Financial results of organizations

As a result of production and sale of products organizations can get financial results such as profit and.

Profit is the difference between the purchase and the component costs of delivered goods and/or services and any operating or other expenses. Profits, in short, resulting from the relationships of costs to prices, not only tell us which goods it is most economical to make, but which are the most economical ways to make them.

The functions of profit are as follows:

1. A test of performance. It is the result of the performance of the company in marketing, innovation and productivity;
2. Equally important. It is the main for the risk of uncertainty;
3. Source of budgetary incomes;
4. To make economic effects of company’s activity;
5. To guide and channel the factors of production so as to apportion the relative output of thousands of different goods in accordance with demand;
6. To put constant and unremitting pressure on the head of every competitive business to introduce further economies and efficiencies.

Types of profit:

1. Gross profit = Revenue – cost
2. Operating profit (profit sales) = Gross profit - commercial expenses - management expenses
3. Balance profit = Operating profit (profit sales) ± balance of miscellaneous income and expenses
4. Net profit= Pre-tax profit - profit tax

 Gross profit describes efficacy of organization. Operating profit (profit sales) is the index of principal activity of organization.

The main goal of a company is to get maximal profit. Also it must rationaly use the part of profit which stays at its disposal. In modern conditions we don’t have definitely some channel for allocation of profits. However, for example, stock company is obligated to form capital reserves and produce dividend payment.

Profit planning is the important part of financial performance. Profit planning is the process of developing a plan of operation that makes it possible to determine how to arrange the operational budget so that the maximum amount of profit can be generated. Business plan is the basic document of profit planning.

Types of profit planning:

- Gross margin from sales;

- Profit from sales of other products;

- Profit from sales of fixed assets;

- Profit from sales of other property;

Methods of profit planning:

1. Method of direct account. Planned profit = (Production output \* unit price) - production output \* total cost)
2. Analytic method. Basic profitability = (Profit/ prime cost) \* 100%

Coefficient of profitability is the feature of financial results of a company. It defines efficacy of economic management and also defines incomes of all direction of activity in any company. Economists use coefficient of profitability more than index of profit because its rate describes parity economic effect with used resources. The higher coefficient of profitability, the more effectively a company uses its funds.

1. Profitability of sales = (Profit from sales/Gain) – 100%
2. Profitability of assets = (Net profit/ Average annual value of assets) – 100%
3. Profitability of owned capital = (Net profit/ Average annual value of owned capital) – 100%