

FINANCIAL RESULTS AND PROFITABILITY OF COMPANIES

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***Abstract:** Over the last two decades the Romanian economy has been characterized by a significant increase in the competitive environment, the liberalization of prices and economic activity. At the same time, reduced ability to finance itself, the high prices of financial resources and of energy uncompetitive production and the loss of traditional markets, the difficult management did not allow enterprises to cope with the new economic system, but instead they led to a disastrous state, inevitably causing a considerable drop in domestic industrial output and an insufficient use of their production capacities. Starting from this situation, the idea emerges that we should search and develop effective solutions for economic and financial recovery of the economic agents who work in the current economic context. And in this sense, the evaluation of financial results and profitability of the enterprise is to become the foundation of these solutions.*

***Keywords:** profit, financial results, efficiency, indebtedness, leverage*

1. General considerations

The main objective of strategic micro-entity is to achieve higher returns on capital invested by shareholders. Achieving this target is synonymous with an activity that generates profit, given that it constitutes the basis of allocation of dividends to shareholders of the company. Also, the profit represents a fundamental indicator used in the analysis of economic and financial activity of the company and indirectly it affects the marketing of that company's shares. Obtaining a favorable result from running a business and the current solution is necessary to secure a firm financial balance. The result is determined by comparing an activity engaged in efforts to achieve the effects they produced. If we refer to determining the result in the economic field, this is obtained by comparing the costs with the revenues of the respective company.

One of the key objectives of the enterprise in the market economy is to achieve profitability that is its ability to make a financial surplus of its activities. Profitability, as it is a synthetically characterization of economic efficiency can be expressed both by profit and by the rate of return.

Based on the data summarized in profit or loss account, we can determine a number of value indicators on the volume of financial results and profitability of the company, constituted from the most comprehensive (production year + trade margin) and ending with the synthetic (net profit the year).

Indicator that allows characterization activities of the undertaking in terms of quantity and quality is profit. It reflects the gain in cash received by those doing business is considered a reward factors of production used by entrepreneurs.

The profit level shows the degree of effectiveness of the activities, assets and liabilities using economic, i.e. the economic and financial capital. Also, the overall economic and financial indicators, rate of return is among the most efficient synthetic indexes of business activity. Rates of return highlights the economic and financial characteristics of the patrimonial allowing industrial and commercial comparing the performance thereof. Rates of return are usually determined as the ratio between the economic and financial obtained and efforts to obtain them. An activity is profitable when this ratio is greater than one.

For measuring the degree of efficiency of financial and economic activity of the undertaking we can use a number of indicators such as:

- added value;
- gross surplus of exploitation;
- productivity of economic means
- the commercial rate
- Trade margin rate
- Gross operating margin rate;
- Net operating margin rate;
- economic rate of return;
- financial return:
- Net financial return
- Financial rate of return before tax
- Financial return on equity
- leverage of debts;
- break even volume.

2. The structure of expenditure, revenue and profit of the enterprise

Profitability can be defined as the ability of the company to obtain profit by using inputs and capital, regardless of its origin. The starting point in determining financial results is the company's expenditure and revenue size. Therefore, the company must determine strategy so that operations will be conducted to help increase revenue and reduce costs. Thus, the turnover is

achieved with a minimum spending amount, in terms of negotiating sales prices of products or services as favorable, the company's results will be higher.

The financial results of the company are determined on the one hand, the volume of operating expenses incurred in carrying out core business and other non-operating activities (financial, exceptional), and, on the other hand, the income earned.

The costs incurred to achieve the proposed income can be structured as follows:

- ✓ operating expenses: cost of goods purchased for current activities, expenditures executed works and services from third parties, costs paid taxes to the state budget, personnel expenses, other operating expenses;
- ✓ financial expenses, i.e. expenditure on investment securities surrendered expenses from foreign exchange differences and other financial expenses,
- ✓ exceptional expenditure or capital expenditure on operations, operations management;
- ✓ depreciation expenses of fixed assets in tangible, intangible and financial;
- ✓ expenses related to income from other activities.

