Ukraine	Верховна Рада України

Vocabulary to Section 3 (Subsection 3.2):

amortization deductions	амортизаційні відрахування
current legislation	чинне законодавство
compulsory payments	обов'язкові платежі
disposal	розпорядження
fixed assets	основні засоби
intangible assets	нематеріальні активи
investment	інвестиції
production assets	виробничі фонди
unprofitable	неприбутковий
working capital	робочий капітал

Vocabulary to Section 3 (Subsection 3.3):

Cabinet of Ministers of Ukraine	Кабінет Міністрів України
charter	статут
certificate of assignment	довідка про присвоєння
confirm	підтверджувати
identification number	ідентифікаційний номер
model charter	модельний статут
National Bank	Національний банк
obliged	зобов'язаний
Pension Fund of Ukraine	Пенсійний фонд України
personnel	трудовий колектив
place of residence	місце проживання
place of business	місце знаходження
Social Insurance Fund	Фонд соціального страхування
state registration fee	збір за державну реєстрацію
stipulated by law	передбачений законом
unless otherwise provided by law	якщо інше не передбачено законом

Vocabulary to Section 3 (Subsection 3.4):

breaching the contractual obligations	порушення умов договору
consumer	споживач
contractual obligation	договірні зобов'язання
compensation for losses	відшкодування збитків
employee	співробітник
environment	навколишнє середовище
fulfilling	виконання
industrial safety	безпека виробництва
pay fines	сплачувати штраф
requirements	вимоги

Theoretical questions to Section 3:

1. The approval of what state authority of Ukraine is required to establish an enterprise?
2. What state authority gives permission for carrying out activities in cases when operation of an enterprise involves using natural resources?
3. When does an enterprise acquire the rights of a legal entity?
4. What is the charter capital?
5. Describe the typical procedure for forming the charter capital of an enterprise.
6. What or who determines the size of the charter capital?
7. How do joint-stock partnerships form their charter capital?
8. How do limited liability partnerships form their charter capital?
9. What is the charter of an enterprise?
10. Enterprises of which organizational and legal form in Ukraine have the possibility of using the model charter?
11. What documents are submitted for the state registration of a legal entity?
12. Describe the procedure for obtaining the certificate of state registration of the subject of entrepreneurial activity.
13. Which types of activities are subject to the state registration procedure?

14. What is the responsibility of subjects of entrepreneurial activity?

15. What are the sanctions against enterprises for breaching the contractual obligations, credit and settlement agreements, tax regulation, requirements for quality of products, and other rules of economic activity?

Test tasks 3:

1. The main task of the enterprise is ...:

- a) to satisfy of market needs for own profit;
- b) effective use of fixed assets and working capital;
- c) to increase productivity and effective motivation of personnel;
- d) to improve the quality of services and products.

2. The basic document which regulate the activity of the enterprise is ...

- a) Economic Code of Ukraine;
- b) the statute;
- c) a license;
- d) a patent.

3. What does the production activity of an enterprise mean?

- a) drawing up a business plan;
- b) provision of production capacities for the production of a range of products;
- c) balancing the needs of the market and the possibilities of the enterprise;
- d) there are no correct answer.

4. Types of entrepreneurship:

- a) social, innovative and banking;
- b) production, commercial-trading and financial-credit;
- c) construction, transport and agricultural;
- d) all answers are correct.

5. What business is characterized by an increased risk?

- a) production business;

- b) innovation business;
- c) financial mediation;
- d) trade mediation.

6. *What is the basis of the business effect?*

- a) entrepreneurial idea;
- b) innovative initiative activities;
- c) the desire and opportunities of the entrepreneur;
- d) making profit as a result of entrepreneurial activity.

7. *An enterprise loses the right of a legal entity from the moment of....:*

- a) losing of its own stamp;
- b) exclusion from the state register;
- c) the establishment of a liquidation commission;
- d) there are no correct answer.

Practical task 3:

Imagine that you want to start your own business. Provide clear answers to the following questions:

1. Who is the largest producer of similar goods?
2. Do your competitors pay enough attention and allocate enough funds to advertise their products?
3. What are the specific features of the competitor's product (its main characteristics, quality level, design, customer opinions)?
4. What is the level of prices for competitors' products?

To response to the above questions, it is necessary to reflect the real situation on the market.

SECTION 4

BUSINESS PLAN AND ITS ROLE IN ESTABLISHMENT AND DEVELOPMENT OF ENTREPRENEURSHIP

4.1 Objective necessity of business planning in a market economy

4.2 Place of strategic planning in the enterprise management system

4.3 Business plan as a tool for business planning: the nature, structure, types, functions, stages of development

4.1 Objective necessity of business planning in a market economy

Under today's conditions of market transformation, when the role of competitiveness of an enterprise, especially against the background of competition among enterprises, is increasing, there arises the question of enhancing efficiency of planning at all levels.

Planning as a management function allows enterprises to find their place in the market, helps make the right managerial decisions, and increases the likelihood of the desired success.

Planning is a continuous creative process aimed at achieving the goals set by an enterprise with the optimal cost of resources and adjust its activity to changing market conditions.

Planning is the primary function of management: it dominates other management functions and determines their essence.

Success in planning depends on the effectiveness of analysis of the external environment of an enterprise, an objective assessment of its positions; requires joint efforts and participation of all units of the enterprise. Moreover, this function involves choosing a goal, developing the ways to achieve it and implementing it.

Planning as a management function implies deciding on the following:

- what the organization's goals should be;
- how the organization can achieve them.

Planning allows any organization to anticipate its future development. It has the form of the program of actions covering all operations of an enterprise (technical, financial, commercial ones).

Planning should take into account costs, terms and sources of financing.

The planning process involves drawing up a prospective and current plans and forecasts and is the basis for a business plan.

Forecasting is the preliminary stage of planning, which is more typical of the modern competitive environment.

Forecasting is the process of determination of objective trends in the development of a business in the future, alternative scenarios of its development as well as their timing and implementation.

Forecasting is an organic system (part of) planning.

Taking into account the modern conditions, it is appropriate to consider adaptive business planning.

Adaptability is the ability to analyze and track changes in the external and internal environment and automatically alter the algorithm of operation and structure in order to maintain or achieve the optimal state.

Adaptive planning is a complex and multifaceted process that differs significantly from traditional planning patterns and requires certain skills in working at corresponding levels of the hierarchy which form adaptive plans and provide for their implementation.

Under conditions of uncertainty of the environment and growing competition in the market, planning, being aimed at increasing the efficiency of an enterprise, performs a number of *tasks*, namely:

- presents a chain between setting the goals and the most optimal plan for their implementation;
- identifies potential problems, neutralizes the impact of negative consequences on the enterprise;
- provides a possibility to evaluate practical steps to achieve the goals;
- is the basis for cost estimation;
- conditions the unity of common goals within the enterprise;
- helps to reduce risks in the implementation of the elaborated plans;
- provides effective ways to achieve the goals of the enterprise.

In view of compulsoriness of implementing the planned tasks, there distinguished:

- *directive planning*, which is a process of making decisions compulsory for objects of planning;

- *indicative planning*, which is an antipode of directive planning, since its implementation is not compulsory, although it may also comprise mandatory tasks. In general, it has a guiding, advisory character.

Depending on the period for which the plan is made, there singled out:

- *prospective planning*, covering a period of more than 5 years (10, 15, 20 years). Such plans determine the long-term strategy of an enterprise, its social, scientific and technical, and economic development. Such planning should be distinguished from forecasting;

- *medium-term planning*, covering a period from 1 to 5 years. In some enterprises, mid-term planning is compatible with the current planning. In this case, there is a five-year plan, in which the plan for the first year is as detailed as the current one, in its essence being similar to short-term planning;

- *current planning*, covering up to 1 year – semi-annual, quarterly, monthly, weekly, weekly and day-to-day planning.

According to the composition of the planning decisions, there distinguished:

- strategic planning;
- operational and calendar planning;
- master planning of overall results;
- financial planning.

Especially important for ensuring economic development of any subject of entrepreneurial activity is conducting competent strategic planning, mistakes in which can lead to ineffective use of the enterprise's resources, its loss-making functioning and, as a result, liquidation of the enterprise.

4.2 Place of strategic planning in the enterprise management system

Strategic planning is one of the main functions of strategic management, which is the process of making strategic decisions on strategic foresight (strategy formation); resource allocation; adaptation of an enterprise to the external environment; internal organization.

Most western and eastern companies use strategic planning to change themselves, come out of hopeless situations that have emerged both in their external and internal environment.

Strategic planning provides the basis for making all management decisions, implementing organization, motivation and control; it is focused on the development of strategic plans and aims to ensure long-term effectiveness of an enterprise and realize its new opportunities.

Therefore, strategic planning has the following characteristics:

- firstly, unlike long-term planning, when the forecast is developed by each functional service, strategic planning is based on defining strategic areas of economic activity and strategic economic centers;

- secondly, an important feature of strategic planning is carrying out analysis of both an enterprise's external environment and its internal capabilities;

- thirdly, the methodology of strategic planning involves elaborating a multivariate strategy. Each option focuses on the development of an enterprise depending on the state of the external environment, i.e., several strategic alternatives are elaborated with regard to possible situations in the future.

A key aspect of carrying out strategic planning in entities involved in entrepreneurial and other economic activities is the elaboration of *a strategic plan*.

The strategic plan should be:

- a tool for establishing, documenting, and implementing the set of the enterprise's strategies in its daily activities;
- time-bound, future-oriented;
- thought out as to expenses required;
- flexible, responsive to changes in the environment;
- clear, understandable, easy to perceive;
- easy to explain and possible to perform.

The strategic plan should not be:

- a five-year development plan for each company without exception (this requirement is very familiar to all leaders of post-Soviet enterprises);
- rigid, focused on the achievement of specific production resource and market indicators;

- a treatise on business or business history.

If a strategic plan neither reflects the external and internal changes, which are likely to occur during the planning period, nor contains certain measures and tools for their implementation, it can be considered useless, since it does not take into account reality and, therefore, it is disorienting.

A strategic plan has a complex internal structure which reflects the multi-purpose nature of the company's activities and predetermines the need for elaborating a system of plans, projects, and programs.

For small and medium-sized enterprises, a single plan with relevant sections can be elaborated, while for large enterprises and complex organizational formations, amalgamations of several enterprises, e.g., associations, concerns, consortia, etc., each section may take the form of an expanded plan or program.

A strategic plan as an integrated planning document can consist of the following sections:

1. Content.
2. Preface (Executive summary).
3. Description of the enterprise.
4. Marketing strategy.
5. Competitive strategy.
6. Product updating strategy.
7. Strategy for development of production.
8. Production support strategy.
9. Foreign economic strategy.
10. Strategy for development of the management system.
11. Strategy concerning environmental activities of the enterprise.
12. Strategic financial plan.
13. Ensuring implementation of the enterprise's strategy.
14. Annexes.

4.3 Business plan as a tool for business planning: the nature, structure, types, functions, stages of development

A business plan is a written document that outlines the essence of an entrepreneurial idea, ways and means of its implementation and

describes the market, production, organizational and financial aspects of the future business, as well as features of its management.

A business plan summarizes opportunities and prospects of an enterprise, explains which of them can be implemented by the existing team of managers. The document makes it possible to determine the viability of a company in a competitive environment. It forecasts processes of the enterprise's production development, specifies ways to achieve its goal, overcome obstacles and is a factor that stimulates the interest of potential investors in their search for an object to invest in its production development. A business plan plays an important role both at the stages of organization and operation of an enterprise under market conditions, since it determines the enterprise's activity and forecasts its results.

The plan is compiled for a period of 3-5 years and broken down on a yearly basis. It is systematically adjusted with regard to the market situation and thus is adapted to it.

Elaborating a business plan starts from the end, i.e., from the summary. It is made in the last turn when all sections of the text part are compiled and all financial indicators of the project are calculated. It contains a summary of the essence and most important project indicators.

The list of main issues to be reflected in the summary:

- 1) What goods (services) will the enterprise produce and sale?
- 2) Who will be its consumers?
- 3) What will the volume of sales (revenue) for the first year of work be?
- 4) What are the total expenses for the project implementation?
- 5) What should the amount of funding for the project be?
- 6) What are the sources of project financing?
- 7) What are the main project indicators: total profit (income) for the period, amount of cash at the end of the first year of operation, profitability of operations, profitability of investment of equity capital, profitability of total investments.

Requirements for the compilation of this section are: volume – 1.5-2 pages; presentation should be extremely simple and concise, with a minimum of special terms.

1. Characteristics of the goods (services). This section should clearly answer the following questions:

1) What particular product (or service) will the enterprise offer to customers (a detailed description of products and services, the main consumer characteristics: size, weight, period of use, aesthetics, design)?

