

## ANALYTICAL ASSESSMENT OF BUSINESS ACTIVITY AND PROFITABILITY OF ENTERPRISES

**Statement of the problem.** In order to avoid crisis in the production and financial activity each enterprise must develop its business activity to ensure sustainable economic growth. Business activity of the enterprise is intended to facilitate minimizing the risk of failure in terms of economic instability and competition. The concept of economic activity is rather wide and covers almost every aspect of work of the enterprise. As for analysis of enterprise profitability, it should be noted that the latter determines the viability of enterprise, its ability to ensure the interests of investors and to compete with other businesses. The higher the return rate, the more efficient is activity of the company.

**Analysis of recent research and publications.** Problems of assessment of business activity and profitability of enterprises are considered in the writings by M.D. Bilyk, N.I. Vlasuk, R.O. Kostyrko, Y.I. Kostetskyi, T.P. Kurylenko, N.L. Meshkova, E.V. Mnych, O.V. Pavlovska, V.O. Podolska, N.M. Prytuliak, O.V. Yarish and other. However, the results of the study have revealed that nowadays there is no systematic approach to the study of improving business activity and profitability of enterprises.

**Formulation of the problem.** The main purpose of the article is the systematization of parameters and criteria for indicators of business activity and profitability of enterprises. The following objectives were set to achieve this goal: to clarify the content of business activity of enterprise; to reveal features of calculating indicators of business activity and profitability of enterprises, taking into account changes that have occurred in the financial statements; to give an analytical assessment of business activity and profitability of the enterprise.

The object of the study is the activity of PJSC "Borschiv cheese factory".

The subject of research is financial relations arising in the process of financial and economic activity of the enterprise.

**The main material of research.** Domestic scholars V.O. Podolska and O.V. Yarish note that the global practice of management connects concept of business activity of enterprise with the concept of its investment attractiveness. Business activity indicators reflect effectiveness of using financial resources of the enterprise. Business activity reflects the level of effectiveness of using material, labor, financial and other resources. At the same time it describes the quality of management and capabilities of potential development of the enterprise [1, p. 10].

We believe that business activity is not advisable to be evaluated only by analyzing the investment activity of the enterprise. The investment attractiveness of the enterprise characterizes investment activity. The last one, we believe, is just a kind of business activity.

According to T.P. Kurylenko, business activity of the enterprise can be defined as motivated at the macro and micro levels process of managing the efficiency of business activity of economic relations. This process is aimed at ensuring the development of the enterprise, increasing labor employment and efficient use of all resources in order to achieve market competitiveness and the formation of modern innovation and investment potential of subjects of market relations and the national economy as a whole [2].

One should agree with the statement of N.L. Meshkova, that from the standpoint of the need to improve management of business activities in the current post-crisis conditions of functioning, business activities of an industrial enterprise can be defined as a process of ensuring the achievement of the objectives of the development of the enterprise in the sphere of production and sale of products, which includes the following steps: 1) the study of changes in the external environment of the enterprise and timely response to them by effective measures; 2) to ensure the effectiveness of the main activity on the basis of reducing operating costs and improving profitability of the enterprise; 3) to create competitive advantages of industrial enterprise on consumer markets on the basis of introducing new technologies meeting the demand of consumers according to their needs in different time periods [3, p. 107].

In today's conditions one distinguishes business activities of enterprises to mobilize internal resources for economic growth and activity in the external economic environment. Internal activity is reflected in the growth of the economic potential of enterprises or improving the efficiency of its use.

Analysis and assessment of internal business activity is carried out in quantitative and qualitative terms. Quantitative parameters of assessing business activity are expressed by the dynamics of synthetic and analytical indicators of production and financial activity of enterprises. In the practice of analytical work it is advisable to group these indicators: by absolute and relative values of growth in relation to the basic level or in respect to a plan, by the efficient use of productive resources and capital. The most common system of indicators of quantitative assessment of business activity is shown in Table 1 [4].