The total income that may accrue in the company because of their activity can be classified into three categories:

- ✓ operating income or income from the sale of goods, services and activity rendered,
- ✓ income from production is stored in the production of property of any operating grants etc .;
- ✓ financial income or income from equity investment securities, foreign exchange differences, interest, receivables etc .;
- ✓ exceptional income, i.e. income from donations, damages, penalties, subsidies for investment income, income from disposal of tangible assets etc.

By comparing the two components of the categories of indicators (income and expenditure) can determine total and net financial results of the company.

Total balance sheet (RFT) consist of:

- Value Added Tax (VAT), which adds to the price of billing products, services or works which are transferred to the state budget;
- Gross profit (Pb), which is determined as the difference between the income received, corresponding turnover and expenditure allocated for these revenues.

$$\mathbf{Rft} = \mathbf{VAT} + \mathbf{Pb} \quad (1)$$

or

$$\mathbf{Rft} = \mathbf{Q(VAT} + \mathbf{Pb)} \quad (2)$$

Net financial results (Rfn) are formed of:

- *Value Added Tax* (VAT);
- *Net profit* (Pn), which is determined as the difference between revenues (Pv) negotiated sale price obtained and expenses for turnover (C) including VAT and corporation tax (Ip)

$$\mathbf{Rtn} = \mathbf{Pv} - (\mathbf{C} + \mathbf{TVA} + \mathbf{Ip}) \quad (3)$$

The end result of the exercise is either a profit or a loss, comparing sales or revenue size of expenses related to yield results size (manufacturing costs and the related sales). Revenues depend on size, volumes, or sales volume, the size of prices and tariffs and changes in stocks of finished products. So, yearly results (profit or loss) are calculated as the difference between revenues and expenditures year, regardless of their date of receipt or payment. This leads to differentiation flows of income and expenses in the income statement in two categories: revenue streams collectible / expenditure incurred and calculated flows.

Revenue received includes income received during the year and income receivable next year. Costs incurred (payable) comprise expenses incurred during the year and expenses paid in the future. Both may increase or decrease net income to the treasury, while revenues and expenses calculated (reversals harsh provisions, aliquots of investment subsidies paid on the outcome of the exercise, depreciation and provisions calculated value of net assets carrying ceded) did not influence than the outcome without affecting year treasury enterprise. Income and expenses may affect treasury calculated solely by tax issues. Profit tax (taxable) shall be determined from the sheet on which fiscal integration may be summed as:

- ✓ Non-deductible expenses tax (excess protocol spending, on advertising and publicity; excess travel expenses, transfer, fines and penalties imputable incurred expenses; excess expenditures for social activities, sponsorships, donations, shortcomings in management imputable, perishable beyond legal, additional tax for wages paid over the allowable fund, losses from receivables: debtors);
- ✓ V.A.T. collected on the goods and services used for personal or handed over charge, over the shortcomings related to legal norms and the related goods and services given to employees as benefits;
- ✓ interest loans for investments where they were recognized as expenses;
- ✓ the currency difference for investment loans;

- ✓ provisions excluding securities lodged on the basis of contractual terms;
- ✓ other non-deductible expenses (value of goods seized).

The obtained result influences fiscal deductions, such as

- ✓ legal reserves;
- ✓ losses from previous years;
- ✓ income from sale of fixed assets less their depreciated value, less costs to exploit them;
- ✓ income from the exploitation of material from dismantling or sale of fixed assets removed from service, less costs incurred to the amount of input remaining amortized;
- ✓ proceeds from the sale of assets less the related tax, less the cost of projects evaluation and selling their expenses and their depreciated value;
- ✓ interest earned for cash investment;
- ✓ development Funds;
- ✓ past income tax non- deductible provisions;
- ✓ other legally deductible sums.

This brings us, by observing the regulations presented, to obtain the taxable income from a tax perspective.