2) What needs is the product designed to satisfy?

3) What are the peculiarities of the product, why consumers will distinguish it from the products of the enterprise's competitors and give it preference?

4) What will the packaging be like?

5) What will the conditions of after-sales service be?

2. *Market assessment.* The experience shows that the failure of a large number of business projects is associated with inadequate market research and overestimation of its capacity. An enterprise can spend a lot of money on developing and manufacturing a new product, but, without defining its place in the market, the goods can stay in the warehouses and the service can be undesirable.

Thus, in this section it is necessary to define:

1) Who will buy the product? Why will they choose this particular product (due to a higher quality than the competitor's, a lower price, after-sales service, etc.)?

2) How much of the product can be consumed by the market?

It should be noted that for preparing this and subsequent sections, when forecasting or evaluating an existing situation, it is necessary to use reliable sources of information, references to which should be disclosed in the business plan.

It is very preferable to be pessimistic in assessing the sales market and indicate a lower planned sales volume. This will allow for a more realistic business plan.

The resulting volume of production with each passing year can gradually increase with the development of the enterprise.

3. *Competition.* In this section the enterprise needs to answer the questions:

1) Who is the largest producer of similar products?

2) Do the enterprise's competitors pay enough attention and allocate funds to advertising their products?

3) What are the peculiarities of the product manufactured by the competitors (its main characteristics, quality level, design, buyers' opinion)?

4) What is the level of prices for the competitors' products?

A significant disadvantage of a business plan, which will result in its lower viability, will be the absence of prices for goods or services of the competitors. Giving the answers to the above questions, it is necessary to reflect the real situation in the market.

4. *Marketing strategy.* Having studied the market in terms of competitiveness of the product, the enterprise needs to develop a plan for conquering the market.

The main points of the marketing plan are:

1) Scheme for the product distribution, which specifies the ways the enterprise will sell its products: through its branded stores, wholesale trading organizations, small intermediaries, etc.

2) Pricing, which determines the methods for the enterprise to set prices for its products, and what level of return on investment it plans to receive.

3) Advertising, which describes the methods to organize advertising and how much the enterprise is going to spend on it?

4) Methods of sales promotion, which specify the ways to achieve a steady growth in sales – by expanding the sales area or by finding new ways to attract consumers.

5) Organization of after-sales service of clients, which defines the ways to organize the service and the amount of money required for this.

6) Formation of public opinion about the product (service), which describes the ways to cultivate a positive reputation of goods (services) and the enterprise itself among consumers.

5. *Production plan.* This section includes: general information about the enterprise, calculation of its capital expenditures and production costs for the planned sales volume; direct (variable) and total (constant) costs of production, estimates of current production costs. All calculations must be submitted in the form of a table.

The general information about the enterprise includes: description of its location (which in many cases is the determining factor for the success of the project); availability of necessary transport links, utilities (electricity, water, heat, sewage, communications, etc.), resources; proximity to the market; information about the production premises and terms of their lease.

It is also necessary to provide for the costs of the ongoing renovation of the premises. This amount will be an integral part of the seed capital of the enterprise.

The next step in developing a production plan is to calculate the need for fixed assets.

It should be noted that depreciation is accrued only on fixed assets owned by the enterprise, while the rented or leased ones are depreciated by the leasing holder or leasing company.

When determining the depreciation rates, the minimum acceptable useful life of fixed assets in accordance with the Tax Code of Ukraine is taken into account.

This is followed by calculating current production costs: costs for raw materials, component parts, electricity, fuel, etc.

In compiling this section, it is necessary to take into account all types of costs associated with the implementation of the chosen activity.

6. *Organizational plan.* This section includes the information about the staff and how to organize the work with it, in particular:

1) Brief description of the existing employees, including their qualification, work experience, usefulness for the enterprise, is given.

2) If the enterprise is going to recruit new employees, it is necessary to indicate the requirements to them, their duties and employment types (permanent or part-time employees).

3) The organizational structure of the enterprise is given. It should clearly define: the duties of each staff member; how all participants in the production process will interact; management hierarchy.

4) The issue of remuneration and incentives is disclosed.

As a separate item of expenditure, the single social contribution is calculated.

7. *Risk assessment and insurance.* When drafting a business plan, it is important to anticipate all types of risk which the enterprise may face, their sources and time of occurrence.

Types of risks:

- fires and earthquakes (natural ones);
- strikes and interethnic conflicts (force majeure situations);
- changes in tax regulation, fluctuations of exchange rates (economic ones);

- weather risks;
- production risks.

Having identified the possible risks to which the enterprise may be exposed, it is possible to decide on how to reduce potential risks and losses.

This task can be solved by analyzing:

1) organizational measures for prevention of risks. For example, in case of the risk of disruption of the schedule for transportation of raw materials by rail, it is possible to elaborate an alternative transportation program by road;

2) the description of the insurance risk program. Currently, the insurance system is well developed, and, actually, the enterprise can insure each risk it can face: from purchasing low-quality equipment to fire in the warehouse of finished products. The business plan of an enterprise should indicate the types and amount of insurance policies it is going to purchase. The amount is included in the company's total costs as fixed expenses.

8. *Financial plan.* In this section, the enterprise needs to summarize the material of all the previous sections and submit it in value terms. For this purpose, it is necessary to develop several subsections of the financial plan.

8.1 *Seed capital.* The seed capital of an enterprise includes the following types of expenses. One-time expenses for the creation of an enterprise are allocated to: the process of its registration, receipt of the seal and stamps, opening of accounts in banks, registration with the Statistics Service, State Tax Inspectorate, State Administration, etc. If the chosen activity requires receiving permits from the licensing system (obtaining a license, certification of products or production, registration of bar codes for products), the size of one-time costs significantly increases. Purchasing fixed assets should be planned with consideration for the costs of their transportation, startup and commissioning.

When allocating funds for the formation of the production stock, it is necessary to take into account the length of the production and sales cycle. If the receipt of proceeds from the sale of the enterprise's products is expected a week after starting their manufacturing, the production supplies should be calculated for no more than ten days of the enterprise's operation but not for a quarter, half year, or year.

In this case, the enterprise's expenses related to the lease of premises, electricity, wages, etc., cannot be included in the seed capital.

If the production cycle takes half a year or more, then the seed capital must include all types of costs that the enterprise will face until the moment of receipt of funds from the sale of products.

8.2 Sources of financing. After calculating the size of the seed capital, it is necessary to determine the sources of financing the enterprise and balance its cash expenses and receipts. This document allows to estimate how much money the enterprise needs to invest in a project depending on the time of its implementation, i.e., the amount of money required before launching the project and in the production process. As regards sources of financing, they can be different: equity capital, loans, shares, etc.

When attracting lending resources for purchasing fixed assets, the repayment of the principal amount of the loan is usually carried out under a different scheme.

8.3 Determination of variable and constant costs. The classification of costs into variables and constants is necessary to calculate the break-even point, which shows the amount of products or services to be sold by the enterprise in order to avoid losses associated with its activities.

Semi-variable costs are those which vary in direct proportion to the level of production (directly related to the manufacturing of products).

Semi-fixed costs (overhead costs) are those which remain unchanged at changes in the level of production (related to payments for rent, heating, etc.).

If the labor remuneration of all employees of the enterprise is carried on an hourly basis, in accordance with the position salary, these expenses and social deductions are included in constant expenses.

8.4 Product costing. It is intended to determine the selling price for a product unit.

If the enterprise pays a 10% flat-sum tax, the retail price is calculated without the Value Added Tax (VAT).

If the enterprise applies the general system of taxation, its VAT-inclusive expenses, should be added to the product cost excluding

VAT. For this purpose, the item “VAT-inclusive Expenses” is reduced by 16.67% (by one sixth).

Profit is calculated based on the accepted rate of return on the total cost of production.

If the price is set at the level of market prices, the profit is calculated as the difference between the price for and prime-cost of the product

8.5 Balance of income and expenses of the enterprise. During the first year of operation, the sales volume should be gradually increased.

The data for the second and subsequent years are given taking into account whether the output of the enterprise corresponds to the planned production volume.

In the financial plan (balance of income and expenses), it is necessary to break down the enterprise’s expenses into: VAT-inclusive and VAT-exclusive ones.

The VAT-inclusive expenses of an enterprise comprise the costs of raw materials; semi-finished products and components; electricity; fuel, oil and lubricants; packing and wrapping materials; communications; spare parts and tools; utilities; advertising, etc.

VAT-exclusive expenses are wage costs; social payments; depreciation deductions; rent for the premises; insurance; a significant part of the outsourced services; interest on the loan; taxes; business trip expenses.

VAT on income (tax liability) is the obligation of the enterprise to pay VAT to the state.

VAT on expenses (tax credit) is the VAT which has already been paid by the enterprise and decreases its obligation in terms of VAT.

The difference between the tax liability and the tax credit is the enterprise’s VAT payment for a certain period.

8.6 Calculation of performance indicators of the enterprise includes:

- *calculation of the break-even point*, i.e., the amount of production with which the cost of production will be equal to the income from the sale of goods. The calculation should be done for several (at least three) levels of the possible selling price in order to assess the impact of the market conditions on the profitability of the enterprise;

- *calculation of the payback period of the project;*
- *calculation of the overall level of the enterprise's profitability.*

The data for the calculation of the overall level of profitability are taken per year.

How detailed the business plan is depends on the characteristics of the company, regardless of whether it belongs to the service or manufacturing sector.

The specificity of a business plan is that it is a comprehensive document that reflects all the main aspects of a business project. It covers a wide range of problems which an entrepreneur may face and determines the ways to solve them.

At the same time, it should be noted that the principles of management through a business plan imply the need for considering in the process of its elaborating the factors specific for a particular entrepreneurial project.

Vocabulary to Section 4 (Subsection 4.1):

adaptability	адаптивність
adaptive planning	адаптивне планування
adjust	корегувати
anticipate	передбачати
background	фон
business plan	бізнес-план
business planning	бізнес-планування
competitiveness	конкурентоспроможність
compulsoriness	обов'язковість
current planning	поточне планування
directive planning	директивне планування
dominate	домінувати
elaborate	розробляти
financial planning	фінансове планування
forecast	прогноз
forecasting	прогнозування
indicative planning	індикативне планування
in terms of	з точки зору
joint effort	спільних зусиль
likelihood	ймовірність

managerial decision	управлінське рішення
multifaceted	багатогранний
necessity	необхідності
operational and calendar planning	оперативно-календарне планування
opportunity	можливість
primary	первинний
prospective planning	перспективне планування
reduce	зменшити
strategic planning	стратегічне планування
trend	тенденція
uncertainty	невизначеність
unit	підрозділ

Vocabulary to Section 4 (Subsection 4.2):

achievement	досягнення
advantage	перевага
annexes	додатки
brief description	короткий опис
environmental activities	екологічна діяльність
executive summary	виконавче резюме
external	зовнішній
external environment	зовнішнє середовище
foreign	іноземний
foresight	передбачення
fuel	паливо
internal	внутрішній
management system	система управління
marketing strategy	маркетингова стратегія
multi-purpose nature	багатоцільовий характер
multivariate strategy	багатовимірна стратегія
peculiarity	особливість
predetermine	зумовлювати
preface	передмова
quality	якість

Vocabulary to Section 4 (Subsection 4.3):

advertise	рекламувати
after-sales service	післяпродажне обслуговування
capacity	місткість
competitive environment	конкурентне середовище
comprehensive	комплексний
concise	короткий
depreciation deductions	амортизаційні відрахування
disadvantage	недолік
exchange rate	курс валюти
financial plan	фінансовий план
flat-sum tax	фіксований податок
fluctuation	коливання
income	дохід
investments	інвестиції
item of expenditure	стаття витрат
manufacture	виробництво
obstacle	перешкода
occurrence	виникнення
ongoing renovation	поточний ремонт
outline	окреслити
overestimation	переоцінка
payback period	термін окупності
price	ціна
profit	прибуток
profitability	прибутковість
purchase	придбання
quarter	квартал
raw materials	сировина
sale	продаж
sales promotion	стимулювання продажів
seed capital	початковий капітал
strike	страйк
Value Added Tax (VAT)	податок на додану вартість (ПДВ)

VAT-exclusive
VAT-inclusive
viability

без урахування ПДВ
з урахуванням ПДВ
життєздатність

Theoretical questions to Section 4:

1. What is planning?
2. Name the principles of planning as a primary function of managing the economic development of entities involved in entrepreneurial and other economic activities.
3. What factors need to be taken into account when elaborating plans for the economic development of subjects of entrepreneurial activity?
4. What is adaptive planning?
5. What is the difference between the directive and indicative planning of activities of economic entities?
6. How are plans for the economic development of subjects of entrepreneurial activity classified in terms of the period it covers?
7. How are plans for the economic development of subjects of entrepreneurial activity classified in terms of the composition of planned decisions?
8. What is strategic planning?
9. Outline the place of strategic planning in the strategic management system concerned with the economic development of entities involved in entrepreneurial and other economic activities.
10. Name and describe the sections of the strategic plan of an enterprise.
11. What is a business plan?
12. List the main issues which should be reflected in the business plan summary.
13. Describe the essence of the section of the business plan “Characteristics of the goods (services)”.
14. Describe the essence of the section of the business plan “Market Assessment”.
15. Describe the essence of the section of the business plan “Competition”.
16. Describe the essence of the section of the business plan “Marketing Strategy”.

