Aspects Regarding the Profitability of the Enterprise With the Help of the Data Provided by the Activity Reports

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Abstract

The purpose of this paper is to present the connection between the pro-forma situations and the analysis of the activity report with the data provided by SC Selprod SRL. Pro forma cash flow statements are valuable information needed to determine the company's cash, one of its most critical assets. The analysis of the activity report includes a study on the industry producing electrical and electronic products from our country. This article aims at the potential profitability of the company, based on managerial information.

Key words: financial statements, reports, evaluation, performance, pro-forma, enterprise.
J.E.L. Classification: M41

1. Introduction

This article includes an analysis of the financial statements and an assessment of the entity's performance. They provide us with data on the pro-forma financial statements and analysis of the activity report, at enterprise level. The theoretical part contains information on pro forma statements that reflect the projections of financial statements required of managers for the value of the transaction and highlight future revenues, investment activities, financing commitments. The practical part is the main statements used by the stakeholders needed to assess performance from an enterprise perspective.

2. Theoretical background

Pro-Forma financial projects reflect projections of financial statements that help managers change the value of the transaction, projections called pro forma financial statements. These are based on assumptions about future revenues, investment activities, financing commitments and other operating emissions assumptions, which are generally presented in a strategy or business of start-ups.

The financial statements prepared by an enterprise are made in several sections: purchases, production, sales, distribution costs, marketing costs, cash flow. (Tanase AE, 2015 oct 7 (6))

From the preparation of the financial statements - the balance sheet and the profit and loss account, companies with production activity usually provide published statistics when preparing projections of financial statements about future operations. The balance sheet shows the assets, liabilities and equity of an enterprise at a given time, usually at the end of the quarter or year. The profit and loss account shows the income and expenses of the enterprise realized over a period of time, namely a year or a quarter. (https://www.academia.edu/26021738/ANALYSIS OF FINANCIAL SITUATIONS)

3. Research methodology

Pro forma financial statements use electronic files or computerized mathematical models that facilitate the use of web analytics at no additional cost to the Internet. However, managers apply their ideas to turn this data into information that can be used in the smooth running of the business.

Managers have two options for making this projection: the first is a sales forecast and can work on net sales revenue, or they can choose a profit figure and calculate the level of sales needed to reach a desired level of net income. In any of the approaches, managers must estimate the expenses that will be incurred to make the revenue projections. The pro forma cash flow statement is particularly valuable in describing the sources and uses of the company's cash, one of the most critical assets held by an enterprise. All pro forma projections should be compared with previous operating reports or data from legitimate external sources to validate the adequacy of pro forma programming and underlying assumptions. It is also useful to evaluate these projections using the activity report analysis. (https://www.academia.edu / Activity report and statement of financial statement)

4. Activity report analysis

The activity report provides information on whether an enterprise has sufficient assets, either in cash or readily convertible to cash, to pay the maturity obligations as they fall.

Table no. 1 Activity report

Report	SC Selprod SRL	Industry
Current report	5,45	4,50
Quick report	4,80	2,80
Financial report	2,94	1,80
Debts to equity	0,53	16,00
Receivables turnover	13,43	8,93
Asset turnover	4,01	1,35
Margin did not profit	6,77	6,70%
Return on assets	17,01	10,10 %
Return on equity	27,22	20,20 %

Source: developed by the author based on data provided by SC Selprod SRL

Current report

The current ratio, sometimes called working capital, measures the company's ability to pay current liabilities from current assets. Financial analysts believe that a current report is a liquidity for a small business. In general, the higher the ratio, the stronger the financial position and liquidity. However, a very high current ratio may suggest inefficient use of the company if cash balances do not collect their receivables or are invested in inventory.

$$\frac{Totalcirculatingassets}{currentliabilities} = \frac{693136}{127013} = 5{,}45$$

In the case of SC Selprod SRL we notice a very strong current ratio determined by cash relations and debt balances. Their publicity also increases the value of the report. The unusual size draws attention to areas that may need improvement in this case, better use of cash balances. Alternatively, they may choose to keep the liquidity levers high that they fully support the seasonal cash requirements of their new business.

