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Profitability Analysis of the Enterprise

Products produced by the company, provided that they are sold to the consumer, become a commodity. It is at the stage of sale when the value of a product is included, which includes the cost of past labor and living labor. The cost of living labor reflects the newly created cost and falls into two parts: the first represents the wages of employees who took part in the process of production. Its size is determined by a number of factors due to the need to reproduce the workforce, and it represents a share of production costs. The second one reflects the net profit that is realized as a result of sales of products and at the enterprise level takes the form of profit.

Profit is one form of cost of an additional product that serves as the difference between the sales price of the product and the cost of its reproduction, the source of budget revenues, the financing of expanded reproduction and the promotion of employees. Profit is the main indicator of economic efficiency.

In the commodity market enterprises act as relatively separate commodity producers that sell products to the consumer making profit. To reveal the financial result from the sale of products, it is necessary to compare the gross income with the gross expenses for production and turnover, which take the form of the cost of production. When the gross income exceeds the expense, the financial result indicates a profit.

There are several functions of profit: the estimation function reflects the effect of using the company's main resources; the stimulating function of profit is aimed at reducing production costs by introducing innovations, which increases the possibilities of increasing production and increasing the scale of business; the function of economic calculation shows that the company's revenues can not only cover the costs but also the reserve; the distribution function provides the choice of entrepreneurial activity among alternatives; the indicative function of profit provides the enterprise with information about the assessment of its activities and the market's fullness of goods, giving an economic signal of the need to increase or decrease production volumes; reproductive function serves as a source of expanded reproduction of fixed and working capital of the enterprise.

There are several types of profit: gross profit, standard income, operating, financial and investment income, profit from ordinary activities, profit from extraordinary activities, taxed profits, net profit.

Gross profit, P_g, is calculated as the difference between net income (revenue) and the cost price of sold products:

$$Pg = NP - C_z$$

P_g – net income (revenue); C_z – entrepreneurial cost of production; NP – net profit.

Normative profit, P_n, is a part of the net income from the main activity, which remains after deduction of expenses for its realization.

$$\mathrm{Pn} = \mathrm{NP} - \mathrm{Ck} = \mathrm{NI} - (\mathrm{Cz} + \mathrm{Es})$$

C_k – commercial cost; E_s – expenses for the sale of products.

Normative income is calculated when planning the company's activities for the next year, therefore, it is defined as the minimum amount of profit when a company can survive under market conditions, to ensure its financial stability, maintaining the necessary level of competitiveness. Can be calculated by the formula:

$$\mathrm{Pn} = \frac{K \times \mathrm{RK}}{100 - \mathrm{Tpr}}$$

K – value of own capital; R_K – return on equity; T_{pr} – tax rate.

Operating profit, P_o, is defined as the algebraic sum of gross profit, other operating activities, administrative expenses, expenses on sales of products and other operating expenses. Profit from investing activities is the profit that investor receives from investing in any assets of an enterprise that is not part of the equivalent cash (reconstruction, new construction). Profit from financial activities is the profit from placement and turnover of securities (dividends, interest). Profit from ordinary activities (financial result before taxation) is an algebraic sum of all types of entrepreneurial activity. Net profit, NP, is a part of the profit from all activities remaining after tax and after adding the amount of income tax revenue.

Each company should provide for planned measures to increase profits. In general, these measures may be of the following nature: increase in output; improvement of product quality; the sale of surplus equipment and other property or leasing it; lower cost of production at the expense of more rational use of material resources, production capacities and areas, labor and working time; diversification of production; expansion of the sales market, etc. From this list of measures follows that they are closely linked with other measures at the enterprise, aimed at reducing production costs, improving product quality and the use of factors of production.

Despite the fact that profit is the most important economic indicator of the company, it does not characterize the effectiveness of its work. It is necessary to compare the results (in this case, profit) with the costs or resources that provided these results to determine the efficiency of an enterprise.

Thus, profit characterizes the financial result of the entrepreneurial activity of the economic entity. Profit serves as an indicator that most fully reflects the efficiency of production, the volume and quality of manufactured products, the state of labor productivity and the level of cost. Profit, on the one hand, is a financial result, one of the main indicators of the evaluation of the enterprise, and on the other – the main source of own financial resources of the enterprise, which really provides the principle of self-financing. At the expense of profits, funding is being made for scientific, technical and socio-economic development of enterprises and an increase in the wage fund of their employees. Finally, profit is one of the sources of budget formation and extra budgetary funds. It enters the budget in the form of taxes and along with other revenue streams is used to finance public consumption.