17. Describe the essence of the section of the business plan “Production Plan”.

18. Describe the essence of the section of the business plan “Organizational Plan”.

19. Describe the essence of the section of the business plan “Risk assessment and insurance”.

20. Describe the essence of the section of the business plan “Financial plan”.

21. Describe the essence of the subsection of “Financial plan” “Seed capital”.

22. Describe the essence of the subsection of “Financial plan” “Sources of financing”.

23. Describe the essence of the subsection of “Financial plan” “Determination of variable and constant costs”.

24. Describe the essence of the subsection of “Financial plan” “Product costing”.

25. Describe the essence of the subsection of “Financial plan” “Balance of income and expenses”.

26. Describe the essence of the subsection of “Financial plan” “Calculation of performance indicators”.

Test tasks 4:

1. The business plan is scheduled for the period ...

- a) from 1 to 5 years;
- b) does not have a specified term;
- c) 3-5 years;
- d) over 5 years – 10, 15, 20 years.

2. Sources of financing of the enterprise may be:

- a) own funds;
- b) borrowed funds;
- c) attracted funds;
- d) all answers are correct.

3. In the section "Company Description" of the strategic plan of the enterprise should be disclosed next information:

- a) forecast of product competitiveness of the main competitors;

- b) functions and tasks of the marketing department;
- c) analysis of social development of the collective;
- d) there are no correct answer.

4. In the section "Strategy of Marketing" of the strategic plan of the enterprise should be disclosed:

- a) choice the methods of distribution of goods;
- b) choice and justification of strategic factors of the competitive advantage of companie;
- c) the possibilities of international co-operation;
- d) measures for rational expenses of production losses and fuel and energy resources.

5. Perspective planning covers the period...

- a) over 5 years – 10, 15, 20 years;
- b) does not have a specified term;
- c) up to 1 year;
- d) from 1 to 5 years.

6. Current planning covers the period ...

- a) over 5 years – 10, 15, 20 years;
- b) does not have a specified term;
- c) up to 1 year;
- d) from 1 to 5 years.

Practical task 4:

To give general information about the enterprise, calculation of capital expenditures and production costs for the planned sales volume, variable and constant costs for production, current cost estimates.

The general information about the company includes: a description of the location of the enterprise; availability of necessary transport links, engineering networks (electricity, water, heat, sewage, communications, etc.), resources; proximity to the market; information on the production premises and information on the terms of the lease.

It is also necessary to provide for the costs of the ongoing renovation of the premises. This amount of expenses will be an integral part of the seed capital.

The next step in developing a production plan is to calculate the need for fixed assets.

It should be noted that depreciation is accrued only on own fixed assets.

When determining the depreciation rates, the minimum allowable useful life of fixed assets in accordance with the Tax Code of Ukraine is taken into account.

SECTION 5

MARKETING PLAN AS A STRUCTURAL ELEMENT OF THE BUSINESS PLAN OF AN ENTERPRISE

5.1 Concept and characteristics of the competitive environment of an enterprise

5.2 Strategic analysis of the competitive environment of an enterprise

5.3 Formation and implementation of the marketing strategy in the process of entrepreneurial activity

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5.1 Concept and characteristics of the competitive environment of an enterprise

One of the important elements of a business plan which guarantees success in entrepreneurial activity is an effective analysis of the enterprise's competitive environment.

First of all, let us characterize the concept of competition.

Competition is the coexistence of commodity producers and other market participants and their struggle to achieve maximum profits and other goals. To do it, they strive to meet the diverse consumer needs through the use of their own strengths and market opportunities to the full extent, while eliminating their weaknesses and threats from the outside.

In a market economy, each enterprise operates in a certain competitive environment, whose factors have a decisive influence on it.

An integral part of a market economy is the creation and development of a *competitive environment* – a set of external in relation to a particular enterprise factors which affect the competitive interaction of enterprises engaged in the industry.

According to the classical model, a competitive environment is formed under the influence of such competitive forces as:

- rivalry among competing sellers in the same industry;

- competition involving goods produced by enterprises in other industries, worthy substitutes, and those competitively priced; threat of the entry of newcomers into the industry;
- economic opportunities and trade capacity of suppliers;
- economic opportunities and purchasing capacity of consumers.

The main stages of the analysis of a competitive environment can be grouped as follows:

- selecting and calculating the main economic indicators (parameters) that most fully characterize the industry;
- identifying competitive forces which act in the industry and their impact on the situation, conducting a competitive analysis;
- revealing factors, driving forces which cause changes in the structure of competitive forces in the industry;
- singling out enterprises with the strongest and weakest positions in the industry;
- forecasting the most probable actions of strategic competitors;
- identifying the key factors which condition an enterprise's success in the competition;
- making the final decision on the profitability and attractiveness of the industry (the final stage).

5.2 Strategic analysis of the competitive environment of an enterprise

Strategic analysis of an enterprise is one of the main elements in the process of forming the strategy of its development.

Strategic analysis of the external environmental is a comprehensive study of an enterprise's environment in order to assess opportunities and threats and develop the optimal development strategy based on choosing possible alternatives.

Opportunities are positive trends and phenomena of the external environment which can lead to an increase in sales and profits (tax cuts, rising incomes of households and enterprises, weakening of competitors' positions).

Threats are negative trends and phenomena which may result from the absence of an appropriate reaction of an enterprise to a significant reduction in its sales and profits (reducing the purchasing

power of the population and enterprises, increasing competition in the market).

The aim of strategic analysis of the external environment is a meaningful and formal description of research objects; identification of trends, features, possible directions of their development; determining factors which most influence the success of an enterprise.

The set of factors and degree of their impact are different for each enterprise. The degree of impact depends on the size of the enterprise, its industry affiliation, location.

To analyze the environment, SWOT analysis (abbreviation for: Strength, Weakness, Opportunities, and Threats) which allows a joint study of the internal and external environment of an enterprise is widely used.

The SWOT methodology involves identifying and specifying strengths and weaknesses of an enterprise, as well as external threats and opportunities it faces. It makes it possible to establish links between them, which can be used to formulate the strategy of the enterprise.

For conducting a SWOT analysis, it is necessary to correctly determine the internal (marketing, production, finance, organization, staff, etc.) and external factors (economy, politics, legislation, environment, social sphere, etc.), to evaluate their importance and compare them. This list of factors can be expanded or reduced with consideration for a particular enterprise.

Let us consider each of the components of the analysis in detail.

Strength is what brings an enterprise success, the distinctive features which enhance its competitiveness and give it market benefits.

Weakness is the lack of something important in the functioning of an enterprise, activities it does not succeed in to compare with others, and factors which do not allow the use of the existing capabilities of the environment.

Regarding the formation of the strategy, strengths of the enterprise are important, since they can be used as the basis of its corporate strategy. At the same time, a successful strategy is aimed at eliminating its weaknesses which contribute to the occurrence of various negative processes in the enterprise.

Opportunities should be considered from the point of view of market attractiveness of an enterprise, which can ensure the maximum growth of its profits and competitive advantage.

Threats are certain factors of the environment which adversely affect the financial position of an enterprise and impede its successful development.

Market opportunities and threats also largely determine the corporate strategy of an enterprise. Thus, it is necessary to evaluate all the opportunities of the industry which can ensure maximum profitability of the enterprise and threats that adversely affect it. Opportunities and threats not only influence the state of an enterprise but also indicate what strategic changes should be initiated.

The corporate strategy should consider future actions of the enterprise with regard to its opportunities, and provide its protection against threats.

When choosing the factors, it is necessary to make sure they do not repeat, are correctly attributed to one or another section, significant and really related to the enterprise.

The SWOT method is presented (Fig. 5.1).

<div style="text-align: center;"> <i>External environment</i> </div> <div style="text-align: right;"> <i>Internal environment</i> </div>	<div style="text-align: center;"> <i>Opportunities:</i> </div> <div> 1. 2. ... </div>	<div style="text-align: center;"> <i>Threats:</i> </div> <div> 1. 2. ... </div>
	<div style="text-align: center;"> <i>Strength:</i> </div> <div> 1. 2. ... </div>	<div style="text-align: center;"> <i>Field Strength and Opportunities (SO)</i> </div>
	<div style="text-align: center;"> <i>Weaknesses:</i> </div> <div> 1. 2. ... </div>	<div style="text-align: center;"> <i>Field Weaknesses and Threats (WT)</i> </div>

Fig. 5.1. SWOT matrix

In the practice of strategic management, *PEST/STEP* analysis, which stands for the analysis of political, economic, social, technological environment and allows tracing trends in the external environment, is known.

The method proposed by foreign economists includes studying four main groups of external factors – political, economic, social, and technological ones. In practice, legal, demographic, natural, and cultural factors are more often analyzed.

As a result of the generalized analysis, the state of each factor, trends in its possible behavior and the nature of its influence are determined; degree of its influence is estimated using the scale from -5 to +5 points; possible actions of the enterprise are foreseen; degree of influence of the factors after taking relevant measures is revealed.

It is important that this approach not only involves analyzing the state of the environment but also determines trends in its development through scenario forecasting (Tbl. 5.1).

Table 5.1

PEST matrix

<i>P</i>	<i>Political</i>	<i>E</i>	<i>Economic</i>
Presidential elections, elections to the Verkhovna Rada, change in legislation)		General characteristics of the economy, inflation rate, foreign exchange movement, export-import policy	
<i>S</i>	<i>Social</i>	<i>T</i>	<i>Technological</i>
Changes in the core values, Standards of living and lifestyle, demographic changes		National technological policy, significant trends in R&D, new patents, new products	

The political factors should be studied first and foremost, because the main political issue is the issue of power. And the central government regulates the mechanism of money circulation in the country as well as many other key conditions for obtaining basic resources to ensure activities of any organization.

Such analysis of the economic factors influencing an enterprise allows to understand how the main economic resources are formed and distributed at the national level. For the vast majority of enterprises, this is the most important general condition to ensure their business activity. An analysis of a particular situation can demonstrate

the degree of significance of economic decisions taken at the level of external environment for the enterprise's strategy.

The social factors are most closely associated with forming consumer preferences of the population, which usually determines their special significance for analyzing a possible demand for products manufactured by an enterprise in the strategic perspective.

The significance of the technological factors is also evident. Under today's conditions of rapid technological changes, any enterprise faces the threat of losing its market due to squeezing its product out of it by a more technological one.

5.3 Formation and implementation of the marketing strategy in the process of entrepreneurial activity

The central place in the strategy of an enterprise is occupied by the marketing strategy, since the purpose of existence of any business entity is to supply its products to the market. The development of an enterprise and the amount of its profit depends on how fully and effectively it meets the needs of its customers. Other components of the overall strategy (finance, production, R&D) of an enterprise should contribute to the overall goal of marketing.

At the same time, the marketing strategy of an enterprise should take into account its available resources and be linked to other areas of its activities.

Marketing strategy is a program of marketing activities of an enterprise in its target markets which defines the principal solutions to achieve marketing goals.

The section of the business plan "Marketing strategy", as a rule, begins with the definition of the overall marketing strategy of the enterprise. It describes the following issues:

- 1) type of marketing approach the enterprise is oriented to;
- 2) specific features and benefits of products manufactured (quality, price, service, etc.).

The basis for developing the marketing strategy of an enterprise is choosing its target market.

In this case, different types of *marketing approaches to strategy development* can be applied depending on:

- structural characteristics of the target market (market as a whole; one segment of the market; several market segments);
- stages of the product life cycle;
- resource capabilities of the enterprise;
- degree of homogeneity of the enterprise's products;
- marketing strategy of its competitors.

In the business plan, it is enough to explain why one or another type of marketing approach has been chosen and what advantages the enterprise will use to build its strategy for conquering the target market.

Implementation of the general marketing strategy is carried out through:

- choosing appropriate channels of distribution of the enterprise's products (services);
- forming the pricing policy;
- choosing ways to implement an advertising campaign;
- forming the policy to promote the enterprise's products (services).

All these elements of the marketing strategy of an enterprise are closely interlinked and can be combined in a variety of ways. This means that each company forms its own so-called marketing mix, i.e., it distributes its effort and combines marketing tools in order to achieve its goals in the best way, with consideration for specific market conditions.

