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Issues of Formation and Distribution the Profit of Economic Entities

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INTRODUCTION

Modern world economic trends, globalization processes, business integration require the standardization of financial information that reflects the performance of companies participating in the internationalf market of goods and capital. In the context of developed market relations, organizations, including business entities, generate financial information aimed at a wide range of internal and external users in order to make various management decisions on strategic management to quickly and profitably attract investment, including foreign investment and expand business offer.

IFRS financial statements provide investors and other users with broader and more reliable information about the company's activities as of the reporting date because they cover a larger amount of information compared to National Accounting Standards (NAS). This allows a wider range of analytical actions and methodologies to be used to study financial results and financial situation dynamics, evaluate and forecast business for management purposes.

REFERENCES

The issues of profit formation in business entities are widely discussed in the works of economists.

Financial results are important not only in accounting, but also in the management of the entire business entity. If the financial results are determined in accounting, they are analyzed in the analysis and control system. In the management system, management decisions are made on the basis of financial performance indicators. When making effective management decisions, it is important to accurately determine the financial results in accounting[1].

In a market economy, profit is one of the main and important performance indicators of a business entity, so the issue of its definition is important. Under IFRS, profit is the result of deducting income from expenses, including adjustments that provide capital support when needed. If the costs exceed the income, the difference is a loss[2].

It should be noted that, in accordance with IFRS, profit is treated as a value that reflects the growth of an entity's assets, rather than as the difference between the nominal amounts of liabilities incurred as a result of the transaction. This indicator is defined as the difference between net assets at market prices at the end and beginning of the reporting period.

There are similar definitions of income among economists. For example, O.I. Volkov describes the profit as the difference between the final financial result of business activity of business entities - the price of the product and

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[1] Avlokulov A. The importance of balance theories in the formation of financial results. international journal of psychosocial rehabilitation, vol. 24, issue 10, 2020

[2] URL: http:// www. accountingreform. ru.

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its cost[3]. As a result, profit is considered as net income generated in the field of material production in the course of entrepreneurial activity, and at the level of the business entity in terms of commodity-money relations, net income is expressed in the form of profit[4].

According to A.Avlokulov opinion, profit and profitability indicators play a central role in management decisions[5].

A.G. Gryaznova, who describes profit as the difference between income from the sale of products, fixed assets and other property, work performed, services rendered, non-sales activities, and costs incurred in the production, sale and other activities, provides a detailed definition of profit[6].

It is clear from the above considerations that the opinions of economists are mainly focused on the content of profit. However, the issue of classifying them according to various criteria has not received much attention.

RESEARCH METHODOLOGY

Conclusions, suggestions and recommendations are made in the relevant areas through the analysis of the views of economists on the formation of profits in the implementation of scientific research, expert evaluation, observation of processes, a systematic approach to economic events and processes, comparative analysis with the author's experience.

ANALYSIS AND RESULTS

In our country, which is part of the global economic system, the use of IFRS is inevitable due to the growth of economic potential and changes in the quality of investment. IFRSs are the rules that define the requirements for the recognition, measurement and disclosure of financial transactions for the preparation of financial statements of companies around the world. This system of standards covers all the key issues related to financial reporting.

During the analysis, the strengths and weaknesses of the financial and economic activity of the enterprise are identified, management decisions are made on its current and investment activities.

The main objectives of the IFRS financial statement analysis are:

- objective comprehensive assessment of the financial situation;
- assessment of the effectiveness of cash flow management;
- assessment of liquidity and solvency;
- analysis of income, expenses and profits;
- Analysis of the dynamics and level of indicators for business activity;
- evaluation of the use of net profit and the effectiveness of dividend policy;
- Analysis of the dynamics and level of profitability;
- identify and quantify the impact of factors on business results;
- substantiation of investment policy on attraction (placement) of capital;
- development of alternative management solutions aimed at strategic improvement of business efficiency;

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[3] В*олков О. И., Скляренко В. К.* Экономика предприятия: курс лекций. М.: Инфра-М, 2010.

[4] Большой экономический словарь. 7-е изд., доп. М.: Институт новой экономики, 2008.

[5] Avlokulov A. Return on Assets and Financial Soundness Analysis: Case Study of Grain Industry Companies in Uzbekistan. // International Journal of Management Science and Business Administration. Volume 4, Issue 6, September 2018, Pages 52-56 DOI: 10.18775/ijmsba.1849-5664-5419.2014.46.1006. URL: http://dx.doi.org/10.18775/ijmsba.1849-5664-5419.2014.46.1006

[6] Финансово-кредитный энциклопедический словарь: под. ред. А. Г. Грязновой. М.: Финансы и статистика, 2004.

