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**ANALYTICAL DISCLOSURE OF CORE GROWTH RESERVES  
OF COMPANY FINANCIAL RESULTS**

*The article discusses the relevant methodological aspects of determining the reserves for increasing the profit of business entities as the main source of their own capital, including those used to finance capital expenditures and replenishment of the company's own working capital.*

**Keywords:** *typology of profit, profit from current activity, profit from investment activity, profit from financial activity, factors and reserves of profit increase*

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**АНАЛИЗ ОСНОВНЫХ РЕЗЕРВОВ РОСТА  
ФИНАНСОВЫХ РЕЗУЛЬТАТОВ КОМПАНИИ**

*В статье рассматриваются актуальные методические аспекты определения резервов увеличения прибыли субъектов хозяйствования как основного источника их собственного капитала, в том числе направляемого на финансирование капитальных вложений, пополнение собственных оборотных средств компании.*

**Ключевые слова:** *типология прибыли, прибыль от текущей деятельности, прибыль от инвестиционной деятельности, прибыль от финансовой деятельности, факторы и резервы увеличения прибыли*

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**Introduction**

The modern market economy defines specific requirements for the company management system. It is necessary to react more quickly to changes in the economic situation in order to maintain a stable financial condition and ensure continuous improvement of all business processes in accordance with changes in market competition. Profit is playing the role of the most important indicator, which reflects company final financial results derived from the efficiency of production and sales, the level of labor productivity, the level of current expenses and etc.

Importance of profit as a crucial economic indicator for any business entity is substantiating by its five main functions, the disclosure of which is presented below [3, p. 369].

**Control function.** Profit characterizes the economic effect of the business entity's activities as its final financial result which controlled by owners and shareholders;

**Reproduction function.** Profit is one of the main sources of expanded reproduction and growth of the company activity;

**Social function.** Profit acts as a source of resources for the effective implementation of the company social responsibility framework;

*Stimulating function.* Profit is the source of the formation of incentive and personnel development schemes as well as dividend payments to owners;

*Budget-forming function.* Profit is one of the sources of revenue generation for the budget system of the Republic of Belarus providing significant share of its income.

Profit is classified according to many criteria, but in practice according to the Instruction on Accounting of Incomes and Expenses № 102 dated 30.09.2011 main three elements form the overall financial result of the activity of a business entity:

- profit from current activities;
- profit from financial activities;
- profit from investment activities.

Above mentioned Instruction as well requires decomposition of business entity incomes and expenses into incomes and expenses from current activities, investment and financial activities.

Additionally the following types of profit can be distinguished, which are presented in Table 1 [1, p. 370].

Table 1

Classification of types of the profit

Classification feature	Types of profit according to the attribute
Sources of profit formation that are used in accounting	– profit from the sale of products (goods, works, services); – profit from the sale of property and other valuables; – other income from current activities
The nature of profit taxation	– taxable profit; – profit that is not subject to taxation
The considered period of profit formation	– profit of the previous period; – profit of the reporting period; – profit of the forecasted period
The value of the final result of economic activity	– positive (profit); – negative (loss)
The nature of profit use	– capitalized profit; – distributed profit
As a management object	– net profit; – gross profit; – operating profit; – marginal profit; – EBITDA

Source: author's developed.

Profit maximization is the relevant challenging process of finding reserves to increase company financial results, which requires special attention of company analysts.

### Results and their discussion

The management of the business must always look for new reserves of growth if it wants to guarantee a steady increase in earnings. So, methods for increasing the financial results of the example company engaged in retail of medicines will be introduced below.

The profit, as the final result of the company's activities, is influenced by a significant number of factors. To determine the main directions of the search for reserves of profit increase, the factors affecting it are often divided into two main groups:

*Internal factors* are factors that depend on the company itself, external factors do not depend on the effectiveness of its activities.

*Internal factors* are divided into:

- production factors, which characterize the availability and effectiveness of the use of means and objects of labor and financial resources;

– non-production factors related to supply and marketing, environmental activities, social conditions of work and life, etc.

Production factors, in turn, can be classified into:

1. *Extensive*, which affect the process of making a profit through quantitative changes:

- the volume of means and objects of labor;
- financial resources;
- equipment operating time;
- the number of personnel;
- the fund of working hours and etc.