5.4 Segmentation of the market and formation of the market coverage strategy

The study of the demand for a product and the analysis of market opportunities of the manufacturer of this product are closely related to investigating market segmentation.

Market segmentation is the activity of dividing consumers into groups based on the difference in their needs, characteristics, or behavior, and developing for each of the groups a particular marketing mix.

Market segmentation can be carried out using variable parameters. The most common among the *principles of market segmentation* are the following:

- *geographic segmentation*, which involves dividing the market into different geographic units;
- *demographic segmentation*, which implies dividing the market into segments based on demographic variables such as gender, age, family size, family life, race, nationality, religion;
- *psychographic segmentation*, which suggests dividing consumers into groups based on personality types and lifestyle;
- *motive-based consumer segmentation*, which involves grouping consumers depending on the degree of their commitment to brands and intensity of consumption.

Mass marketing focuses on a broad consumer market through one basic marketing plan, ignoring market segmentation. It is advisable to apply this strategy in a homogeneous market where all consumers are interested in one product and react equally to marketing activities proposed.

Targeted (concentrated) marketing is aimed at a narrow specific group of consumers (market segment) through a specialized marketing mix catering to the needs of this segment.

Differentiated marketing implies covering several segments of the market.

After identifying objectively attractive segments, the enterprise should decide upon which of them most fully correspond to its strengths. After choosing a specific segment, the enterprise should find ways to penetrate it and gain competitive advantages.

5.5 The pricing policy and strategy of an enterprise

The pricing policy of an enterprise is a well-grounded choice of several price options aimed at maximizing its profits within the planned period.

In practice, the following pricing strategies are used:

1. *Skimming pricing strategy*. It suggests setting prices which are significantly higher than the production cost during the initial stage, with their consequent gradual decrease.

The main disadvantage of the pricing strategy is that a high price attracts competitors – potential producers of similar products. The strategy of price-skimming is most effective with using some

limitation of competition. Another necessary condition for success is sufficient demand.

2. *Penetration pricing strategy* implies setting a much lower price for an enterprise's product than that for similar products of competitors. This gives the enterprise an opportunity to attract the maximum number of consumers and contributes to its conquering the market. However, this strategy is used only when large volumes of production allow the enterprise to cover its loss associated with a certain product with the total profit gained. The implementation of the strategy requires large material costs, which small and medium-sized enterprises cannot afford, since they do not have the capacity to quickly expand their production. The strategy is effective in case of elastic demand or if a growth in the enterprise's output provides a reduction in costs.

3. *Psychological pricing strategy (odd-even pricing)* is based on the establishment of a price which takes into account the psychology of buyers, especially their price perception. Typically, the price is set at the level just under a round number, thus creating the impression of a very precise calculation of the production cost, impossibility of fraud, low price, discount, and advantage for a buyer. The psychological moment that buyers like to get their change is also taken into account.

4. *Cost leadership strategy* in an industry or in the market suggests that the price for a product is determined based on that offered by the main competitor, the enterprise leading in the industry or dominant in the market.

5. *Neutral pricing strategy* implies setting the price for new products based on the actual cost of their production, including the average rate of return on the market or in the industry.

6. *Differential pricing strategy* manifests itself in setting prices with consideration for all sorts of discounts and increments to the average price level for different markets, their segments, and buyers.

7. *Uniform pricing strategy*. When using the uniform pricing strategy, an enterprise sets the same price for all consumers who would like to purchase a product or service under similar conditions. The price may vary depending on the level of service, quantity of goods purchased or provision of a loan, but it is uniform for all consumers at the same combination of goods and services.

Once an enterprise starts implementing the chosen pricing strategy, it needs to constantly adjust it, taking into account costs, competition, demand, terms of purchase of goods, etc. The price can be adapted by using rectification (discount, increment) and trade-in allowance.

All entrepreneurs who strive for expanding their business should pay special attention to the system of discounts:

- discounts create in a buyer's mind the idea that the selling company makes a concession exclusively for him/her, which, of course, emphasizes the importance of the buyer in his own eyes;

- buyers start perceiving the selling company as a respectable and sustainable organization which can afford some price reduction. The true benefit of the use of discounts is obtained by the selling company, since due to them it increases its sales volume.

There are the following types of discounts:

- discount for cash payment;
- quantity discount, which implies lower prices for purchasing a large batch of goods;

- dealer discount. It is provided by manufacturers to a dealer or intermediary for services related to the promotion of their goods to the end user which otherwise must be performed by the manufacturers themselves;

- special (personal) discount, which is provided to individual buyers the sellers are interested in;

- seasonal discount, which is given to a buyer for the purchase of a non-seasonal product or during the period of seasonal sales;

- bonus discount, which is provided to regular buyers if they buy a pre-determined quantity of goods for a certain period;

- closed discount, which is granted on products created in closed economic formations;

- hidden discount, which is the form of additional free services rendered by sellers to buyers.

Under market conditions, a commercial organization which is self-organized into a socially-oriented system operates in a tough competitive environment and enjoys full economic independence.

This necessitates the transition from a traditional to a qualitatively new approach to the sales management process in trading enterprises which is based on the use of the concept of communication marketing.

5.6 Communication policy of an enterprise

Promotion of goods on the market is carried out through *the system of marketing communications* (SMC) which covers any activity of an enterprise aimed at informing, persuading and reminding consumers about its products, stimulating the sales and cultivating a positive image of the enterprise in the eyes of the public.

The main elements of the SMC are:

- *advertising*, which is any paid non-personalized form of distribution of information about an enterprise and its products;
- *public relations*, which is an activity aimed at creating a positive image of an enterprise, a friendly attitude towards it and its product;
- *personal selling*, which is the oral presentation of a product when a sales representative meets with one or more potential buyers for the purpose of transacting a sale;
- *sales promotion*, which involves short-term incentive measures to encourage consumers to buy (discounts, sales, lotteries, etc.).

The main goals of marketing communications are

- demand formation;
- sales promotion.

Vocabulary to Section 5 (Subsection 5.1):

attractiveness	привабливість
capacity	потужність
certain	певний
coexistence	співіснування
commodity producer	товаровиробник
competition	конкуренція
competitive environment	конкурентне середовище
decisive influence	вирішальний вплив
forecasting	прогнозування

opportunities	можливості
profitability	прибутковість
purchasing capacity	купівельна спроможність
reveal	виявляти
rivalry	суперництво
struggle	боротьба

Vocabulary to Section 5 (Subsection 5.2):

appropriate reaction	відповідна реакція
description	опис
evident	очевидний
external environment	зовнішнє середовище
foremost	перш за все
internal environment	внутрішнє середовище
meaningful	значущий
particular situation	конкретна ситуація
phenomena	явища
possible direction	можливий напрямок
set of factors	набір факторів
significance	значення
strategic analysis	стратегічний аналіз
strength	сила
SWOT analysis	SWOT аналіз
threats	загрози
trends	тенденції
weakness	слабкі сторони
widely	широко

Vocabulary to Section 5 (Subsection 5.3):

advertising campaign	рекламна кампанія
benefit	користь
channel	канал
fully and effectively	повністю і ефективно
gain	отримувати
homogeneity	гомогенність
implementation	реалізація

marketing approach	маркетинговий підхід
marketing strategy	маркетингова стратегія
marketing tools	маркетингові інструменти
pricing policy	цінова політика
supply	постачати
variety	різноманітність

Vocabulary to Section 5 (Subsection 5.4):

cater	забезпечувати потреби
consumer motives	споживчі мотиви
demographic segmentation	демографічна сегментація
differentiated marketing	диференційований маркетинг
geographic segmentation	географічна сегментація
manufacturer	виробник
market segmentation	сегментація ринку
mass marketing	масовий маркетинг
motive-based consumer segmentation	сегментація за споживчими мотивами
psychographic segmentation	сегментація за психологічним принципом

Vocabulary to Section 5 (Subsection 5.5):

adapt prices	переглядати ціни
adjust prices	коригувати ціни
cost leadership strategy	стратегія слідування за лідером
determine	визначати
discount	знижка
impression	враження
makes a concession	робити знижки в ціні, робити поступку
necessitate	потребувати
odd-even pricing	стратегія неокруглених цін
penetration	проникнення
perception	сприйняття

rectification of a price
skimming pricing strategy

suggest
trade-in allowance
well-grounded

поправка ціни
стратегія високих цін
(«зняття вершків»)
запропонувати
зарахування
обґрунтований

Vocabulary to Section 5 (Subsection 5.6):

demand formation
personal selling
promotion
public relations
sales promotion
system of marketing
communications

формування попиту
особисті продажі
просування
зв'язки з громадськістю
стимулювання збуту
система маркетингових
комунікацій

Theoretical questions to Section 5:

1. What is competition?
2. What is a competitive environment?
3. List the main typical stages of the analysis of a competitive environment.
4. Give a description of the SWOT analysis.
5. Give a description of the PEST analysis.
6. What is a marketing strategy?
7. How do you understand the category “market segmentation”?
8. Give a general description of geographic segmentation of the market.
9. Give a general description of segmentation of the market based on the demographic principle.
10. Give a general description of psychographic segmentation of the market.
11. Give a general description of motive-based consumer segmentation.
12. Mass marketing. What is it and who does it focus on?
13. Targeted (concentrated) marketing. What is it and who does it focus on?

14. Differentiated marketing. What is it and who does it focus on?

15. What does the skimming pricing strategy mean?

16. What does the penetration pricing strategy involve?

17. What does the cost leadership strategy imply?

18. What does the neutral pricing strategy suggest?

19. What is the differential pricing strategy?

20. What does the uniform pricing strategy imply?

21. What is a discount?

22. Name the main types of discounts.

23. What is the system of marketing communications?

Test tasks 5:

1. What is not a strategic decision on the price level?

- a) the strategy of taking down cream;
- b) the strategy of uniform prices;
- c) the strategy of low prices;
- d) there are no correct answer.

2. Determine what constitutes a market coverage strategy:

- a) targeted marketing;
- b) promising marketing;
- c) differentiated marketing;
- d) individual marketing.

3. Determine what is not a market coverage strategy:

- a) targeted marketing;
- b) promising marketing;
- c) mass marketing;
- d) individual marketing.

4. What is a strategic decision on the price level?

- a) the "penetration into the market" strategy;
- b) the high prices strategy;
- c) the flexible prices strategy;
- d) the neutral prices strategy.

5. Advertising is ...

- a) any paid non-personalized form of distribution of information about the company and its goods;
- b) activities aimed at forming a positive image of the firm;
- c) oral presentation of the goods during an interview with one or more potential buyers for sale;
- d) short-term incentive measures to encourage consumers to purchase (discounts, sales, lotteries, etc.).

6. "Public relations" is ...

- a) any paid non-personalized form of distribution of information about the company and its goods;
- b) activities aimed at forming a positive image of the firm;
- c) oral presentation of the goods during an interview with one or more potential buyers for sale;
- d) short-term incentive measures to encourage consumers to purchase (discounts, sales, lotteries, etc.).

7. Personal sale is ...

- a) any paid non-personalized form of distribution of information about the company and its goods;
- b) activities aimed at forming a positive image of the firm;
- c) oral presentation of the goods during an interview with one or more potential buyers for sale;
- d) short-term incentive measures to encourage consumers to purchase (discounts, sales, lotteries, etc.).

8. Sales promotion is ...

- a) any paid non-personalized form of distribution of information about the company and its goods;
- b) activities aimed at forming a positive image of the firm;
- c) oral presentation of the goods during an interview with one or more potential buyers for sale;
- d) short-term incentive measures to encourage consumers to purchase (discounts, sales, lotteries, etc.).

Practical task 5:

Experience has shown that the failure of a large number of business projects is associated with inadequate market studies and a reassessment of its capacity. You can spend a lot of money but without defining the place of the future product in the market the goods will remain in warehouses, and the service is undesirable.

Consequently, in this task it is necessary to determine:

1. Who will buy your product? Why will he choose your product (for a higher quality than a competitor, for a lower price, for after-sales service, etc.)?
2. What volume of your product can the market take?

SECTION 6

MANUFACTURING PLAN AND ORGANIZATIONAL PLAN IN THE STRUCTURE OF THE BUSINESS PLAN OF AN ENTERPRISE

6.1 Production program of an enterprise

6.2 Calculation of the needs of an enterprise in the main production assets and working capital

6.3 Organizational plan in the business planning system

6.4. Personnel support of an enterprise

6.1 Production program of an enterprise

The section of the production program is one of the most important in business planning and is formed on the basis of the marketing plan. This section is prepared only by those entrepreneurs who are going to be engaged in the production of goods. Its main task is to convince potential partners that the enterprise will be able to produce the right amount of goods of the required quality within the specified time period.

