ASPECTS REGARDING THE IMPACT OF THE RATE OF FINANCIAL RETURN OVER THE FIRM'S DEVELOPMENT

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Abstract: *The paper presents aspects concerning the financial rate of return significant indicator to assess the economic and financial performance of the enterprise for diagnosis, but also for the analyses required by external partners. Financial profitability constitutes a basic indicator which characterizes the performance of enterprises under the direct trade policy (commercial profitability), efficiency of capital employed (economic profitability) but also of the financial policy of the undertaking. If the economic rate of return expresses the remuneration of invested capital only in relation to the mining activity, the rate of return quantifies the financial remuneration of capital personal through all three types of activity: exploitation, financial and extraordinary. Financial rate of return are of concern particularly for the shareholders of the company. They appreciate the level of the rate if their investments are justified and whether they will continue to support the development of the company through new capital contribution or by surrendering to a limited part of the dividends due. