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The speciality of bankruptcy of Hungarian companies in food industry

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Abstract

The number of bankruptcy of the enterprises has been increased extraordinary in the past few years in Hungary. Very important for all the members of the economics to monitor the forecast of the companies' bankruptcy, especially in the current financial crisis. We could find analysis in the literature which monitor mostly only the large companies, which operate on Stock Exchange. Those databases are relatively homogene and therefore could be more exact than the sector of the heterogen companies. In these Hungarian economic structure the number of the small enterprises are dominated, which means, they take the 90% of the companies of the market, with extensive activities. Considering the differences of the companies, - as we mentioned above - it could be very useful to make the analyses only for the selected sector. In this study we analyse the structure of Hungarian food companies and the development of the industrial structure of the enterprises. The main part of this study is to analyze the reasons of bankruptcy of the small food enterprises in Hungary.

The effectiveness and liquidity of the companies can be determined by the Annual Report. By analyze the data of the Annual Report we can conclude the financial, income and profit status. These analyses are not able to ensure the future data – because we analyze from the information of the previous year – anyhow if there was no any other information, than the company's future status can be estimated by the appropriately selected financial ratios. It has to be mentioned that the use of the financial ratios contains contradiction, because different sector of industries are not comparable. Therefore the financial ratios has to be construe globally with additional information of the company (Rate of return, competition, velocity, economic cycles). The main goal of this study is to analyse the financial index of the food companies which are taken from their Annual Reports, and by using particular indexes, to be able to find the significant indexes to separate the enterprises into solvent and insolvent companies.

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1. Introduction

Beyond its contribution to the GDP the national-economic significance of food processing includes the role that the sector plays in food security. Food processing is a very significant branch in Hungary because it is the main sales market of the agricultural production.

The majority of the food processing enterprises are small and medium-sized enterprises including micro and small enterprises with extremely low productivity as well as large companies determining supply. The latter have more significant equity ratio so their operation is less exposed to economic fluctuations. (Kotormán, 2002)

2. The result of food processing activity

Food processing enterprises operate with considerable debts combined with high interests and exchange rate losses; consequently the bottom line is typically in the red. The figure below shows that in 2008 the sector produced a negative result after tax. This can be attributed partly to the significant financial losses which exceeded 50 billion forints in that year. In 2009 and 2010 the sector had a profit that was similar to the previous years thanks to the decrease of the agricultural raw material prices on the one hand, and on the other hand to the decrease of the financial loss. Between 2010 and 2012 the price of agricultural raw material was growing considerably, which in turn had a negative effect on the taxed results of the enterprises. (Ministry of Rural Development 2012)



Fig. 1. Course of Taxed profit and Income from operations of industrie (2004-2012; data in Hungarian Forint)

Source: Own adjustment based on Ministry of Rural Development 2012

In the food industry the proportion of invested assets is below 50 percent, which is due to the large debt portfolio. The sector operates with high levels of indebtedness and with a barely appropriate ratio of own capital; this situation is similar in other sectors of the national economy too.

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