A production program is a task concerning the quantity and assortment of products or services of a certain quality, which is set for an object of planning with regard to the needs of consumers and capabilities of the object.

The special role of a production program is due to the fact that the subsequent sections of the business plan are developed based on its indicators.

Thus, in order to determine the cost of raw materials to be purchased, it is necessary to know the output of products and their assortment, consumption of raw materials per unit of product and its price.

The wages fund also depends on the complexity of the planned volume of work, which is defined in the production program of an enterprise; the overall expenses and effects of transactions are planned based on the output of products.

Formation of indicators of a production program can be based on two approaches:

- the first one implies that the calculations are made based on the so-called social procurement, while indicators of economic feasibility become secondary;

- with the second approach, the basis for calculating the performance indicators is the economically feasible output of products, i.e., the optimization of the volume of services provided with regard to the expected price, costs and demand takes place.

The production program of an enterprise is calculated based on its available production capacities, with consideration for the nomenclature of products/services for which the most favorable national treatment in the market for this type of products/ services is set and the volume of products required to capture the relevant market segment.

The production program, calculated with regard to the available capacities, is compared with the volume of market demand for a certain product type, and the necessary and sufficient increase in the output of products is determined.

The structure of the production program is usually broken down into the following blocks (subsections):

- basic production activities;
- machinery and equipment;
- raw materials and assemblies;
- productive and non-productive premises;
- influence of external factors.

6.2 Calculation of the needs of an enterprise in the main production assets and working capital

This paragraph gives a brief description of the available fixed assets, working capital, and intangible assets: composition, structure, cost of certain types of property, technical characteristics, degree of wear, need for repair or reconstruction.

Issues related to expanding, modernizing or reconstructing the existing production, or organizing a new one are considered. Calculation of fixed assets requirements is carried out for each type of fixed assets with regard to performance standards.

Increase in the production capacities of an enterprise can be achieved both through using internal reserves and creating additional

fixed assets, in particular, due to the implementation of measures aimed at technical re-equipment, reconstruction and expansion of the existing facilities and construction of new ones.

To form the basis of the plan for technical development and organization of an enterprise, one or more options which are most effective for the enterprise in terms of meeting the needs of the market are chosen.

The right depreciation policy has a great importance for reproducing fixed assets and financial results of an enterprise.

The term *depreciation* on fixed assets and intangible assets should be considered as a gradual deduction of the expenses for their acquisition, manufacture or improvement to reduce the adjusted profit of the taxpayer within the limits of depreciation rates.

Depreciation deductions together with profit and loans serve as a source of income for an enterprise.

When planning the cost of production, profit and other indicators, it is necessary to take into account the difference in the expected results in the case of calculating depreciation of property using different methods.

Calculation of the working capital requirement should be carried out by *the direct counting method*. This method involves a scientifically based calculation of the value of each component of working capital in the context of the achieved organizational and technical level of the enterprise, with regard to all projected changes in the field of development of technology and organization of production.

A detailed calculation of the working capital requirement is made for newly-created enterprises as well as, if necessary, for a radical revision of the working capital needs of operating ones.

For operating enterprises, adjusting the value of their working capital is carried out in the financial section of the business plan by means of working capital rationing with the application of *the coefficient method* (based on the production growth rate and improvement of the use of the working capital).

An average daily costs on the nomenclature of consumable raw materials, basic materials, and purchased semi-finished goods is calculated by dividing the amount of expenses over the corresponding quarter by the number of days in it. The working capital requirement

for raw materials for a certain period of time is set for each type or group of the materials.

Work in progress is one of the most important components of working capital, the share of which in industry exceeds 20% of its total value. Work in progress is considered to be the manufacturing of products at all stages of the production process from the time of the first operation and to the delivery of the finished goods to the warehouse.

As regards work in progress, working capital rationing is carried out by groups or types of products for each division of the enterprise individually. If the range of products is diverse, the requirement is calculated for the main product, which is 70-80% of the total production volume.

Finished goods are the final products obtained after the completion of the manufacturing processes required, with the consequent approval by the quality unit of the enterprise and delivery to the warehouse or acceptance by the customer in accordance with the acceptance procedure approved for certain types of products.

The level of the finished goods stock at the warehouse should be optimal, depending on the length of the production cycle, conditions of sales of the products and the order of payment. Finished goods manufactured by an enterprise characterize the transition of working capital from the sphere of production to the sphere of circulation.

The working capital requirement for finished goods is determined as the product of a daily output of marketable products, at the production cost, over the next year and the working capital requirement for a certain period of time. With a large range of products, the working capital requirement for finished goods stock at the warehouse for a certain period of time can be determined as the weighted average of the working capital requirement for product groups for a certain period of time, which include no less than 70-80% of the planned output of finished goods.

The average working capital requirement calculated based on these data applies to all finished goods stock.

The total working capital requirement is calculated by the addition of requirements for each of its individual elements.

The working capital requirement is the monetary expression of the planned level of inventories, the minimum amount necessary for a normal economic activity of the enterprise.

The total working capital requirement is a significant component of the planned cost of production and is the basis for calculating the planned efficiency of the working capital – the working capital turnover. This indicator is directly proportional to the planned output volume and inversely proportional to the planned amount of working capital required for production and sales of products. This ratio shows the amount of working capital of the enterprise which will be spent on 1 money unit of products sold. Thus, this indicator depends on the planned total working capital requirement, and therefore on all the estimates which are included in the calculation of requirements for individual components of working capital: raw materials stock, work in progress stock, finished goods stock, duration of the production cycle, cost of production, anticipated costs increases, time for forming a batch of finished goods for sale, speed of receiving payments for products sold.

The stocks of raw materials, basic and auxiliary materials of an enterprise comprise the largest share in its working capital.

The working capital requirement to fund raw materials stock for a certain period of time includes the following types of stock: transportation, preparatory, circulation, reserve and seasonal stock. The working capital requirement for fuel and energy is calculated in the same way as that for raw materials, provided that they are neither gaseous fuels nor electricity. The working capital requirement for packaging material is determined in the same way as that for raw materials, provided that the packaging material is purchased separately. The working capital requirement for low-value rapidly wearing items, spare parts is determined on the basis of their cost and service life.

6.3 Organizational plan in the business planning system

Having decided on how the products/services will be produced, it is important to solve the problem of recruitment of staff and organization of its work.

That is why the next section of the business plan is called “Organizational plan”.

The management team is the key to converting ideas into a successful business. Investors prefer a team of executives who combine technical, managerial, commercial and business skills.

The *main purpose of the section “Organizational plan”* is to provide information about the enterprise’s form of ownership, staff sufficiency, define the organizational structure of production and staff arrangement, which should contribute to the achievement of certain goals of the business at minimal cost.

First of all, this section addresses issues of management and administration of the enterprise. The principles based on which the management group is organized are explained and the role of each member is described. Brief biographical information about all members, directors (age, education) is given, knowledge and competence level of the team as a whole are analyzed.

Ideally, the talents and skills of each member of the team are supposed to complement each other and cover all functional areas of the business (marketing, finance, production process, etc.).

Moreover, this section should give information about the heads of the main units, including their skills and experience, responsibilities; describe the mechanism to support and motivate top managers, i.e., how to interest them in achieving the goals set in the business plan, how the work of each executive will be paid.

Developing the recruitment system is of equal importance.

The enterprise defines the principles for selecting and hiring employees; forming the system for planning staff vocational training, developing vocational competence and retraining; choosing the method and periodicity of assessing the employees’ work quality; creating the system of promotion of employees.

Having read the organizational plan, a potential investor should get an idea of the enterprise’s management team, staffing policy, staff appointments and relations among the staff members.

Organizational plan summarizes the following information:

- organizational form of the enterprise;
- business owners, managers, consultants;
- staffing needs;
- organizational structure of management;

- staffing policy and strategy;
- scheduling the implementation of the business project.

An important place should be given to the staffing policy of the enterprise.

Staffing policy is a system of work with employees, which combines various forms of activity and aims at creating a cohesive and responsible high-performance team to realize the enterprise's ability to respond adequately to changes in the external and internal environment.

At the level of an enterprise (organization), this system of measures should create favorable conditions for the normal functioning, development and efficient use of the staff.

Each enterprise develops its own staffing principles. The general principles which are typical of most enterprises include: justice, consistency, compliance with the labor law, equality and non-discrimination.

Organizational structure of an enterprise is closely connected with its organizational and legal form, presence of branches and subsidiaries, nature of joint activities with its partners. The main characteristics of the organizational structure are as follows: the number of managerial staff by management functions, the number of managerial staff involved in decision-making, the number of hierarchy levels in the enterprise's management system, the number of structural units at each level, the degree of centralization of management.

The organizational plan specifies the organizational structure of management the enterprise, including all its organizational units, their hierarchy and interconnections. In addition to the scheme, brief description of the organizational structure of the enterprise's management and its individual details (1-2 pages) should be given.

Furthermore, it provides information concerning: the enterprise's current wage system, mechanism of wage differentiation with regard to categories of the enterprise's employees, bonus system, size of the average wage and increments by categories of employees, proposals as to changes in the system of remuneration.

The wage fund is determined as the product of the total income from all activities of the enterprise and the planned level of wage costs per 1 money unit of income, with regard to the standards on the wage fund specified by the state.

Wages are distributed by the same groups of employees, by which the calculation of the number of employees is carried out.

6.4 Personnel support of an enterprise

To determine an enterprise's staffing requirements by employee category, qualification (experience), the number of employees needed, cost and sources of staffing, it is recommended to use a tabular form.

The overwhelming majority of potential investors are convinced that the key factor of an enterprise's success is a high qualification of its management team.

Considering the possibility of investing in a growing business, whose success depends on the quality and efficiency of the operations carried out, this is especially important.

Investors do not just buy a business with high growth potential, they invest in a team that will manage this business.

Potential investors should be confident that the managers are able to realize the company's capabilities with maximum efficiency.

In the section of the business plan that focuses on the staffing of the enterprise, the following information should be provided:

- brief description of the experience, competences and level of qualification of key managers of the company (including their short autobiography, with the full curriculum vitae presented in the Annex);
- description of weaknesses of the management team, with suggestions on how they can be eliminated;
- organizational and structural scheme of the company, illustrating the main functions and areas of responsibility of key managers and employees.

An investment proposal should also include information about the key employees of the company, whose level of skills determines the company's success in the market, scientific and technical staff, designers, highly skilled (unique) workers, etc.

The section provides detailed information on the projected staffing requirements. Separately, the required number of foreign specialists is indicated.

In addition, the information should include: conditions of remuneration, fringe benefits, distribution of workers by functional

areas, presence of a trade union, history of relations between the administration and the employees.

The main directions of the staffing policy aimed at improving the skills of workers of the main specialties and productivity of their labor are described.

The number of employees is calculated as the total number of employees engaged in the enterprise's core activities (production staff), and non-core activities (support and auxiliary staff).

The number of employees engaged in the core production activities is calculated based on the level of labor productivity and tasks set in the production program. The number of support and auxiliary workers and other categories of employees is calculated separately. The number of engineering and technical workers, white collar workers and others is determined by the staff arrangement.

Vocabulary to Section 6 (Subsection 6.1):

available production capacities	наявні виробничі потужності
effects of transactions	результати господарської діяльності
social procurement	соціальні закупівлі

Vocabulary to Section 6 (Subsection 6.2):

adjusted profit	скоригований прибуток
anticipated costs increases	очікувані витрати збільшуються
average daily costs	середньоденні витрати
circulation	кругообіг (обіг)
depreciation deductions	амортизаційні відрахування
finished goods	готові вироби
finished goods stock at the warehouse	запас готової продукції на складі
inventories	товарні запаси
production growth rate	темпи зростання виробництва

quality unit	одиниця якості
raw materials	сирі матеріали (сировина)
requirement	вимога
scientifically based	науково обґрунтовані
stock	запас
technical re-equipment	технічне переоснащення
the coefficient method	метод коефіцієнта
the direct counting method	метод прямого підрахунку
the working capital turnover	оборот оборотних коштів
total working capital	загальна потреба в
requirement	оборотних коштах
work in progress	незавершене виробництво (робота в процесі)
work in progress stock	незавершене виробництво
working capital rationing	нормування оборотних коштів
working capital requirement	вимога до оборотних коштів

Vocabulary to Section 6 (Subsection 6.3):

at minimal cost	за мінімальних витрат
scheduling the	планування реалізації
implementation of the	бізнес-проекту
business project	
staff sufficiency	достатність персоналу
staffing needs	кадрові потреби

Vocabulary to Section 6 (Subsection 6.4):

availability	доступність
fringe benefits	додаткові пільги
projected staffing	прогнозовані вимоги до
requirements	персоналу
staff arrangement	влаштування персоналу
annex	додаток

Theoretical questions to Section 6:

1. Give a description of the production program as a structural element of the business plan of an enterprise.
2. Describe the organizational plan as a structural element of the business plan of an enterprise.
3. What is production capacity of an enterprise?
4. Describe the procedure for evaluating the production capacity of an enterprise.
5. How is the efficiency of using the production capacity of an enterprise estimated?
6. What is the production program of an enterprise?
7. Name and describe the main issues considered in an enterprise's production program.
8. Describe the order of compiling the production program of an enterprise.
9. What are fixed assets of an enterprise?
10. What is the composition of fixed assets of an enterprise and their minimum useful life (in accordance with the current Tax Code of Ukraine).
11. What are non-productive assets?
12. Name and describe types of an enterprise's fixed assets based on which they are recorded and evaluated.
13. What is depreciation of fixed assets of an enterprise?
14. Name and describe types of depreciation of fixed assets of an enterprise.
15. What is depreciation of an enterprise's fixed assets?
16. Name and describe methods of depreciation of an enterprise's fixed assets.
17. What are the restrictions imposed by the current Tax Code of Ukraine on applying methods of depreciation of an enterprise's fixed assets depending on their group?
18. What is the depreciation fund of an enterprise?
19. Name and characterize indicators of technical condition (availability) of fixed assets of an enterprise.
20. Name and characterize indicators of movement of an enterprise's fixed assets.