3. Methods to determine profit

The taxable profit of a taxpayer is determined as the difference between income and expenditure incurred for their completion of a fiscal year. The taxable profit is calculated monthly, cumulative from the beginning of the fiscal year.

Businesses, regardless of their activity, can predict gross profit using two main methods:

- a) calculation method directly on the product, product group and the total turnover (direct method);
- b) the method of reporting to a base period (indirect method).

a) The direct method consists in the calculation deducting revenue from the sale of each product, each commodity costs and expenses, as well as the results from financial operations. So the results are dependent on income and expenses.

In the field of expenditure included elements both general and specific company. Expenses of core business, include:

- cost of purchased goods including customs duties;
- change in stock of goods;
- costs of materials, utilities, external services;
- change in stock of materials, raw materials, fuel, packaging;

- taxes included in the price;
- salaries, allowances, compensations, bonuses;
- contribution to the unemployment fund;
- depreciation of fixed assets included in costs or prices;
- benefits in kind (food, beverages, fuel, services) obtained by employees;
- taxes verification, marking;
- charges sanitation;
- technical accounting expertise;
- other expenses.

This grouping includes expenses included in cost of basic production and other activities (ie operating costs).

Besides this grouping interfere any financial expenses, tax deductible expenses and exceptional deductible.

In determining the profits we must take into account the cost of production of goods that are produced in the current year and the optimal dimensions of supplies and invoices issued and received by the end of the period (quarter, year) expressed in costs and selling prices . Thus, stocks of finished goods and invoices and cashed at the beginning of the period, expressed in costs, are obtained by adding to the cost of inventories of finished goods and products charged in the previous year related marketing expenses in the current year. Stocks of finished goods but not received at the end of the current period, expressed in costs, are taken from stock records and accounting documents or can be calculated using the following relation:

$$Spf = \frac{CA}{90sau360} Nz \quad (4)$$

where:

Spf = stock of finished goods and invoices issued and cashed at the end of the quarter or year;

CA = turnover quarterly or annual expressed in costs;

Nz = average number of days between their receipt and storage of finished products

Volume of gross profit depends not only on the costs and selling prices, but also the production of goods manufactured size and turnover. The production volume of freight (PMF) represents commodity production factory in the quarter or year, expressed in sales prices:

$$Pmf = Q \times pvz \quad (5)$$

where:

Q = production expected to be achieved or sold;

pvz = negotiated sale price.

Turnover expressed at the sale price negotiated is determined by the value of production of goods that are to be made, stocks of finished goods and the balance of invoices issued and not cashed at the beginning and end of the period (quarter, year):

$$CA = Pmf + Siv - Sfv \quad (6)$$

Knowing the turnover expressed in the selling price and the cost after determining gross profit the calculation method is:

$$Pb \text{ sau } Rf = (Pmf + Siv - Sfv) - (Pmc + Sic - Sfc) \quad (7)$$

sau

$$R_f = V_e + V_{SI} - V_{sf} + V_F + C_E - C_e - C_{SI} - C_{SF} - C_F - C_E + C_{NF} - C_{DF} \quad (8)$$

where:

V_e - operating income; V_{SI} - Price value of the initial supplies; V_{SF} - The closing stock price value; V_F - Financial income; V_E - Exceptional income; C_{NF} - Nondeductible expenses; C_e - Costs of closing stocks; C_{SI} - costs of initial stocks; C_{SF} - cost of final stocks; C_E - Exceptional expenses; C_{DF} - Tax deductible expenses

b) The method of reporting to a basic period (indirect method). The method takes into account the financial result rate, the gross profit of the base period in the structure and conditions of that period. Obviously, a number of corrections are required related to what is happening in the current period, which do not use the direct method. To follow the steps of the method we refer to a basic period:

1. determining profit and profit rate for the previous year;
2. The calculation of expected profit from commodity production to the factory this year, while maintaining the rate of profit in the previous year;
3. establishing profit resulted from reducing the cost of production this year;
4. Determine the effect of the change in the goods produced in the current year for products with improved profitability;
5. profit for calculating the change in selling prices in the current year over the previous year according to supply and demand;
6. determination profit for the difference between stocks of finished goods and invoices issued but not cashed existing at the beginning and end of period (quarter, year);
7. determining the total amount of gross profit in the quarter or year.

