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THE ROLE OF PROFITABILITY IN THE FINANCIAL ACTIVITY OF AN ECONOMIC ENTITY

The main purpose of this article is to properly manage the financial activities of business entities. The main goal is to ensure sustainable development and growth by examining the role of profitability in financial performance. The profitability assessment is carried out to measure the efficiency of an enterprise and the profitability of its products. With this in mind, consider the rules for calculating the profitability of each management body working to make a profit.

The assessment of profitability is the most important issue explored in this article. Given that every firm or enterprise is created to make a profit, the profitability of that company should be strictly controlled by the company's owners, investors, and the government. Protecting the profitability of the company is to ensure high returns to shareholders. The government has two primary interests in a company's high profitability:

1. Maintaining healthy competition in the country while keeping the purpose of the company intact.

2. High taxes.

Conducting a correct financial analysis is an important indicator for the study of this issue. For this purpose, such financial ratios as liquidity ratio, portfolio management ratio, debt management ratio, profitability ratio, and market value ratio were studied in detail. The summary of the researched issues is as follows:

1. Liquidity ratio indicates the firm's ability to repay overdue debts during the year.

2. The portfolio management ratio shows how a firm uses its total assets.

3. The debt management ratio refers to a firm's ability to repay its long-term debt and how it finances its total assets.

4. The profitability ratio shows how profitable the firm is in managing and using total assets.

5. The market value ratio expresses the value of firms listed on the stock exchange and forms investors' opinions about the firm and its future.

If these components are presented more broadly with a Trend (T test), a more detailed profitability analysis emerges. As a result of the above, proper financial analysis and profitability management will lead to the healthy development and growth of both the economic entity and the state.

Key words: *profitability, sales, assets, turnover, debt, income, interest, ratio, risk, bankruptcy, liquidity, investment.*

Introduction. Profitability in Microeconomics. Microeconomics means the study, organization, and management of production and services at the enterprise and firm level. The enterprise, firm, company and other centers that make up the core of the economy choose models of more efficient organization of production and services, striving to produce more and better products at lower costs. In this context, economic factors such as production costs, profits, prices, wages, supply and demand are used more specifically, and more flexible forms of management are chosen [2, p. 26–27].

Given that every firm or enterprise is created to make a profit, the profitability of that company should be strictly controlled by the company's owners, investors, and the government. Protecting the profitability of the company is to ensure high returns to shareholders. The government has two primary interests in a company's high profitability:

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Analysis of recent research. Researchers have a large volume of research on financial performance. However, there are relatively few studies devoted only to profitability. To the list of basic research on the role of profitability in finance it is possible to add the following scientific works: Fundamentals of Financial Management by Nevzat Aypek, Fundamentals of Economics by Nicholas Gregory Mankiw, English economics, finance and trade terms by Mahmut Sami Akgun, Alphabet of financial markets "by Elshan Guliyev, Shahriyar Gurbanzade," Financial Theory "by Bayali Atashov, Nurpasha Novruzov, Elshan Ibrahimov, Sifariz Sabzaliyev. The article was written with references to relevant scholarly works.

The purpose of the article. The purpose of the study is to develop theoretically and practically important recommendations and suggestions to improve profitability and business activity in commercial organizations.

Discussion. The profitability assessment is carried out to measure the efficiency of the enterprise and the profitability of its products. With this in mind, consider the rules for calculating the profitability of each governing body working to make a profit. Before we can evaluate the profitability of a firm, we need to be able to analyze the financial statements of that management. Consider the division of ratio analysis and analyze them in the financial statements.

The main points to consider in this case are as follows [6, p. 168–169]:

– comparison of the value of total assets owned by firms;

– comparison of income with interest expense;

– an estimate of the cash available for interest payments.

In order to analyze these issues, it is necessary to find a number of coefficients. These coefficients can be divided into 5 categories:

1. Liquidity ratio indicates the firm's ability to repay overdue debts during the year.

2. The portfolio management ratio shows how a firm uses its total assets.

3. The debt management ratio refers to a firm's ability to repay its long-term debt and how it finances its total assets.

