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ANALYSIS OF TOTAL PRODUCT SALES BENEFITS AND FACTORS INFLUENCING THEIR CHANGES

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Abstract:
The article presents a system of indicators reflecting the financial results of companies, and the definition of these indicators by economists and regulators. Comparative analysis of indicators was carried out using practical data when covering the topic. There are also proposals to improve the accounting of financial results.

Keywords: Financial result, revenue from product sales, profit, expenses, profit before tax, net profit, profit, retained earnings.

INTRODUCTION

One of the main tasks in our country is to achieve macroeconomic and financial stability in order to deepen and liberalize economic reforms. This requires a more efficient use of internal economic potential, the introduction of best practices and continuous improvement of quality indicators based on a comprehensive analysis of the economic and financial activities of the sectors of the economy.

The greater the profit of a business entity, the more opportunities the owner has to motivate each employee, expand the enterprise in all respects, and increase reproduction funds. Society is also interested in this, because the higher the profit of the enterprise, the higher the profit tax paid to the state budget.

In accordance with paragraph 7 of the National Accounting Standard No. 3 "Statement of Financial Results" (registered by the Ministry of Justice on August 14, 1998, No. 475), net profit or loss for the reporting period is determined on the basis of the following elements that must be disclosed in the report[1]:

1. Operating profit;
2. Extraordinary items (income/loss);
3. Profit (or loss) before income tax - PBIT;
4. Net profit.

2. LITERATURE REVIEW

Economic literature, scientific monographs and regulatory documents differ in the interpretation of the economic significance of concepts such as income, cost, net sales income, cost of goods sold, gross profit from sales, profit before tax, net profit.

Lyubushin et al. (2004) included the following indicators of income and profit: 1) revenue from product sales; 2) gross profit; 3) operating income; 4) financial income; 5) profit before interest and tax; 6) extraortinary items; 7) profit before tax; 8) net profit.

Article 18 of the Law of the Republic of Uzbekistan "On accounting" (new edition) of April 13, 2016, article ZRU-404, recognizes the recognition of income and expenses as follows: "Regardless of the timing of the payment of income and expenses and the period of receipt of money, they are accrued in accordance with accounting standards for this period."

A.V. Vakhabov and A.T. Ibragimov (2005) describe the profit indicator as follows: “Profit is a high variability of the difference between income and expenses. Less variability between the two represents loss.”

According to M.K. Pardaeva (2002), "One of the main tasks of economic analysis is to develop a system of indicators that objectively assesses the object or any economic category being analyzed, to substantiate them theoretically and methodologically."

[1] National accounting standard No. 3 "Statement of financial results" dated August 14, 1998 No. 475.

In IFRS 2 "Inventories" production costs and production costs are divided into two groups - product costs and operating (period) costs. According to this standard, accounting and recognition of costs are based not on primary documentation, but on a decrease in economic benefits according to the expert opinion of the accountant. Accounting and recognition of expenses in our country is based on correctly executed documents.

In article 305 of the new version of the Tax Code of the Republic of Uzbekistan (2020), the costs are reflected as follows: "In order to determine the tax base of legal entities, expenses incurred (seen) by the taxpayer in the reporting (tax) period both on the territory of the Republic of Uzbekistan and abroad are recognized as expenses".

According to the Regulation "On the structure of costs for the production and sale of goods (services) and the procedure for the formation of financial results", approved by the Cabinet of Ministers dated February 5, 1999 No. 54, the income of business entities as a result of their activities includes:

- net sales;
- other income from operating activities (operating income);
- financial income;
- extraordinary items;
- net profit.

Article 22 of the Tax Code of the Republic of Uzbekistan (2017) defines the concepts of net revenue and net profit: revenue is income from the sale of goods (services), excluding value added tax, excise tax and taxes on the use of gasoline, diesel fuel and gas, accounted for in the price of goods (services); net profit - profit remaining at the disposal of a legal entity after taxes and other mandatory payments.

Article 297 of the new edition of the Tax Code of the Republic of Uzbekistan (2020) indicates the structure of total income: "The total income includes: Total income (hereinafter - income) is income that must be received in any form and (or) from any activity (hereinafter - income received)." From the above, it can be seen that the definitions and explanations indicated for the indicators characterizing the financial results are different and require scientific research in this regard.

3. RESEARCH METHODOLOGY

Based on the analysis of scientific literature and regulatory documents, the definitions and explanations of indicators reflecting financial results were studied, as well as the issues of their analysis were methodologically studied. Proposals were made to improve the analysis of financial results based on the results achieved by the enterprise. The study used induction, deduction, statistical tables, and methods of statistical and comparative analysis.

4. ANALYSIS AND DISCUSSION OF THE RESULTS.

The criterion that determines the financial and economic activities of enterprises is net profit. To determine the net profit, it is necessary to determine the indicators of interim profit in accordance with the Regulation "On the structure of costs for the production and sale of goods (services) and the procedure for the formation of financial results." The analysis of financial results begins with identifying the gross profit of the enterprise and the factors affecting its change.

