

PROFIT – THE ABSOLUTE EXPRESSION OF PROFITABILITY

Daniela SIMTION, Roxana LUCA

“Lucian Blaga” University, 7-9 Ion Rațiu Street, Sibiu, Romania, Email:
simtioneDaniela@yahoo.com, Email:roxana.luca@gmail.com

Corresponding author: simtioneDaniela@yahoo.com

Abstract

Profitability of an economic unit is expressed through a system of indicators, because "no index or economic category can reflect the total, perfect, complex reality of economic phenomena or processes. Each expresses a side of concrete, essential details (indexes), but a full one (economic category). This system of indexes for profitability is characterized by a higher degree of consolidation, of reflection of the economic-financial results. They must be correlated to the other indexes of economic efficiency from the various subsystems that constitute the factors which determine the actual amount of profit and the rate of return. Each indicator has a certain form of expression according to the phenomena to which it refers. Thus, they can be expressed in relative sizes as medium sizes or indexes. They can also be expressed in physical, conventional or value units. The ability to develop monetary results can not be judged independently to the employed means for achieving them. Therefore, the profitability analysis is not limited to investigating its absolute indexes but also the relative ones, obtained by comparing the results to the means employed or consumed for developing the specific activity

Key words: economic, economic profit, normal profit, profit

INTRODUCTION

Etymologically, the term profit has a Latin origin, from the verb *proficere*, that means *to progress, to give results*.

The profit concept has been given a great attention in all thinking systems.

Thus, mercantilists (J. Bodin, Th. Hurnn, J.B. Colbert) have considered that "the purpose of every business activity, including commerce is profit, which is being gained in the process of goods movement by money means as a result of the difference between the sales price and the (lower) purchase price". [2]

Physiocrats such as Fr. Quesnay, A.R.J. Turgot, rejecting the mercantilist conception regarding the origin of profit in trade, felt that the added products and so the added value over the expenses incurred can be created only in production, more precise in one main branch, such as agriculture.

The classic, A. Smith, believes that the profit is the income of the capital owner, because "its size depends, not on what could be called as the employer's work, but the capital amount available to the employer". [2]

For K. Marx, profit is a manifestation form of added value, as part of the value created by paid workers, that other social groups acquire (capitalist employers in the form of profit, bankers in the form of interest and owners in the form of rent land). [2]

According to some relatively recent papers [3], in market economy countries the *profit* term is being used, excepting France, which uses the term *beneficial* and Italy - *beneficio*.

MATERIALS AND METHODS

The concept of profit is approached as an absolute expression of profitability [1].

The critical review is based on the information provided by literature and using analysis and synthesis methods.

RESULTS AND DISCUSSIONS

At national level, profit is being defined and interpreted in various forms.

The profit concept is seen, accepted and understood differently by economists in terms of global concept, as a resultant of economic

effort (cost of production) and the effect resulted in revenue.

In order to obtain profit, every time total revenues must exceed total expenditures.

Looking at it in this way "profit can be defined as a surplus of revenues over cost level", it is "the positive difference between earned income, by selling goods made by an economic agent and their cost, considered as an expression of economic efficiency." [4]

Profit is being presented "as net income of the company, as a surplus over costs made by the unit, in order to claim its total returns." [5] It is "a component of the sales price of goods or services produced by the firm, the final price is determined by the supported profit margin (share)." [6]

The common goal of all economic agents is to obtain profit. The viability of this goal depends on their ability to accurately predict the possible alternatives for development of their economic activity. Running the entire production process, market research, obtaining the desired price depending on market demand, involves a number of uncertainties and risks.

From this point of view, profit "is a consequence of the risk, a reward that the economic agent can receive for risking its capital, it is the result of predicting the future with greater accuracy than most of the others (competitors) did" [7]. In this regard, profit can be regarded as "a compensation for the risks that the entrepreneur may have in developing the economic activity, evidenced by loss of capital" [8].

