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METHODOLOGICAL ASPECTS OF PROFITABILITY ANALYSIS

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Abstract. The article discusses the methodological aspects of the analysis of indicators that affect the profitability of the enterprise, highlighted the dependence of the impact of economic factors on the profit and profitability. The factors affecting the profitability of labor resources are studied, methods of their analysis are presented.

Key words. Economic analysis, profitability, return on sales, profit, labor resource, production profitability, labor productivity.

Introduction. Variations in the economy are affected by many factors at different levels. Despite the fact that the degree of influence of factors is large or small, regardless of whether they are important or not, each of them plays a certain role in changing the result. The establishment of the production of high-performance products in business enterprises is also an important factor in the development of economic entities. This factor plays a significant role in the sustainable development of the economy, both at the micro level (on the scale of a single enterprise) and macro (on the scale of enterprises). One of the factors determining the effectiveness of business enterprise, is a measure of profitability.

Profitability indicators are at the beginning of decision-making process on operations, maintaining efficiency and future business stability by providing concrete and realistic information on the company's financial aspects. In particular, the value of the profit indicator is that managerial decision-makers can serve as radar for indications of changes in business, investment and financing. [1]

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Taking into account that it is not possible to bring profitability indicators into the same system and cover their needs or weaknesses in a single article, we would like to present our point of view as an indicator of profitability of labor resources.

The net profit of enterprises is recognized as the outcome of financial results and on the basis of this line one of the key performance indicators of enterprises - profitability indicators are determined. Profitability indicators are determined based on the following general formula:

$$R = \frac{P * 100\%}{K}$$

Here, P-profit, K- the value of the indicator, the profitability of which must be calculated.

Profitability is one of indicators that indicates the effectiveness of economic activity, indicating the profitability (or profitableness) of production activity during certain periods (years, quarter, months). Profitability of the enterprise is determined by comparing the received profit to the expenses incurred and expressed in percentages.

Indicators of profit characterize absolute efficiency of the economic activity of the enterprise. Along with the absolute indicators, relative indicators are identified – profitability indicators. [2] Profitability ratios reveal the company´s ability to earn a satisfactory profit and return on investment. The ratios are an indicator of good financial health and how effectively the company in managing its assets. [3]

One of the most important tasks of economic analysis is to determine the dynamic changes in profitability levels along with the factors affecting them. Because the factors and the degree of change in the level of profitability of each business entity, as well as the state of resource use of business entities can be assessed only by determining the profitability levels and the factors influencing them.

Analysis. Revenues, costs, and financial results of businesses depend on the effective utilization of available resources. Resources used in the manufacture and sale of a product include:

- production personnel;
- main production funds;

- material resources;
- financial results (profit).

For a comprehensive assessment of the use of resources, growth rates of indicators are compared with the previous year. The analysis examines the level of intensive use of all resources by economic entities and the possibility of its increase.

Effective and intensive use of existing labor resources in economic entities operating in the country is crucial and is one of the key factors affecting financial results. In this regard, one of the indicators to be determined in the financial results analysis is the profitability of labor resources and it is calculated as follows:

$$R_{lr} = \frac{Profit * 100}{Average\ number\ of\ employees}$$

The dependence of the profitability of labor resources with efficiency indicators can be summarized as follows:

$$R_{lr} = \frac{P}{E_{an}} = \frac{P}{R} * \frac{PV}{E_{an}} * \frac{R}{PV} = R_s * LP_e * SP$$

Here:

P - profit;

E_{an} - average number of employees;

R - net revenue from sale;

PV - production volume;

R_S - return on sales;

LP_e - labor productivity per employee;

SP - share of product sold on production volume.