To calculate the profit of the factory production of goods is projected in (quarter) current multiply the expected yield expressed in costs achieved in basic profit rate of the base year.

4. The influencing factors and ways to increase profit

There are a lot of factors that need to be known in order to formulate appropriate decisions, with positive effects on profit development.

From those presented in previous paragraphs can reveal that profit is influenced by:

- a. the quantities sold;
- b. the selling price;
- c. the cost or price sales rebound;
- d. sales structure;
- e. the quality of products, works, services;
- f. the size of the equity;
- g. leverage (leverage).

Relevant factors are price and costs synthesis. Between prices, costs and profits there is a strong connection. Profit increases when the price increases in costs unchanged conditions and decreases when the price drops. Profit increases as the cost decreases and decreases when costs rise in price terms unchanged.

There is a link between profit and equity between profit and total capital invested:

$$\frac{\text{Profitul net}}{\text{Capital propriu}} = \frac{\text{Profit inainte de impozitare}}{\text{Cpr}} \cdot \frac{\text{Pn}}{\text{profit inainte de impozitare}} \quad (9)$$

We can emphasise the incidence of financing on gross profit (profit before tax)

$$\frac{\text{Prof.brut}}{\text{Cpr}} = \frac{\text{Pb}}{\text{Prof.inainte de impoz si retin ch.fin.}} \cdot \frac{\text{Pinainte de impoz si retin ch.fin}}{\text{Dat + Cpr}} \cdot \frac{\text{Dat + Cpr}}{\text{Cpr}} \quad (10)$$

where:

- (Pb)/ (profit before tax and withholding financial expenses) = expresses financial expenses impact on profit
- (profit before tax and withholding financial expenses) / (debt + equity) = overall profitability of invested capital
- (Debt + Equity) / (Equity) = financial structure of the company

Economic profitability or gross emphasize the link between gross profit (before financial expenses coverage and tax) and capital employed or economic assets (the company):

$$\frac{\text{profit brut}}{\text{activ economic}} = \frac{\text{Pb}}{\text{CA}} \frac{\text{CA}}{\text{activ economic}} \quad (11)$$

Economic asset consists of fixed asset and working capital requirements.

Leverage effect on profitability is notable. He incorporates financial structure, cost structure, profitability structure.

Return on equity is:

$$R_c = r + (r - i) \times D/CP_r \quad (12)$$

where:

R_c – profitability of own capital; r – profitability of economic asset; i – cost of debt (interest); D – debt; CP_r – own capital.

5. Financial rates - a tool for assessing the profitability and efficiency of enterprise

The main objective of financial management of any enterprise is to achieve a return of increased economic activity.

Profitability can be defined, as I said, the capacity of the company to generate additional results over the level of spending. Profitability is measured by the profit (in absolute values) and profit rate (relative value). An activity is profitable if revenue and expenditure ratio is a ratio higher than 1 (above par). When this report records the value 1, economic activity will not bring profit, but no loss. A return ineffective (below par) threatening the existence of capital and solvency of the company.

To measure the efficiency of financial-economic activity of the enterprise to determine the level of economic and financial independence for timely detection of various causes that generate unwanted changes in their company using a system efficiency rates such as:

- ✓ profit rate;
- ✓ operating profitability rate (commercial rate, net operating margin rate);
- ✓ financial return;
- ✓ economic rate of return
- ✓ leverage on profitability
- ✓ breakeven volume.

The rates are established in the form of significant reports between two comparable items, and generally linked by cause and effect relationship. Form rate is varied, the main methods being the expression by a factor (a number), by a percentage or a number of days (duration).

The main objective in the analysis based on rates in the study consist of at least three successive financial size of the company: profitability, liquidity, financial structure.

