


TOPIC 12: Income, costs, expenses and financial results of the enterprise

1. Contents and classification of of the enterprise costs.
2. Enterprise expenses and their characteristic.
3. Enterprise income.
4. Profit of the enterprise and its types.
5. Rentability indicators. Break-even point.

Didactic purposes:

- * *Concept definition «enterprise expenses».*
- * *Classification of the enterprise costs.*
- * *Definition of the enterprise expenses.*
- * *Classification of the enterprise expenses.*
- * *Understanding of essence of the enterprise incomes .*
- * *Classification of the enterprise incomes.*
- * *Comparison of profitability indicators.*
- * *Identification of a break-even point.*



* **Keywords:** costs, expenses, profit, a factor cost, indirect costs, expenses from operating activities, expenses of financial activity, the income of investment activity, profit, gross profit, financial result, net profit, profitability.

1. Contents and classification of of the enterprise costs.

Costs - is consumed resources on the production of goods and provision of services in order to generate revenue.

Costs are classified according to the following criteria:

1. By the method of attributing the cost of production:

- Direct - those costs that can be directly attributed to a particular product. The direct costs include:

- Direct material costs (cost of raw materials, cost of components, fuel and energy (cold, heat)).

- Direct costs for production workers wages (for the actual work done on the basis of positions, salaries, etc., payment in excess of or on holidays, weekends, bonuses for night work).

- * • **Indirect - a cost that can not be directly allocated by a specific product or cost object. It costs associated with maintenance of production units and their management.**
- * - The cost of maintenance and servicing of fixed assets for production purposes (technical inspection, overhaul and repair).
- * - Costs for the maintenance of technical means of control and communication.
- * - Depreciation of industrial purpose.
- * - Amortization of intangible assets.
- * - cost of materials used in the manufacturing process to ensure normal process for packaging.
- * - costs ancillary production workers as well as management and other personnel of production units.
- * - Protection of industrial placements

- * 2. Depending on changes in the volume production :
- * • Variables – change in proportion to the volume of production (fuel, electricity, etc.).
- * • Fixed costs - remain constant regardless of the volume of production (rent, depreciation (if not the production method)).
- * • semi-variables (relatively constant) costs - are costs that change in steps, that is stable when changing the volume of output in a certain range and changing at an output volume of production beyond this range.

2. Enterprise expenses and their characteristic.

- * Expenses - is reducing of the economic benefits resulting from the disposal of assets or incurrence of liabilities that result in a reduction of capital. T

- * Expenses of operating activities consist of:
- * 1. Cost of sales - part of the costs, which refers to products sold and includes:
 - * • direct material costs,
 - * • labor costs (salary),
 - * • indirect production costs.
- * 2. Expenses of period, which include:
 - * • **Selling expenses** - associated with the sale of products, goods and services, such as:
 - * - Costs of packing,
 - * - Expenses on advertising,
 - * - Transportation costs, customs duties, fees,
 - * - marketing services,
 - * - The costs of labeling, certification of products.



* Administrative expenses:

- * - Salary for administrative and management personnel,
- * - social security and medical insurance,
- * - maintenance, amortization and repairs of the fixed assets for administrative purpose,
- * - amortization of intangible assets with general economic purpose,
- * - travel expenses of the administrative staff,
- * - entertainment expenses,
- * - expenses of research and development,
- * - Legal fees, arbitration fees.

- * • Other operating expenses - are expenses that can not be assigned to commercial, nor to general and administrative. These include:
 - * - Payment of interest on bank loans,
 - * - The payment of interest on overdue loans and credit amounts for sanctions,
 - * - Sale of current assets,
 - * - Fines and penalties,
 - * - Shortages and losses from damage to goods and materials,
 - * - operating lease

Expenses from investment activities - take place as a result of disposal of long-term assets, and include:

- * 1. The costs of disposal of intangible assets, tangible assets, long-term financial assets.
- * 2. Expenses on revaluation of long-term assets and their disposal.
- * 3. Related to the equity participation in other companies

- * Expenses from financial activity - are the result of changes in the size and structure of its own loans and enterprise loans and consist of:
 - * 1. Payment of royalties (payment for the right to use licenses for the products of the invention).
 - * 2. The cost of renting funded
 - * 3. Foreign exchange currency differences.

- * Extraordinary losses - formed as a result of unusual events or transactions that are not related to the financial and economic activity of the enterprise, and include:
 - * 1. Losses from natural disasters.
 - * 2. Losses due to political situation.
 - * 3. The loss as a result of changes in legislation.

3. Enterprise income.


- * Income - is the gross inflow of economic benefits during the reporting period, resulting in the process of financial and economic activity of the enterprise in the form of increase in assets or decrease in liabilities, which leads to an increase in equity.
- * Incomes are divided into:
 - * 1. Income from operating activities:
 - * • Revenues from sales - income from sales of products, revenues from the sale of goods, revenues from the provision of services on construction contracts revenue.
 - * • Other operating income - income from the sale of other current assets, income from operating leases, in the form of penalties.

