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Актуальні питання розвитку фінансів, обліку і аудиту

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MANAGING A BUSINESS PROFITABILITY

Abstract. In Ukraine formation and development of market infrastructure significantly changed the financial, economic, informational and legal environment functioning of enterprises and their business content. In terms of integration Ukraine into World space is occur transformed micro financial relationships. Large number of loss-making enterprises, causes a growing need to study of causal relationships related the process of formation companies profits and efficiency of its use.

Profit is the simplest and also the most difficult category of market economy. It is the basic and main driving force of market economy, the primary motivation of enterprises. This article investigates the factors which influence the profitability of a company. On the basis of the financial statements of "Kharkiv Biscuit Factory" the level of profitability was assessed with the help of coefficients method. Possible further problems are found and directions to ensure profitability in the future are suggested.

Keywords: profit management, profitability, profit, "Kharkiv Biscuit Factory", debtor indebtedness, factoring.

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УПРАВЛІННЯ ПРИБУТКОВІСТЮ ПІДПРИЄМСТВА

Анотація. Прибуток – найпростіша і одночасно найбільш складна категорія ринкової економіки. Він є основною і головною рушійною силою економіки ринкового типу, основним мотивом діяльності підприємств. У статті досліджено чинники, які впливають на прибутковість підприємства. На основі аналізу фінансової звітності підприємства ПАТ «Харківська бісквітна фабрика» була проведена оцінка рівня прибутковості та рентабельності за допомогою методу

коефіцієнтів. Виявлено можливі подальші проблеми та запропоновано напрямки забезпечення прибутковості підприємства в майбутньому.

Ключові слова: управління прибутком, рентабельність, прибуток, ПАТ «Харківська бісквітна фабрика», дебіторська заборгованість, факторинг.

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УПРАВЛЕНИЕ ПРИБЫЛЬНОСТЬЮ ПРЕДПРИЯТИЯ

Аннотация. Прибыль - самая простая и одновременно наиболее сложная категория рыночной экономики. Она является основной движущей силой экономики рыночного типа, основным мотивом деятельности предприятий. В статье исследованы факторы, которые влияют на прибыльность предприятия. На основе анализа финансовой отчетности предприятия ПАО «Харьковская бисквитная фабрика» была проведена оценка уровня доходности и рентабельности с помощью метода коэффициентов. Найдены возможные дальнейшие проблемы и предложены пути обеспечения прибыльности предприятия в будущем.

Ключевые слова: управление прибылью, рентабельность, прибыль, ПАО «Харьковская бисквитная фабрика», дебиторская задолженность, факторинг.

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Topically of the work. Significant growth of the economy, the dynamism of the environment, the implementation of international standards of activity requires of enterprise to maximize efficient use of resources and improve the effectiveness of its operation.

Under current economic conditions one of the most important tasks of the enterprises is make a profit. Profit is the main prerequisite for competitiveness on the market, so to maximize profits - is the main task of the financial manager, its solution the effective management of income and expenses, receivables and others are required.

Management practice suggests that a large number of enterprises leaves the market because of irresponsible and irrational profit management. State Statistics Committee data in the first half of 2014 year, indicate that the loss of all Ukrainian enterprises is 215545,6 million UAH. Only 53.9% of economic entities made a profit, the total amount of which is 74464,7 million UAH. The remaining 46.1% of enterprises have experienced a loss of 290010,3 million UAH. Thus, almost half of Ukrainian enterprises are unprofitable. The largest damage increase occurred in the following areas: water supply - 1716,2 million UAH, Electricity and gas supply -12414,5 million UAH, Extractive industries and quarry development - 8203,4 million UAH.

Therefore one of the topical tasks of the present stage is to master modern methods of effective revenue management in the process of operating, investing and financing activities of a company.

Analysis of recent research and publications. Special attention is devoted to the category of income in the works of Ukrainian scientists, such as: I.A. Blank, V.I. Blonska, M.D. Bilyk, S.M. Barantseva, S.V. Mishina, A.M. Podderyogin, N.M. Tkachenko, G.M. Azarenkova, T.N. Zhuravel, and other scientists. Also, the essence of the concept of "profit" studied foreign scientists, such as: T. Men, A. Smith, J. Mill, D. Ricardo, J.B Say, W. Roscher, F. Bastia, N. Senior, and others.

Material and research results. Profit is the most important financial category, reflecting the positive financial performance of business enterprises, characterizes the efficiency and indicates the amount and quality of output, states the level of productivity and cost [1].

In a business of any size company profits are quite important. The value of income influence the formation of financial resources, increases its market value, as well as the economic development of the state. These factors determine the need for research of effective management of company profits.