The profit rate is the indicator that characterizes summarizes the quality of economic activity of the undertaking influenced by the action of a series of factors, among which: the volume and structure of production, cost reduction and operating costs, production quality and service level of selling prices the rotational speed of current assets.

This indicator reflects the efficiency of the column head used and the labor market being calculated as a ratio between the mass of profit (Pb) and the cost of obtaining it or the amount of capital used:

$$R_p = \frac{P_b}{C_m + C_s} \cdot 100 \quad (13) \quad \text{sau} \quad \frac{P_b}{A} \cdot 100 \quad (14)$$

where:

Rp = profit rate;

Cm = material expenses;

Cs = salary costs;

A = capital employed expressed by average assets and tangible assets

Profit rate guidance is important for the structure of the enterprise being sought after products or services that provide a profit rate as high. Therefore it is necessary to calculate return margin or breakeven on manufactured goods in total output and turnover.

The assessment of efficiency of economic activity is generally done by calculating the rate of profit from the core business. Given the structure of operating expenses, which include variable costs (Cv) that changes in proportion to changes in output and fixed expenses (Cf), gross profit is determined by the formula:

$$P_b = (P_v - C_v) \times Q - (C_f - d) \quad (15)$$

where:

Pb = gross profit;

Pv = selling price of products,

Cv = variable costs per unit of product;

Cf = fixed costs;

d = marketing expenditure;

Q is the quantity of products sold.

This way of expressing the calculation of the profit or breakeven point of equilibrium that allows financial management to regularly review the fixed and variable costs per unit of output and total turnover and profit achieved in

particular the main products of the company. Establish equilibrium, where turnover is equal to the expenditure incurred by the undertaking, it is estimated gross profit from the equation, the equation is considered null profit:

$$Pb = 0 = (Pv - Cv) \times Q - (Cf - d) \quad (16) \Rightarrow Cf - d = (Pv - Cv) \times Q \quad (17)$$

In this situation, the formula is:

$$Q = \frac{Cf - d}{Pv - Cv} \quad (17)$$

where:

Q is exactly the gross turnover which is zero, or the level of production from the enterprise fit to profit.

For profit, the company must increase above this level the quantity of products sold. Thus, the breakeven point (quantitative) reflect the turnover (total revenue) for which profit is zero.

Rates of return highlights the economic and financial characteristics of companies allowing performance comparison of commercial production. In general, rates of return are calculated as a ratio between the economic and financial obtained (different margins earned) and efforts to obtain them (assets, total invested capital, economic capital).

Rates of return measure the results obtained in relation to entrepreneurial activity (commercial profitability) and economic means (economic profitability) or financial (ROE) as shown in table 1:

Table 1. The correlation between the results and the means used

| | | |
|--|--|---|
| Result levels | | |
| <ul style="list-style-type: none"> - Margins - Added value - Gross operating surplus - The result of exploitation - Net result - distributed Result of | | |
| of | | |
| | Means | |
| | Economic | Financial |
| <ul style="list-style-type: none"> - Turnover (before VAT) - VAT | <ul style="list-style-type: none"> - Gross assets - Net assets - NFRE - Capital economic - Invested Capital - total assets | <ul style="list-style-type: none"> - social Capital - own Capital - sustainable resources - total liabilities |

Yielded commercial rates of return appreciates the different stages of company formation activity results are determined by the ratio of accumulation margins and turnover or value added. They take the following forms:

$$\text{Margin} = \frac{\text{Marja comerciala}}{\text{Vanzari de marfuri}} \times 100$$

Gross operating margin rate or EBE rate, measures the level of the gross operating independently of financial, investment, tax and exceptional items within. It Indicates the ability of that undertaking work to liberate profit. Formula is:

$$\text{Rata EBE} = \frac{\text{EBE}}{\text{CA}} \times 100 ,$$

Where: EBE – gross operating surplus; CA – turnover

Net margin rate expresses the overall efficiency of the enterprise, ie its ability to make a profit and to withstand competition

$$\text{Rata EBE} = \frac{\text{Rezultatul net al exercitiului}}{\text{CA}} \times 100 ,$$

A high level of this ratio indicates a possibility of rapid renewal of equipment enterprise and low express an increase in productivity, to the extent that the rate is not a simple consequence of increasing trade margin, and decrease them in relation to a rate commercial margin forecast proves charging the cost of working.

