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**THEORETICAL ASPECTS OF FORMATION OF PROFIT
OF MARINE TRANSPORT ENTERPRISES****ТЕОРЕТИЧНІ АСПЕКТИ ФОРМУВАННЯ ПРИБУТКУ
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Abstract. *The paper considers the mechanism of company profit generation and methods to increase it when doing business, identification of reserves and means to increase company profit.*

Key words: *profit, efficiency, profitability, entrepreneurial activity, financial result.*

Introduction. Profit is a form of financial resources earned by a company as a result of business activity. First and foremost it is directed to the development of production. Capital investment and growth of working capital reflect the increase in registered capital, that is, in those resources that are permanently at the disposal of the company. In addition, at the expense of profit, certain operating costs are charged, which tax laws do not allow for attributing to gross expenses.

The role of profit as a financial resource is characterized exactly by the use for production expansion. In a market situation, only continuously developing ports remain stable. Opportunities of the development are determined by the profit size.

It is necessary to develop a mechanism of profit generation for the effective development of the company with due regard to the changing market situation.

Profit is a rather complex and comprehensive economic phenomenon that distinguishes different aspects of the company. Achievement of a positive financial result, which meets the needs, is ensured by the well-aimed management of the profit generation process on the basis of comprehensive consideration of all external and internal factors that affect the production and sales of products.

Background paper. Many as classics of economic science, such as D. Mill, N. Senior, D. Ricardo, A. Smith, and contemporary authors, V. Buryakovskaya, O. Filimonenko etc. devoted attention to the problem of definition of the economic essence of profit, the nature of its occurrence and the peculiarities of generation.

In their studies, they made the essence of profit and the essence of gross revenue of the company specific. In determining these categories, they took into account that the main components of gross revenue are capital income, return to land and to labor and reflected the remuneration for service rendered in the national economy. To trace the profit origin the founders of the classical school took as a basis the historical and legal fact of possession of land or capital (factors of production, materials, funds) [7].



Modern authors also differ in opinion regarding the essence and generation of profit of a company, therefore this issue is important and relevant at the present stage of economic development.

Results. Discussion and analysis. At the present stage of economy development distribution and use of earned profit, as the main source of investment needs financing and satisfaction of the owners' economic interests occupy an important place in the financial policy of a company. Thus, the profit, as the financial result of the company business activity, integrally reflects the quantitative and qualitative factors of the enterprise activity. Since profit is an integral indicator, all factors of the enterprise activity influence it. Depending on their level of impact, they can be divided into macro- and microeconomic ones. An enterprise should foster the efforts on increasing profit, as well as on effective profit management.

The following factors affect the company profit: production output; price for products; product unit cost. Thus, three generalizing factors can be distinguished: the factor of volume, price and cost of sales. The volume of production and the price function directly proportional, the cost is inversely proportional. These factors influence the financial results, both individually and jointly. Their aggregate effect is reflected in the integrated factors of the structure and nomenclature of products [1].

Profit is a form of income and a motivation to create new or develop existing enterprises. The ability to generate income encourages the top managers to look for more efficient ways to use resources, invent new products that may be in demand, apply organizational and technical innovations that promise to increase the efficiency of production.

In modern conditions profit increase is a rather complicated and important issue for Ukrainian companies. Unfortunately, many enterprises and commercial institutions do not receive profit, which results in their liquidation and closing down.

In this regard, management of the company requires improved methods for estimating and forecasting profit. This determines the relevancy to study the company business practices, generation of profit and its impact on the speed and proportion of social reproduction.

Formation and creation of the market-based economy requires from Ukrainian companies a reasonable and economically sound approach to the planning of their activities, determination of strategy of their financial and industrial policy, analysis and evaluation of the results. Profit is the main source of financing for enterprise development, improvement of its physical infrastructure and ensuring all forms of investment.

When analyzing and evaluating profitability it is necessary to take into account that it is impacted by various factors, both external and internal. External factors include: natural conditions, state regulation of prices, tariffs, interest, tax rates, allowance and penalties. These factors do not depend on the company activity, but can significantly affect the amount of profit [1, 4].

Internal factors are divided into production and non-production ones. Production factors describe the availability and use of plant and machinery, labor and financial resources and in turn are divided into extensive and intensive ones.

Extensive factors influence the process of gaining profit through quantitative



changes: the amount of plant and machinery, financial resources, equipment operating time, number of staff, working time fund, etc.

Intensive factors impact the process of profit-making through qualitative changes: increasing the productivity of equipment and its quality, use of advanced types of materials and improvement of their processing technology, accelerating the turnover of current assets, improvement of the personnel skills and productivity, reducing materials/output ratio, improvement of the organization of work and more efficient use of financial resources, etc.

Production factors affect profit through a system of general indicators that reflect, on the one hand, the volume and efficiency of the use of advanced funds, that is, the funds that are fully involved in the fabrication of products, and, on the other hand, amount and efficiency of using their consumed part, which take part in formation of net cost.