Gross profit or loss from product sales is determined in the following order. That is, the net revenue from the sale of products (services) is determined based on the production cost of these products (services), VAT, excise duty, the amount of returned goods and deductions of gifts to customers.

Since the main part of financial results is formed due to the sale of products and services, the analysis focuses on the change in these indicators in comparison with the plan and figures of previous years and the influence of factors on these changes.

The analysis characterizes three types of sales in the formation of the financial result:

1. Financial result from the sale of products and services.
2. The financial result from the write-off and sale of fixed assets.
3. Result of the sale of other assets.

Improving the efficiency of the use of limited production resources requires the company to search for internal capabilities. This, in turn, requires extensive use of factor analysis methods.

The following factors affect the change in profit from product sales:

- internal factors related to the enterprise itself;
- external factors not related to the enterprise itself.

Factors that depend on the enterprise itself include the cost of the product, the volume of production of the product, the range of products, and structural factors. External factors beyond the control of the enterprise itself include changes in government tax policy, the valuation factor, and other factors.

In general, it is difficult to distinguish between only those factors that matter and those that are not relevant to the enterprise itself. They can only be viewed relatively.

Analysis of gross profit from the sale of goods and services also allows you to directly assess the marginal state of production. The breakeven point of production characterizes the deduction of all variable costs from the amount of revenue from the sale of goods and services. In this case, the newly created value consists only of the variable value itself. That is, the enterprise has no profit at the critical volume level under breakeven state. It will only have the volume of the product at the level of covering production costs: variable and fixed costs. The breakeven point of production allows you to determine in advance the production plan and the efficiency of the enterprise.

In this range, the critical level of production volumes is also usually studied. The critical level of the volume of production is the level at which the enterprise determines the volume of product and services without making a profit or loss. It is observed that at the critical level of volume, revenue from the sale of goods and services can only cover the variable and fixed costs incurred in connection with these products and services.

As a result of the analysis, the level of the critical volume and the methodological connections of its detection are determined. The solution also provides a factor analysis of its change.

The critical level of production (breakeven point) can be expressed as the following formula. This is directly related to the expression of the value of the product or the selling price. The expression for the value of a product can be defined as follows:

Product value = Variable cost + Fixed cost + margin (profit).

At this, the critical level of production (breakeven point) can be described by amending the above formulae in a following manner:

Critical level of (breakeven) production = Variable costs + Fixed costs + 0 (margin or profit).

This is the very expression of the definition of direct value as an economic category. Which means,

Production Size = Fixed Capital + Variable Capital + Profit.

The factors influencing the change in production at the critical level of volume include:

- change in variable costs per unit of production;
- Price per unit of product;
- quantitative changes in goods;
- change in fixed costs, etc.

Now we will present Table 1 below to analyze the factors influencing the change in the amount of profit (loss) from the sale of products.

Table 1
Analysis of the gross profit from the sale of products and the factors affecting its change
(in thousand UZS)

№	Indicators	Beginning of 2020	Ending of 2020	Chenge (+,-)	Increase in %
1.	Net revenue	1,394,779	1,641,263	+246,484	117.67
2.	Cost of goods sold	1,017,940	1,326,274	+308,334	130.29
3.	Gross margin ($1^{st} - 2^{nd}$)	376,839	314,989	-61,850	83.59

As can be seen from the information within the table 1, the gross margin of the company decreased by 16.41% (100%-83.59%) by the end of 2020 compared to the beginning of the year. This decrease is caused by following factors:

1. The gross margin increased by 65.41% due to the rise in the sales revenue by UZS 246,484 (246,484/376,639 * 100%);
2. However, the COGS (cost of goods sold) also increased by UZS 308,334 which in turn led to 81.82% fall in the gross margin (308,334/376,839 * 100%).

Thus, in the end the net change in the gross margin was a decrease caused by two factors: +65.41% + (-81.82%) = -16.41%.

Now we will examine the factors changing the gross margin by exchanging them in a chain manner (table 2).

Table 2.
Examination of factors affecting the change in gross profit from the sale of products by the method of chain exchange.

Number of items	Exchanging factors	Factors included in the calculation formula		The result - gross profit (1-2)	The difference comopared to the previous record, (+,-)	Reason for the change
		Sales revenue	COGS			
А	Б	1	2	3	4	5
1	-	1,394,779	1,017,940	376,839	-	
2	1	1,641,263	1,017,940	623,323	+246,484	Gross profit increased
3	2	1,641,263	1,326,274	314,989	-308,334	GOGS increased
Factor balance: -61,850						

According to table 2, gross profit from sales of products at the end of 2020 compared to the beginning of the year decreased by 61,850 thousand soums, or its growth rate was 83.59%. The increase in net profit by 246,484 thousand soums increased the gross profit by the same amount. Gross profit decreased by 308,334 thousand soums due to an increase in the cost of goods sold. Influence of 2 calculated factors: (+246 484) + (- 308 334) = -61 850 thousand UZS.

It can be seen that if it is calculated by the method we recommend, it will be possible to calculate the influence of factors on the change in the result. If this recommendation is applied in practice, it will be possible to correctly assess the activities of enterprises, to achieve their fair management.

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