

METHOD OF LOSS ANALYSIS AS FINANCIAL RESULT

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Key words and phrases: loss as a negative financial result; the dynamics of the final financial result formation by the constituents of its elements; the quantitative measurement of factors that reduce the net loss.

Abstract: The paper covers the method for analyzing financial results in a net loss. The peculiarity of this method of analysis is, on the one hand, the simple composition of the elements that make up the final financial result and, on the other hand, the importance of the indicator for the investors, owners and tax authorities.

The final financial result is the difference between earnings before interest and taxes and earnings before taxes. It is determined by the earning or the loss which results from financial affairs. The analysis also investigates changes in the income tax as well as the amount of the profit itself.

The increase in the dynamics of the amount of tax shows, on the one hand, the business expansion of a business entity, and, on the other hand, the growth in the tax revenue. The latter allows the state to reinforce its social policy in the country.

Calculation of the changes is carried out both in the absolute and relative terms. There is also the rate of growth. Simultaneously, a comparison of rates changing in the revenue, cost and profit is carried out. In accordance with the golden rule of economics, the relation between them should be as follows: higher rates should have the profit, then the revenue and then the cost. However, this ratio is maintained until the moment of attaining the maximum profit function, and then under the law of tendency of the profit rate to fall, decrease in the capital return in the form of profit takes place.

The study of the final financial result dynamics by its components makes it possible to evaluate:

– the competitive positions (as the growth in the sales profit shows to some extent the competitiveness's increase of the organization and its products);

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– the strategy of the organization asset management (for example, reduction in sales profit under simultaneous increase in other income can mean a reduction in the main activity together with the increase in the other spheres of business. The positive point here is the diversification as a factor of the increase in other income;

– the “quality” of economically-legal work in the organization (e.g. the increase in the share of other income coming from penalties, fines penalties, etc. shows the claims handling improvement).

This method should be supplemented by the analysis of the distribution and the use of the net profit. The areas of its application are determined by the organization itself. During the year the organization allocates the profit to the current needs in accordance with their purposes.

Quite often and especially in the context of the economic crisis Russian enterprises have a negative financial result by the end of the year. In this case, it’s necessary to identify the causes of the loss and to analyze the quantitative impact of factors on its value.

Let’s make the following table for this analysis (Tab. 1).

According to Table 1, in the reporting period the company has received a net loss 54236 rub. as a whole, that is 4386 rub. more than in the previous period. Its share in the revenue has decreased from 0.3 % in the previous period to 0.12 % in the reporting year, which is explained by getting ahead of the revenue rate growth, compared with the rate of change in the fiscal effect. For example, during the reporting period the revenue increased by 3.53 times, and the change of the financial loss amounted to 108.8 %.

Table 1

The company’s annual financial highlights

Item name	Line code	The data for the reporting period (rub.)	Figures for the previous period, (rub.)	Absolute deviation +, – (rub.)	Share, % to revenue		Rejection beats. weight, %	Rate change, %
					Report period	Previous period		
Gross profit (loss) of	029	– 94184	– 88991	– 5193	– 0.20	– 0.50	0.30	105.8
Other income	090	43214	39141	4073	0.07	0.20	– 0.13	110.4
Other expenses	100	–	–	–	–	–	–	–
Profit before tax	140	– 50970	– 49850	– 1120	– 0.13	– 0.3	0.17	102.2
Other similar mandatory payments	146	3266	–	3266	0.01	–	0,01	–
Annual Net income (loss)	160	– 54236	– 49850	4386	– 0.12	– 0.3	0.18	108.8

The decrease in the loss was influenced by other income, which in the reporting period increased by 4073 rub. Their share, however, decreased from 0.20 % in the previous year to 0.07 % in the reporting year. The growth rate of the balance sheet amounted to 110.4 %.

According to the transcript form № 2 “Profit and loss account” other income the company received during the year from the sales of fixed assets 33.546 rub. as a whole and 9668 rub. as the other income. To quantify the influence of factors on the final financial results, we use the following model:

$$P_n = P_s + O_{\text{income}} - O_{\text{expenses}} - D_{\text{tl}} - T_{\text{ci}} - O_{\text{smp}},$$

where P_n – net profit; P_s – sales profit; O_{income} – other income; O_{expenses} – other expenses; D_{tl} – deferred tax liabilities; T_{ci} – current income tax; O_{smp} – other similar mandatory payments.

For enterprises, which we analyze, the model has the form:

$$P_n^{\text{previous year}} = -88991 + 39141 - 0 = -49850 \text{ rub.};$$

$$P_n^{\text{reporting year}} = -94184 + 43214 - 3266 = -54236 \text{ rub.}$$

Let's calculate the impact of factors:

$$P_n^{\text{cond.1}} = -94184 + 39141 - 0 = -55\,043 \text{ rub.}$$

a) the impact of profits from sales of: $(-55.043) - (-49.850) = -5193 \text{ rub.}$

$$P_n^{\text{cond.2}} = -94184 + 43214 - 0 = -50\,970 \text{ rub.};$$

b) the impact of other income: $(-50970) - (-55043) = 4073 \text{ rub.};$

c) the impact of other similar obligations: $(-54.236) - (-50.970) = -3266 \text{ rub.}$

Thus, the dynamics of financial loss in the reporting year is influenced by the following factors: the increase in the amount of sales loss from during the year and increased the net loss by 5193 rub.; Growth of other income reduced the net loss during the reporting period by 4073 rub. Other similar obligations increased the net loss by 3266 rub.