* 2. Income from investments:

- * • Gains on disposal of tangible and financial assets.
- * • Revenues in the form of dividends.
- * • Interest income (by providing for the use of funds to other businesses).
- * • Income from equity in other companies.
- * • Income from operations with related parties.

* 3. Income from financing activities:

- * • Revenues from royalties (from the provision to other persons of patents, licenses, copyrights, software).
- * • Income from lease financed
- * • Income from foreign currency exchange rate differences.
- * • Income from assets received free of charge.
- * • Revenues in the form of state grants, awards, prizes and sponsorship amounts.
- * • Other income.

- 
- * 4. Income from extraordinary events - the compensation received from public authorities, insurance companies and other entities in the form of compensation for losses caused by natural disasters.

4. Profit of the enterprise and its types.


- * Profit - is an economic category, which is a positive financial result of the company.
- * Profits derived by an enterprise is affected by many factors, internal, dependent on the efforts of enterprises, as well as external, independent from its activities.
- * The external factors include:
 - * • market conditions.
 - * • The level of prices on the raw material and energy resources.
 - * • Norms of depreciation charges.
 - * • Tax rates.


- * The internal factors include:
 - * • The level of prices for the products and salary.
 - * • The level of management, competency management, and managers.
 - * • Competitiveness.
 - * • The organization of production and labor, its performance, and others.


- * Profit is one of the performance indicators summarizing the activities of the enterprise and performs the following functions:
 - * 1) characterizes the final financial results of the company, the size of his cash savings.
 - * 2) Is the main source of financing the costs of production and social development of the enterprise.
 - * 3) Is one of the sources of the budgets of different levels.

- * Formation and distribution of profits is based on the following scheme:
- * 1) Gross profit (loss) is defined as the difference between the volume (amount) of net sales and cost of sales.
- * $GP = \text{Sales income} - CS$

- * 2) Profit (loss) operating activities:
- * $P_{oa} = GP + \text{Other operating income} - \text{Selling expenses} - \text{Administrative expenses} - \text{Other operating expenses}$
- * 3) Profit (loss) from investing activities:
- * $\text{Income from investment activities} - \text{Expenses from investment activities}$
- * 4) Profit (loss) from financing activities:
- * $\text{Income from financing activities} - \text{Expenses from financing activities}$

- 
- * 5) Gain (loss) on financial and economic activity:
 - * Profit (loss) operating activities + Profit (loss) from investing activities + Profit (loss) from financing activities
 - * 6) Extraordinary income (loss):
 - * Income from Extraordinary activities – Expenses from Extraordinary activities

- 
- * 7) Taxable profit (profit before tax) = Gain (loss) on financial and economic activity + Extraordinary income (loss)
 - * 8) Net profit (loss) = Taxable profit (profit before tax) - Income tax expense

- 
- * Net income is the main source for dividends.
 - * By the decision of the owners, it can also be directed to the formation of reserves, the increase in the property and production development (accumulation fund), social consumption (consumption fund), to repay the losses of previous years.


5. Rentability indicators. Break-even point.

- * Rentability - is the relative income measure of the efficiency of financial and economic activity of the enterprise in market conditions, which is the basis for making important financial and economic decisions.

There are two groups of rentability ratios:

- * 1. Return on Investment (capital) - basic rates are the cost of resources assessment (assets, equity).
- * 2. Return on sales - net sales of basic act.

- * The priority indicators of profitability are:
 - * 1. Return on assets (economic) - reflects a synthesis enterprise results in terms of efficiency of use of his property, and is calculated as follows:

- 
- * $ROA = \text{Taxable profit (profit before tax)} / \text{assets}$
 - * In Moldova this value should be at least 10-15%. Thus, the results of the annual activities of the company must secure for each lei value of the property at least 10-15 ban profit.

- * 2. Return on equity (own capital) (financial rentability) - shows how much each brings lei invested in equity, reflects the degree of self-funding enterprise.
- * $ROE = \text{Net profit (loss)} / \text{own capital}$
- * 3. ROI (return on investment) - shows the number of currency units required the company to produce one unit of monetary gain. Determined by the formula:
- * $ROA = \text{Net profit (loss)} / \text{assets}$

- * Indicators for assessing the profitability of sales:
- * 1) Return (rentability) on gross profit margin (gross profit margin) - shows the share of gross profit in the amount of sales of the enterprise and is calculated as follows:
 - * $R_g = \text{Gross profit (loss)} / \text{sales income}$
- * 2) Return on operating profit (operating margin) - shows the share of the operating profit in the volume of sales and is calculated as follows:
 - * $R_g = \text{Operating profit (loss)} / \text{sales income}$

- * 3) Return on net profit (return on sales) - shows the share of net profit in the amount of sales:
- * $R_{np} = \text{Net profit (loss)} / \text{sales income}$
- * The Break-even point - it is sale income , in which the company no longer has a loss, but not yet has arrived.
- * To determine the Break-even point necessary amount of cost of sales divided into two groups: variable and fixed costs.