Nonproduction factors include organization of sales of goods, supply of commodities and materials, organization of economic and financial work, environmental activities, social conditions of work and welfare of the company employees.

The above factors do not affect profit directly, but through the volume of sales and net cost; so to determine the final financial result, it is necessary to compare the value of the volume of sales and value of cost and resources used in production.

Tax payments, regardless of their origin and stage of economic activity of the company they are charged at, reduce the amount of profit remaining at disposal of the company.

The size of profit from sales is impacted by two main indicators: the volume of sales and production costs.

In turn, the volume of sales depends on changes in production volumes, balance of non-distributed stock and part of the profit in the price of product (profitability of product). Changes in production volume and balance of non-distributed stock also affect the cost, as semi-fixed costs change.

The factors of profit growth include sales, price growth, net cost reduction, and renewal of assortment and nomenclature of the manufactured goods.

In turn, the main factors are caused by the level of management at the enterprise. These are the following factors:

- material and technical (use of progressive and cost effective materials and supplies, application of efficient technological equipment, modernization and reconstruction of the basic production infrastructure);

- organizational and managerial (capturing new, more advanced types of products and services, development of strategy and tactics of the activities and development of the organization, information support of decision-making processes);

- economic (financial planning of the organization, analysis and search of internal profit growth reserves, economic stimulation of production and tax planning);

- social (professional development of workers, improvement of working conditions, organization of health improvement and recreation of workers).

In the high inflation period, profit growth is provided at the expense of price



factor. Slowdown of inflation development, saturation of market with goods, and competition development limit manufacturers' ability to increase prices and get profit through this factor. An increase in sales can not be infinite. Severe competition and low level of solvent consumer demand impose restrictions on the sales growth. Therefore, a method of cost cut is used. The research has shown that now in many cases it makes sense to direct the company efforts to pricing improvement. This is especially true if the profitability per production unit is low because then the increase in sales will not result in any significant increase in profit, so the best option is to reduce costs or raise prices.

In real business there are different ways of cost reduction. Of course, such techniques are used as saving fuel and raw materials, material and labor costs, reducing the part of depreciation deductions in cost, administrative cost reduction, etc. However, it is important to understand that the cost reduction is limited and after the limit is exceeded, it becomes impossible without reducing the quality of goods. The same is the case for administrative and commercial costs, which can not be reduced to zero, because without them, the company will not function properly and the goods will not be sold.

Renewal of assortment and nomenclature of goods is among the factors of profit growth.

Plant and machinery, materials, supplies and labor resources are not only profit generation factors, but at the same time they serve as a basis for determining the reserves of its increase. Their reasonable and efficient use helps to increase production in physical terms and increase the quality of goods. As a result, the amount of expenditures spent on production of a unit decreases, which reflects in reduction of materials consumption, capital-output ratio, labour intensity, production cost of specific goods, and vice versa, the inefficient use of resources results in the increase in their volume per unit. This reduces the factors that characterize the intensity of management development and efficiency.

Profit, as the final result of business, depends on the balance between the amount of profit of a trading company and the costs associated with trade and financial activity.

The amount of income received depends on the price of sales and purchases of goods, the quantity of goods sold, the difference between revenue, turnover expenses and expenses from other activities. The study of the effect of these factors and their forecast allows to get desired profit.

The main factor determining the amount of profit is the level of purchase prices of goods. When executing a commercial agreement an enterprise must try to purchase goods at the lowest possible price. This can be achieved by reducing the number of intermediaries when purchasing goods, using price discounts when agreeing the price of goods and purchasing batches of goods during their seasonal sale. If an enterprise is engaged in foreign economic activity, the purchase of goods from foreign partners (with a favorable ratio of national and foreign currency rates) or the implementation of direct commodity exchange (barter) operations can contribute to the reduction of purchase price (with a favorable balance of the price level of exchanged goods) [7, p. 197].



Growth in amount of profit-making is also related to the increase in price level of commodity sales. The management of sales prices depends on the explicability of the choice of the company pricing policy in the consumer market, the use of a favorable trading environment in certain periods of the year and months. The increase in the sale price of goods contributes to the expansion of sales of seasonal goods before the start of the season, when prices are highest, to the sale of individual commodity groups at auctions and commodity exchanges and the export of competitive goods with a favorable ratio of national and foreign currency rates.

The mass of profit depends on the business amount of a company and the quantity of goods sold. Increase in sales contributes to the implementation of effective marketing policy by including complementary goods in the list, providing consumer loans when selling goods, expanding the system of additional trade services related to the sale of goods and implementing effective promotional activities. Regional diversification of sales plays an important role for the wholesale trade in the expansion of sales.

Considered factors directly affect the amount of income, and, accordingly, the profit of the company. With the same amount of revenues, the company may have a different size of profit, which depends on the amount of the turnover costs. The size of the turnover costs is generated by factors such as trade value, its composition and assortment structure, sources of goods, location of sales agreement parties, the terms of insurance contracts, level of productivity at the enterprise, degree of use of resources, capital structure, amount of physical infrastructure etc. The aforementioned factors influence the sales profit [6].