Table 1

## The system of indicators of quantitative measurement of business activity\*

| Indicators of the dynamics of quantitative changes   | Indicators of effective use of resources and capital  |
|--|---|
| 1. The volume of sales<br>2. The volume of gross income<br>3. The volume of net profit<br>4. The cost of fixed assets<br>5. The volume of inventory<br>6. The number of employees<br>7. Increase in balance sheet total<br>8. Increase in equity capital<br>9. The volume of real investment | 1. The return on invested capital<br>2. The return on productive capital<br>3. The return on products<br>4. The productivity of employees<br>5. Average wage of workers<br>6. Materials consumption of products<br>7. The return of fixed assets<br>8. The maximum level of costs<br>9. The return on real investment |

\* Compiled by the author on the basis of [4]

The quality of economic growth can be characterized by general indicators that determine the degree of recoupment (turnover) of assets and capital. These include indicators shown in the table 2.

Table 2

## Indicators of business activity of the enterprise \*

| Indicators                            | The formula for calculating   |
|---------------------------------------|---|
| 1                                     | 2   |
| Ratio of assets turnover              | $Ra.t = \frac{\text{Net income of product sales}}{\text{Average value of assets}} = \frac{\text{row 2000 f.2}}{(\text{row.1300hrn.3} + \text{row1300hrn.4 f.1}) \div 2}$  |
| Ratio of current assets turnover      | $Rc.a.t = \frac{\text{Net income of product sales}}{\text{Average value of current assets}} = \frac{\text{row 2000 f.2}}{(\text{row.1195hrn.3} + \text{row1195hrn.4 f.1}) \div 2}$  |
| Ratio of inventory turnover           | $Ri.t = \frac{\text{Net income of product sales}}{\text{Average value of inventory and expenses}} = \frac{\text{row 2000 f.2}}{(\text{row.1100hrn.3} + \text{row.1110hrn.3} + \text{row.1100hrn.4} + \text{row.1110hrn.4 f.1}) \div 2}$ |
| Inventory turnover                    | $I_i = \frac{P}{Ri.t}$  |
| Ratio of accounts receivable turnover | $Ra.r.t = \frac{\text{Net income of product sales}}{\text{Average value of accounts receivable}} = \frac{\text{row 2000 f.2}}{(\sum \text{row. from 1125 to 1155 hrn.3} + \sum \text{row. from 1125 to 1155 hrn.4 f.1}) \div 2}$        |
| Accounts receivable turnover          | $Ar.t = \frac{P}{Ra.r.t}$   |
| Ratio of accounts payable turnover    | $Ra.p.t = \frac{\text{Net income of product sales}}{\text{Average value of accounts payable}} = \frac{\text{row 2000 f.2}}{(\text{row. 1695 hrn.3} + \text{row.1695 hrn.4 f.1}) \div 2}$  |
| Accounts payable turnover             | $Ap.t = \frac{P}{Ra.p.t}$   |
| Ratio of equity capital turnover      | $Re.c.t = \frac{\text{Net income of product sales}}{\text{Average value of equity capital}} = \frac{\text{row 2000 f.2}}{(\text{row. 1495 hrn.3} + \text{row.1495 hrn.4 f.1}) \div 2}$  |

\* Compiled by the author on the basis of [4]

Basic indicators of business activity of PJSC "Borschiv cheese factory" are shown in Table. 3.

Table 3

## Indicators of business activity of PJSC "Borschiv cheese factory" for 2010-2012 \*

| №  | Indicator                                | Year   |        |        |
|----|--|--------|--------|--------|
|    |  | 2010   | 2011   | 2012   |
| 1. | Ratio of assets turnover                 | 2,34   | 1,66   | 1,57   |
| 2. | Ratio of current assets turnover         | 2,53   | 1,77   | 1,66   |
| 3. | Ratio of inventory and expenses turnover | 14,68  | 24,2   | 33,34  |
| 4. | Inventory turnover                       | 24,86  | 15,08  | 10,94  |
| 5. | Ratio of accounts receivable turnover    | 4,47   | 2,77   | 2,32   |
| 6. | Accounts receivable turnover             | 81,65  | 131,77 | 157,33 |
| 7. | Ratio of accounts payable turnover       | 2,94   | 1,99   | 1,84   |
| 8. | Accounts payable turnover                | 124,15 | 183,42 | 198,37 |
| 9. | Ratio of equity capital turnover         | 11,46  | 10,03  | 10,99  |