Formation of profit depends on many interrelated factors. They can be divided into external and internal [2]. Internal factors - are directly dependent on the enterprise, external - are independent of the enterprise, but also have a significant impact on profit margins. Internal factors are productive and non-productive. Inputs reflect the availability and use of tools and items of work, labor and financial resources and, in its turn, are divided into extensive and intensive. Extensive factors affect the profit due to quantitative changes: the volume of items and equipment facilities, financial resources, equipment working duration, staffing, fund working hours and so on. Intensive factors affect the profit through "qualitative" changes: increasing the productivity of equipment, accelerated rotation of working capital, improved skills and productivity of staff, reducing production costs, improving work organization and more effective use of financial resources and so on. By out-factors include, supply and marketing enterprises and environmental protection, social conditions and way of life so on.

The economic role of profit in the market conditions manifest itself in the following ways[3]:

- Profit is the driving force behind the operation and development of the economy, the main motive of business activities;
- The desire to get profit promotes efficient allocation and use of resources, introduction of scientific and technological progress, costs reduction, product quality and its consumer properties improvement;
- Profit is a source of expansion of social production, increase of national wealth and satisfaction of growing needs of society.

"Kharkiv Biscuit Factory was chosen as the basis for the study of profitability. The company is the fourth largest in Ukraine in terms of production and sales it provides confectionery products in more than 20 countries, the share of exports - about 30%. Quality management system at the corporation enterprises meets modern international standard ISO 9001-2008. Availability of quality system allowed the company in 2001, the first in Ukraine to develop and implement an integrated system of HACCP in the production of wafers. The company enterprise employs more than 3,000 people.

The enterprises economic efficiency is characterized by profitability. An enterprise is considered to be cost-effective if as the products result of the sale it covers all its expenses and, in addition, gets a profit [2]. The indicators measure the profitability of the enterprise yields from different perspectives and are grouped according to the interests of economic analysis, market exchange. Profitability - a relative measure of profit, which reflects the effect of the ratio obtained or used available resources. Cost-effective is a state of activity, when over a definite period the receipts offset the losses profit is created and accumulated. To assess the profitability of "Kharkiv Biscuit Factory" such ratio are calculated: return on assets ratio, return on equity ratio, ratio activity profitability.

Based on the data in Table 1, we can say that the rate of return on assets during 2008-2013 ranged from 0.07 to 0.13, indicating that this index is within the standard. In 2013, the coefficient decreased significantly, which means that the company is not very efficient in using of their assets.

Table 1

Evaluation of fixed indices profitability for the 2008-2013 years

Indicator	2008	2009	2010	2011	2012	2013
Return on assets	0,11	0,09	0,10	0,13	0,10	0,07
Return on equity	0,14	0,12	0,13	0,15	0,11	0,07
Return on activity	0,07	0,07	0,05	0,07	0,06	0,05

Regarding the return on equity ratio, was 0.14 in 2008, and in 2013 - 0.07. Parameter value decreased in 2013 and although it is a negative sign, still this figure is above zero, indicating that the efficiency of investment into the enterprise.

Profit ratio of activity during 2008-2012 was stable at 0.07 and only in 2010 it decreased to 0.05 in 2012 to 0.06. The year of 2013 is characterized by the further decrease of this indicator, saying that the profitability of economic activities of "Kharkiv Biscuit Factory" is reduced.

Gross income is total income received by the company from business activities.

Figure 1 shows the dynamics of gross and net profit of "Kharkiv Biscuit Factory" during 2008 – 2013 years.

