

PROFITABILITY OF BUSINESS ENTITIES AND FACTORS AFFECTING PROFIT

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Abstract: *This article examines the key elements that determine the profitability of enterprises and identifies the main factors influencing the formation and change in the level of profit. The influence of the internal and external environment of organizations is analyzed, and recommendations are provided to improve business efficiency. Based on the analysis of practical data on the banking sector of the Republic of Uzbekistan for 2023, the dominant role of interest income is established and its impact on the profitability of financial institutions is considered. The results of the economic analysis of the joint-stock company are also presented, trends in changes in gross, net and retained earnings for the period 2020-2023 are identified. Negative dynamics of the main financial indicators of the enterprise are noted, indicating the need to take urgent measures to optimize costs and improve production and commercial policies to stabilize the financial condition and increase the competitiveness of companies.*

Keywords: *profitability, profit, profit factors, business entities, profitability, external factors, internal factors.*

INTRODUCTION

Profitability is one of the main criteria by which the efficiency of enterprises is assessed. It reflects the company's ability to make a profit and ensure the stability of its economic development. Analysis of factors affecting profitability is necessary for timely adaptation of companies to changing market conditions.

Gross profit of a bank is formed after deducting the amount of current expenses from gross operating income. About half of all bank expenses are accounted for by interest payments on deposits, the rest of the expenses are other interest payments, wages, deductions to reserves in case of default on loans and other operating expenses.

Net profit is formed after paying all taxes on their gross profit and, in turn, is divided into distributed, that is, paid to shareholders of the bank as annual dividends on their shares, and capitalized, directed to increase the bank's equity capital and reserves.

The further expansion of the bank's operations, the increase of its capital and reserves depend entirely on the level of profit. In this case, it is not so much the absolute amount of net profit received by the bank that is important, but its ratio to a number of indicators of the bank's balance sheet.

LITERATURE REVIEW

"Income is the monetary or material assets received by the state, an individual or a legal entity as a result of any activity for a certain period of time"[1].

"Profit or loss is the total amount of income minus expenses, excluding components of other comprehensive income"[2].

Hendriksen E.S. argued that "profit is the result of using capital over a certain period of time"[3]. This point of view was announced more than twenty years ago, which is probably why it is very controversial for the present times, since we understand that profit no longer has a direct, but an indirect connection with capital, since there are many levers influencing profit today, but if we consider the general theory of economics, then of course the concept of Money-Commodity-Money'(1) [4] is the basis of this statement.

E. A. Markaryan, G. P. Gerasimenko, S. E. Markaryan believe that "profit is the final financial result of the enterprise's activity, characterizing the absolute efficiency of its work" [5]. Referring to

the definition of E. A. Markaryan and G. P. Gerasimenko, Kulyagina E. A. claims that, indicating profit as the "final financial result", they did not take into account the opposite indicator of profit - loss. Therefore, it would be appropriate to write: "positive financial result", since profit cannot have a negative value. However, referring to the same definition, it should be noted that at present in civilized countries there is a slow transition to a new concept of determining the profit of an organization through the concept of "financial result". In this concept, profit (loss) has a completely different name, which in essence does not change the content [6].

It is necessary to pay attention that the bank's profit is formed on the basis of the bank's credit, deposit, settlement and other types of banking activities. Traditionally, the largest share falls on the margin, that is, the difference between deposit and credit interest. Naturally, there are many factors affecting profit, both external and internal. Each of these factors can significantly affect the profit of banks. Internal factors include groups of extensive and intensive factors. Extensive factors include factors reflecting the volume of resources, for example, changes in the volume of the resource base, the number of regional divisions or the number of employees, their use over time (acceleration of the turnover of a unit of resources, changes in the duration of the working day), as well as inefficient use of resources (losses due to risks, significant diversion of funds to funds and reserves).

External factors can be divided into market and administrative. Market factors include the phase of economic development of the country, the level of competition in the market, demand and supply for credit, the price of credit resources, the level of public confidence in the banking system and their income level, the structure of the market, etc. Administrative factors include government regulation, the tax system, financial and monetary policy.

