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THE SYSTEM OF PROFITABILITY RATIOS

In today's global economy selection of needed data through variety of different information for making at managerial decisions is a difficult task. That's why accounting information must be interpreted in light of the entity's strategy. For these aims profitability ratios are most frequently used.

Ratios enable to form an insight into the different aspects of the performance and financial situation of a reporting entity by calculating the relationships between different accounts. Profitability, from the owners' point of view, means how much profit attributable to them has been produced, given their investment in the entity [1, p. 33]. Thus, we can say that ratios show a company's overall efficiency and performance.

In practice, profitability ratios are divided into two types: margins and returns. Ratios that show margins represent the firm's ability to translate sales dollars into profits at various stages of measurement. Ratios that show returns represent the firm's ability to measure the overall efficiency of the firm in generating returns for its shareholders [2].

Different profitability ratios provide different useful insights into the financial health and performance of a company. Review some of them:

1. The gross profit margin looks at cost of goods sold as a percentage of sales. It is a good indication of how efficiently a company uses its resources, materials, and labour. The calculation is:

$$\text{Gross profit margin} = \frac{\text{Gross profit}}{\text{Sales}} \quad (1)$$

2. Net Profit Margin shows the amount of each sales dollar left over after all expenses have been paid. The formula is:

$$\text{Net profit margin} = \frac{\text{Net profit (Profit after tax)}}{\text{Revenue}} \quad (2)$$

3. Return on Equity (ROE) is the amount of net income returned as a percentage of shareholders equity. It reveals how much profit a company earned in comparison to the total amount of shareholder equity found on the balance sheet. It measures how profitable a company is for the owner

of the investment, and how profitably a company employs its equity [3]. Return on equity is calculated as follow:

$$\text{ROE} = \frac{\text{Net Income after tax}}{\text{Shareholder's equity}} \quad (3)$$

4. Return on assets (ROA) measures how effectively the firm's assets are used to generate profits net of expenses [4]. The calculation is:

$$\text{ROA} = \frac{\text{Net Income after tax}}{\text{Total assets}} \quad (4)$$

5. Return on Capital Employed (ROCE) indicates the efficiency and profitability of a company's capital investments.

$$\text{ROCE} = \frac{\text{EBIT (Operating profit)}}{\text{Capital Employed}} \quad (5)$$

$$\text{EBIT} = \text{Revenue} - \text{Operating Expenses} \quad (6)$$

Because the capital employed includes the equity and long term liabilities. Hence, the formula for ROCE is [5, p.33]:

$$\text{ROCE} = \frac{\text{EBIT}}{\text{(Equity+Non−current Liabilities}} \quad (7)$$

$$\text{ROCE} = \frac{\text{EBIT}}{\text{Total Assets−Current Liabilities}} \quad (8)$$

6. Return on Net Assets (RONA) measures how efficiently a company uses its net assets in order to make a profit:

$$\text{RONA} = \frac{\text{Net Income}}{\text{Fixed Assets+Net Working Capital}} \quad (9)$$

7. Return on sales (ROS) is another name for the operating profit margin. It measures how much profit an entity makes after paying for variable costs of production such as wages, raw materials, etc. (but before interest and tax) [4]. The formula for ROS is:

$$\text{ROS} = \frac{\text{EBIT}}{\text{Revenue}} \quad (10)$$

8. Return on Revenue (ROR) is a measure that compares net income of a company to its revenue:

$$\text{ROR} = \frac{\text{Net Income}}{\text{Revenue}} \quad (11)$$

9. Return on investment (ROI) compares the magnitude and timing of gains from investments directly to the magnitude and timing of investment costs. ROI is calculated as follows:

$$\text{ROI} = \frac{\text{Net profit after interest and tax}}{\text{Total Assets}} \quad (12)$$

$$\mathrm{ROI} = \frac{\text{Gains from Investment} - \text{Cost Investment}}{\text{Cost of Investment}} \qquad (13)$$

To summarize, it should be said that any company needs to have profitability in order for its business to succeed. Obviously, the higher a company's profitability the better, but that's not enough. These results should be compared to the results of the previous years and the results of its competitors or broader industry averages.

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ТВОРЧИЙ ІМПЕРАТИВ СУЧАСНИХ ВИРОБНИЧИХ СИСТЕМ – НЕОБХІДНА УМОВА КОНКУРЕНТОСПРОМОЖНОСТІ

В умовах глобалізації товарних ринків конкурентоспроможність стає вирішальним чинником досягнення успіху будь – якого підприємства. Конкурування здійснюється різними способами: ціною, якістю, споживчими властивостями продукції (послуг), сервісним обслуговуванням, термінами виконання замовлень, гнучкістю пристосування виробництва до нових виникаючих потреб ринку, швидкістю вдосконалення існуючих чи проектування нових