Profit is a positive real value resulting from economic or financial-monetary processes combined with market

demands, a value accepted by both entrepreneurs and state, representing for both parties "the essential source of necessary funds for consumption and development" [9].

For the economic analysis of the activity of an enterprise it is important to understand the following terms:

-The accounting profit which represents the excess of net income over the accounting cost. It is called by some authors official, legal and statistical profit. This profit is being

calculated as a difference between "active" in the balance sheet at the end of the fiscal year (reduced by the related obligations). From this difference the share in capital operated during the year and income established by law as being non-taxable and by law non-deductible expenses are being added and other items provided in the balance sheet, depending on the specific activity of the taxpayer. The profit calculated such as, is also called *legitimate* or *legal*, that is, "the monetary surplus obtained in compliance to the account methodologies and all legal rules in force". [9]

-The economic profit represents the difference between total income of the company and the opportunity costs of all inputs used by it in a period of time.

-The normal profit consists of a minimum of return that a company must obtain, in order for it to remain in service. In this case, the total revenue received equals the total opportunity costs. Prof. Dr. T. Gherasim considers that a normal level of profit allows the operation of the company in terms of profitability, but without making the economic sector "attractive" to other competitors [10], which means that based on receipts, one can provide further activities at the same operating parameters.

-The over profit is a net income exceeding total opportunity costs. It is an additional profit, considered in comparison to a normal profit. Nature and forms of the comparison basis (normal profit) determine the nature and forms of over profit[11]: entrepreneurial over profit, extra-entrepreneurial over profit.

Both the accounting and the economic profit can be regarded as normal and as over profit.

Whatever the form of profit, it expresses the revenue obtained from an economic activity in progress, it being both the result of the progress and as well its factor. [5]

Unlike other forms of income (interest, rent, salary), profit is random and independent. Looking at it this way, profit is a clue of economic rationality, a motivation for development and technical progress, an exciting factor of the increase in effort for the

economical agent for efficiency and higher quality.

Profit is one of the most synthetic indexes of the economic activity of enterprises. It summarizes almost all of its economic activity: supply, production, marketing and results from other activities.

The analysis of enterprise's profit aims the overall study of the dynamics and structure of profit, highlighting the activities and cost-effective products, highlighting and capitalization of internal resources in increasing their permanent profitability.

Reflecting the company's efforts to increase economic efficiency, profit is a useful indicator in assessing the economic activity, but not enough.

CONCLUSIONS

Profitability is expressed in **absolute value through profit** (a volume index) and in relative value by the rate of return (an index that measures the extent to which the use of various resources generates profit), the two issues being linked to each other, having a correlative character.

REFERENCES

- [1] Matei Ș., Băileșteanu Gh., 1986, Evaluarea eficienței economice, Editura Facla, Timișoara
- [2] Sută Selejan Sultana, 1997, Doctrină economică, Editura Eficient, București
- [3] Antoniu I. N., Andochiței M., Cristea H., Neagoe I., Dumitrescu D., Ilie V., 1993, Finanțele întreprinderilor, Editura Didactică și Pedagogică, București
- [4] Dobrotă Niță, 1999, Dicționar de economie, Editura Economică, București
- [5] Dobrotă Niță, 1997, Economie politică, Editura Economică, București
- [6] Andronic C. Bogdan, 2000, Performanța firmei, Editura Polirom, Iași
- [7] Heyne Paul, 1991, Modul economic de gândire, Editura Didactică și Pedagogică, București

[8] Andochiței M., 1992, Finanțele întreprinderii, Editura Didactică și Pedagogică, București

[9] Gheorghe I. Ana, 1998, Profitul, Editura Economică, București

[10] Gherasim T., 1994, Microeconomie, vol. II, Editura Economică, București

[11] Andronic B., Jica P., 1999, Capacitatea de a genera profit, Tribuna Economică no.2

