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**THE IMPORTANCE OF PROFITABILITY INDICATORS IN ASSESSING
THE FINANCIAL PERFORMANCE OF AN ORGANIZATION**

Introduction. Having determined profit, it is impossible to make conclusions about the effectiveness of activities. Analysis of the financial efficiency of the organization's activities involves the investigation of all documentation and reporting. It is important to take into account a number of economic indicators.

Main part. To start with, in the analysis of the economic performance of business entities, it is necessary to include the calculation of indicators:

- 1) profitability of the organization's activities;
- 2) indicators of the structure and dynamics of the assets, equity and liabilities;
- 3) coefficients of current liquidity and provision with assets;
- 4) indicators of financial dependence and independence of the organization from borrowed funds.

One of the key indicators is profitability. Profitability is the percentage of the organization's profit attributable to the total revenue of the organization, revenue from the sale of products or capital [1; 2].

Types of profitability and calculation formulas are described in table 1.

Table 1 — Types of profitability

Type of profitability	Calculation formula
Return on equity	$\frac{\text{Net income}}{\text{Total equity}} 100 \%$
Return on investment	$\frac{\text{Operating income}}{\text{Cost of sales}} 100 \%$
Profitability of sales	$\frac{\text{Operating income}}{\text{Received revenue}} 100 \%$
Return on circulating capital	$\frac{\text{Net income}}{\text{Current assets}} 100 \%$

However, it is not enough to calculate these indicators and monitor the dynamics. It is also required to assess the significance and impact of profitability indicators on the organization's activities, taking into account their characteristics. If the values of the indicators tend to zero, it does not mean that the organization inefficiently uses its own resources. In fact, if the profitability in the reporting period decreased in comparison to the previous period, this does not mean that less profit was received. We justify our point of view with an example.

Example: Given data for 2 periods. In the reporting period, the company received revenue in the amount of 100 thousand rubles, in the previous period — 120 thousand rubles. The cost of sales in the reporting period amounted to 70 thousand rubles, in the previous period — 100 thousand rubles.

It is required to determine the size of the operating income and profitability of sales using the next formula:

$$\text{Operating income} = \text{Received revenue} - \text{Cost of sales.}$$

According our previous example, we have results:

$$\text{Operating income in the reporting period} = 100 - 70 = 30 \text{ thousand rubles.}$$

$$\text{Operating income in the previous period} = 110 - 100 = 10 \text{ thousand rubles.}$$

$$\text{Profitability income in the reporting period} = \left(\frac{30}{100}\right) 100 \% = 30 \%$$

$$\text{Profitability of sales in the previous period} = \left(\frac{10}{110}\right) 100 \% = 9,09 \%$$

An organization may have lower profits than competitors, but its transactions may be more profitable. Moreover, an organization can have a much higher profitability, but most of the profits can be spent on repaying the organization's debts to creditors and banks.

Analysis of the structure and dynamics of the balance sheet allows to monitor the change in the values of financial indicators of the organization's activities and determine the degree of influence of individual items on the balance sheet.

The specifics of the activity will be reflected in liquidity. In general, the turnover period of the organization's assets is higher for consumer goods, since the demand for them is quite constant and they are sold in large quantities. For organizations in the heavy and extractive industries, as well as agriculture, liquidity is much lower, since demand may depend on orders, the availability of required materials, or be seasonal.

The current ratio reflects the organization's ability to pay short-term obligations and is a multiple of the value of a short-term asset and short-term liabilities. The normative value of the current ratio in the Republic of Belarus is from 1 to 1.7. The asset coverage ratio (equity to total assets ratio) reflects the organization's ability to pay its own obligations and is a multiple of the organization's liabilities and the balance sheet total. The normative value of the asset coverage ratio is less than 0.85 [3].

The calculation of the debt ratio is determined as a part of the organization's balance sheet. The financial independence ratio formula is the sum of short-term and long-term liabilities divided by the balance sheet total. Measuring dependency is directly proportional to the value of the debt ratio.

The equity ratio of organizations represents a large share of equity and major liabilities divided by the balance sheet total.

Various approaches are used in the world practice to calculate the performance indicators of an organization. One of the methods is IFRS Financial Ratios. Return on total capital shows the interest on total capital, which comprises both total equity and liabilities. This indicator is generally used as a starting point for all further analyses using profitability indicators. The advantage of this method is that it allows us to visualize return on total capital. The disadvantage is that it is highly dependent on accounting policy [4].

However, if the amount of long-term and short-term liabilities is greater than the balance sheet, it does not mean that the company is operating at a loss or does not have its own funds. For instance, the amount of long-term and short-term liabilities is 100 thousand rubles, while accounts receivable is 120 thousand rubles. The organization has to resort to the use of borrowed funds to maintain its financial position until the accounts receivable are paid off.

In addition, in the world practice, the calculation of such ratio as return on total capital shows the interest on total capital, which comprises both total equity and liabilities.

Conclusions. Analysis of the main financial indicators of the organization's activities allows us to assess the degree of efficiency in the use of resources of an economic entity and determine the reserves and opportunities for the development of activities.

References

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