2. *Intensive*, which affect the process of making a profit through «qualitative» changes:

- increasing the productivity of equipment and its quality;
- use of progressive types of materials and improvement of technology for their processing;
- acceleration of turnover of short-term assets;
- improving the skills and productivity of staff;
- reduction of labor intensity and material consumption of products;
- improving the scheduling and organization of labor and more efficient use of financial resources, etc.

*External factors* of profit increasing of a company are following:

- market conditions;
- the level of prices for consumed raw materials, fuel and energy resources;
- natural and climate conditions;
- state regulation of prices, tariffs, interest and tax rates, and etc.

As the main reserves of increasing the profit from sales, we can distinguish:

- increase in the volume of products and goods sold;
- reduction in the cost of production (including the reduction of administrative expenses and variable costs in the product unit cost);
- improvement of the quality of the products sold [4, p. 202].

The amount of the profit growth reserve ( $\Delta PQ$ ) due to the increase in the volume of goods and products sold is calculated by multiplying the quantity of additionally sold products in physical terms ( $Q$ ) by the estimated profit ( $EP$ ) per unit of production of the corresponding type:

$$\Delta PQ = Q \cdot EP,$$

where  $Q$  – quantity of additionally sold products in physical terms;  $EP$  – estimated profit per unit of production.

In order to justify the possibility of profit growth through decreasing administrative and commercial costs, as well as lower direct variable costs in the cost of a unit of sold goods, the search for reserves to boost profits should be focused on these factors first. As the number of sales grows, the fraction of fixed expenses per unit of output drops. If the analysis of profits is preceded by an analysis of the cost of production and the reserves for its reduction are determined, the formula can be used to calculate the amount of the reserve for rising profits due to a decrease in administrative expenses:

$$\Delta Pex = Q \cdot (-\Delta Cex),$$

where  $\Delta Pex$  – the reserve of increase in the amount of profit due to the reduction of administrative costs in the cost of a unit of product;  $Q$  – volume of sales of products for the planned period in physical terms;  $(-\Delta Cex)$  – reserve of reduction of administrative expenses in the cost of a unit of a product.

The size of reserves of increase in profit due to reduction of direct variable costs is determined by the formula:

$$\Delta Pn = Q \cdot (-\Delta Cn), \quad (1)$$

where  $\Delta Pn$  – the reserve of increase in the amount of profit due to the reduction of direct variable costs in the cost of a unit of product;  $Q$  – volume of sales for the planned period in physical terms;  $(-\Delta Cn)$  – the reserve of reduction of direct variable costs in the unit cost of the product.

Increasing product quality is an additional key factor of profit growth. The formula is used to calculate the impact of product quality improvements on profit:

$$\Delta PQI = [(P1 - C1) - (P0 - C0)] \cdot Q, \quad (2)$$

where  $\Delta PQI$  – increase (decrease) in profits from improving the quality of products;  $P0$  – the average price of a unit of a certain type of product to improve quality;  $P1$  – the average price of a unit of a certain type of product after quality improvement;  $C0$  – the cost of a unit of output before improving the quality;  $C1$  – unit cost of production after quality improvement;  $Q$  – the volume of sales of products after improving its quality.

The size of reserves of increase in profit due to reduction of direct variable costs (purchase cost) is determined by the Formula 1. We assume that manufacturer of products that our example company is currently using is a well-known European manufacturer, but there is prospect possibility to switch to another supplier that offer more favorable prices per unit or bargain in order to conquer more favorable offers. Due to company politics, it is not possible to change vitamins supplier, which is Swiss company, but it is possible to change the factory located in Switzerland to the factory in Bulgaria.

The data in Table 2 show that the reduction of direct variable costs in the cost of a unit of sold products will increase profit by 20,4 thousand BYN, including through (in thousand BYN):

- reduction of direct variable costs in the cost of product 1 – by 6;
- reduction of direct variable costs in the cost of product 2 – by 3,6;
- reduction of direct variable costs in the cost of product 3 – by 2,4;
- reduction of direct variable costs in the cost of product 4 – to 2;
- reduction of direct variable costs in the cost of product 5 – by 6,4.