\* Calculated according to the financial statements of the enterprise [5]

From Table 3 we can see that ratio of asset turnover at PJSC "Borschiv cheese factory" has a stable trend to decrease (2010 - 2.34, 2011 - 1.66, 2012 - 1.57). It should be noted that this factor is one of the most important indicators of the efficient use of capital and indicates the speed of its transition from the stage of inventory into the finished goods and conversion speed of products into the direct monetary form. Taking this into account, one could argue that such dynamics indicates inefficient use of assets in the target enterprise.

Current assets of the company during the reporting period (2012) carried out 1.66 turns. It should also be noted that the figure has a negative dynamics for three years. In this regard, we believe that accelerating the inventory turnover, in condition that there is demand for the products of PJSC "Borschiv cheese factory" and the profitability of its realization, should give in the end increase of operational, and hence net income of the enterprise.

Inventory turnover on PJSC "Borschiv Cheese Factory" in 2010 was 15 times, in 2011 – 24 times, 33 times in 2012. The duration of one turnover of inventories and expenses in 2010 was 25 days, in 2011 – 15 days, in 2012 – 11 days.

An important component of the assessment of business activity of the enterprise is the analysis of receivables and payables. The size of receivables is determined by the terms of the enterprise of settling with their customers. The weakening of these conditions, as N.I. Vlasjuk notes, has both advantages and disadvantages. The advantage is the increase in sales and profits, and disadvantages are lack of current assets, slowing of capital turnover, increasing of the amount of bad debts [6, p. 174-175].

Thus, the turnover of accounts receivable on PJSC "Borschiv cheese factory" in the dynamics decreases from 4.47 in 2010 to 2.32 in 2012. Thus there is a significant increase in turnover duration. In 2010 the duration of accounts receivable turnover at the enterprise was 82 days, in 2011 – 132 days, and in 2012 – 157 days.

A similar trend is observed with a coefficient of accounts payable. Reduction of value of the coefficient 2.94 in 2010, 1.99 in 2011 and 1.84 in 2012 indicates a decrease in the rate of debt repayment by the enterprise now. Thus, the average period of debt repayment (except liabilities to banks) on PJSC "Borschiv cheese factory" in 2010 was 124 days, in 2011 the company could repay their debts in 183 days, and in 2012 maturity date was 198 days.

In the post-crisis period an analysis of the profitability is also important.

The profitability shows how profitable the activity of the enterprise is. Accordingly, the higher the rate of profitability, the more efficient is the company's activity. Therefore, nowadays, the enterprise should seek to achieve higher indicators and management should identify ways to increase them [7].

There is a considerable amount of profit ratio; the use of each depends on the nature of assessing efficiency of financial and economic activity of the enterprise. The choice of performance indicator (profit) that is used in the calculations primarily depends on the nature of the assessment. Four different indicators are most often used: gross income (row 2090 f.2), operating profit (row 2190 f.2), profit before taxation (row 2290 f.2), net income (row.2350 f.2) [8, p. 179].

It should be noted that there is no generally accepted values of profitability, which one can focus on in the analysis. Therefore growth of all indicators of profitability in dynamics for the reporting period is considered as a positive trend.

Depending on what rate of income is compared to, two groups of factors of profitability are distinguished:

- return on investment (capital);
- return on sales.

Two major ratios are calculated in the group of ratios of return on investment (capital):

- return on total capital (or assets);

- return on equity capital.