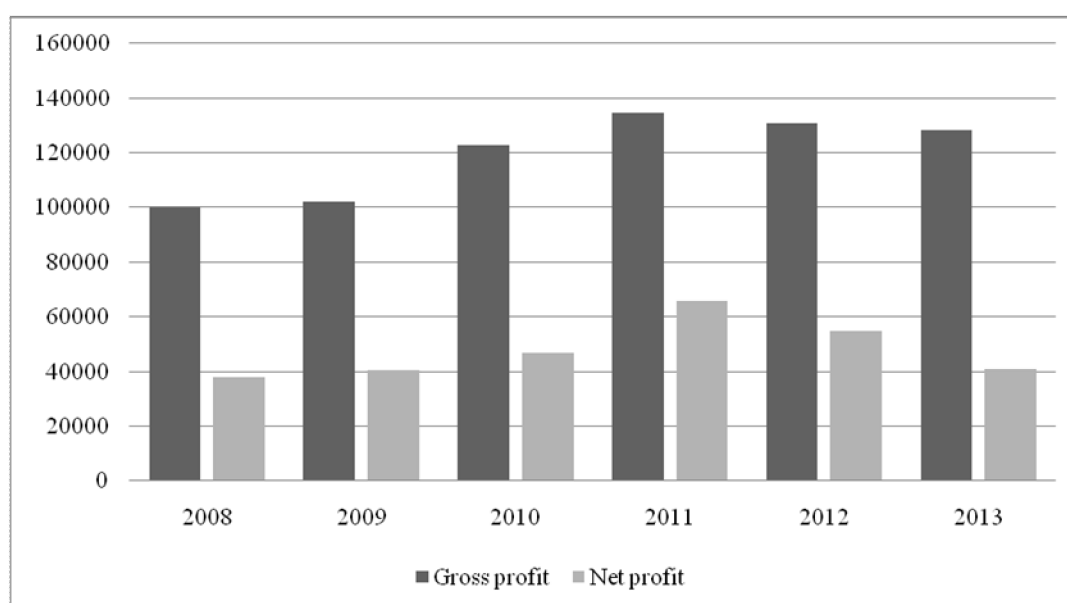


Fig. 1 Dynamics of gross and net profit of the "Kharkiv Biscuit Factory" thousand UAH. in 2008 - 2013 years

The net profit for any company is the most important one. Net income - is the result of the enterprise activity for a definite period. It shows the amount of cash that the company get after paying all tax fees, salaries to its employees and other payments that are mandatory. The figure shows that each year the profitability of the enterprise increases, but in 2012-2013 it decreased dramatically, due to a reduction in exports of confectionery products to the Russian Federation.

Management decisions in any area of a company activity, directly or indirectly affects the earnings. Managing profitability is inextricably linked to production management, innovation management, personnel management, investment management and financial

management. This requires the integration of enterprise revenue management and overall enterprise management system [5].

To ensure the appropriate level of profitability in the future it is necessary to pay such a special attention to a problematic issue as management of company accounts receivable.

The level of receivables at the Kharkiv Biscuit Factory is quite high during 2008-2012 (increased from 135093 thousand UAH. to 218169 thousand UAH.). Only in 2013 there is a negligible reduction of the factor up to 213371 thousand UAH. The data in figure 2 indicate the need to minimize accounts receivable and further improve its management.

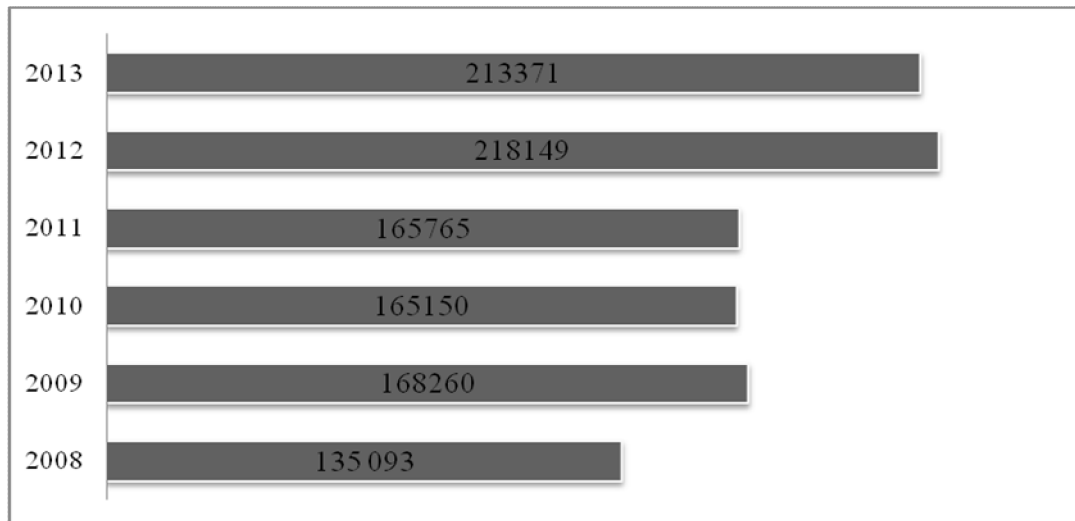


Fig. 2 Dynamics of receivables in the company in 2008-2013 years, thous. UAH.

To minimize the level of accounts receivable we can build system controls and Collection of Receivables "ABC-control system." In foreign practice, the following forms of refinancing such as factoring, accounting bills issued by customers of products, forfeiting are used.

