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# Improving the Analysis of Profitability Indicators in Motor Transport Enterprises

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***Abstract:*** *This article describes the profitability and some other financial indicators reflecting the level of profitability of enterprises, as well as some issues in their calculation. Including, conclusions and recommendations are given based on the results of a study of the composition of indicators used to determine the rate of return.*

***Keywords:*** *Analysis, profitability, main activity profit, activity profitability*

## 1. INTRODUCTION

Earning income from economic activities is the main goal. Therefore, the profitability of the automotive industry will not only increase the profitability of the company, but also encourage the provision of quality services to the population.

Determining and assessing a company's profitability is one of the key steps in determining the level of a company's profitability.

Not only in our country, but also in the practice of foreign countries, the financial condition of the company is assessed by determining the profitability. Therefore, it is necessary to determine the profitability of the company and make a more accurate and accurate assessment of the company's financial condition.

The correct determination of profitability, the correct choice of indicators in determining profitability leads to the right and forward-looking management decisions in the enterprise, and vice versa, to make the wrong decisions or to make mistakes can lead to the formation of a conclusion.

## 2. METHODS

Studies have shown that there is no clear norm or procedure in any regulatory and methodological document on profitability. However, there is advice and literature on profitability and some of its types. In particular, in the textbook by A. Vakhobov and others.

The procedure for determining the following types of profitability is provided (Vahobov A.V., Ibrahimov A.T., Ishankulov N.F, 2005):

Profitability in relation to production costs is defined as the ratio of net profit to production costs, which characterizes the amount of profit per one sum of production costs.

If the change in profitability relative to the sale of a product is affected by a change in the amount of gross profit from sales and a change in the amount of revenue from sales, the change in net profit of the company and the change in the average annual value of fixed assets Profitability was affected by changes in the amount of net profit, which corresponds to the return on beeps, changes in the return on fixed assets and changes in the return on working capital.

The studied formulas for determining profitability are given in the literature created by scientists of the republic, and the issue of determining profitability has been constantly discussed in other sources.

In particular, Sh. Tadjibayeva noted that profitability is a comprehensive concept, noting that there are errors in the formulas for calculating profitability, which are used in practice today. However, the author did not give any step-by-step recommendations for solving the problem(Tadjibayeva Sh.A, 2007)

N.M. Pakhnovskaya, D.A. Ishanova point out the relationship between the profitability of road transport and the total number of flights (Pakhnovskaya N.M., Ishanova D.A, 2014) .

According to I.T. Abdukarimov, the indicators of the company's efficiency (Abdukharimov I. T, 2013)

- Return on sales (from operating activities), the profit from sales is defined as the ratio of sales revenue.

- cost profitability is defined as the ratio of net profit to expenditure.

- Return on equity is defined as the ratio of net profit to the average annual cost of private equity.

- the return on total capital is defined as the ratio of profits to the total capital of the company.

- the ratio of private capital to capital investment is defined as the ratio of the average annual value of private capital to net profit.

Although the author proposes to define the predictability of sales as the ratio of sales revenue to sales revenue, it does not provide a procedure for calculating sales profit. In our opinion, the author considered the profit from sales as the difference between the cost of goods sold and the proceeds from sales.

A.Z. Avlokulov gave a procedure for determining profitability indicators, on the basis of which the types of profitability were divided into groups. The author divides the profitability into 3 main groups and separates the performance indicators into a separate group. This grouping actually gives an assessment of the financial condition of the enterprise. However, according to the author, the fact that these indicators lead to the determination of gross profit (line 030), net profit (line 270) by dividing it by the cost of goods sold or revenue does not lead to profitability by type of activity. The fact that the revenue is higher than the cost of goods sold does not mean that the enterprise is profitable. Because there are business, administrative, tax and other costs associated with the activity.

In most sources, we can see that the pentabel is divided into three groups. These are:

- profitability of sales;
- profitability, reflecting the coverage of costs and investment projects;
- return on equity and profitability of its components.

Typically, financial statements are used to calculate the profitability of the first group. That is, it takes into account the sold product and its cost, gross profit and corresponding financial indicators. The second group mainly analyzes the efficiency of investment projects and determines their profitability. In the third group, the return on equity is determined directly.

In world practice, profitability is often determined by profit, production assets and money. The more money a company has, the more profitability it should take into account. Various discussions and opinions took place on the issue of profitability and its impact on the financial results of the enterprise and the economic growth of the country, as well as its methodology. In particular, Joffrey Whittington argues that the profitability of industrial enterprises depends on the economic growth of the company (Geoffrey Whittington, 2007). According to the author, profitability contributes to the economic growth of industrial enterprises. However, the author does not specify which financial multiple should be taken into account when assessing the impact of profitability on profit growth.