The following are factors that influence the level of profitability of labor resources and we will analyze them more deeply:

1. Return on sales (P/R)
2. Labor productivity per employee (PV/E_{an})
3. Share of product sold on production volume (R/PV)

Factors are expressed in the formula as follows:

f=xyz

The effect of each factor on the level of profitability on the basis of the above formula calculated as follows:

$$\Delta f(x) = \Delta x \bullet y^0 \bullet z^0$$

$$\Delta f(y) = x^1 \bullet \Delta y \bullet z^0$$

$$\Delta f(z) = x^1 \bullet y^1 \bullet \Delta z$$

$$\Delta f = \Delta f(x) + \Delta f(y) + \Delta f(z)$$

This correlation can be seen in the example below.

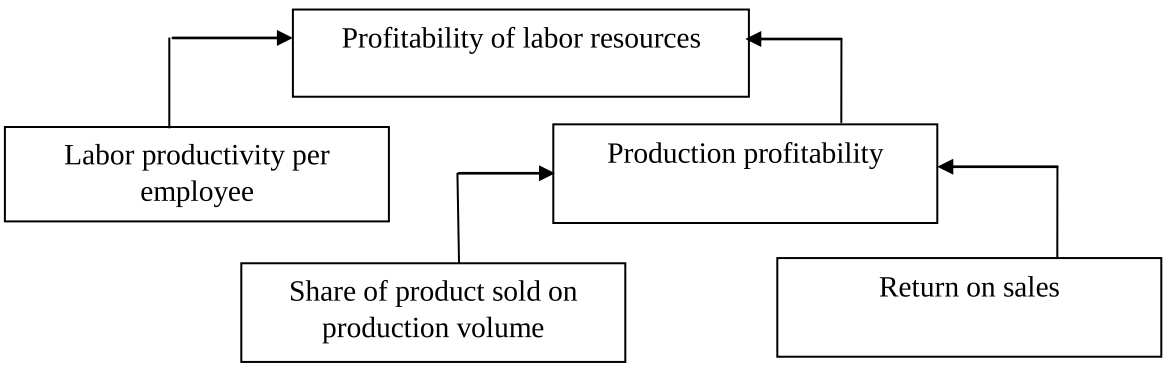

Figure 1. Structural factor model of labor resources profitability

The productivity of labor resources has been determined based on the relationships between performance indicators such as productivity, product sales, sales profitability and product profitability. Determining the profitability of labor resources, depending on the performance indicators, shows in which areas or in which indicators of economic entities it is necessary to conduct analytical work.

Conclusion. Now we will consider cases related to these performance indicators.

1. Decrease in the share of sold products in the volume of production indicates the need to conduct analytical work on marketing activity in economic entities. Of course, the non-realization of the produced product negatively affects the financial results of the enterprise. In these cases, economic entities are encouraged to carry out analytical work at the following stages:

a) classification of goods. Consequently, goods should be classified into groups;

b) to determine the level of response to several variables of the goods to ensure the sale of each commodity and its competitiveness;

c) studying the market and its structure and the level of competitiveness in the market;

d) studying the average living standards of the population;

e) advertising activities.

2. The decline in productivity of an employee means that the level of intensive use of labor resources in the enterprise is low. In such cases, the degree of compliance of employees with the internal discipline in the economic entities will be studied, and measures to increase their labor productivity will be developed. Within the framework of such measures, the employees are financially and spiritually stimulated.

3. Decrease in return on sales reflects the low share of profits in the net income of economic entities. This could be due to other processes in the main activity of the enterprise, the high costs of the financial activity, the increase in overdue expenses and the higher tax rates. In such cases, economic entities should identify the processes and factors affecting profitability and conduct appropriate analytical work on these cases.

Based on the above opinions, it can be concluded that the continuous development of enterprises through the achievement of efficiency in business activity is a requirement of an economy based on market relations. Proper identification and analysis of profitability indicators and their proper use will remain one of the most important guidelines for the management of business enterprises. If industry experts foresee and are aware of events that have occurred or may occur in economic relations, they will be able to prevent the risks arising from the implementation of activities. This means the right direction of business.

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