21. Name and characterize indicators of intensity of using an enterprise's fixed assets.

22. Name and characterize indicators of efficiency of using an enterprise's fixed assets.

23. What ways to increase efficiency of using an enterprise's fixed assets under modern conditions can you name?

24. What is the staffing policy?

25. What is staff arrangement?

26. What is a position?

27. What is a vacancy?

28. Describe the procedure of staff recruitment.

29. Describe the sources of staff recruitment.

30. Name and characterize factors influencing the increase in productivity of an enterprise's staff.

31. Name and characterize reserves for increasing productivity of an enterprise's staff.

32. What is the difference between the concepts "labor motivation" and "labor stimulation"?

33. Give a comparative description of types of incentives for an enterprise's staff.

Test tasks 6:

1. The production capacity of an enterprise depends on:

- a) product nomenclature;
- b) assortment of products;
- c) the progressiveness of technology and production technology;
- d) organization of production.

2. The production capacity of the enterprise can be ...

- a) the design capacity;
- b) the input capacity;
- c) output capacity;
- d) average annual capacity.

3. The cost of the enterprise production, which is ready for sale to the buyers, is ...

- a) gross output products;

- b) commodity products;
- c) realized products;
- d) net products.

4. Production stocks include:

- a) raw materials;
- b) materials;
- c) semi finished products;
- d) package.

5. The management of the personnel of the enterprise includes:

- a) involvement of employees;
- b) rotation of employees;
- c) motivation of employees;
- d) training of employees.

6. Employees which directly engaged in the production of products, in the provision of services, in the execution of works is ...

- a) managers;
- b) specialists;
- c) non-manual workers;
- d) workers.

7. In practice, the following methods of measuring performance are used:

- a) natural or semi-natural;
- b) cost;
- c) labor;
- d) all answers are correct.

Practical task 6:

In this task it is necessary to open the question:

- With whom are you going to organize your business?
- How do you plan to organize the work of your staff? In particular:

1. A brief description of employees are given: qualifications, work experience, their usefulness for the enterprise.

2. It is necessary to indicate requirements to employees, duties and methods of engagement (for permanent work or part-time work).
3. The organizational scheme of the enterprise, in which should be clearly defined:
 - Who and what will do?
 - How all participants of the production process will interact?
 - Who and whom will control?

PART 3

ECONOMIC ASPECTS OF ECONOMY AND BUSINESS

SECTION 7

COST ESTIMATION. FINANCIAL PLAN AND FINANCING STRATEGY OF A BUSINESS

7.1 The concept of cost estimation

7.2 Methodology for estimating production cost

7.3 Role and significance of the financial plan in conducting entrepreneurial activity

7.4 Planning income and expenses of an enterprise

7.5 Developing the financial strategy of an enterprise

7.6 Sources of business financing. Forms and ways of attracting investments

7.1 The concept of cost estimation

A *cost estimate* is the calculation of the cost of implementing a particular type of work or an enterprise's plan as a whole. It determines the amount of required cash, labor and material costs.

The cost of implementing a unit of a particular type of work is called a *unit cost* and is determined based on the cost estimate.

A cost estimate determines the maximum cost of an object or a specific type of work. It allows to control the spending of funds in the production process of an enterprise and serves as the basis for its technical and economic assessment.

A cost estimate is the main document for planning capital investments, financing operations, and settling transactions with construction and installation contractors of an enterprise.

7.2 Methodology for estimating production cost

When preparing a cost estimate, all costs are broken down into cost elements.

The distribution of the estimated costs by the *elements* with the indication of their specific weight in the total estimated cost of an

object or works is called *the structure of the cost estimate* of the object or works.

The estimate of production costs includes expenses of all units of an enterprise involved in the manufacturing of products.

The estimate of production costs (broken down by quarters) is based on the calculation of:

- *costs of raw materials and supplies, semi-finished products and components, process fuel and energy in the main production;*
- *basic and additional wages of employees engaged in the manufacturing of products (performance of works, provision of services), including benefits-related deductions;*
- *expenses of auxiliary departments (product costing);*
- *cost of maintenance and operation of the equipment (performed by production departments);*
- *general production costs.* The initial data for calculations is the management structure; norms related to fuel consumption, heating, lighting; other general production needs;
- *other production costs.*

The estimate of production costs includes not only the cost of manufacturing commodity products but also expenses related to an increase in the work in progress stock at the beginning of the reporting period, deferred costs.

The approved in the established order cost estimate of an object or works is a basis for determining their price.

7.3 Role and significance of the financial plan in conducting entrepreneurial activity

The central section of the business plan is the financial plan.

The financial plan section enables assessing the ability of the enterprise to provide funds in the volume required for implementing its business plan and sufficient to service its debt (or pay dividends as concerns investments).

The financial plan deals with a number of important issues: in particular, it summarizes, in value terms, the results obtained at developing all other sections of the business plan; quantifies investment requirements of the business; justifies the conclusion on the economic expediency of implementing the entrepreneurial project.

The calculations included in the financial plan should provide clear and explicit answers to the following questions of potential investors and creditors:

1. Where does the enterprise receive funding from and what exactly will the money be spent on?
2. How does the enterprise's current demand for money correlate with its cash flow?
3. What will be the financial condition of the enterprise at the end of the forecast period?
4. Will the entrepreneur be able to fulfill his/her obligations?
5. Is the entrepreneur able to properly manage the funds received in order to repay debts on time and ensure sufficient returns on the invested capital?

The purpose and features of developing the financial plan determine its content, consistency and how detailed it is.

A well-thought-out financial plan can be used not only to attract investors and creditors but also to assess the performance of the enterprise after the actual launch of the project. In addition, the financial plan is often the basis for working out the enterprise's detailed operating budget.

Thus, the financial plan should become a guideline document which clearly defines where, when and how the enterprise will attract the required capital as well as how it will spend it.

7.4 Planning income and expenses of an enterprise

The first financial document included in the financial plan is the income statement. It describes the total amount of expected income of the enterprise and its expenses for a certain period.

The procedure of developing the income statement involves calculating the total income of the enterprise, from which different types of its expenses are gradually deducted and as a result its gross profit, operating profit, profit before taxes, net profit are calculated.

The income statement is developed in the following sequence:

- 1) determining relevant average indicators for the industry to which the business belongs;
- 2) forecasting volumes of sales of the enterprise's products / services;

3) calculating the company's direct and operating costs related to manufacturing and sales of products/services;

Direct costs of the manufacturing and sales of the enterprise's products (value of goods sold) include: direct material costs, i.e., costs of raw materials and supplies, components and other variable costs associated with the manufacturing of products; direct labor costs, i.e., wages and other payments to the main production staff of the enterprise.

Operating costs are all other expenses that are necessary to ensure the normal operation of the enterprise. They include:

- wages of the administrative, managerial, auxiliary and service staff of the company;
- charges and taxes on payroll of these categories of staff;
- additional payments envisaged by the collective agreement;
- rent payments;
- utility payments;
- office expenses;
- business travel expenses;
- advertising costs;
- insurance payments;
- depreciation deductions;
- other operating expenses.

4) determining the enterprise's gross profit;

Gross profit is calculated as the difference between the enterprise's total sales and the cost of the goods sold (the sum of the enterprise's direct costs related to the manufacturing and sales of products);

5) calculating the operating profit of the enterprise by deducting the amount of operating expenses from the gross profit;

6) determining the amount of interests on the loans received;

7) calculating the profit after interest as the difference between the operating profit and the amount of interests on the loans;

8) determining calculating the amount of the tax on profits of the enterprise in accordance with the current legislation;

9) calculating the net profit of the company as the difference between the amount of its profit before tax and the tax on its profits.

In profit planning, it is important to determine *the break-even point* (the threshold of profitability), i.e., the proceeds from sales at

which the enterprise has no losses but does not have profits yet, with its expenses being equal to its revenues. To calculate the break-even point, both algebraic and graphical methods can be used.

Thus, the break-even point in natural terms shows at what volume of production the marginal income is sufficient to cover the aggregate fixed costs.

7.5 Developing the financial strategy of an enterprise

Long-term financial planning determines the most important indicators, proportions and rates of expanded reproduction, achievement of the main goals of an enterprise. Long-term planning involves developing a financing strategy of an enterprise and forecasting its financial activities.

The financing strategy has a significant impact on the overall economic strategy of an enterprise and includes methods and practices for the generation of financial resources, their planning and ensuring financial stability of the enterprise under market economy conditions.

The financing strategy covers all forms of financial activities of an enterprise: optimization of the relationship of its fixed assets and working capital, generation and distribution of profit, monetary payments, investment policy.

Through comprehensive evaluation of the financial capabilities of an enterprise, objective assessment of the nature of internal and external factors which influence it, the financing strategy ensures the correspondence of the financial and economic opportunities of the enterprise to the conditions prevailing in the market for goods, works and services.

The financing strategy of an enterprise in view of its strategic goal ensures:

- generation and effective use of financial resources;
- identification of the most effective areas for investment and concentration of financial resources in these areas;
- compliance of financial arrangements with the economic condition and financial capabilities of the enterprise;
- identification of the main threat from competitors, correct choosing of areas to implement financial arrangements and maneuvering to achieve a decisive advantage over competitors.

The objectives of the financing strategy are:

- identifying ways to implement a successful financing strategy and using financial opportunities;
- determining future financial relations with business entities, budgets, banks and other financial institutions;
- providing financial support for operational and investment activity;
- studying economic and financial capabilities of potential competitors, developing and implementing measures to ensure financial stability;
- developing ways to come out of a crisis and management methods under conditions of the crisis state of enterprises.

The financing strategy is the basis for determining the financial policies of the company concerning the main areas of its financial activity: tax, price, depreciation, dividend, investment policy.

7.6 Sources of business financing. Forms and ways of attracting investments

The business financing strategy involves identifying a list of sources of investment which are divided into *internal* and *external ones*.

The first group includes:

- charter capital of the enterprise;
- accumulated reserves (surplus reserves; additional capital created as a result of revaluation of assets; special purpose funds formed in the process of distribution of profits; retained earnings);
- depreciation deductions;
- share contributions of the owners;
- insurance indemnity.

Advantages of the internal sources of investment are as follows: simplicity of attracting capital and a short period required for this, the highest rate of return on invested capital (since there are no financing costs related to payment of interest, etc.), control over the enterprise is concentrated in the hands of the owners. However, they also have such disadvantages as a limited volume of capital attracted, lack of independent control over efficiency of its use.

External sources are:

- loans;
- proceeds from sales of securities issued (shares, bonds);
- state subsidies;
- non-repayable financial assistance.

Advantages of the external sources include: significant volume of capital attracted, independent control over efficiency of its use. At the same time, they have such *disadvantages* as complexity of attracting capital and a longer period required for this, financing costs, risk of losing control over the enterprise (in case of equity offering).

In practice, as a rule, *mixed* financing (comprising both the equity and borrowed funds) is used, since it provides for more flexibility.

When applying external sources of financing, there is a certain danger for the initiator of the project. The attraction of credit resources is associated with the payment of interest, which subsequently increases the cost of products and reduces their competitiveness.

However, focusing solely on internal sources of investment reduces efficiency of an enterprise's economic activities. This is explained by the so-called degree of financial leverage.

Degree of financial leverage can be interpreted as an increase in the return on equity due to the use of loan capital.