Net operating margin rate or the rate of exploitation expresses the efficiency of the operation:

$$\text{Rata EBE} = \frac{\text{Rezultatul exploatarii}}{\text{CA}} \times 100 ,$$

Self-financing gross margin rate measures the surplus resources at its disposal to ensure its development and / or pay shareholders its affiliates.

$$\text{Self-financing gross margin rate} = \frac{\text{Capacitatea de autofinantare}}{\text{CA}} \times 100 ,$$

Economic rate of return expresses, on the one hand, the gross margin realized on sales of accumulation, i.e. pricing policy practiced, and on the other hand, the intensity of the use of economic capital, i.e. the rotational speed of the turnover. Economic rate of return measures the efficiency of material and financial means allocated.

$$\text{Economic rate of return} = \frac{\text{Rezultatul exploitarii}}{\text{Activ total(capital investit)}} \times 100$$

Economic rate of return should exceed inflation, allowing the renewal and asset growth in a period as short.

In real terms, economic rate of return has two dimensions: one for the remuneration of capital invested at least the minimum rate of return in the national economy (interest rate) and the other for the remuneration of economic and financial risk in which they made the owners of capital available to the enterprise. If economic rate of return is higher than the average interest rate on borrowed capital that shareholders will benefit from the financial leverage of the company's indebtedness (increase financial profitability with each percentage increase in borrowing).

Determinants of economic profitability are put out by decomposing it into two explanatory rates according to:

$$\text{Re} = \text{Commercial profitability} \times \text{Economic profitability}$$

where:

- **Commercial profitability** = $\frac{\text{EBE}}{\text{CA}}$;
- **Profitability of economic means** = $\frac{\text{CA}}{\text{Capital economic}}$.

But economic profitability can be attributed in direct correlation with the profitability of labor offered by the margin rate on added value (difference between value added and personnel costs), the productivity of fixed assets (expressed in value added per assets) and structure investment (strategic investments offered by coefficient):

$$\text{Re} = \frac{\text{EBE}}{\text{Capital economic}} = \text{Rata marjei asupra valorii adăugate} \times \text{Productivitatea activelor fixe} \times \text{Gradul de imobilizare al capitalului economic}$$

where:

- **Rata marjei asupra valorii adăugate** = $\frac{EBE}{VA}$;
- **Productivitatea activelor fixe** = $\frac{VA}{Imobilizari}$;
- **Gradul de imobilizare al capitalului economic** = $\frac{Imobilizari}{Capital\ economic}$.

Thus, the economic rate of return can be increased either by increasing the margin on value added, fixed assets or by increasing productivity or by increasing the economic capital asset or rough three factors acting simultaneously.

Return on equity is the ability of businesses to net profit by releasing equity employed in its work. It reflects the ultimate goal of business activity expressed by the remuneration rate of capital investment made by shareholders or reinvest profits or part of their duties.

Financial return can be expressed as:

- **Net financial profitability** = $\frac{Rezultatul\ net\ al\ exercitiului}{Capitalul\ propriu}$
- **Financial profitability before tax** = $\frac{Rezultatul\ curent\ inainte\ de\ impozitare}{Capitalul\ propriu}$
- **Profitability of equity** = $\frac{Dividende}{Capitalul\ propriu}$

Financial profitability remunerate shareholders or by the payment of dividends or in the form of damage (increase) reserves which in fact represents an increase of property owners, their incorporation into capital and thus an increase in the action.