One of the most essential objectives of the transition to international financial reporting standards is integration into the international accounting system and complete provision of external accounting information of business entities, including investors, in due time (Tuychiev and Khotamov, 2020).

### **3. RESULTS AND DISCUSSION**

In our opinion, when determining profitability, it is necessary to carry out calculations with a clear indication of the types and composition of benefits. This is because the exact type of profit or income ratio may not reflect the profitability of the enterprise. For example, a company may have a higher level of profitability due to an increase in non-operating profit with an increase in losses from its core business.

A.M. Fridman as the main directions of increasing profitability:

- to increase the amount of profit from the development of the enterprise;
- increase the level of resource use;
- Improving product quality, saving material costs;
- development of corporate accounting policy and optimal tax planning;
- increase operating profit and reduce costs;
- Improves the quality of technical, commercial, marketing, financial, economic and other services of the enterprise (Fridman A.M, 3013).

Although the factors affecting profitability listed by A.M. Fridman are described in detail, only internal factors related to the enterprise are given. Unincorporated factors are not taken into account. While tax planning focuses on optimizing taxation, it is overlooked that it is enterprise independent. In addition, the author did not explain this, referring to the direction of improving the quality of services, although the main directions of increasing profitability are directly related to operating profit.

V.M. Semenov and N.V. Vasilenkova argue that profitability depends on profit and is inversely proportional to production assets. Here it is clear that the author focuses only on the rate of production profitability and profit.

A. Olmasov and A. Vakhobov emphasize that profit maximization increases profitability, and include the following ways to achieve it (Olmasov A., Vahobov A, 2014) :

- restructuring and diversification of production;
- economical use of resources;
- improving the capital structure;
- strengthening of labor motivation.

It is clear from the authors that the emphasis is on increasing profits and production, and here - on profits.

A.Vahobov and T.Malikov divide the factors that increase the profitability of business entities into two groups (Vahobov A., Malikov T, 2012) .

- increase the amount of profit;
- reduce the level of costs and resources for profit.

In our opinion, improving profitability should not be the main goal. An increase in the profitability of an enterprise does not mean that it is profitable. That is, if the profitability of an agap enterprise is increased due to income from activities not related to its main business, it would be more erroneous to evaluate its results or take measures based on such an increase in profitability.

Based on the above, the following conclusions were drawn:

1. When determining profitability, the first step is to select the correct financial metrics.
2. In determining the level of profitability, the main focus is on the income or profit from the activity.
3. It is advisable to constantly analyze the relationship between the profitability of the enterprise and its sustainability.

In determining the profitability of an activity, it is based solely on the profit and loss from the activity, which prevents errors such as estimating the real growth of the enterprise on the basis of artificial growth. For example, the company's profit is 150 million soums, 50 million soums of this profit is associated with extraordinary profit, 50 million soums - due to gross compensation, 25 million soums - due to an increase in excess value as a result of inventory. If the sale of the remaining stocks in the warehouse is formed 25 million soums, you can evaluate or decide on the profit of the enterprise. If we determine the profitability of an enterprise without determining the composition of profits, then the decisions we make and its outcome can also have negative consequences.

Another example is when an entity writes off a large amount of accounts payable (due to a waiver by the recipient or for other reasons) that is charged to the entity's income. This increases the company's profit before tax, while at the same time increasing its bottom line and profitability. However, the company did nothing to improve this profitability.

The motor transport companies studied by us almost every year end their activities with certain damage. However, losses from their core activities were large, and these losses were reduced by other income. This does not reflect the efficiency of the enterprise.

In practice, profitability is usually divided by the net profit of the enterprise to the indicator on which profitability is determined, and the profitability of this object of accounting is determined. At the same time, in calculating the coefficient of financial independence of the enterprise, the sources of its funds (balance sheet liabilities Section 1) are divided by the total amount of the balance sheet and the financial independence of the enterprise, more precisely its financial stability is assessed. However, the analysis of the enterprise's activities on the basis of this procedure and the determination and analysis of the coefficient of profitability and financial independence, which are its main indicators, leads to incorrect formulation and erroneous assessment of the enterprise.

#### 4. CONCLUSION

Proceeding from the fact that the current levels of profitability determined on the basis of the existing forms and reporting formulas do not reflect the real situation of enterprises, we have proposed the following mechanism for determining profitability:

The level of profitability is determined by the type of activity, providing accurate and objective information about the enterprise, providing accurate and objective information and making clear decisions related to the type of activity (Table 1).