ABC-analysis of debtors is the classification of receivables in order of importance and methods of control, in which all debtors are divided into three categories depending on the financial value of receivables: A - the most valuable, B - intermediate, C - the least valuable ones.

Accounting of bills consists in the following: a bank after acquiring a bill on nominal endorsement urgently plays the bearer but receives the payment only at the date of a bill maturity indicated in the bill [6].

Forfeiting is the transformation of commercial loans in a bank loan. In this case, the sale of debt put in order with the help of negotiable instruments (bills of exchange or transferable letter of credit), is accomplished on the basis of failure (or forfeiting) of the Bank from recourse of the requirements of the creditor (vendor of products) if the debtor (buyer) turned out to be insolvent [6]. But in order to reduce the risk of possible losses in non-return of part of the debt, the bank requires a considerable discount on the price (discount). It is often used in forfeiting export operations.

Factoring is the purchase by a bank or a specialized factoring company receivable by the supplier to the buyer and their collection for a certain reward. "The essence of factoring is that a factoring company buys from its clients payment requirements to buyers on conditions of immediate payment of 80-90% of the cost of direct deliveries (excluding commissions) regardless of the timing of revenue from customers [7].

Factoring is a complex service that includes accounts receivable management, risk coverage, cash gaps etc. As a result, the company can plan its cash flow, thereby increasing the loyalty of its partners.

The total turnover for the factoring and commercial finance industry across the EU in 2013 was 1,26 Trillion Euros. EU Members represented over 97% of the turnover in the EU with the top five countries making up nearly 80% of the total market (Fig 3). The factoring industry turnover represented 9.6 % of EU GDP in 2013 [13].

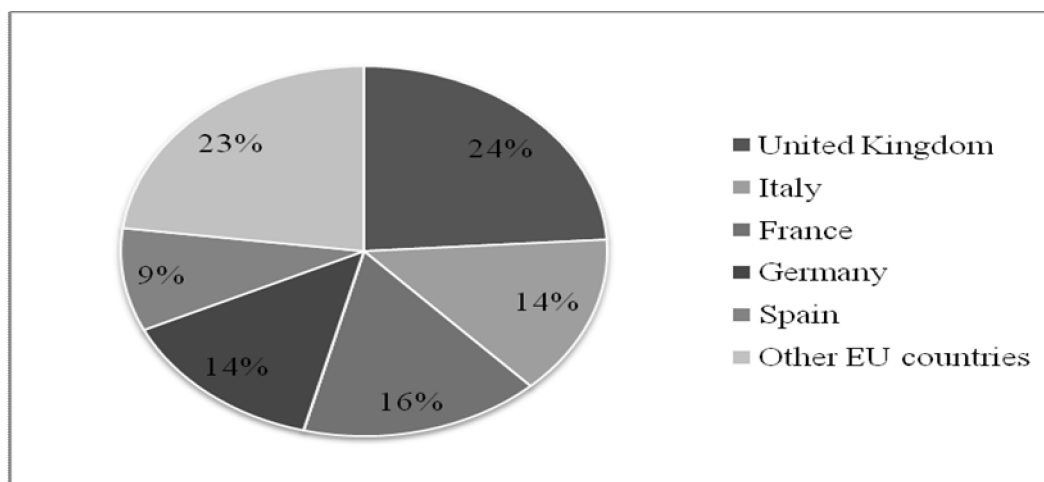


Fig. 3 Total Factoring Volume in EU in 2013 year

Factoring market is not new for the Ukrainian economy. However, due to the instability of the economic situation and lack of interest in and willingness to use international experience, he has not gained the proper development and did not get a proper evaluation.

The first to propose factoring in Ukraine were banks, and only later appeared factoring companies. The global financial crisis of the second half of 2008-2009. changed the orientation of factoring in the aspect of factors [8].

The number of financial companies that have received the right to hold the factoring business in Ukraine is growing every year, as shown in Table 2.

Table 2

The number of financial companies that have the right to provide factoring services in Ukraine

Indicator	2009	2010	2011	2012	2013	half-year 2014
<i>Companies that provide factoring services</i>	49	78	110	146	163	175

Resource [9]

The main parameter that characterizes factoring, are the sources of funding which are listed in Table 3.

As shown in Table 3, the main sources financing of factoring transactions are: own funds, bank loans, borrowings entities. Fluctuation dynamic structure of sources of financing factoring transactions occur mainly due to changes in the share of own funds, which traditionally is the largest in the source of funding. As of the first half of 2014 the amount of own funds is 4080,6 million UAH., bank loans 2523,4 million UAH., borrowings entities 137,7 million UAH and others.