The modern legislation in the field of investment (Laws of Ukraine “On Investment Activities”, “On Securities and Stock Market”, “On Joint Investment Institutions”, etc.) envisages various forms and methods of attracting funds of legal entities and citizens to finance entrepreneurial activities.

Vocabulary to Section 7 (Subsection 7.1):

construction and installation	будівельно-монтажний
cost estimate	кошторис
estimating production costs	складання кошторису
	витрат виробництва
financing strategy	стратегія фінансування
technical and economic	техніко-економічний
assessment	аналіз
unit cost	одинична розцінка

Vocabulary to Section 7 (Subsection 7.2):

auxiliary departments	допоміжні цехи
benefits-related deductions	соціальні відрахування
cost elements	елементи витрат
deferred costs	витрати майбутніх періодів
estimate of production costs	кошторис витрат на виробництво
main production	основне виробництво
process fuel	технологічне паливо

Vocabulary to Section 7 (Subsection 7.3):

in value terms	у вартісному вираженні
operating budget	робочий бюджет
well-thought-out financial plan	обґрунтований фінансовий план

Vocabulary to Section 7 (Subsection 7.4):

advertising costs	витрати на рекламу
break-even point	точка беззбитковості
business travel expenses	витрати на відрядження
charges and taxes on payroll	нарахування й податки на заробітну плату
depreciation deductions	амортизаційні відрахування
direct and operating costs	прямі й операційні витрати
direct labor costs	прямі витрати на оплату праці
direct material costs	прямі матеріальні витрати
gross profit	валовий прибуток
gross profit	валовий прибуток
in natural terms	в натуральному виразі
insurance payments	страхові платежі
marginal income	маржинальний дохід
net profit	чистий дохід

office expenses	службові витрати (витрати на офіс)
operating profit	операційний прибуток
proceeds from sales	виручка від реалізації
profit before taxes	прибуток до оподаткування
rent payments	рендні платежі
tax on profit	податок на прибуток
threshold of profitability	пори́г рентабельності
utility payments	комунальні платежі
volumes of sales	обсяги продажу

Vocabulary to Section 7 (Subsection 7.5):

financial arrangements	фінансові дії
financial capabilities	матеріальні можливості
generation of financial resources	формування фінансових ресурсів
long-term financial planning	довгострокове фінансове планування

Vocabulary to Section 7 (Subsection 7.6):

accumulated reserves	накопичені резерви
benefits-related deductions	відрахування на соціальні заходи
degree of financial leverage	ефект фінансового важеля
equity offering	емісія акцій
insurance indemnity	страхове відшкодування
non-repayable financial assistance	безповоротна фінансова допомога
share contributions	пайові внески
special purpose funds	фонди соціального призначення
state subsidies	державні субсидії
surplus reserves	резервний капітал

Theoretical questions to Section 7:

1. What is a cost estimate?
2. What is an estimate of production costs?
3. What does the calculation of costs of raw materials and supplies, semi-finished products and components, process fuel and energy in the main production include?
4. What does the calculation of the basic and additional wages of employees engaged in manufacturing of products (performance of works, provision of services), including benefits-related deductions, comprise?
5. What does product costing involve?
6. What does the calculation of the cost of maintenance and operation of the equipment include?
7. What does the calculation of general production costs include?
8. What does the calculation of other production costs include?
9. What is the basis for determining the value of works or services?
10. Where can an enterprise receive funds from and what exactly can they be spent on?
11. Under what conditions can an entrepreneur fulfill his/her obligations?
12. What is the best way for an entrepreneur to manage the funds received in order to repay debts on time and ensure sufficient return on the invested capital?

Test tasks 7:

1. *The production estimate is ...*
 - a) a set of expenses of the enterprise, connected with its activity for a certain period;
 - b) the costs of purchasing basic and auxiliary materials;
 - c) the costs of maintenance of administrative premises;
 - d) all answers are correct.
2. *What includes the amount of income of the enterprise from all types of activities?*

- a) gross income;
- b) gross profit;
- c) net income;
- d) net profit.

3. *The income from the sale of products minus the value added tax is ...*

- a) gross income;
- b) gross profit;
- c) net income;
- d) net profit.

4. *Dividend payment to shareholders is an expenses of ...*

- a) operational activity;
- b) financial activity;
- c) investment activity;
- d) all answers are correct.

5. *The cost of wages and salaries of employees and the payment of a single social tax is an article of ...*

- a) shop cost price;
- b) production cost price;
- c) full cost price;
- d) all answers are correct.

6. *The production cost price contains:*

- a) all expenses of the enterprise for the production of products;
- b) all expenses of the enterprise for the production and sale of products;
- c) all expenses associated with production and total production costs;
- d) there are no correct answer.

Practical task 7:

After calculating the size of the start-up capital, it is necessary to determine the sources of financing of the enterprise and to make a balance of cash expenses and receipts.

This document allows estimating the sum of money which needs to invest in a project. As for the sources of financing, they can be different: own funds, loans, shares, etc.

Interest for using the loan is included in the cost price of production, and the loan is returned from profit.

Example of the loan repayment schedule (loan amount is UAH 500,000, 24% per annum, term of 3 years) is presented (Tbl. 7.1).

Table 7.1

Repayment of the loan in accordance with the schedule of repayment, with payment of bank interest

<i>Period</i>	<i>1st half- of the year 20__</i>	<i>2nd half-of the year 20____</i>	<i>1st half- of the year 20____</i>	<i>2nd half- of the year 20____</i>	<i>1st half- of the year 20____</i>	<i>2nd half- of the year 20____</i>	<i>For the entire period</i>
Loan amount, UAH	500000	450000	400000	300000	200000	100000	–
% for credit, UAH	60000	54000	48000	36000	24000	12000	234000
Return of the loan body, UAH	50000	50000	100000	100000	100000	100000	500000

SECTION 8

BUSINESS TAXATION

8.1 Concept and functions of taxes

8.2 Taxation system. Direct and indirect taxes

8.3 Taxes and fees envisaged by the legislation of Ukraine

8.4. Primary recording of the value added tax

8.5 Types of operations of business entities subject to taxation

8.6 Essence of the profit tax, its elements

8.7 Procedure for calculating the profit tax

8.1 Concept and functions of taxes

Taxes are one of the inherent characteristics of the state. They are the main source to finance various institutions of power and social programs.

Taxes and fees (obligatory payments) paid to budgets and state special purpose funds are considered as mandatory contributions to the budget of the corresponding level or a state special purpose fund carried out by payers in the manner and under the conditions prescribed by law.

State special purpose funds are funds established in accordance with the Laws of Ukraine and formed at the expense of taxes and fees paid by legal entities, regardless of forms of ownership, and contributions of natural persons.

The economic nature of taxes is manifested in their essence. Taxes perform the following basic *functions*:

- 1) *fiscal*;
- 2) *distributive*;
- 3) *stimulating one*.

8.2 Taxation system. Direct and indirect taxes

The mechanism for collecting taxes is based on *the taxation system which comprises the following elements*: subject of taxation, object of taxation, sources of tax payments, and quotas.

Subject of taxation is a taxpayer and a payer of fees.

All taxpayers can be divided into *two groups*:

1) legal entities; accounting entities which have an account with a bank and independently manage their property and products; separate units of enterprises which are not legal entities;

2) natural persons, including sole proprietors (using and not using hired labor).

Object of taxation is a taxable economic indicator.

Objects of taxation are profit, income, property, wage fund, sales, land plot area, quantity of consumed natural resources.

Sources of tax payments are payers' income from which they pay taxes.

Quota is part of a tax in payers' income.

Rate is the tax amount per unit of taxation.

Tax rates may be the same for the entire value of the object of taxation or may be *progressive*, i.e., increase depending on the increase of the object of taxation.

In the theory and practice of taxation, the issue of determining the optimal tax rate is of relevance. Raising the tax rate to the maximum level causes an increase in the amount of tax revenues. With a further growth in rates, there is a rapid decrease in the amount of tax revenues. *The threshold of the optimal tax rate is 30-35%.*

Principles of building a taxation system are:

- stimulation of entrepreneurial and investment activity by introducing profit tax reliefs;

- mandatory character – introducing norms for payment of taxes and fees which are determined based on reliable data on objects of taxation for the reporting period;

- equivalence and proportionality – collecting taxes from legal entities is carried out at a certain percentage of profits received;

- equality, prevention of manifestations of tax discrimination – ensuring the same approach to economic entities, legal entities and natural persons in determining the obligations to pay taxes;

- social justice – providing social support to low-income people by means of economically justified non-taxable minimum incomes;

- stability – ensuring that taxes and fees and their rates, as well as tax reliefs be unchanged within the fiscal year;

- economic justification – establishing taxes and fees based on indicators of development of the national economy, taking into

account the need to achieve balance between budget expenditure and revenue flows;

- periodicity of payments – setting the periods of payment of taxes and fees based on the need to ensure timely budget receipts to finance expenditures;

- competence – establishing and abolishing taxes and fees, as well as reliefs is carried out in accordance with the current tax legislation.

Direct tax is a tax levied by the state directly on the income or property of a taxpayer.

Direct taxes are set for each taxpayer individually.

Real tax implies the taxation of property on the basis of external principles.

Real taxes include land tax, trade tax, capital gains tax, and profit tax.

Indirect taxes are included in the price for goods and services.

In the world practice, there are three types of indirect taxes: excise taxes, fiscal monopolies and import duties.

Universal excise is an indirect tax, which is added to the total turnover of sales of goods (works, services) at one or more rates.

Specific tax is an indirect tax which is set at individual rates for particular types of goods.

Fiscal monopoly is the state's profits from selling goods the production and sale of which is monopolized by the state.

Import duty is established when goods are moved across the customs frontier of the state.

Indirect taxes, in comparison with direct ones, have both advantages and disadvantages. This type of taxes significantly impacts the overall pricing processes.

8.3 Taxes and fees envisaged by the legislation of Ukraine

The Tax Code of Ukraine regulates relations which arise in the sphere of imposition of taxes and fees, in particular, defines the list of taxes and fees imposed in Ukraine and the procedure for their administration; taxpayers and payers of fees, their rights and obligations; competence of controlling bodies, powers and duties of

their officials during tax control; legal liability for violating the tax legislation.

In Ukraine, *national* and *local* taxes and fees are established.

According to the Tax Code of Ukraine, *national taxes and fees* include:

- corporate profit tax;
- personal income tax;
- value added tax (VAT);
- excise tax;
- vehicle registration fee;
- environmental tax;
- rental charge for transportation of oil and oil products by oil trunk pipelines and petroleum product pipelines, transit transportation of natural gas and ammonia through the territory of Ukraine by pipelines;
- rental charge for oil, natural gas and gas condensate extracted in Ukraine;
- fee for subsoil use;
- land fee;
- fee for using the radio frequency resource of Ukraine;
- fee for special use of water;
- fee for special use of forest resources;
- fixed agricultural tax;
- customs duties;
- fee as a surcharge to the current tariff for electric and thermal energy, except for electric energy produced by qualified cogeneration units;
- fee as a surcharge to the current tariff for natural gas for economic entities of all forms of ownership.

Local taxes include:

- tax on real estate other than land plot;
- unified social tax.

Local fees are fees for conducting particular types of entrepreneurial activities, parking fee, tourist fee.

The Tax Code of Ukraine contains provisions on *tax control* – a system of measures taken by controlling bodies to monitor the correct charging of taxes and fees, completeness and timeliness of their payment, as well as adherence to the legislation on settlement and

cash operations, patenting, licensing and other legislation the control over the observance of which is entrusted to controlling bodies.

Tax control, as part of the implementation of measures taken by customs authorities to verify the correctness of the charging, completeness and timeliness of payment of taxes and fees, is an integral part of *customs control*.

Tax control is carried out through: keeping records of taxpayers; providing informational and analytical support for activities of state tax authorities; conducting tax audits and reconciliation, as required by the Tax Code of Ukraine, as well as statutory compliance audits which are entrusted to controlling bodies and carried out in accordance with the procedure established by other special laws regulating the corresponding sphere of legal relations.

According to the Tax Code of Ukraine, state tax authorities have the right to conduct all forms of tax audits.

For violations of the laws on taxation as well as other laws and regulations supervision of which is entrusted to controlling bodies, the following types of legal liability are used: financial, administrative and criminal.

8.4 Primary recording of the value added tax

Payments of the value added tax (VAT) to the budget are made in accordance with the Tax Code of Ukraine.

Primary records of VAT are included in tax invoices.

If a person obliged to register as a taxpayer has not been registered within the terms established by law and carries out taxable transactions related to sales of goods (works, services) which imply charging VAT but issues a tax invoice not including the tax amount to the budget, the tax invoice is considered a *pro forma invoice*.