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- Comprehensive study of the structure and dynamics of liabilities and capital financial sources, assessment of the optimality of its structure.

Thus, the results of the analysis of the financial statements of the IFRS can be used as a first step in determining the direction of investment. When deciding on a loan, it can be used to forecast future financial condition and results, identify problems in production management, and evaluate management performance.

In the context of globalization and increasing competition in national and world markets, the objective need to support the high dynamics of economic development of the country places ever-increasing demands on the level of information and analytical support of financial and investment management decisions. At the same time, modern financial analysis and its core “financial performance analysis” do not always have time to respond to changes in International Financial Reporting Standards (IFRSs) and National Accounting Standards (NAS). Unfortunately, the introduction of IFRS is facing a number of challenges around the world, resulting in a violation of the interests of a relatively narrow group of users and market analysts. Modern trends in the world economy require financial reporting to expand its information capabilities. Market-oriented financial reporting users will be interested in the information they need to make financial and investment decisions. It is no exaggeration to say that the main indicator of financial reporting is the "financial result", which allows businesses to assess the efficiency of production and commercial activities, predict performance and decide on the distribution of dividends. Overcoming the shortcomings in the methods of forecasting and analysis of financial indicators requires the development of a methodology for the analysis of financial results.

Given that the current policy of the Ministry of Finance on the preparation of financial reporting forms is aimed at enlarging the indicators, it is important to distinguish between the types of approaches to its definition within the framework of the accounting approach.

Types of profit are presented in the form of a statement of financial performance. The general concept of “profit” refers to several concepts of profit that require a certain systematization (Table 1). As a result, the opportunities for analytical activities of business entities that independently cover this indicator in detail are expanding.

For analytical purposes, “profit” indicators are divided into several types (see Table 1). Separation of profits, in particular, is based on the fact that various persons directly involved in the company participate in the activities of the organization, including in the distribution of the gross income received by it. Their interests do not always coincide, at least they are not similar to each other. Thus, for the tax authorities, the accuracy of the calculation of taxable profit will undoubtedly be important, and the net profit for holders of preferred shares will be of greater interest as a source of calculation and payment of dividends.

Considering certain types of profit, it should be noted that the concept of net profit according to the legislation of our country does not quite correspond to the terminology of international standards.

Table-1 Generalized classification of profit definitions

Classification indication	Profit type	Note
According to the legislation of Uzbekistan	Gross profit	"Report on financial results" - Form 2
	The profit of main activity	
	The profit of general economic activity	
	Profit before tax	Tax Code of the Republic of Uzbekistan
	Net profit	"Report on financial results" - Form 2

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According to the sources of formation	Profit from product sales	The main type of profit that is directly related to the specific characteristics of the type of economic activity of the organization
	Profit from the sale of property	Revenue from the sale of fixed assets and certain elements of intangible assets, inventories is reduced by the amount of expenses incurred by the organization in the process of their implementation
	Profit from non-sales transactions	Formed from the participation of the organization in joint activities with local and foreign organizations; income from owning stocks, bonds and other securities; income from deposits.
By types of activities	Profit from conventional activities	The difference between the volume of sales and the cost of production and distribution
	Profit from other operating activities	The result of production, sales and the main activities of the organization
	Profit from investment activities	Partly reflected as income from participation in joint ventures, ownership of securities and deposits; partly - in profit from the sale of property. Investment results are reflected in operating profit when investments turn into real assets during the expansion, renovation and modernization of production
	Profit from financial activities	Indirect effect of attracting capital from external sources on terms more favorable than the market average
	Profits from innovative activities	The result of an organization's innovation activity most exposed to uncertainty and risk
By the composition of the included elements	Margin (gross) profit	The difference between net revenue and direct production costs of products sold
	The profit of main activity	The difference between sales revenue and cost of goods (works, services) sold, including commercial and administrative expenses
	Profit before tax	The overall financial result of the organization. Taxable profit is the sum of the financial result from ordinary activities and other income and expenses
	Net profit	Remains after paying income tax to the budget. Used to accumulate the property of the organization, representing the final financial result of activities
	Retained profit of the reporting period	Соф фойдага киритиладиган ва тақсимланиши лозим бўлган, соликдан кейин корхона ихтиёрида қолган фойда
By the nature of the use of net	Capitalized net profit	Part of the net profit directed to financing the growth of the organization's assets