Quick report

The quick report, also called the income test report, is a more conscious measure of a company's liquidity because it eliminates the length and inventory of desired expenses. These eliminations are made because it is considered the least current liquid asset and also advance expenses such as rent, advertising and insurance can be easily converted into cash. In general, a fast 1: 1 ratio is considered satisfactory. A report suggests to the company current and future sales revenue to meet short-term debit.

$$\frac{totalcurrentassets - house \wedge bankaccounts}{currentdebts} = \frac{693136 - 72956}{127013} = 4{,}88$$

Loan rates

Several reports compare the amount of financing provided by homeowners with those creditors provided. These ratios are known as leverage ratios. They assess the extent to which managers rely on debt capital rather than stock to report financial and investment activity. Total equity includes all liabilities as if they were owners' capital (inventories and gains), so it is equal to total assets, the financial statements indicate that a firm relies on creditors to provide a small percentage of its financing , which generally suggests a higher risk of default than homeowners with higher personal investments (higher equity).

Financial leverage ratio

The financial leverage ratio reports the proportion of an entity's assets that owners control relative to the value of the owners' investment in the company. The "leverage" in financial leverage refers to the impact of using creditors' funds to run a business. Highly "leveraged" companies rely more on "external" debt or financing than on owner financing.

$$\frac{totalassets}{equity} = \frac{693136}{235654} = 2{,}94$$

The share of financial compensation is quite low, reflecting the recent start of business operations. As with many small service businesses, homeowners provide most of their initial start-up funds or financial capital. As the business matures and sets a strong performance record, creditors will become more and more willing to expand the company's funds to finance their operations. The industry average of 3.80 for this type of established activities presented above reflects this availability. SC Selprod SRL has a very low risk of non-payment at the end of its first fiscal year, because the low financial leverage ratio of 2.94 indicates that the owners now control almost all the company's assets.

Equity ratio

The debt / equity ratio is a leverage ratio that also expresses the relationship between the capital contributions of creditors and owners. The report simply compares what the company "owes" to creditors with what the owners have invested. The higher the debt ratio, the higher the risk of default, the less protected the creditors, the more the activity could fail. When the balance of the enterprise / equity exceeds 1.00, the interest of creditors is higher than that of the owners, which suggests that the business may be undercapitalized. Firms need to be careful to balance the relationship between debt and equity.

$$\frac{totaldebt}{totalequity} = \frac{127013}{235654} = 0{,}53$$

In this case, the debt / equity ratio is significantly lower than at the industry level of 16.00, again confirming the start-up nature of the company's operations.

Revenue collection figures

This report measures both the quality of receivables and the effectiveness of the company's collection and lending policies. A high debt reduction ratio is generally considered good because a company quickly turns customers' receivables into cash.

$$\frac{netsalesrevenue}{incomereceived} = \frac{591874}{34030} = 17{,}39$$

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Turnover ratio

The turnover ratio measures the efficiency with which a company manages and sells its inventory. It can also be used to assess the liquidity of a company's inventory, given that SC Selprod SRL operates in a manufacturing industry that produces or sells specific inventory products, it would be expected that the inventory ratio would be an appropriate measure.

In fact, the balance sheet of SC Selprod SRL does not report at all any inventory held for resale. However, for the firm with retail inventory, the ratio is calculated with the cost of goods sold in the counter.

$$inventoryturnover = \frac{thecostsofthegoodssold}{inventory} = \frac{564546}{42030} = 13{,}43$$

The lack of such a report highlights an important point regarding the analysis of rates: they may not apply to all companies, business professionals must carefully analyze the company's operations to determine the adequacy of a particular report. Frequently, unusual or abnormal reports may indicate that a particular measure should not be used in an analysis.

Asset turnover ratio

The asset's turnover ratio is a value that generates sales and has not used all of its assets. In general, the firm will expand its business, which means that the slower and lower the investment in assets or sales, the lower the investment requires for lower asset asset ratios.

$$\frac{netincome}{totalcurrentassets} = \frac{591874}{147313} = 4{,}01$$

Asset turnover indicates how many lei were invested for every dollar invested in assets, an important value especially for expanding the business. In its first year, revenues increased by 4 $ for every leu invested in assets. This is higher than the industry average of 1.35 and may reflect the profitability ratio.

Evaluation, Profitability and Performance Reports

Three indicators are commonly used to assess how efficiently a firm is managed and how successful its operations are: the ratio of net profit margin, return on investment and return on equity.

The net profit margin ratio measures the ability to translate value from sales into profits after taking into account all income. A variable net profit margin varies from industry to fair valuation, managers need to consider the value of the company's assets, the ratios of decrease and loss of receivables and its total capitalization (public debt capital). However, one thing is indisputable:

$$\frac{netincome}{netsalesrevenue} = \frac{4010}{591874} = 6{,}77\%$$

SC Selprod SRL has a net profit of 6.77 percent lower than the industrial percentage of 7.6 percent. Managers take into account the percentage increase in the coming years.

Return on assets

Return on assets (ROA), sometimes referred to as return on investment and return on equity, are two ratios that measure the overall efficiency of the company in managing its assets and generating shareholder profitability.