For issuing a *pro forma invoice*, state tax authorities impose a fine of twice the received amount of VAT but not less than 1000 non-taxable minimum incomes.

A tax invoice is not issued if the amount of one-time sale of goods (works, services) does not exceed UAH 20 and in case of selling transport tickets and making out bills at a hotel. The reason for increasing the amount of tax credit is a sales slip or any other payment document.

In case of import of goods into the customs territory of Ukraine, a document which certifies the right to receive a tax credit and confirms the payment of VAT is a customs freight declaration, made in accordance with the requirements of legislation, or a *discharged tax anticipation bill*.

All copies of the tax invoice must be signed by the person authorized by the taxpayer to sell the goods (works, services) and sealed by the taxpayer – the seller.

8.5 Types of operations of business entities subject to taxation

In the context of business activities, the taxpayer is any person who:

a) carries out or plans to carry out economic activities and registers at the sole discretion as a taxpayer;

b) is subject to mandatory registration as a payer of a particular tax (if the total amount from supplying goods (services) during the last twelve calendar months exceeds 300,000; supplies goods (services) in the customs territory of Ukraine using global or local computer networks; carries out operations on selling the confiscated property;

c) imports goods (related services) in the amounts subject to taxation by a particular tax in accordance with the provisions of the corresponding Article of the Tax Code.

Object of taxation is transactions of taxpayers related to:

- supplying goods/services within the customs territory of Ukraine;

- importing goods/related services) under the customs regime of import or re-import;

- supplying (exporting, transmitting) goods/related services under the customs regime of export or re-export.

Non-taxable transactions include:

- issuance (emission) of securities on a cash basis, placement of securities issued by subjects of entrepreneurial activity, the National Bank of Ukraine, the Ministry of Finance of Ukraine, local self-governments in any form of ownership and their public offering (redemption, repurchase);

- clearing and settlement, registration and depositary activities in the securities market;

- bailment (safekeeping), as well as leasing (renting), except for the finance leasing;

- provision of insurance, co-insurance or reinsurance services by persons who have a license to carry out insurance activities;

- currency transactions (including national and foreign currency); transactions in precious metals; handling coins and notes issued by the National Bank of Ukraine, other than those used for numismatic purposes, the basis for the taxation of which is their sale value;

- provision of services related to cash logistics; business banking; attraction, placement and repayment of money under loan agreements;

- payment of the cost of state paid services provided to individuals or legal entities by executive authorities and local self-government bodies;

- cash payments of wages, pensions, scholarships, subsidies, grants from public funds or the Pension Fund of Ukraine.

In cases where a taxpayer carries out entrepreneurial activities related to supplying second-hand goods (commission trade) purchased from individuals who are not registered as taxpayers, the tax base is the commission fee of the taxpayer.

When rendering services related to transportation (transfer) of goods (freight, passengers) through the customs territory of Ukraine, the tax base is calculated on the basis of the cost of services for the through transportation (transfer).

VAT exempt transactions include:

- supplying domestic food products for infants by infant-feeding centers;

- delivering (providing subscription to) print media and books;

- rendering educational services by children's music and art schools;

- supplying special purpose goods for disabled people, including cars;

- rendering services related to payment and delivery of pension benefits;

- rendering services related to registration of civil status acts by state authorities;
- supplying medicines and medical devices registered and approved for the use in Ukraine;
- rendering health care services;
- offering health resort vouchers for persons under the age of 18.

The objects of taxation are taxed at the rate of 20%.

The tax amounts to 20% of the tax base and is added to the price of goods (works, services).

The amount of VAT to be paid to the budget is determined as the difference between the total amount of tax liabilities arising from sales of goods during the reporting period and the amount of tax credit for the reporting period.

8.6 Essence of the profit tax, its elements

Object of taxation is the profit from activities carried out in Ukraine and abroad, which is determined by subtracting the cost of goods sold, works performed, services rendered and the amount of other expenses for the reporting tax period from the total revenue for the reporting period.

Incomes are determined based on the primary documents confirming their receipt by a taxpayer, the mandatory keeping and storage of which is envisaged by the rules of accounting.

Additional revenues include:

- income in the form of dividends received from non-residents, interest, royalties, debt instruments;
- income from renting/leasing;
- amount of fines and/or penalties, or late payment interest fees actually received upon the decision of the parties to an agreement or relevant state authorities, the court;
- cost of goods, works, services received free of charge by the taxpayer during the reporting period;
- amount of reimbursable financial assistance which is received by the taxpayer in the reporting tax period and remains unpaid at the end of the reporting period;

- amounts of grants, subsidies, capital investments from compulsory state social insurance funds or budgets which are received by the taxpayer;

- incomes not accounted in the periods preceding the reporting period and revealed in the reporting tax period;

- proceeds from sales of non-current tangible assets, property complexes, working capital;

- other taxpayer's incomes for the reporting tax period.

A taxpayer has the right to record documented expenses to determine the object of taxation.

8.7 Procedure for calculating the profit tax

The responsibility for the completeness of the charging and timely transfer of the tax to the budget is the responsibility of taxpayers who make the corresponding payments.

Tax (reporting) periods for paying corporate profit tax are calendar quarter, half calendar year, three subsequent quarters, calendar year.

At the same time, the tax return is calculated as progressive total.

The tax (reporting) period begins with the first calendar day of the tax (reporting) period and ends with the last calendar day of the tax (reporting) period.

If a taxpayer is liquidated, the last tax (reporting) period is the period the liquidation date refers to.

The annual tax (reporting) period is set for the following categories of taxpayers:

- a) taxpayers registered during the tax (reporting) year (startup businesses);

- b) agricultural producers;

- c) taxpayers whose annual revenue from any activity does not exceed UAH 20 million.

At the same time, the annual revenue from any activity determined based on the indicators of the Profit and Loss Account (Income Statement) includes the income (proceeds) from sales of products (goods, works, services), other operating income, financial income, and other incomes.

Vocabulary to Section 8 (Subsection 8.1):

business taxation	оподаткування підприємницької діяльності
profit tax	податок на прибуток
state special purpose fund	державний цільовий фонд
taxation system	система оподаткування

Vocabulary to Section 8 (Subsection 8.2):

accounting entities	суб'єкти бухгалтерського обліку
capital gains tax	податок на грошовий капітал
excise tax	акциз
fiscal monopoly	фіскальна монополія
import duty	ввізне мито
non-taxable minimum incomes	неоподатковуваний мінімум доходів
profit tax reliefs	пільги з податку на прибуток
real tax	реальний податок
sole proprietors	одноосібники
specific tax	специфічний податок
tax discrimination	податкова дискримінація
tax revenues	податкові надходження
taxable	оподатковуваний
trade tax	податок на промисел
universal excise	універсальний акциз

Vocabulary to Section 8 (Subsection 8.3):

ammonia	аміак
cogeneration units	когенераційні установки
corporate profit tax	податок на прибуток підприємств
customs duties	мито

environmental tax	екологічний податок
fee for special use of water	плата за спеціальне використання води
fee for subsoil use	плата за користування надрами
fixed agricultural tax	фіксований сільськогосподарський податок
land fee	плата за землю
oil trunk pipelines	магістральні трубопроводи
parking fee	плата за паркування
personal income tax	податок на доходи фізичних осіб
petroleum product pipelines	трубопроводи нафтопродуктів
radio frequency resource	радіочастотний ресурс
rental charge	плата за оренду
statutory compliance audits	обов'язкові аудиторські перевірки
surcharge	доплата
tax on real estate other than land plot	податок на нерухоме майно, відмінне від земельної ділянки
tourist fee	туристичний збір
unified social tax	єдиний соціальний податок
vehicle registration fee	плата за реєстрацію транспортного засобу

Vocabulary to Section 8 (Subsection 8.4):

customs freight declaration	митна декларація вантажу
discharged tax anticipation bill	погашений податковий вексель
pro forma invoice	фіктивна накладна
sales slip	товарний чек
tax credit	податковий кредит

Vocabulary to Section 8 (Subsection 8.5):

at the sole discretion	на власний розсуд
bailment	передача майна у схов
business banking	розрахунково-касове обслуговування
cash logistic	інкасація
clearing and settlement	розрахунково-клірингова
commission trade	комісійна торгівля
finance leasing	фінансовий лізинг
food products for infants	харчові продукти для немовлят
infant-feeding centers	молочні кухні для немовлят
issuance (emission) of securities on a cash basis	випуск (емісія) цінних паперів на грошовій основі
medical devices	медичні прилади
medicines	ліки
payment of the cost	оплата вартості
precious metals	дорогоцінні метали
print media	друковані медіа
redemption	погашення
registration of civil status acts	реєстрація актів цивільного стану
repayment	погашення
repurchase	викуп
safekeeping	зберігання
sale value	вартість продажу
tax liabilities	податкові зобов'язання
through transportation	транзитне перевезення

Vocabulary to Section 8 (Subsection 8.6):

debt instruments	боргові вимоги
fine	штраф
grant	дотація
late payment interest fee	пеня

non-current tangible assets	необоротні матеріальні активи
penalty	неустойка
property complexes	майнові комплекси
reimbursable financial assistance	поворотна фінансова допомога
subsidy	субсидія

Vocabulary to Section 8 (Subsection 8.7):

calculated as progressive total	обчислюється нарастаючим підсумком
corporate profit tax	податок на прибуток підприємств
financial income	фінансовий дохід
Income Statement	звіт про сукупний дохід
operating income	операційний дохід
tax return	податкова декларація
the Profit and Loss Account	звіт про фінансові результати

Theoretical questions to Section 8:

1. What are taxes and fees (obligatory payments) paid to budgets and state special purpose funds?
2. What is a state special purpose fund?
3. Describe the economic essence of taxes.
4. What is the subject of taxation?
5. What is the object of taxation?
6. Name the sources of tax payments.
7. What is a quota?
8. What is a tax rate?
9. Describe the concept of direct tax.
10. Describe the concept of indirect tax.
11. What is a universal excise?
12. What is a specific tax?
13. What taxes and fees are included into the list of national taxes and fees in Ukraine?

14. What local taxes can be imposed in Ukraine?
15. What document includes the primary records of VAT?
16. Who is a taxpayer?
17. What transactions are exempt from VAT?
18. What tax objects are taxed at the rate of 20%.
19. What is the economic essence of the profit tax?
20. What is the procedure for calculating the tax on profits?
21. What is the tax period? What tax periods can you name?

Test tasks 8:

1. Taxes fulfill the following basic functions:

- a) fiscal;
- b) distributing;
- c) prohibiting;
- d) stimulating.

2. The sources of tax payments are ...

- a) the income of the payer from which he pays tax;
- b) part of the tax in the income of the payer;
- c) the tax rate per unit of taxation;
- d) there are no correct answer.

3. Verification, which carried out in the premises of the State Tax Service Administrations solely on the basis of the data indicated in the tax returns (calculations) of the taxpayer is called ...

- a) the documentary check;
- b) the office check;
- c) the actual check;
- d) the unpredictable check.

4. Verification, the subject of which is the timeliness, reliability, completeness of charging and payment of all taxes and fees provided by the Tax Code of Ukraine, is called ...

- a) the documentary check;
- b) the office check;
- c) the actual check;

d) the unpredictable check.

5. Verification, which carried out at the place of actual conduct of the taxpayer's activities, is called ...

- a) the documentary check;
- b) the office check;
- c) the actual check;
- d) the unpredictable check.

Practical task 8:

It is necessary to present the balance of incomes and expenses for the enterprise with the general system of taxation (Tbl. 8.1). Calculate the gross profit and net profit of the enterprise.

Table 8.1

Financial plan (balance of incomes and expenses) including VAT, thousand UAH

<i>Indicator</i>	Year				<i>Total for 1 year</i>
	1st quarter	2nd quarter	3rd quarter	4th quarter	
1. Income from sales of products with VAT	100,00	120,00	140,00	95,00	455,00
2. Including value added tax (1 · 0,1667)	16,67	20,00	23,34	15,84	75,85
3. Income excluding VAT (1 – 2)	83,33	100,00	116,66	79,16	379,15
4. Total expenses	84,00	96,00	103,00	79,00	362,00
5. Including VAT expenses	84,00	96,00	103,00	79,00	362,00
6. Including value added tax (5 · 0,1667)	14,00	16,00	17,17	13,17	60,35
7. Total expenses excluding VAT (5 – 6)	70,00	80,00	85,83	65,83	301,65
8. VAT to be paid (2 – 6)	2,67	4,00	6,17	2,67	15,50
9. Gross profit (3 – 7)	13,33	20,00	30,83	13,33	77,50
10. Income tax (9 · 0,18)	2,40	3,60	5,55	2,40	13,95
11. Net profit (9 – 10)	10,93	16,40	25,28	10,93	63,55

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