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profit	Consumable net profit	Profit spent on payment of dividends to shareholders and founders, personnel for social programs
By the nature of taxation	Taxable profit	Accounting profit, adjusted in accordance with applicable law
	Profit not taxed	Profit that is not taxable under the law
By the nature of inflationary cleaning	Nominal profit	Profit indicated in the financial statements, which corresponds to the balance sheet. It is neither excessive nor minimal, but it is quite sufficient to support the business activity of individuals or legal entities. It characterizes the actually received amount of profit. The amount of the actually received profit in current prices, excluding the inflation rate
	Real profit	Nominal profit, adjusted for inflation, to assess the purchasing power of the entity's nominal profit
Depending on the considered period of profit formation	Profit of the previous period	Received in the previous period
	Profit of the reporting period	The final financial result identified in the reporting period less taxes and payments due from profit, including penalties for non-compliance with tax rules
	Profit of the planning period	Reflected in the organization's business plan
Depending on the regularity of the formation	Regular (periodic) profit	Profit earned regularly
	"Extraordinary" profit	An unusual source of profit formation, which can be the income received from the sale of one of the branches of the organization
By direction of distribution	Profit attributable to shareholders	Part of the profit for distribution intended for the payment of dividends to shareholders
	Profit remaining at the disposal of the organization	Part of the profit for distribution remaining after the payment of dividends to shareholders and intended for the further development of the organization's commercial activities
	Retained earnings	Remains at the disposal of the organization after paying taxes attributable to net income and is subject to distribution
By the value of the final result	Positive profit	Obtaining a positive financial result means recognizing the usefulness of the organization's activities
	Negative profit (loss)	Receiving a loss
From a consolidation perspective	Consolidated Profit	Consolidated profit from the accounting statements on the activities and financial results of parent and subsidiary organizations
From a position of riskiness	Risk Adjusted Profit	RAMP Concept - Risk Adjusted Profitability

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Today, it is especially important to determine the profit, taking into account the risk. There is a connection between profit and change in market conditions, profit and risk. Profit, risk and uncertainty are volatile indicators, without which it is difficult to imagine the processes taking place in the economy.
It is obvious that risk and uncertainty affect the general form of organization of economic life. In this case, the profit can be represented depending on the duration of the production process: the longer it is, the more it is associated with uncertainty in the economy. Risk has the greatest impact on the dynamics and significance of the financial result.

In terms of risk and uncertainty, the description of risk-taking (RAMP concept) is of particular importance, which allows the risk components to be taken into account when calculating the level of profit. The aim of the concept is to create a common framework for risk assessment and take it directly into account in the efficiency analysis.

The main criterion in planning most types of profitable activities is the criterion of subjective optimization of the ratio "income (profitability) - risk". As the American scholar F.H. Knight rightly points out, “The only "risk" which leads to a profit is a unique uncertainty resulting from an exercise of ultimate responsibility which in its very nature cannot be insured nor capitalized nor salaried”.

Profit arises out of the inherent, absolute unpredictability of things, out of the sheer brute fact that the results of human activity cannot be anticipated and then only in so far as even a probability calculation in regard to them is impossible and meaningless[7]. F.H. Knight’s argument is that the presence of real uncertainty in the future, despite perfect competition, long-term stability and "depletion" of the product, can bring profit for the economic entity.

In 1921, F.H. Knight noted the interrelationship between the concepts of “profitability”, “risk” and “uncertainty”[8]. According to his concept, it is uncertainty that is the source of profitability or loss.

Thus, the profit of the business entity, on the one hand, is closely related to changes in the economy, on the other hand - is manifested as a result of risk. The risk that generates the profit is a specific uncertainty and it is not possible to assess its level. This is one of the inevitable but sufficiently important elements in shaping the financial performance of an organization. Accordingly, it would be fair to describe risk in modern economic theory as one of the factors shaping profitability. Payment for risk should be considered as one of the elements of profit.

It is important to determine the consolidated profit for large joint stock companies (JSCs) that unite business entities into specific legal, financial and economic relationships.

There are the following differences between economic and accounting interpretations in determining profit:

1. In an accounting definition, unlike an economic definition, there is always a database that can be checked to calculate the final financial result.
2. The interpretation of realized and unrealized profit is different. According to economic interpretation, owners benefit when the market value of the entity's assets increases, while according to accounting interpretation, due to the subjectivity of calculations and the variability of this transition result, the profit is actually obtained when the assets are sold at a higher price.

As a result of the above, we can conclude that there is no common approach to determining profit by local and foreign scientists. There are different views on the possibilities of their use.

[7] *Найт Ф. Х.* Риск, неопределенность и прибыль: пер. с англ. М.: Дело, 2003.
[8] *Найт Ф. Х.* Риск, неопределенность и прибыль: пер. с англ. М.: Дело, 2003.