ANALYSIS AND RESULTS

For analysis, it is worth considering the income and expenses of the banking system during 2023 by month. In Figure No. 1, we looked at interest income and expenses for the period January-December 2023.

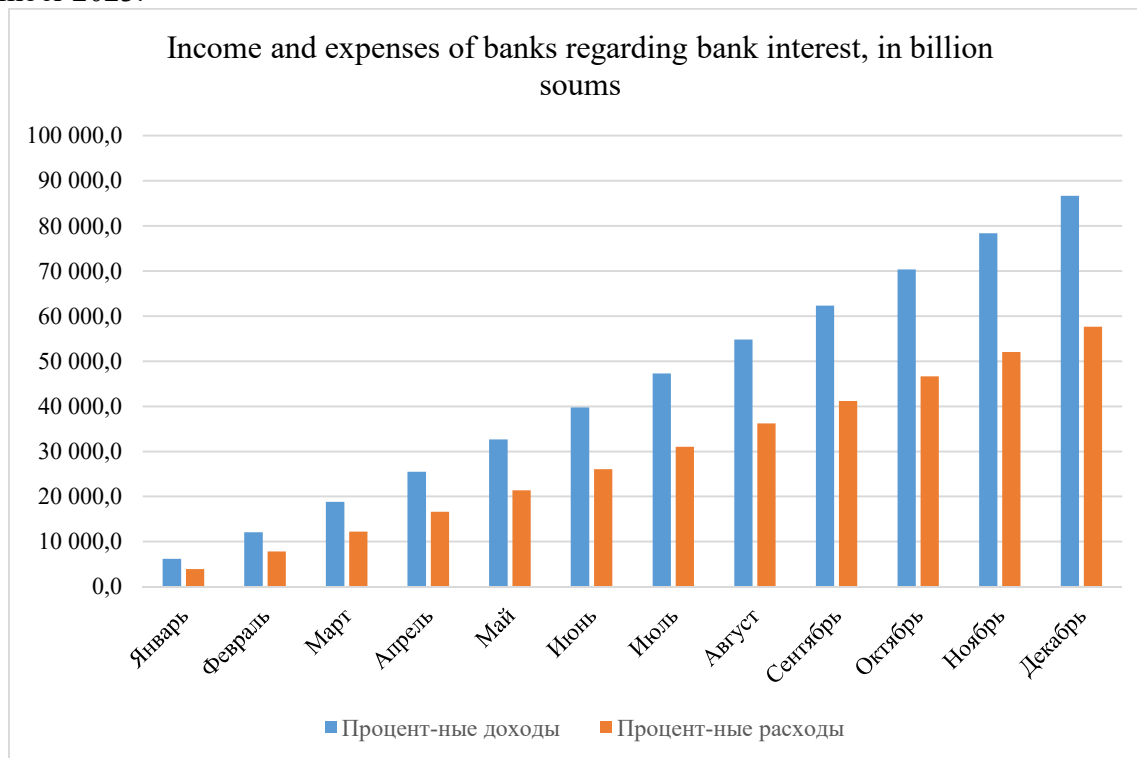


Figure №1. Income and expenses of banks regarding bank interest, in billion soums.

Interest income, as their name suggests, includes funds received in the form of interest on loans issued to individuals, legal entities and on the interbank market, as well as interest on deposits placed in other financial institutions. Interest expenses are the interest paid on loans, deposits, securities and other attracted funds. An example is that interest on deposits is significantly less than the interest paid to the bank for the loan, which forms the margin.