Return on total capital (Rtc) is calculated by the formula [8, p. 179]:

$$Rtc = \frac{\text{Profit before taxation}}{\text{Gross income}} = \frac{\text{row.2290f.2}}{\text{row.1900f.1}} \quad (1)$$

or

$$Rtc = \frac{\text{Net income}}{\text{Gross income}} = \frac{\text{row.2350 f.2}}{\text{row.190f.1}}$$

This ratio shows how efficiently enterprise uses its assets for making profit that is what profit is brought by every hryvnia invested in assets.

Indicator of return on equity capital (REC) is of interest primarily for investors and describes how efficiently enterprise uses equity capital. Return on equity capital is determined by the formula:

$$REC = \frac{\text{Net income}}{\text{Equity capital}} = \frac{\text{row.2350 f.2}}{\text{row.1495 f.1}} \quad (2)$$

Assessing the return on sales figures on the basis of income and sales revenue, profitability ratios of total production as a whole or its separate types are calculated. As in the case of profitability of capital, there are many indicators for assessing the profitability of sales that is caused by the choice of a particular type of income.

Gross income, income from operations and net income are most often used. Accordingly three indicators of return on sales are calculated.

Gross return on sales (Grs) shows the efficiency of production of the enterprise, as well as the effectiveness of pricing policy and is calculated as:

$$Grs = \frac{\text{Gross income}}{\text{Net income of product sales}} = \frac{\text{row.2090 f.2}}{\text{row.2000 f.2}}, \quad (3)$$

As for the operational return on sales (Ors) we note that this ratio indicates the profitability of the enterprise after deducting the cost of production and sales of goods. Examining it, together with the gross return you can get the information about causes of the changes in profitability. If, for example, gross return has not significantly changed for several years, and an indicator of operational return gradually decreased, then the cause might be in increasing of administrative and sales costs.

This indicator is calculated by the formula:

$$Ors = \frac{\text{Income from operationa l activity}}{\text{Net income of product sales}} = \frac{\text{row.2190 f.2}}{\text{row.2000 f.2}} \quad (4)$$

The last indicator is the net return on sales (Nrs). It shows the amount of profit on one hryvnia of product sold. Immutability of indicator of operational profitability during any period with a simultaneous decrease of net profitability may indicate either about increasing in financial costs and obtaining losses from participation in capital of other enterprises, or about increasing in the amount of tax payments that are paid. This ratio shows the full impact of capital structure and financing of the company on its profitability.

To calculate this indicator one should use the formula below:

$$Nrs = \frac{\text{Net income}}{\text{Net income of product sales}} = \frac{\text{row.2350 f.2}}{\text{row.2000 f.2}} \quad (5)$$

Also we note that in practice, another group of indicators of return are singled out:

1. The total return on inventories (Tri):

$$Tri = \frac{\text{Gross income}}{\text{Non - current assets + Inventories}} = \frac{\text{row.2090 f.2}}{\text{row.1095 f.1 + 1100 f.1}} \quad (6)$$

3. Total return of the enterprise (Retot):

$$Re.tot = \frac{\text{Gross income}}{\text{Annual average value of propety}} = \frac{\text{row. 2090 f.2}}{(\text{row. 1900 hrn.3} + \text{row. 1900 hrn.4}) \div 2} \quad (7)$$

Next we will examine indicators of profitability of the investigated enterprise as an example (Table 4).

Table 4

## Key indicators of profitability of PJSC "Borschiv cheese factory" for 2010-2012

| №  | Indicator                      | Years |       |      |
|--|--------------------------------|-------|-------|------|
|  |                                | 2010  | 2011  | 2012 |
| The profitability of investment(capital) |                                |       |       |      |
| 1.                                       | The return on total capital    | 0,17  | -0,11 | 0,10 |
| 2.                                       | The return on equity           | 0,67  | -1,15 | 0,54 |
| The profitability of sales               |                                |       |       |      |
| 3.                                       | Gross return on sales          | 0,12  | 0,02  | 0,19 |
| 4.                                       | Operational return on sales    | 0,08  | -0,07 | 0,07 |
| 5.                                       | Net return on sales            | 0,06  | -0,08 | 0,06 |
| 6.                                       | Total return on inventories    | 0,81  | 0,09  | 1,85 |
| 7.                                       | Total return of the enterprise | 0,28  | 0,03  | 0,30 |