Profitability is a generalizing indicator of the enterprise's effectiveness. A variety of indicators are used during the analysis. They reflect how effectively the organization uses its resources in order to maximize profits or minimize losses.

Let's represent the enterprises' profitability rates analyzed in Table 2.

As the table shows, the company has negative indicators of profitability in the reporting period, as well as in the previous one. Thus, the company's loss-making sales in the base year amounted to 0.536 % or 0.54 kopeck (k.) for every ruble of the revenue, and in the reporting year – 0.16 k. The loss from sales decreased slightly – by 0.375 %.

The profitability value of the main operating activities also shows that if in the base period for each ruble of costs the loss amounted to 0.5 k., In the reporting period, it decreased slightly and amounted to 0.16 k.

Return on assets or economic profitability shows that if in the previous year for each ruble of total assets, the loss amounted to 0.06 k., in the reporting year – only 0,03 k. Thus, while reducing the loss twice the funds invested in the property business, is still being used inefficiently.

Table 2

**Key indicators of the company's profitability during
the reporting year, %**

Name of rates	During the reporting period	During the previous period	Absolute deviation
Return on sales, R_1	- 0.161	- 0.536	0.375
Return on operating activities, R_2	- 0.161	- 0.533	0.372
Return on assets (economic profitability), R_3	- 0.030	- 0.060	0.030
Return on fixed assets and other noncurrent assets, R_4	- 0.076	- 0.064	- 0.012
Return on equity, R_5	- 0.076	- 0.070	- 0.006
Return on permanent capital, R_6	- 0.076	- 0.070	- 0.006

Return on assets or economic profitability shows that if in the previous year for each ruble of total assets, the loss amounted to 0.06 k., in the reporting year – only 0.03 k. Thus, while reducing the loss twice the funds invested in the property business, is still being used inefficiently.

The value of the return on equity shows that in the previous year for every ruble of the equity losses accounted to 0.07 k. And in the reporting year – to 0.076 k., i.e. changes in the return on equity almost did not happen and it is still used by the enterprises ineffectively.

Loss of funds, invested in fixed and other non-current assets increased from 0.064 k. during the previous period to 0.076 k. during the reporting period. Since the profitability is a general indicator, then the necessary condition is to determine the impact on these indicator factors, which assess quantified and qualitative aspects of the enterprise. We have chosen the indicator of the return on equity R_5 from the set of indicators of the effectiveness for the construction of the factor model.

$$R_5 = (P_n / R) (R / CB) (CB / OC)$$

1st factor 2nd factor 3rd factor.

We make the following calculations to quantify the influence of factors:

$$R_5^{\text{previous year}} = (-49850/16602095)(16602095/80713701)(80713701/71659988) = (-0.003)0.2057 \cdot 1.1263 = -0.0007;$$

$$R_5^{\text{cond.1}} = (-54236/58545035)(16602095/80713701)(80713701/71659988) = (-0.0009)0.2057 \cdot 1.1263 = -0.00021;$$

$$R_5^{\text{cond.2}} = (-54236/58545035)(58545035/145739797)(80713701/71659988) = (-0.0009)0.402 \cdot 1.1263 = -0.00041;$$

$$R_5^{\text{reporting year}} = (-54236/58545035)(58545035/145739797)(145739797/71612284) = (-0.0009)0.402 \cdot 2.035 = -0.00074.$$

Rejection of the return on equity:

$$R_5^{\text{reporting year}} - R_5^{\text{previous year}} = (-0.00074) - (-0.0007) = -0.00004.$$

The following factors influenced the growth in the loss of equity in the reporting period:

– the resource efficiency (second factor): $(- 0.00041) - (- 0.00021) = - 0.0002$;

– the structure of funds' sources advanced in the business (the third factor): $(- 0.00074) - (- 0.00041) = - 0.00033$.

On the contrary, reducing the loss of sales reduced the net loss by 0.049 % $[((- 0.00021) - (- 0.0007))100 \text{ \%}]$.

Thus, the first factor had a positive impact, reducing the loss-making of the equity, while the second and third factors have increased the loss-making of the equity by 0.02 and 0.033 %.

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Методика анализа конечного финансового результата предприятия – убытка

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Ключевые слова и фразы: динамика формирования конечного финансового результата по составляющим ее элементам; убыток как отрицательный финансовый результат; количественное измерение факторов; чистый убыток.

Аннотация: Предложена методика анализа финансового результата в виде чистого убытка.

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