In order to maintain company profit level it is important to determine the beginning of the product design and launch. The stage of design and implementation of a product takes some time, during which the company suffers losses. Then, as from the product launch, the losses begin to decrease and after some time a breakeven point is reached. The profit is growing together with the sales growth by reducing the share of fixed cost. Upon reaching the balance of supply and demand, profit margins will stabilize and remain unchanged for a certain time. Such situation can be maintained for quite a long time in the absence of a threat from competitors and stable demand for the goods. In the presence of competitors, the sales can be supported using the earnings dilution method, that is, reducing the price with a share of profit.

With increasing competition, the company can no longer maintain the level of sales by reducing prices, as the work becomes inefficient and loss-making. In order to maintain the efficiency of the enterprise, it is necessary to reduce costs in proportion to the reduction of prices or to increase production volume of other products, the demand for which has not yet been exhausted. Therefore, the companies must start developing a new type of product at the stage of profit growth in order the release of the new product has reached a breakeven point before the profitability of old products went down. Such a strategy will allow to constantly maintain the achieved level of profitability and even increase it in an unfavorable situation.

Increase in profits of Ukrainian companies in modern conditions is a rather complicated and important issue. Unfortunately, many enterprises and commercial



institutions do not receive profits which results in their closing down and bankruptcy.

Profit is a form of income and an incentive to create new or develop existing companies. A chance to make profit encourages managers to look for more efficient ways to use resources, invent new products that may be in demand, and apply organizational and technical innovations that promise to improve production efficiency [10].

Each company that operates at a profit contributes to the economic development of society, to the creation and increase of social wealth and the growth of public welfare. It is known that the main purpose of creation and further activity of any business entity is to obtain the final financial result, regardless of the type of its activity or form of ownership. Financial result is a profit or a loss received by an entity as a result of its activity.

In the Ukrainian economy, there is a tendency for a significant decrease in the income level of business entities, which leads to a decrease in profitability.

In this context, company management requires improving methods for estimating and forecasting profits. This necessitates a study of company environments, generation of profit and its impact on the speed and proportion of social reproduction.

The following ways to increase profits can be noted. It is necessary to continuously improve factors of production: to introduce new equipment, improve technologies, introduce progressive materials, etc. This will significantly reduce the cost of production and thereby increase profits.

Improvement of the quality of goods produced and the elimination of waste losses is a way for a company profit to grow. The problem of product quality in a number of industries is associated with increased reliability and durability of products use. Many enterprises produce warranty products. The evidence from practice shows that some enterprises provide a guaranteed lifetime of products by paying for premature repair of defective products, sold to consumers in warranty repair workshops. This results in a product quality decrease and in a cost increase, since the planned cost, already provide for the cost of warranty repair, which inflicts both moral and material damage both to the buyer and the manufacturer.

Profit can also increase due to the increased productivity. Labor costs per unit decrease together with the growth of labor productivity, and hence, the percentage of wages in the production cost structure is decreasing. For this purpose, the enterprise should actively use various motivational means: to transfer as many workers as possible to the piece wage, pay more overtime to the hourly workers, provide a transport to take workers to the production site and back on agreed routes, provide bonuses to workers on milestone birthdays and other special occasions. Taking into account the specifics of work, it is also necessary to carry out preventive health improvement and medical examination of workers at expense of the company, organize health resort treatment for the employees and the disabled workers.

Conclusions. Currently, there is a trend in Ukrainian economy towards significant income reduction of business entities, which leads to a decrease in profits or even loss-making of many companies. In order for Ukrainian enterprises to operate in a stable and profitable way under current market conditions, the following main



factors can be proposed to increase it:

1. Production volume of sales ramp-up.
2. Implement measures to increase the productivity of their employees and apply the system of profit-sharing.
3. Reduced production costs or use of modern cost management methods, one of which is management accounting.
4. Qualified implementation of pricing policy, since mainly free (contractual) prices prevail in the market.
5. Competent construction of contractual relations with suppliers, dealers and buyers.
6. Improvement of the marketing system at the enterprise; it is necessary to group the products by profitability and focus on highly profitable products.
7. Improvement of products with an average level of profitability, and discontinue low-profitable goods.
8. Organization of the production process to have it adapted for quick adjustment.
9. Permanent scientific researches of market analysis, consumers and competitors' behavior.

Consequently, the domestic companies can use proposed measures to increase the profitability of their activity in the current conditions in Ukraine.

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Анотація. В роботі розглядаються питання механізму формування прибутку підприємства і шляхів його підвищення при здійсненні господарської діяльності, визначення резервів та шляхів підвищення прибутку підприємства.

Ключові слова: прибуток, ефективність, дохідність, підприємницька діяльність, фінансовий результат.

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