Source: Calculated according to the financial statements of the enterprise [5]

Calculations show that return on total capital of PJSC "Borschiv cheese factory" in 2010 and in 2012 was positive (17% and 10% respectively). This allows asserting that productivity of resources of the enterprise in 2010 and in 2012 was at 17% and 10% respectively. Only in 2011 a negative value of return on total capital was registered (-11%).

Value of the indicator of return on equity is more optimistic. Thus, a positive return on equity was registered in 2010 (67%) and 2012 (54%). This means that the return on investment, initially targeted, and subsequently re-invested in the enterprise by its owners was positive and quite high. Negative return on equity capital was found in 2011. -115%. Negative values of indicators of this group are directly related to the size of the financial result from ordinary activities before taxation and with a net profit (loss) of the enterprise.

Analysis of the return on sales showed that the dynamics of the indicator of the gross return on sales of PJSC "Borschiv cheese factory" is positive (from 12.0% in 2010 to 19.0% in 2012).

Also we note that in 2010 and 2012 one hryvnia of products sold by the enterprise brought six kopecks profit, and in 2011, sales of products brought loss to the enterprise (8 kopecks from each hryvnia of products sold).

Of course, the positive trend is the growth of total return of the enterprise from 3% in 2011 to 30% in 2012. The reached level of profitability is optimal for businesses of the scale. There is also a dynamic growth of indicator of return on inventory (in 2010 81%, 2011 9%, 2012 185%).

Summarizing, we note that the calculated indicators of return are only approximate, as the information base for their calculation was limited to the financial statements, which in this case is not enough. For a more detailed calculation of indicators of return it is necessary to obtain the information from registers of financial, managerial and strategic accounting.

**Conclusions and further research.** According to the study we can conclude that the analysis of indicators of business activity of PJSC "Borschiv cheese factory" in 2010 - 2012 has shown that almost all coefficients characterize negative dynamics that can be seen as the downturn of the enterprise's economic activity. As for the enterprise's profitability, it should be noticed that this indicator at the enterprise is quite high. This situation gives grounds to state that in case of an increase in production, an increase in profitability can be expected.

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## **Farion V.Ya. ANALYTICAL ASSESSMENT OF BUSINESS ACTIVITY AND PROFITABILITY OF ENTERPRISES**

**Purpose.** The aim of the article is to study the peculiarities of the analysis of indicators of business activity and profitability of enterprises.

**Methodology of research.** General scientific and special methods were used in this paper. Methods of logical generalization and scientific abstraction were used to clarify the concept "business activity". The methods of analysis and synthesis, induction and deduction were used to study the indicators of business activity and profitability of enterprises. Factorial analysis was used to research the influence of factors on business activity and profitability of the enterprise. Absolute and relative values were investigated by the method of comparison; dependence of the effective indicators from the components of their formation was investigated using the method of grouping.

**Findings.** The content of business activity of the enterprise has been found by the results of research. It has been revealed the peculiarities of the calculation of business activity and profitability of enterprises, taking into account changes that have occurred in the financial reporting.

It has been established that practically all indicators of economic activity of PJSC "Borschiv cheese plant" during 2010-2012 characterize negative dynamics, which can be regarded as a decline of business activity of the enterprise.

**Originality.** It has been proposed to use a complex system of indicators of business activity and profitability of the enterprise, the use of which will allow the leadership to obtain information in practice that is necessary for assessing the financial state of the enterprise.

**Practical value.** The conclusions have been obtained on the basis of the complex analysis of the main indicators of business activity and profitability of PJSC "Borschiv cheese plant". These conclusions can be used for the development of accounting policies to improve the financial state of the specified enterprise.

**Key words:** assessment, business activity, profitability, financial reporting, financial state, analysis, indicators.