

## PROFIT AS THE MAIN RESULT OF THE ACTIVITY OF A JOINT-STOCK COMPANY

© 2009 N. A. Solovieva\*

**Keywords:** open joint-stock company, efficiency of joint-stock companies, profit maximization, corporate strategy, dividends, net profit, distribution and use of profit, cost effectiveness.

The article considers the process of receiving and distributing the profit of a joint-stock company using the example of "AVTOVAZ" JSC, the efficiency of the activity of a joint-stock company is evaluated with the help of the indices of cost-efficiency.

Joint Stock Company is one of the priority market forms of ownership in modern Russian conditions. Joint stock companies as commercial organizations are established by shareholders and targeted at making profit. Let's consider the process of establishing, distributing and using the profit by the example of the activity of "AVTOVAZ" JSC.

The importance of profit is preconditioned by the fact that it shows the financial result reflecting the efficiency of the production of a joint-stock company. Sales revenue is the benchmark for getting profit. While calculating profit, firstly, the prime cost of production is calculated. It is possible to observe the growth of profit from the car production and sales at the enterprise "AVTOVAZ" JSC in the period from 2004 to 2008. (Table 1).

As we see from Table 1, in the period from 2003 to 2007 "AVTOVAZ" JSC was working with profit. In 2008 as a consequence of the economic crisis and its negative influence it is possible to observe the drop in gross-profit of the enterprise by 58% in comparison to 2007.

After paying the interest on debts and other costs from the gross profit we have the taxable profit. And finally, having excluded the profit tax from taxable profit we get net profit. In Table 1 we see that the change of the index of

net profit of "AVTOVAZ" JSC mainly repeats the tendency of the index of gross profit.

The decision about the distribution of the net profit is made by the meeting of the shareholders. The part of net profit can be targeted at expanding the activity of the company, the implementation of social programs, or paying off the dividends. As a result of an incomplete distribution of salary we have undistributed profit. Together with nominal, added and stockholder capital the operating income forms its own (stock-holder) capital.

It is impossible to evaluate the efficiency of activity with the help of one profit index. The system of indices is used for this. Profitability indices are relative characteristics of the financial results and the efficiency of enterprise activity.

The index of overall profitability is of great importance for joint-stock enterprises. It is defined by the relation of balance profit to the total return of joint-stock enterprises. Table 2 shows that overall profitability of "AVTOVAZ" JSC was the highest in 2004 and made 6,438%. In the first quarter of 2009 the index of overall profitability was - 44,977%.

Profit norm is the main criterion of social and economic efficiency of a stock-holder enterprise. The profitability of the capital of joint-stock enterprises results from the profit norm (the relation

Table 1

**The main indices of financial and economic activity of "AVTOVAZ" JSC**

The name of index	2004	2005	2006	2007	2008	1 <sup>st</sup> quarter of 2009
The total of volume of revenue, million rubles.	125976	132531	152445	154626	160238	16993
Prime costs, million rubles.	107364	119523	134699	139520	151520	17506
Gross margin (loss), million rubles.	18612	13008	17746	15106	8718	(513)
Profit (loss) before taxation, million rubles	8320	521	5691	6878	(7234)	(7643)
Net profit (loss), million rubles.	5600	1400	2512	3951	(6684)	(6330)

\* Nadezhda A. Solovieva, post-graduate student of Samara State University of Architecture and Construction.  
E-mail: Solovjeva-NA@mail.ru.

Table 2

## The indices of work efficiency of "AVTOVAZ" JSC

Index name	4 quarter 2004	4 quarter 2005	4 quarter 2006	4 quarter 2007	4 quarter 2008	1 quarter 2009
Overall profitability, %	6,438	0,386	3,733	4,448	- 4,515	-44,977
Profitability of own capital, %	12,27	3,044	5,29	7,453	-13,83	-14,009
Profitability of assets, %	5,269	1,280	2,201	3,177	- 4,788	-4,480
Profitability of sales, %	10,649	5,659	7,531	5,01	0,023	-8,439
Current market profitability of the share	0,0077	0,022	0,0032	0,219	0,039	-
Dividend exit	0,0297	0,456	0,062	2,37	-0,06	-
Book cost of the share, rubles.	1417	1483,92	1510,23	25,95	26,09	22,68
Net profit for the share (EPS), rubles.	201,7532	50,4474	92,3712	4,3383	-4,8146	-9,5765
Dividend for the share, rubles.	6	23	5,7	10,3	0,29	-
The coefficient of dividend pay-off	0,028	0,045	0,062	0,07	-0,06	-
The share of dividends in profit, %	11,41	11,30	11,38	10,56	-	-
Price/profit coefficient (P/E)	4,38	20,427	19,9809	11,2286	-1,2789	-1,1052
"Multiple of income" (P/S)	0,2061	0,2380	-	0,9189	0,0574	0,0997

of net profit to average annual costs of a joint-stock enterprise). Table 2 shows that this index reached its peak in 2004 and was 12,27%. As a result of the losses in 2008 and the 1<sup>st</sup> quarter of 2009 the profitability of own capital was negative 13,83% and 15,06% correspondingly.

The amount of paid-off dividends is important. Dividends are profit that a shareholder can receive at the cost of net profit of the current year of a joint-stock enterprise. That is why it is necessary to have an index characterizing current market profitability of the shares:

*Dividend*

$$D / P = \frac{\text{on ordinary stocks}}{\text{Current market price of an ordinary stock}}$$

It is possible to evaluate the profitability of a company using the index called dividend exit:

$$D / E = \frac{\text{Dividend for one share}}{\text{Net profit for one share}}$$

Besides, it is possible to distinguish the following indices characterizing work efficiency of the joint-stock company from the point of view of shareholders:

◆ listed cost of shares that is defined by the relation of own capital to the number of enterprise shares;

◆ net profit per share that is determined by the relation of net profit to the number of shares. This index reflects the profit of the company per share. In 2004 "AVTOVAZ" JSC had the net profit of 201,7532 per share, that is much higher than in the recent years;

◆ dividend per share is determined by the relation of overall number of dividends to the number of enterprise shares. As you see in Table 2, the highest dividends per share were paid in 2005 and were 23 rubles. The dividends in 2008 and the 1<sup>st</sup> quarter of 2009 were not paid;

◆ the coefficient of paying the dividends (the relation of total number of dividends to net profit);

◆ the coefficient of price /profit (market price of the share to net profit for the share);

◆ index P/S - this index is called "multiple of the income", it shows how much the investors are ready to pay for one ruble of income.

In general "AVTOVAZ" JSC was working effectively in the period of 2004-2007, but because of the negative influence of world financial crisis it is possible to observe the decrease of the profitability of the joint-stock company.

*Lvov Y.A., Rusinov V.M., Saulin A.D.* JSC management in Russia. M., 2000.

*Lysenko G.I.* National mechanism of managing property relations. 2005. № 3.

*Borisov E.F.* Economic theory: 3<sup>rd</sup> edition. M., 2005. <http://www.i-tt.ru/analiz/finance>.

Received for publication on 21.09.2009