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5. The market value ratio expresses the value of firms listed on the stock exchange and forms investors' opinions about the firm and its future.

Here's a closer look at each of these five categories.

The liquidity ratio itself is divided into two parts:

1. Current ratio.

2. Acid-test ratio [1, p. 101].

The current ratio is measured by the ratio of tangible assets to current liabilities.

Current ratio = tangible assets / current liabilities

Sector average = 4.2 x

The fact that the current ratio is small compared to the sector average means that the company needs to recheck its liquidity. There are two conditions here:

1. If the current liquidity ratio is small with a slight difference from the industry average, then it can be said that there is no great danger for the firm. That is, this problem can be solved by increasing proper strategic liquidity.

2. If the current ratio is drastically lower than the industry average, the firm is more likely to go bankrupt.

Acid-test ratio, calculated by dividing finished products from tangible assets by short-term liabilities.

Acid-test ratio = (tangible assets – finished product) / short-term liabilities

Sector average = 2.2 x

The acid-test ratio is the more efficient ratio. In general, the fact that both the current ratio and the acid-test ratio are equal to or exceed the sector average indicates that the company is an EBIT company.

Asset management ratios. It is possible to analyze the asset management ratio by dividing it into 4 parts: 1) inventory turnover rate; 2) days sales outsdanting; 3) tangible asset turnover; 4) total asset turnover rate.

The inventory turnover rate is equal to the ratio of sales to different assets. As the name implies, these ratios show how many assets were transferred during the year.

Inventory turnover rate = sales / different assets

Sector average = 10.9 x

If a firm's inventory turnover rate is lower than the industry average, it means that the firm is holding excess inventory. Excess inventory, of course, is inefficient, a sign of small or zero return on investment. A drastic difference between the inventory turnover rate and the sector average indicates that the firm's products are unusable.

Days sales outsdanting.

Days sales outsdanting is the average time a company waits to receive payment after a sale. The average for the sector is 36 days. Days sales outsdanting is also understood as the Average Collection Period (ACP) [7, p. 84–85].

Days sales outsdanting = DSO = receivables / average daily sales = receivables / (annual sales / 365)

The fact that the DSO is higher than the average for the sector indicates that customers who owe the company do not pay on time, and as a result, the company pays its debts late [1, p. 103].

The tangible asset turnover measures the period of use of the firm's facilities and equipment.

Tangible asset turnover = sales / net tangible assets

The average index in this sector is 2.8x. If a firm's tangible asset turnover ratio is higher than the average for the sector, this means that facilities and equipment are in constant use. It is also normal that in older firms this coefficient is always high.

The total asset turnover rate measures the turnover rate of all assets of the company. The average value in this sector is 1.8x.

Total assets turnover rate = sales / total assets

If the total assets turnover rate is lower than the industry average, it means that the firm is not able to sell enough.

The debt management ratio gives an indication of how a firm's total assets are financed, as well as its ability to repay long-term debt. In other words, if a firm earns more than the interest on its assets, the use of debt will increase the firm’s profitability (ROE), that is, «increase the debt-to-private equity ratio». Debt, however, would expose the firm to higher risk if it simply invested in private capital [4, p. 23–24].

A company can take out loans for two reasons:

1. Because of its ability to reduce interest, the use of debt reduces the tax invoice and ensures that most of the company's income is passed on to shareholders.

2. If the rate of return on an asset is greater than the interest rate on the debt, the funds from the debt can be distributed to shareholders to purchase assets, and the remaining amount as a bonus.

In order to better understand the above, it is necessary to pay attention to how the debt ratio and the time-interest earnings ratio are calculated and used.

The ratio of total debt to total earnings, called the debt ratio, is the percentage of funds that are debtors (total debt includes all existing liabilities and long-term debt).

Debt ratio = (total debt / total profit) * 100%
Sector average = 40%

The fact that the debt ratio is higher than the sector average indicates that private capital increases carry the risk of new borrowing. At the same time, it clearly shows that shareholders and other fundraising firms cannot raise additional funds. If the firm does not attempt to lower the interest rate, the risk of bankruptcy will be increased.

