ANALYSIS OF A COMPANY'S FINANCIAL BALANCE

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Abstract: *Profit is the basic indicator of the concept of economic and financial efficiency, which is the reason for being a business in a market economy. The presence of profit demonstrates that companies fully cover their expenses from their own income and obtain a surplus value in monetary terms.*
Keywords: *The profit and loss account, Profitability indicators, Trade margin, Added value, Gross operating surplus*

INTRODUCTION

"The profit and loss account provides information on the net turnover, income and expenses for the year, grouped by nature, and the result for the year (profit or loss)."[1]

"Profitability indicators - indicate the efficiency of the company in making profit from available resources."[2]

As an absolute indicator of profitability, profit is determined as the difference between total revenues from the production activity, provision of services and trade, and expenses incurred in the production of goods, provision of services and the sale of goods, namely:

$$\mathbf{Pr = Rt - Et} \quad (1)$$

where:
Pr – represents the size of the profit;
Rt – total revenues obtained;
Et – total expenses incurred.

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1 Sabău, C., Trif, V., Artene E., Nagy, C.(2011) „ Bazele contabilității", Editura Eurostampa, Timișoara, p. 336 (Sabău, C., Trif, V., Artene E., Nagy, C. (2011)," Basics of accounting", Eurostampa Publishing House, Timisoara, pp. 336)

2 Ulea, Norocela Mihaela. Ristea, Mihai (2007). Teorie contabilă și raportare financiară privind activele și datoriile întreprinderii. Editura ASE , Bucuresti. P. 243 (Ulea, Norocela Mihaela. Ristea, Mihai (2007). " Accounting theory and financial reporting on the company's assets and liabilities". ASE Publishing House, Bucharest, pp. 243)

The structural analysis of the profit follows the evolution of the profit according to its component elements. The profit structure is found in the "Profit and loss account" and consists of the following components:

The operating result (OR) is determined as the difference between operating revenues (OR) and operating expenses (OE), namely:

OR = OR – OE (2)

The operating result determines the industrial and commercial efficiency of the company without the influence of the financial structure and policy, on the one hand, and of the exceptional elements on the other hand.[3]

The financial result, or the profit or loss for the period (FinR) is determined as the difference between financial revenues (FinREV) and financial expenses (FinE), that is:

FinR = FinREV – FinE (3)

The current result for the period (CR) is the difference between the *revenues from current operations,* meaning operating revenues and financial revenues and *current expenses,* meaning operating expenses and financial expenses[4]*,* or in other words the sum of operating result and profit or loss for the period, that is:

CR = OR + FinR (4)

The result for the period before taxation (gross profit or loss) is the sum of current result and extraordinary result, or the difference between total revenues and total expenses, that is:

GR= CR – ER = (EREV + FinREV + ExtREV) – (EE + FinE + ExtE) (5)

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3 Medinschi, Silvia. (2003). Performanțele întreprinderii și gestiunea financiară. Editura Orizonturi Universitare. Timișoara, p. 27 (Medinschi, Silvia. (2003). " Enterprise performance and financial management". Orizonturi Universitare Publishing House. Timisoara, pp. 27)

4 Sabău, C., Trif, V., Artene, A., Nagy, C. (2011). Bazele contabilității. Editura Eurostampa, Timișoara, p. 276 (Sabău, C., Trif, V., Artene E., Nagy, C. (2011)," Basics of accounting", Eurostampa Publishing House, Timisoara, pp. 276)

The gross profit or loss for the period, *or the* ***result for the period before taxation*** *or the* ***accounting result*** [5] is calculated considering the requirements of accrual accounting and respecting the principle of independence for the financial year which implies the delimitation in time of the revenues and expenses, related to the activity of the economic unit, as they are employed and their transition to the result of the financial year to which they relate.