As economic profitability, return on equity component can be decomposed as follows:

- **Rf = Rata marjei nete de acumulare x Viteza de rotație a capitalurilor** = $\frac{Profit\ net}{CA} \times \frac{CA}{Capitaluri\ proprii}$
- **Rf = Re x Rata globală de îndatorare** = $\frac{Profit\ net}{CA} \times \frac{CA}{Activ\ total} \times \frac{Pasiv\ total}{Capitaluri\ proprii}$
- **Rf** = $\frac{Profit\ net}{Capitaluri\ proprii} = \frac{EBE}{Activ\ total} \times \frac{Profit\ net}{EBE} \times \frac{Pasiv\ total}{Capitaluri\ proprii}$

$$- \mathbf{Rf} = \frac{\mathbf{Pn}}{\mathbf{Cpr}} = \frac{\mathbf{RE - Dob}}{\mathbf{Cpr}} (1 - i) = \frac{\mathbf{Re \times Ae - Dat \times Rd}}{\mathbf{Cpr}} (1 - i) = \frac{\mathbf{Re(Cpr + Dat) - Dat \times Rd}}{\mathbf{Cpr}} (1 - i)$$

$$\Rightarrow \mathbf{Rf} = \mathbf{Re} + (\mathbf{Re - Rd}) \frac{\mathbf{Dat}}{\mathbf{Cpr}} (1 - i) \Rightarrow \mathbf{Rf} = \mathbf{Re} + \mathbf{Leverage\ effect\ of\ debt} \Rightarrow$$

$$\Rightarrow \mathbf{Leverage\ effect\ of\ debt} = (\mathbf{Re - Rd}) \frac{\mathbf{Dat}}{\mathbf{Cpr}}$$

where:

Rf – financial return; Re - economic return; RE - the result of exploitation;
 Dob - interest; Rd - interest rates; Ae - assets (capital); Cpr - equity; Dat - Debt;
 i- tax; (Re-Rd) - leverage; Dat/ Cpr - the lever arm.

The generated leverage effect bring a modification of the financial return (equity) to increase or decrease, where economic profitability is higher or lower due to the average cost of debt. This effect can be amplified by the lever arm, as the share of debt in its funding sources will be higher.

If the lever is positive (Re-Rd > 0), cost will be even higher as the debt will be more significant - each percentage increase in borrowing will increase the financial return equal to the difference between Re and Rd. In this case, the organization's interest to borrow the maximum benefit from leverage. If the leverage is negative (Re-Rd < 0 - "bludgeon effect"), increased borrowing jeopardizes financial return, so each percentage increase in borrowing ROE will decrease the difference between Re and Rd.

Harsh financial return has influenced taxation. If the enterprise is profitable taxation attenuates leverage, profitability and financial losses if it is not only influenced by tax debt.

As a conclusion, it can be stated that the leverage is a tool of strategic financial policy of the company. Indebtedness is not good, nor bad and can be regarded as a performance accelerator and risk for an optimal management of capital held. Financial managers must account for the difference between economic profitability and the cost of borrowing, among which there must be a safety margin positive, that economic returns are higher (in general) interest on loans. Thus, leverage works in two ways: they are weak operating results, leverage will increase the company's worsening financial situation; When operating results are high and associated with an optimal financial structure, the company can get a return on equity and a debt as high.

6. Conclusions

The work undertaken by the enterprise can be analyzed by sizing financial results. They include a system of economic and financial indicators that can be determined based on information provided by profit and loss.

To achieve a financial diagnosis dimensioned profitability as the ratio between the economic and financial obtained and determined efforts to achieve them. The rate of return is one of the most efficient synthetic indexes of business activity. It highlights the economic and financial characteristics of the patrimonial allowing industrial and commercial comparing the performance thereof. Operations of businesses which emit a surplus is reinvested in other operations to obtain a final surplus of profitability (net result), influencing the income statement. The analysis is based on results of company profit and loss account. It summarizes the activity for a given financial year, all economic flows generating income and expenditure and show how they arrived at the final initial patrimonial status reflected in the balance sheets at the beginning and end of the exercise.

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