Of course, higher results are better for each of the reports. Moreover, if the return on equity is excessively low, this suggests that owners' capital could be better used elsewhere. The return on assets or the investment ratio is often used to measure performance in the company's operating divisions.

$$\frac{Netincome}{totalassets} = \frac{4010}{235654} = 17{,}01\%$$

For SC Selprod SRL ROA is more than double the industrial average of 10.10 percent, which indicates that the entity generates almost twice as much profit from each leu of the asset that generates competition. This result is consistent with the higher asset ratio of the entity and the lower profit margin ratio, apparently confirming the dependence on rents (higher expenses than the competition), rather than on the equipment purchased (total assets lower than the competition in industry) in the first year of operations, change of equity.

Return on equity (ROE)

Return on equity (ROE) shows the return on each leu invested by owners or shareholders. It measures the company's ability to manage assets to use net income. Because investors are interested in how much their investment will produce, it serves as a universal value that can be used to value all business.

$$\frac{Netincomet}{totalequity} = \frac{4010}{147313} = 27{,}22\%$$

For SC Selprod SRL ROE exceeds the industry one by 4.60 percent, still using the average performance for the entity as a summary of financial measures.

Summary of financial measures

Now that we can appreciate how report analysis is used to evaluate liquidity, leverage, operations, and performance, we'll illustrate how managers can easily evaluate a company's business strategy by exploring the relationships between multiple reports. -I examined. The DuPont system can be used to assess how well an entity has executed its management strategy, as measured by the overall return generated by its owners. DuPont, a well-known global manufacturer of chemicals, plastics and other products, has used this technique to evaluate its performance since 1919. This tool provides managers with information about how the company's decisions and activities, as measured by multiple financial reports, interacts to produce a return on shareholders (i.e. ROE). This analytical tool is particularly powerful because it allows the division of the company's overall strategy into only three key reports that directly affect a manager's area of responsibility: profit margin, use of assets (turnover) and financial effect. This is illustrated in the table below.

Table no. 2 Use of the DuPont system

Report	SC Selprod SRL	Industry
Return on equity	27,22	20,20 %
Net profit margin	6,77	6,70%
Asset turnover	4,01	1,35
Financial report	2,94	1,80

Source: Developed by the author based on data provided by SC Selprod SRL

Using this system, managers can evaluate changes in the company's performance (measured by resuming equity) and determine whether they reflect impairment of improvements in competing business processes. The power of this tool lies in its ability to focus on specific areas of the company that affect performance. Table no. 2 focuses on the ratios we calculated for SC Selprod SRL that are important for this technique.

Table no. 2 reveals that SC Selprod SRL outperformed its competitors in the industry during the year of operation. The DuPont system highlights those factors that determined the positive performance: the net profit margin, the turnover of the assets and the financial situation of the ROE. Although it has evolved slightly in its industry, both in terms of net profit and financial situation, the high turnover of the assets of SC Selprod SRL (almost three times higher than the industry average) aims for the ROE to aim at a over-industry yield of 24.80%. In the slow growth rate of assets and net profit margin interact to produce an ROA for the company (20.88 percent) which is above double the industry average. Because these reports are observations of the company's condition at a given time, by examining trends in these reports over time, managers can detect changes that could justify the changes and determine future actions.

Other financial performance measures

In addition to the fundamental reports we have analyzed so far in this chapter, companies use measures that include a share price element to assess progress in achieving their objectives. Most companies use net income divided by the number of shares held by owners to assess performance. Many companies also use the price-to-earnings ratio (the share price divided by earnings per share). Others measure performance as the change in the market price of a company's shares over a period of time. Recently, some companies have adopted an economy value added tax (VAT) analysis to measure the value created by shareholders during the reporting period. A common way of describing VAT is that it represents a company's profits after deducting capital raising costs. Regardless of the extent, all these techniques have a single purpose: to expose the basic relationships hidden in the financial statements. (Barsky/Catanach, 2018)

5. Conclusions

This article examines the role of financial statements and the measurement and evaluation of an entity's operating performance. The main statements used by stakeholders to assess a company's historical and prospective performance are the balance sheet, income statement, statement of flows and statement of equity or equity. Because the technology does not have such financial information available on the market at low or no cost, professionals are no longer rewarded for simply preparing these reports. Managers should use their skills that use a ratio analysis to explain the company's operations in terms of liquidity, leverage, consumption or operations, and profitability. The DuPont financial analysis system was introduced as a powerful technique that focuses managers on business processes when evaluating company changes.

6. References

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