Taxable or tax profit (TxP) is the gross result for the period (GR) plus non-deductible expenses (fines and penalties; protocol expenses, advertising and publicity expenses that exceed the limits provided by law; the establishment of reserves above the legal limits; sponsorship expenses exceeding the limit provided by law; other non-deductible expenses provided by law) minus tax deductions (amounts used to establish legal reserves, within the limits set by law; tax reductions related to reinvested profit; coverage of losses from previous years and other deductions established by law), namely:

$$\mathbf{TxP = GR + NdE - TxD \ (6)}$$

where:
NdE – represent non-deductible expenses;
TxD – tax deductions.

The net result of the year (NR), which can be profit or loss, is determined as the difference between the gross result for the year and the profit tax (Ptx), that is:

$$\mathbf{NR = GR - Ptx \ (7)}$$

Graphically, this profit structure is shown in figure 1.

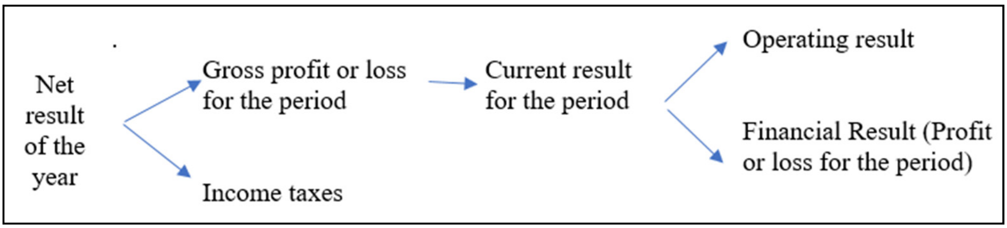

Figure 1*: Graphic representation of the profit structure*

5 Coman, Florin (2007). Contabilitatea financiară a societăților comerciale", Editura Fundației România De Mâine p. 171 (Coman, Florin (2007). " Financial accounting of companies", Romania De Maine Foundation Publishing House pp. 171)

CASE STUDY

Thereafter we will analyze the profit structure of a travel company. Based on the data from the company's Financial Statements, respectively from the "Profit and Loss Account", we obtained the following information processed in the table below.

From the data presented in table no. 1 the following conclusions can be drawn:

- in terms of the structure of revenues and expenses, they derive almost entirely from operating activity and from an insignificant proportion of financial activity,
- in the base year, the company makes a loss, and in the current year it makes a profit,
- the profit tax is zero, because the company still has a loss to recover from the years prior to the base year considered, so the net result is equal to the gross result.

Table no. 1 Structural profit analysis

Item no.	Indicators	Base year	Current year	Differences
1.	Turnover	513.848	1.719.024	1.205.176
2.	Other operating revenues	70.500	58	-70.442
3.	Operating revenues – total	584.348	1.719.082	1.134.734
4.	Operating expenses	607.000	1.624.458	1.017.458
5.	**Operating result**	**-22.652**	**94.624**	**117.276**
6.	Financial revenues	1	1	-
7.	Financial expenses	-	673	-673
8.	**Profit (loss) for the period**	**1**	**-672**	**-673**
9.	**Current result for the period**	**-22.651**	**93.952**	**116.603**
10.	Total revenue	584.349	1.719.083	1.134.734
11.	Total expenses	607.000	1.625.131	1.018.131
12.	**Gross profit or loss for the period**	**-22.651**	**93.952**	**116.603**
13.	Income taxes	-	-	-
14.	**Net result of the year**	**-22.651**	**93.952**	**116.603**

Based on the information contained in the "Profit and Loss Account", the intermediate results or interim management balances can be calculated. As these indicators are built in steps, this system of indicators is also called the "cascade of interim management balances".

The indicators contained in the statement of **intermediate management balances** are used both as internal information, for decision-making within the company, and as external information, for other companies or organizations with which the company has economic and financial links.

The **trade margin** represents the difference between the revenues from sales of goods (account 707 - valued at sale price, excluding commercial discounts granted after invoicing) and the purchase cost of the goods sold (account 607 - excluding commercial discounts received after invoicing). 6

It is an essential indicator in the analysis and management activity and is even more important as it is determined in more detail, respectively by products or product groups. It is expressed as a percentage of turnover (sales volume).[7].