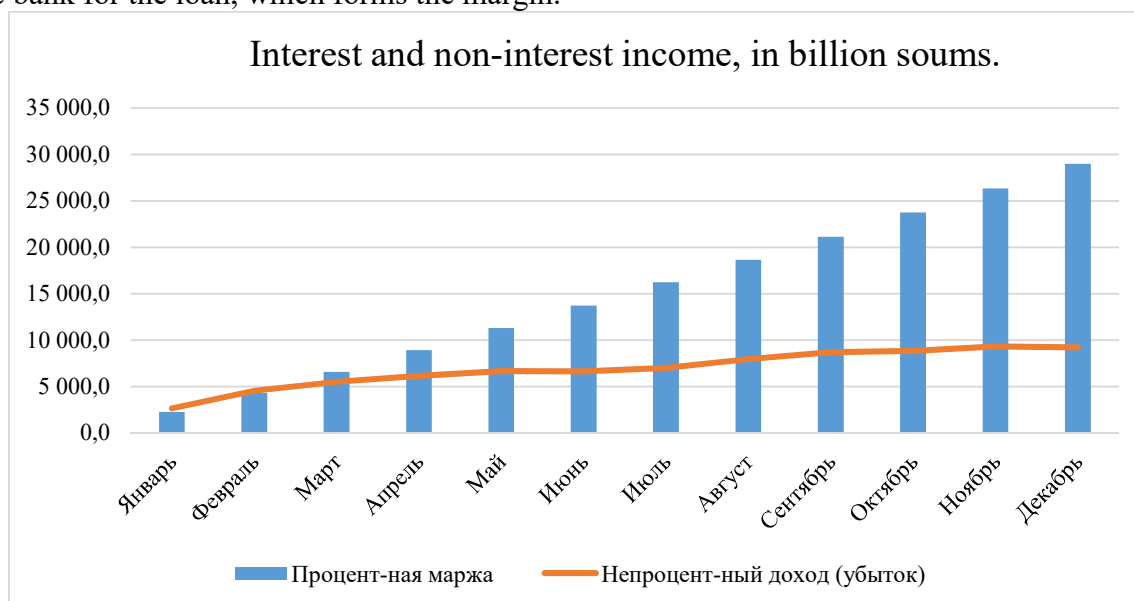


Figure 2. Interest and non-interest income.

Non-interest income of banks is income received by the bank from operations not related to issuing loans and investments in debt securities, but received by the bank from foreign exchange transactions with foreign currency, fees for services, commissions and other income.

As was already said above, interest income is the main source of income, as can be clearly seen in graph No. 2. Non-interest income here is obtained by subtracting non-interest expenses and operating expenses from non-interest income.

As was already noted above, E. A. Markaryan, G. P. Gerasimenko, S. E. Markaryan believe that “profit is the final financial result of an enterprise’s activities, characterizing the absolute efficiency of its work” [6]. This changes our perception of profit. If the activities of an economic entity are profitable for several months, this means the absolute efficiency of its activities.

When analyzing the profit already received, the question arises as to what influences it. The answer to this was to consider external and internal factors that have a significant impact on profit.

It should be noted that practical data show that interest income significantly exceeds non-interest income and has a progressive growth dynamics, the explanation for this is how much the demand for credit transactions has increased among both legal entities and individuals.

Now let's consider the formation of profits of industrial business entities. The profit of industrial joint-stock companies is formed on the basis of several stages. The most important source of income is the sale of products, which ensures the flow of funds to the organization. Production costs (raw materials, staff salaries, energy costs, equipment depreciation, etc.) are deducted from the revenue received, thus forming the company's gross profit.

Then operating costs (management costs, marketing activities, logistics and other costs associated with current activities) are deducted from the gross profit, as a result of which operating profit is determined. This indicator demonstrates the profitability of the main activity of the enterprise before deducting interest on loans and paying taxes. Next, operating profit is adjusted for financial indicators, including interest payments on loans, income or expenses from investments and exchange rate differences, after which profit before tax is formed. After paying taxes and mandatory government fees, net profit remains, which is the final financial result of the company's activities. It

is this profit that serves as a source for paying dividends to shareholders and reinvesting in the development of production and expansion of the enterprise. Thus, effective management of all stages of profit generation allows a joint-stock company to ensure sustainable development and high competitiveness.

The economic analysis was carried out on the basis of the company's financial statements reflected in the balance sheet (form No. 1) of JSC "XOVRENKO NOMIDAGI SAMARQAND VINO KOMBINATI". The key indicators of the company's profit for four years (2020-2023) were considered:

Gross profit (profit received from the sale of goods and services before deducting other expenses).

Net profit (the company's income remaining after paying all taxes and mandatory payments).

Retained earnings (part of the profit that was not distributed among the owners, remaining for business development or compensation for losses).