Table 3

Sources of Financing Factoring in Ukraine in 2011-2014 years.

million UAH

Resources	2011	2012	2013	half-year 2014
Own funds	3 908,7	8 179,0	6 183,9	4080,6
Borrowings entities (except bank loans)	1 662,4	1 584,4	367,7	137,7
Bank loans	1 192,6	1 643,0	3 338,9	2523,4
Other sources	64,3	296,4	149	101,3
Total	6 845,2	11 702,8	10 039,5	6843,5

Resource [9]

For transfer of receivables of "Kharkiv Biscuit Factory" in factoring, it is advisable to use industry-leading services that are provided by financial companies in Ukraine (Table 4).

Table 4

Factoring conditions of Ukrainian banks

Organization	Max. amount of funding	The period of deferment	Interest rate, annual	Commission of tranche,%
Bank «Globus» [10]	up to 90% of the amount of supplies	up to 120 days	- for the use of cash by factoring service during the period of deferment of payment - 24%. - for the use of cash after the time delay of payment - 35%.	- by setting a limit financing factoring contract (excluding VAT) – 0,5% of the limit. - processing fee and settlement 0.3% of the supply of goods (services).
Ukrainian Bank of Development [11]	up to 100% of the amount of supplies	up to 90 days	from 0,85 to 5,2%, depending on funding and period of deferment	from 0,9 to 5,04%, depending on funding and period of deferment
Bank «Finance and Credit» [12]	up to 100% of the amount of supplies	up to 60 days	19% -25% individually, depending on the turnover with contractors	0,2% -2% once

Thus, analyzing the existing offers it would be best to use the services of "Ukrainian Bank of Development" because it provides the most convenient terms and the lowest interest rates (Table.5)

Table. 5

Conditions of factoring provided by «Ukrainian bank of development»

The period of deferment	61-90 days	
The amount of the advance	Commission of the tranche% (including VAT)	Interest rate, annual
91-100%	5,04	5,2

Resource [11]

Receivables for goods and services of the "Kharkiv Biscuit Factory" of the end of 2013 are 122,481 thousand. UAH., The repayment period is 90 days. Based on the conditions provided by «Ukrainian bank of development» the amount of funding to be received by the company will be 122,481 thousand. UAH. i.e 100%. The period of deferment is the maximum - 90 days. Commission for funding is 5,04% of the funding and is 6173 UAH. Payment for the use of one funds will be:

$$A = B * ((C / D) * E) / 100,$$

where, B – the amount of funding,
 C – interest rate,
 D - number of days in the year,
 E - number of days of the deferred payment.

$$A = 122481 * ((5,2/365) * 90) / 100 = 1570, 44 \text{ (UAH)}$$

So, having used factoring services the company will pay 7743,44 UAH to «Ukrainian bank of development» the total amount which company will received in the case the debtor pays the debt that will be 122481 - 7743 = 114,738 (UAH). This funding company receives immediately right after delivery, without waiting for the expiration of deferred payment. The advantage manifests itself also in the fact that the bank checks the debtors reputation and payment discipline ensures that debt is repaid on time and in full.

Using factoring provides many advantages to the enterprise, among which are: marketing and financial management, to marketing advantages belong the ability to increase the volume of shipments, expand the range of products, allowing the company in quick terms to reach new markets and attract new clients, including financial advantages: the ability to provide uninterrupted financing of purchases, eliminate cash gaps, monitor cash flows in the organization, to increase the solvency of the debtors, etc.

Disadvantage of factoring is that its use cannot do the company more than the involvement of the loan, documents between the bank and the client in the implementation phase of factoring financing is more difficult than for conventional loans. In addition to the financial statements that are required on a quarterly basis and in credit, the customer must provide bank with documents confirming the requirements for the implementation of bank financing and administration of receivables.

Conclusions. Profit is a guarantor of the progress of the economic system, and its absence is the best evidence of regression and social tensions. The content of any business activity is to achieve economic benefit - profit. Activity of "Kharkiv Biscuit Factory" during the 2013 show decline, the size of gross profit reduced to 2496 thousand UAH. The size of net profit fell by 14151 thousand UAH. One of the ways to increase the profitability of the enterprise may be a reduction in accounts receivable, it is expedient to use factoring services of "Ukrainian Bank of Development." For using this service the company will have to pay 7743,44 UAH., though the main disadvantage of factoring is the high cost of this service. These recommendations will enable the company not to lose expected revenue, and increase its scope, by uninterrupted financing of purchases, besides it is important while obtaining a positive result, to be able to effectively distribute the resulting profits to achieve further expansion.

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