The Times Interest Earned (TIE) ratio is obtained by dividing interest income and pretax income by interest expenses:

TIE = EBIT / Interest expenses
Sector average = 6.0 x

The TIE ratio measures the level by which a firm's income can fall before the firm can cover its annual interest expenses. Failure to pay interest will lead to lawsuits by debtors, which will inevitably lead to the bankruptcy of the enterprise. In other words, the TIE is a measure of how many times a firm can protect interest expenses. If this ratio is lower than the sector average, it means that interest expenses are not adequately protected and additional borrowing brings the firm closer to bankruptcy.

Financial reporting includes events from the past. At the same time, it hints at what really matters, namely the results to be achieved in the future. The liquidity and debt portfolio management ratios discussed so far provide information about the firm's policies and operations. Now consider the profitability ratios, which reflect the end result of financial policies and activities of all firms [4, p. 67–68]. The profitability ratio is analyzed by calculating the following five ratios:

1. Operating Profit.
2. Profit margin (markup).
3. Return on Total Assets (ROA).
4. Basic Earning Power (BEP).
5. Return on Equity (ROE).

Operating Profit. The EBIT operating profit from sales ratio measures a company's profit for every dollar generated from sales.

Operating profit margin = (EBIT / Sales) * 100%
Sector average = 10%

The fact that the operating profit margin is lower than the industry average indicates that the company has high operating expenses. This is explained by the low inventory turnover rate and high sales ratio.

Profit Margin (Markup)

Profit margin is the percentage ratio of net income to sales:

Profit Margin = (Net Income / Sales Income) * 100%
Sector average = 5%

If the profit margin is smaller than the sector average, this may be due to two reasons:

1. High operating costs of the enterprise.
2. High exposure of the enterprise to the use of debt.

It should be noted that the reasons listed are high sales revenue and the fact that other variables are constant. However, if the variables are not constant, sales should also be controlled. Because if a company sets a high price for its products, it makes a high profit on each sale, but it cannot sell many products. This can be very profitable for the company, but it will also lead to low sales, which can lead to low net income.

Return on Total Assets (ROA)

The ratio of net income to total assets gives the return on total assets:

Return on total assets (ROA) = (net income / total assets) * 100%
Sector average = 9%

Of course, the fact that return on assets is lower than the sector average is not a good situation. However, when looking at return on assets, more research needs to be done, as low return on assets can be the result of deliberate borrowing.

Basic Earning Power (BEP)

BEP is calculated by dividing the company's income by its total assets:

BEP = (EBIT / total assets) * 100%
Sector average = 18%

The BEP indicator shows the strength of a firm's raw return on assets before taxes and debt factors, which is used to compare firms of different debt and tax status.

Return on Equity (ROE)

The most important accounting factor, ROE, is the percentage of net income to equity.

ROE = (Net Income / Private Equity) * 100%
Sector average = 15%

Shareholders expect their investment to generate a profit, and this percentage is an indicator of how well the accounting is done. The fact that the ROE is lower than the average for the sector is due to the high level of debt utilization by the company.

Market value ratio

Return on equity (ROE) combines the effects of all the other ratios and is by itself the most effective accounting ratio. Investors like high return on equity (ROE), and high ROE is also associated with high stock prices. But there may be other issues as well. For example, additional financial support increases the ROE, but at the same time it increases the risk. For this reason, if a high ROE is obtained using excess debt, the share document price will be cheaper than a share document price with a lower ROE using less debt. That is, a high ROE does not always mean that the company is more profitable and more valuable. To better explain this situation, we will use the last set of ratios, the market value ratio, in which the document value per share is related to the profitability of the company and the book value per share. If liquidity, asset management, debt management, and profitability ratios are optimal, and investors expect these ratios to be optimal in the future, the market value ratio, value per share document will be as high as expected and give the impression that management is pursuing the right policies [5, p. 35–37].

The market value ratio is mainly used in 3 ways:

1) by investors when deciding whether to buy or sell a share document;

2) by investor-bankers in determining the value for the export part of the document;

3) when deciding how much to recommend to another company in a potential partnership.