Added value (VA) is the value newly created by a company during a given period, usually the duration of the financial year. The added value is determined by summing the trade margin and the industrial margin[8]:

$$VA = TRM + IM$$

The added value is the most synthetic result indicator that expresses the volume of a company's activity and unlike the other volume indicators presented above, has the advantage of reflecting only the volume of what occurred in the entity, excluding the outside inputs.

However, considering that the starting point for calculating the added value is the production of the year, the negative influences generated by the different assessment of the elements forming this indicator are taken over.

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6 Isfanescu, A., Robu, V., Hristea, Anca Maria, Vasilescu, Camelia - Analiză economico-financiară, Note de curs, Academia de Sudii Economice Bucureşti, disponibil on-line la: http://www.biblioteca-digitala.ase.ro/biblioteca/carte2.asp? id= 75&idb=20 (Isfanescu, A., Robu, V., Hristea, Anca Maria, Vasilescu, Camelia - Economic and financial analysis, Course notes, Bucharest Academy of Economic Sciences, available online at: http: //www.biblioteca-digitala. ase.ro/biblioteca/carte2.asp? id = 75 & idb = 20)

7 Achim, Monica Violeta. (2011) „Diagnostic economico-financiar, suport de curs digital", FSEGA-UBB, Cluj-Napoca, p. 116 (Achim, Monica Violeta. (2011) "Economic and financial diagnosis, digital course support", FSEGA-UBB, Cluj-Napoca, pp. 116)

8 Buglea, A., Lala Popa, I. (2009) – Analiză economico-financiară, Editura Mirton, Timişoara (Buglea, A., Lala Popa, I. (2009) - Economic and financial analysis, Mirton Publishing House, Timisoara)

The analysis of the distribution of value added is important to highlight the degree of participation of each category in the generation of added value and, also, to assess the level of remuneration in relation to the effort made.

Gross operating result[9] *(GOR)* is the result obtained by a company from its operating activity, which is not influenced by the volume of other operating revenues, respectively by the volume of depreciation and provisions. This indicator shows in gross form the ability of the operating activity to generate profit.

The operating result (profit or loss) represents another interim management balance that measures the economic profitability of an entity and corresponds to normal and basic activity regarding the "production" of accumulation.[10]

The operating result *(OR)* manages to best capture the ability of the operating activity to generate profit, because the result formed was not subject to distribution operations to various participants in the activity of the company. In its formation are considered all the expenses related to the operation, these being reported to the total revenues generated from the same activity. Its informational value is focused on reflecting a result that characterizes all operations and flows related to the operation.[11]

The net result of the year expresses in absolute quantities the net profitability or losses related to the company's activity, after deducting total expenses from total revenues and the profit tax related to a financial year. Net profit is the absolute measure of the financial return on equity. In other words, this indicator measures the mass of the profit that remains at the disposal of the owners of the company and that is to be distributed.[12]

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9 Buglea, A., Lala Popa, I. (2009) – Analiză economico-financiară, Editura Mirton, Timişoara (Buglea, A., Lala Popa, I. (2009) - Economic and financial analysis, Mirton Publishing House, Timisoara)

10 Vâlceanu Gh., Robu V., Georgescu N. - Analiză economico-financiară, ediția a doua revizuită și adăugită, Editura Economică, București, 2005, p. 255 (Vâlceanu Gh., Robu V., Georgescu N. - Economic and financial analysis, second edition revised and added, Economica Publishing House, Bucharest, 2005, pp. 255)

11 Isfanescu, A., Robu, V., Hristea, Anca Maria, Vasilescu, Camelia - Analiză economico-financiară, Note de curs, Academia de Sudii Economice Bucureşti, disponibil on-line la: http://www.biblioteca-digitala.ase.ro/biblioteca/carte2.asp? id= 75&idb=20 (Isfanescu, A., Robu, V., Hristea, Anca Maria, Vasilescu, Camelia - Economic and financial analysis, Course notes, Bucharest Academy of Economic Sciences, available online at: http: //www.biblioteca-digitala. ase.ro/biblioteca/carte2.asp? id = 75 & idb = 20)