Table 1

Analysis of financial results of the 18th bus palace of JSC "Toshshahartranshizmat"  
(Tashkent city trans service)

(Formed on the basis of the author's suggestions)

(in a thousand soums)

<b>Indicators</b>	<b>2017</b>	<b>2018</b>	<b>The difference, +,-</b>
* Total income	45840134	55008160,8	9168026,8
* Total expense	44834204	51559334,6	6725130,6
Corporate Profits, (Losses)	1005930	3448826,2	2442896,2
Balance total	33141178	56181864	23040686
The amount of private capital,	17829586	15 994555	-1835031
Financial independence ratio, %	0,54	0,28	-0,25
Profitability relative to net profit, %	2,2	6,7	4,4
<b>Indicators of financial independence and profitability when deducting income and expenses not related to the activities of the enterprise</b>			
The main operating income of the enterprise	38964114	46756936,68	7792822,78
The main operating costs of the enterprise	43040835,8	49496961,22	6456125,38
Net profit (loss) of the main activity of the enterprise	-4076721,9	-2740024,536	1336697,4

Balance total	33141178	56181864	23040686
The amount of private capital	16938106,7	15194827,25	-1743279,5
Financial independence ratio, %	0,51	0,27	-0,24
Profitability relative to net profit, %	-9,5	-5,5	3,9

*\* These figures are taken as the sum of the lines representing the relevant income and expenses in the statement of financial performance.*

From the data in the table it can be seen that the profitability of the enterprise and the indicator of financial independence have a number of positive indicators calculated on the basis of the existing formulas for non-operating profit. Research has shown that the company's operating profit was virtually non-existent, and its core business was unprofitable in 2017 and 2018. However, the company's net profit was high due to the forfeit levied by the business, profits from the sale of obsolete fixed assets and a large amount of sponsorship (non-repayable financial aid).

In this table, when we say profitability relative to net profit, we mean the difference between total cost and total revenue, i.e., net profit, divided by total cost. In Part 2 of the table, the operating income is obtained as the difference of all expenses related to the main activity as the ratio of the net profit of the main activity to the total expenses incurred in making that profit. We found it useful to call this procedure to determine profitability, gross profitability, profitability by type of activity, or profitability relative to net income.

At the same time, this change led to an increase in private capital as retained earnings. In fact, this does not mean that the company is performing well or financially stable.

Thus, the study showed that the current level of profitability, determined by obtaining data from these reporting forms on the basis of existing reporting forms and existing formulas, does not reflect the real situation of enterprises.

Our research recommended dividing profitability into the following two main groups:

**Overall profitability = It is a net profit / expense \*100**

That is,

$$\text{OR} = \frac{\text{net profit}}{\text{Expenses}} \times 100\% \quad (1)$$

1. Operating profitability = operating profit / operating expenses \*100

$$\text{R} = \frac{\text{Net operating income}}{\text{Operating expenses}} \times 100\% \quad (2)$$

In the same way, you can calculate the profitability of core activities and other activities. Determining the level of profitability by type of activity provides accurate and objective information about the company, gives an accurate and objective assessment.

It is also recommended to calculate the system of indicators of the profitability of the enterprise, depending on its type of activity (table 2).

Table 2

## Procedure for determining profitability and financial ratios

Financial indicators	In practice	Offer
<b>Indicators of profitability</b>		
Profitability relative to production costs	Net profit / production costs	<b>Operating Profits</b> / Production Costs
Return on fixed assets	Net profit / Average annual value of fixed assets	<b>Operating profit</b> / Average annual value of fixed assets
Return on current assets	Net profit / average annual value of current assets	<b>Operating profit</b> / average annual value of current assets
Return on equity	Net profit / Equity	<b>Operating profit</b> / Own capital
<b>Financial ratios</b>		
Financial independence ratio	Private equity / Balance total	(Profits not related to private equity) / Balance total
The ratio between debt and equity	(Liabilities-long-term liabilities) / Private equity	(Liabilities-long-term liabilities) / (Private equity- <b>non-operating profit</b> )
Coefficient of coverage of reserves and expenses by own sources	(Equity + long-term liabilities-long-term assets) / commodity inventories	(Private capital- <b>non-operating profit</b> + long-term liabilities-long-term assets) / commodity inventories
Rapid mobility coefficient of funds	(Private equity + long-term liabilities-long-term assets) / Private equity	(Private capital- non-operating profit + long-term liabilities-long-term assets) / Private capital

Determination of these coefficients by our proposed method leads to the conclusion about clean, accurate, correct conclusions about the amount of profit associated with the activities of the enterprise, and also plays an important role in making management decisions.

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