Price / Earnings ratio (P / E)

The Price / Earnings ratio shows how much investors are willing to pay for each dollar claimed.

Price / Income ratio (P / E ratio) = price / share per share

Sector average = 11.3 x

While P / E ratios will be higher for fast-growing and low-risk companies, they will be lower than the sector average for slow-growing and high-risk companies.

Market / Book ratio

The ratio of the market value of a document to its book value gives an indication of how investors value a company. Investor-friendly companies are low-risk, fast-growth companies with high M/B ratios. Before finding the M / B ratio, it is necessary to calculate the purchase price per share:

Purchase price per share = Initial capital / working capital

Market / Purchasing Ratio = M / B ratio = Market value per share / purchase value per share

Sector average = 1.7 x

The M / B ratio is usually greater than 1.0 x, indicating that investors are likely to pay more for stock documents than the booked purchase price.

Correlation of coefficients using the DuPONT formula

The coefficients mentioned so far are expressed using the DuPONT formula, which is related to the determination of ROE, the most important accounting factor.

ROE = ROA x Private Capital x Private Capital Ratio

Let's explain the DuPONT formula in more detail:

ROE = ROA x Private equity ratio = (profit margin) x (total assets turnover rate) x (equity ratio) = (net income / sales) x (sales / total assets) x (total assets / total equity)

The first term, *Profit Margin*, shows the investor how much the firm has earned from sales. This ratio is based on cost of sales and sales prices. If the price is high and the cost is low, it means that the ROE will be high.

The second term, *total asset turnover rate*, is the ratio of how many times a year the rate of return is earned.

Note 1: The Private Equity Ratio is used by investors and financiers to understand and measure the risk of external sources and allocation of private capital to an enterprise.

Private Equity Ratio = Total Assets / Private Capital

The equity ratio shows how many times assets are equal to equity. For example, a firm has total assets of $100 million and private equity of $25 million. This means that 1/ 4 of all assets are funded by equity.

A high equity ratio indicates that assets are financed by debt. In order not to make a mistake, it is necessary to check whether the loan is intentional or unintentional debt.

Note 2:

ROA = net income / total assets = net income / (sales / total active turnover rate)) = (net income / sales) * total active turnover rate = profit margin * total active turnover rate

Note 3: The equity ratio is related to the firm's debt ratio. The formula for this interrelation is as follows:

Debt ratio = 1 – (1 / EM)

EM is the equity ratio.

Conclusion. The continuity and accuracy of all of the above analyses can be seen more clearly with trend analysis. The correct interpretation of trend analysis is a very important element. As already noted, high profitability is very important not only for companies, but also for the economic development of the state. For small businesses, it's even more difficult because companies with high interest rates don't know which factors to pay more attention to and go bankrupt. Rather, they go bankrupt because they fail to use debt management policies correctly. One of the things the government can do for businessmen is to organize informational and educational trainings and, if necessary, appoint financiers to make progress in this area. In this way, it is possible to reduce the risk of bankruptcy and ensure the profitability of business entities, protecting the interests of both the business and the government by making great strides toward development.

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РОЛЬ РЕНТАБЕЛЬНОСТІ У ФІНАНСОВІЙ ДІЯЛЬНОСТІ ЕКОНОМІЧНОГО СУБ'ЄКТУ

Основною метою написання цієї статті є належне управління фінансовою діяльністю суб'єктів господарювання. Головною метою тут є забезпечення сталого розвитку та зростання шляхом вивчення ролі прибутковості у фінансових результатах. Оцінка рентабельності – проводиться для вимірювання показників діяльності підприємства та рентабельності продукції. Враховуючи це, звернемо увагу на правила розрахунку рентабельності кожного органу управління, що працює на отримання прибутку. Оцінка рентабельності є суттєвим питанням, яке досліджується у статті. Враховуючи, що кожна фірма чи підприємство створено для отримання прибутку, рентабельність цієї фірми повинна суворо контролюватися як власниками фірми, інвесторами, так і державою. Захист прибутковості фірми полягає в тому, щоб забезпечити високі прибутки акціонерів. Держава має два основних інтереси у високій прибутковості компанії:

1. Підтримка здорової конкуренції в країні при збереженні мети компанії.