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Some economists believe that the accounting definition of profit is closer and more realistic. There is also an opposite view, according to which the definitions given do not contradict each other, on the contrary, they are consistent and complementary.

From the above considerations, it can be seen that both methods of interpreting profits are sufficiently logical that they do not contradict each other, but in a sense help to understand the logic and order of profit calculation. The definition of accounting involves first defining it as a calculated value. On the one hand, it is good that the definition of the concept of “profit” is given in accordance with the methodology of its calculation. On the other hand, such a description does not reveal the external expression of the nature of the profit, it is considered to be of an information-technical, accounting nature.

In the context of business mergers, the development of joint stock companies is important. In financial management, their profits are, first, as an increase in equity due to the appreciation of assets; second, it is interpreted as the excess of gross income over gross expenditure during the reporting period. In fact, these interpretations are similar because the increase in the price of any asset is related to the fact that the revenue from its sale exceeds the cost of acquisition. The condition for profit is the ability to sell their assets in these joint stock companies.

Thus, summarizing the views of the above scholars on the interpretation of the essence of profit, the authors consider it appropriate to use a comprehensive approach that includes economic and accounting interpretation in the current context. According to him, we define the profit of the business entity, on the one hand, as an internal source of profit, which performs the function of profit in economic terms, on the other hand, in accordance with the concept of accounting adopted in domestic and international practice as an aggregate indicator of the financial performance of the organization, reflecting the difference between the valuation of balance sheet items in the prescribed manner and the costs determined on the basis of accounting for all business operations.

In order to theoretically understand the essence of the concept of "profit", the above interpretation provides the necessary universality, a scientific approach. From a practical point of view, the proposed approach allows to form a methodology for assessing profits, increasing the objectivity of the assessment.

Some scholars set the following goals for the benefit of business entities.

1. It describes the economic effect obtained as a result of the activity.
2. It is the main source of their financial resources, allowing the development and expansion of production and other activities; is a source of dividend payments on shares, financial incentives and other social benefits for employees, as well as the formation of budgets at different levels.

It is necessary to take into account the interests of different groups of individuals, which are directly or indirectly involved in the formation of the final financial result in the distribution of profits of the business entity (Table 2).

Table 2 Distribution of profits in terms of the interests of groups of individuals involved in the formation of the financial result

A group of persons related to the formation financial result	Priority profit indicator according to NAS / IFRS	Description of the priority indicator	Area of economic interests of the participants
Owners	Net profit / Net profit after taxation	Profit after deducting interest and taxes	Source of reserve capital in accordance with the law. The source of reserves and funds provided by the constituent documents. Source of reinvested profit

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Including: - holders of preferred shares; - holders of ordinary shares	Net Income / Net Income After Tax. Net income after deducting dividends on preferred shares	Net profit of owners	Source of payment of dividends on preferred shares
Financial manager	Risk-adjusted profit	Reading profit adjusted for risk fund size	Source of the risk fund provided for by the constituent documents
Давлат (солиқ органлари) State (tax authorities)	Taxable profit	Profit before interest and taxes (operating income)	The tax base is determined according to the law. Source of payment of income tax, fines and interest Provision of tax credits in the form of deferred tax liabilities

A high level of profitability for both business owners and employees of the business entity is a clear incentive for entrepreneurial activity. For managers who do not own the property of the organization, profit is a key indicator of performance. Profit growth raises their status and affects their personal wage levels. It is also important to indicate the national and international levels of the valuation function in terms of the introduction of international financial reporting standards.

Profit now performs the function of investment, as this indicator is used as a criterion for the success of any organization and the main goal[9]. At the same time it is necessary to define the innovative function of profit, because its amount determines the opportunities for the development of innovative activities in the organization.

Given that profit serves as a criterion for evaluating a business as an object of sale in the market, it is expedient to emphasize its image function. The exact rate of return is the basis for determining the level of business, the level of efficiency in the use of production resources, return on assets and investment attractiveness.

Conclusion

1. The content of the profit of the business entity has been commented above, which allows to provide the necessary universality and scientificity for understanding its essence; perceptions about profit functions have been supplemented and developed.
2. We describe the profit of the business entity, on the one hand, as an internal source that performs the function of development of the business, on the other hand, is an indicator that summarizes the financial results of the organization, reflecting the difference between income and expenses related to its implementation.
3. The transition to international financial reporting standards requires the development of a new methodology for analyzing financial results. Therefore, it is advisable to improve the procedure for analyzing gross income statement indicators and determining profitability indicators.

[9] *Найт Ф. Х.* Риск, неопределенность и прибыль: пер. с англ. М.: Дело, 2003.