Table 2

**Calculation of reserves of profit increase due to reduction of the purchase cost price of goods sold**

Type of product	The volume of sales for the planned period, thousand units ( $Q$ )	Reduction of purchase costs of goods sold ( $-\Delta Cn$ )	Reserve of profit increase, thousand BYN ( $\Delta Pn$ )
Active	20	-0,3	6
Multivitamins	12	-0,3	3,6
Magnesium	12	-0,2	2,4
Vitamin C (550 mg)	20	-0,1	2
Vitamin C (1 000 mg)	32	-0,2	6,4
Total	96	-	20,4

Source: author's developed.

Another measure that could be undertaken by our example company to activate reserve of profit growth is the improvement of product quality. The increase in quality entails an increase in the unit cost of production, but at the same time, an increase in the price of products of a higher quality. As it showed before determining of the effect of improving the quality of products on profit is determined by the Formula 2.

The calculation of the reserves of profit growth due to the improvement of the quality of the products sold is made in the analytical Table 3.

The total amount of the reserve for profit growth due to the improvement of the quality of the products sold for the future period is 14,7 thousand BYN, including through the improvement of the quality of:

- product 1 = 2,3 thousand BYN;
- product 2 = 2,8 thousand BYN;
- product 3 = 4,2 thousand BYN;
- product 4 = 2,1 thousand BYN;
- product 5 = 3,3 thousand BYN.

Table 3

**Calculation of profit growth reserves by improving the quality of products sold**

Type of product	Unit sales price before product quality improvement	Unit sales price after product quality improvement	Unit purchase cost		Volume of products sold in the given period after quality improvement, thousand units	Reserve of profit increase, thousand BYN ( $\Delta PQI$ )
			before product improvement	after product improvement		
Active	20	21,6	10	11,5	23	2,3
Multivitamins	18	18,7	9	9,5	14	2,8
Magnesium	18	19	8	8,7	14	4,2
Vitamin C (550 mg)	14	15	6	6,9	21	2,1
Vitamin C (1 000 mg)	17	18	8	8,9	33	3,3
Total	–	–	–	–	–	14,7

Source: author's developed.

One more measure that could be undertaken by the company to increase their sales is the introduction of new products. New products can help the company get more profit because of possible attraction of new customers. These new products for example are able to normalize cholesterol levels, help to lower blood pressure and reduce the risk of developing heart and vascular diseases, improve healthy functioning of the immune system.

The calculation of the profit growth due to new products introduction is made in the analytical Table 4.

Table 4

**Calculation of profit growth reserves due to introducing new products**

Type of product	Unit sales price, BYN	Unit purchase cost, BYN	Volume of units sold, thousand units	Reserve of profit increase, thousand, BYN
Product 1	15	11	2	8
Product 2	23	18	1	5
Product 3	24	19	1,5	7,5
Total	–	–	8	20,5

Source: author's developed.

The total amount of profit growth due to the introduction of new products by our example company equals to = 20,5 thousand BYN, including the profit growth for: Product 1 = 8 thousand BYN, Product 2 = 5 thousand BYN, Product 3 = 7,5 thousand BYN.

As we can see, there are several ways for enhancing the company's financial performance. In our example they are: profit growth reserve through cutting the purchasing cost of the items sold; profit growth reserve due increasing the quality of the goods sold.

After the calculations of the profit increase due to various above mentioned ways, the identified reserves can be summarized in Table 5.

Table 5

**Summarizing the reserves of increase the amount of profit, in thousands of BYN**

Profit reserve	Value of improvement					Total
Increase of profit due to reduction of the purchase cost of products sold	6	3,6	2,4	2	6,4	20,4
Increase of profit due to improving products quality	2,3	2,8	4,2	2,1	3,3	14,7
Increase of profit due to introduction of new products	8	5	7,5	–	–	20,5
Total						55,6

Source: author's developed.

## Conclusions

The main purpose of the activities of commercial business entities is to maximize profits as a result of their participation in the social reproduction process, which involves meeting the diverse needs of the households in goods, products and services. The opportunities for the development of companies, timely paying off debts before the budget and the growth of the income level of company owners and employees depend on the amount of profit and the sustainable rhythm of its generation.

The issues of determining achievable profit reserves should be constantly under close and thorough control of company management including such traditional, tested but undoubtedly effective directions reserves usage as increase in the volume of products and goods sold; reduction in the cost of production (including the reduction of administrative costs and variable costs in the product unit cost); improvement of the quality of the products sold.

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