ANALYSIS OF THE COMPANY'S PROFITABILITY WITH THE HELP OF ROTATION AND PROFITABILITY RATES

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Abstract
To the extent that the structure and synthesis rates of the balance sheet relate to the situation of the posts at a given time, they are of a static nature. However, short-term financial management requires additional information to assess the financial balance and liquidity of the dynamic enterprise, which requires the determination of turnover rates of profits in the balance sheet.
The life of the enterprise is a continuous chain of operations (purchases, sales, payments, etc.) that influences the income statement. Each of these operations generates a financial surplus, a surplus that will be reinvested in other operations to obtain a surplus of final profitability, the net result.

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Clasificare JEL : *M40, M41*

1. Introduction

An important dimension of financial diagnosis is the measurement and analysis of financial performance so that the company's management can make timely and positive decisions so that the results lead to sustainable financial management.

Rotation rates provide dynamic indications because they allow a temporal dimension to be introduced in the analysis of the balance sheet, by highlighting the renewal rate of some of its components. The rates thus determined characterize one of the most synthetic efficiency indicators, the rotation speed of the items in the balance sheet, expressed by the turnover and the duration of a rotation.

2. Profitability - performance criterion

Financial performance synthetically expresses the quantitative and qualitative aspects of the efficiency of the economic activity carried out by the enterprise. The purpose of the enterprise is to generate economic surpluses in relation to the consumption of registered resources. [5]

The financial health of the company, which is theoretically profitable, can be compromised by the fact that the exigibility of liabilities is higher than the liquidity of assets, resulting in a negative treasury and, as a direct effect, its inability to pay. [6]

The number of rotations expresses how many times an asset or liability element is converted into liquidity during the financial year, and the duration of a rotation expresses the number of days necessary for a patrimonial element in the balance sheet to go through all the stages of the economic circuit.

The efficient evaluation of an enterprise does not involve the use of as many rates as possible, but the choice, analysis and interpretation of those rates that best meet the objectives pursued by the economic and financial analyst [2].

Representing the motive of the activity of the economic agents, the profit is placed in the foreground of its battery of indicators, and consequently its analysis and supervision is performed both as a static diagnosis compared to reference values representing previous levels, forecasts, levels of competition and dynamic-strategic diagnosis.

Financial rates of return that express the ability of equity to create a surplus, after remuneration of borrowed capital, that will allow the company to self-finance (through the result in reserve) [7].

The most synthetic indicator of the rate of financial return (Rf), results from the ratio between the result of the year and the own capitals:

$$Rf = \frac{Rn}{Cpr} \cdot 100$$

Where:
Rn = net result;
Cpr = equity.

This rate provides information on the share of the remuneration of the units made by the shareholders who initially constituted the capital of the enterprise or left in reserve a part of the benefits [4].

The result for the year (gross or net) allows the calculation of the net financial rate of return (Rfn) in relation to the rate of gross financial profitability (Rfbr) after deducting income tax in installments i:

$$Rfn = \frac{Rn(1+i)}{Cpr} = Rfbr(1+i)$$

The analysis of the rate of financial return must be studied by investors on the financial market because the level of this rate has a significant impact in making investment or divestment decisions for those who have financial resources available, as follows:

- a high level of return on equity allows the company to find new capital on the financial market to finance its growth;
- a low level and lower than market rates, means that the company will have difficulties in attracting capital.

At the same time, a high level of financial profitability is not always favorable, as it can be the consequence of too low equity and a high level of risk as a result of too high loans, which must be highlighted by calculating the rate. return on permanent capital (Rcp).

$$Rcp = \frac{Rn}{Cpr + DTML}$$

Where:
DTML = medium and long term debt.

The result that allows the remuneration of the permanent capital includes at least the net result and the interests after the tax, the financial expenses being deductible from the gross result.

$$Rcp = \frac{Rn + Dob}{Cpr + Df}$$

Where:
Dob = interest;
Df = financial debts.

The difference between the cost of equity and the cost of foreign capital is that the former are remunerated if the company achieves a net accounting profit, and the latter must be remunerated regardless of the situation (profit or loss). In this case, financial expenses that include interest on loans may reduce the self - financing capacity to the point of insolvency of the company, which reflects the financial risk [9].

The structural analysis of profit aims to establish the contribution of different types of results to the total change, as well as to highlight the changes in component elements [1].

The performance has the reverse risk, therefore the performance of the performance that aims at both the overall profitability by studying the rates of return on the operation and the impact of financing resources in relation to the means used, which requires the assessment of two categories of risks: economic risk operation) and financial (capital) risk [3].

For the stability of the factors of increasing the rate of financial profitability, a chain of rates is used as follows:

$$Rf = Pca \cdot Nac \cdot Pac \cdot (1 + L)$$

$$Rf = \frac{P}{CA} \cdot \frac{CA}{Sm} \cdot \frac{AC}{AT} \cdot (1 + \frac{D}{Cpr})$$

Where:
Pca = P / CA = profit outside turnover;
Nac = CA / Sm = number of revolutions of current assets;
Pac = AC / AT = share of current assets in total assets;
L = D / Cpr = financial leverage, debt-equity ratio.
P = profit;
Sm = average balance of current assets;
Ac = current assets;
AT = total assets;
D = debts.

Given the above, the rate of financial return depends on the profitability of turnover, the turnover of current assets, the share of current assets in assets and financial leverage, elements that the company's management must take into account to make financial decisions with significant impact on profit growth.

Financial risk is assessed by the leverage mechanism, the degree of indebtedness can be favorable, but also risky because it arises from the cost of capital that provides financing.

The financial leverage effect expresses the consequence of indebtedness on the return on equity, which may also mean the risk of the indebted enterprise of not being able to meet its commitments by affecting solvency.

5. Conclusions

Any firm in order to fulfill its purpose for which it was set up must make sufficient profit to adequately remunerate the capital at its disposal, to maintain its technical and economic potential and to ensure a rational expansion taking into account the evolution of the market and short-term trends.

The purpose of any economic agent is the profitability of the activity carried out, so that it appears as a decisive tool in the market economy mechanism, in the orientation of production, in relation to the requirements of productive or individual consumers, which implies obtaining higher incomes than expenses after sale and collection. manufactured production.

Profitability reflects the economic agent's ability to produce profit. The owner and user of the factors of production, which can be individual or collective, are interested in ensuring this capacity. Integrated in the system of revealing the economic-financial potential of the company, profitability is an indispensable information for banks, creditors and business partners.

6. Bibliography

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