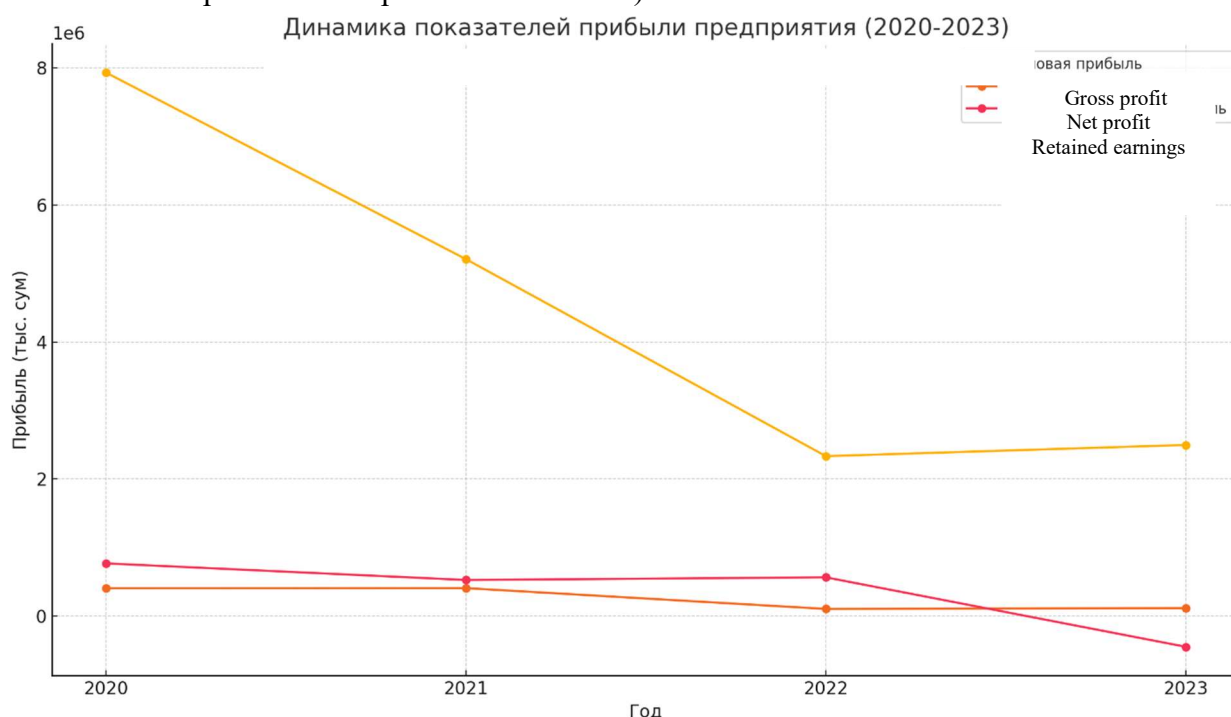


Figure 3. Dynamics of the company's profit indicators (2020-2023)

Based on the reviewed data, the following dynamics of financial indicators were revealed. The gross profit indicator tended to decrease during the period 2020-2022. This may be due to a decrease in demand for the company's products, an increase in production costs, or increased competition in the market. Although there is some increase in 2023, the profit level remains low compared to the beginning of the analyzed period. Net profit also showed negative dynamics for the period under review. A significant decrease in this indicator may be caused by an increase in tax liabilities, an increase in production and sales costs. In 2023, there is a slight increase, but it is not enough to compensate for the decline in previous years. The retained earnings indicator remained positive in the first years of the period, but in 2023 it turned negative. This indicates a possible deterioration in the financial stability of the enterprise and may signal the need to take urgent measures to restore the stability of the financial condition.

CONCLUSIONS AND SUGGESTIONS

Based on the analysis, it can be concluded that the company's financial results have significantly worsened in recent years. The decrease in profit is associated with both internal factors (increased production costs, problems with product sales) and external conditions (competition, economic

changes). The negative value of retained earnings for 2023 indicates the need for prompt action to correct the situation.

To stabilize financial indicators and return to sustainable growth, it is recommended to conduct a comprehensive analysis of the company's costs, optimize production and commercial processes, improve the product range and pricing strategy, and optimize tax payments and the company's liabilities.

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