2. Високі податки.

Проведення правильного фінансового аналізу є важливим показником для дослідження цього питання. Для цього були детально вивчені такі фінансові показники, як коефіцієнт ліквідності, коефіцієнт управління портфелем, коефіцієнт управління боргом, коефіцієнт прибутковості, коефіцієнт ринкової вартості. Підсумок досліджених питань такий:

1. Коефіцієнт ліквідності – вказує на здатність фірми погасити прострочену заборгованість протягом року.

2. Коефіцієнт управління портфелем – показує, як фірма використовує свої загальні активи.

3. Коефіцієнт управління боргом – відноситься до здатності фірми погасити свій довгостроковий борг, а також до того, як вона фінансує свої загальні активи.

4. Коефіцієнт рентабельності – показує, наскільки прибутковою є фірма в управлінні та використанні сукупних активів.

5. Коефіцієнт ринкового відсотка – виражає вартість фірм, які котируються на фондовій біржі, і формує думку серед інвесторів про фірму та її майбутнє.

Якщо ці компоненти представлені ширше за допомогою тренду (Т-тест), з'являється більш детальний аналіз прибутковості. Як наслідок вищесказаного, правильний фінансовий аналіз та управління прибутковістю призведуть до здорового розвитку та зростання як для суб'єкта господарювання, так і для держави.

***Ключові слова:** прибутковість, збут, активи, оборот, борг, дохід, відсоток, коефіцієнт, ризик, банкрутство, ліквідність, інвестиції.*

РОЛЬ РЕНТАБЕЛЬНОСТИ В ФИНАНСОВОЙ ДЕЯТЕЛЬНОСТИ ЭКОНОМИЧЕСКОГО СУБЪЕКТА

Основная цель написания данной статьи – грамотное управление финансовой деятельностью хозяйствующих субъектов. Основная цель – обеспечить устойчивое развитие и рост, исследуя роль прибыльности в финансовых показателях. Оценка рентабельности – проводится для измерения производительности предприятия и рентабельности продукта. Принимая это во внимание, обратим внимание на правила расчета рентабельности каждого руководящего органа, работающего на получение прибыли. Оценка рентабельности – важнейший вопрос, исследуемый в статье. Учитывая, что каждая фирма или предприятие создано для получения прибыли, прибыльность этой фирмы должна строго контролироваться как владельцами фирмы, так и инвесторами и государством. Защита прибыльности фирмы заключается в обеспечении высоких доходов акционеров. У государства есть два основных интереса в высокой прибыльности компании:

1. Поддержание здоровой конкуренции в стране при сохранении цели компании.

2. Высокие налоги.

Проведение правильного финансового анализа – важный показатель для исследования этой проблемы. С этой целью были тщательно изучены финансовые коэффициенты, такие как коэффициент ликвидности, коэффициент управления портфелем, коэффициент управления долгом, коэффициент прибыльности, коэффициенты рыночной стоимости. Краткое изложение исследованных вопросов выглядит следующим образом:

1. Коэффициент ликвидности – указывает на способность фирмы погасить просроченную задолженность в течение года.

2. Коэффициент управления портфелем – показывает, как фирма использует свои общие активы.

3. Коэффициент управления долгом – относится к способности фирмы погашать свой долгосрочный долг, а также к тому, как она финансирует свои общие активы.

4. Коэффициент рентабельности – показывает, насколько прибыльна фирма в управлении и использовании всех активов.

5. Коэффициент рыночной процентной ставки – выражает стоимость фирм, котирующихся на фондовой бирже, и формирует мнение инвесторов о фирме и ее будущем.

Если эти компоненты представлены более широко с помощью тренда (T-тест), появляется более подробный анализ прибыльности. В результате правильный финансовый анализ и управление прибыльностью приведет к здоровому развитию и росту как хозяйствующего субъекта, так и государства.

Ключевые слова: *рентабельность, продажи, активы, оборот, долг, доход, проценты, коэффициент, риск, банкротство, ликвидность, инвестиции.*