12 Isfanescu, A., Robu, V., Hristea, Anca Maria, Vasilescu, Camelia - Analiză economico-financiară, Note de curs, Academia de Sudii Economice Bucureşti, disponibil on-line la: http://www.biblioteca-digitala.ase.ro/biblioteca/carte2.asp? id= 75&idb=20

Intermediate management balances are not another summary document but another way of presenting the profit and loss account, which otherwise groups the revenues and expenses of a company. The construction of the indicators is done in cascade, starting from the most comprehensive (global production of the year) and ending with the most synthetic (net result of the exercise).

The calculation relationships of the cascade of interim management balances are the following:

- Sales of goods – The cost of goods = ***Trade margin***
- Sold production + Stored production + Fixed production = ***Production of the year***
- Trade margin + Production of the year – Consumption by third parties = ***Added value***
- Added value + Subsidies from operating activities – Other taxes and similar liabilities – Personnel expenses = ***Gross operating surplus***
- Gross operating surplus + Other operating revenues – Operating depreciation and other provisions – Other operating expenses = ***Operating result***
- Operating result + Financial revenues – Financial expenses = ***Current result before taxation***
- Current result before taxation +/- Extraordinary result – Income tax = ***Net result of the year.***

The calculations made based on these relationships are structured in the following table:

Table nr. 2 Calculation of intermediate management balances

Item. No.	Indicators	Previous year values	Current year values	Differences
1.	Sales of goods	52.840	148.625	95.785
2.	The cost of goods	39.576	110.814	71.238
3.	**Trade margin (row 1 - row 2)**	**13.264**	**37.811**	**24.547**
4.	**Production of the year** (equal to sold production)	**461.008**	**1.570.399**	**1.109.391**
5.	Consumption by third parties	411.605	1.275.895	864.290
6.	**Added value (row 3 + row 4 - row 5)**	**63.027**	**323.315**	**260.288**
7.	Other taxes and similar liabilities	156.079	228.649	72.570
8.	**Gross operating surplus (row 6 - row 7)**	**-93.052**	**94.666**	**187.718**
9.	Other operating revenues	70.500	58	-70.442
10.	Depreciation expenses	100	100	-
11.	**Operating result (row 8 + row 9 - row 11)**	**-22.652**	**94.624**	**117.276**
12.	Financial revenues	1	1	-
13.	Financial expenses	-	673	-673
14.	**Current result before taxation (row 11 + row 12 – row 13)**	**-22.651**	**93.952**	**116.603**
15.	Income taxes	-	-	-
16.	**Net result of the year (row 14 + row 15 - row 16)**	**-22.651**	**93.952**	**116.603**

The calculations performed in Table 2 show a favorable evolution of all the indicators of intermediate management balances calculated for the analyzed travel company, thus:

- The trade margin increases by 24.547 lei, this being due to the more accentuated increase of the sales of goods than of the cost of the goods,
- The added value increases by 260.288 lei, due to the more accentuated increase of the production of the exercise compared to the increase of the consumptions from third parties,

- The gross operating surplus increases by 187.718 lei, due to the faster increase of the added value than of the taxes, fees, and assimilated payments,
- The operating result increases by 117.276 lei, this being lower than the increase of the gross operating surplus due to the reduction of other operating revenues by 70.442 lei,
- The current result before taxation increases by 116.603 lei, which is lower than the increase of the operating result due to the increase of financial expenses by 673 lei,
- The net result for the year has the same evolution as the current result before taxation, because the extraordinary result and the profit tax are zero.

CONCLUSIONS

The profit and loss account allows the monitoring of the activity carried out by the entity by types of activities, in which all operations that influence the output indicators are reflected. Each of these operations is subject to obtaining a net result, by achieving a financial surplus at each level of activity.

Net profit represents the main source of economic growth of the enterprise, but also the objective motivation of the associates/ shareholders to reinvest it in organizing new goods/ services with the aim of maximizing over time.

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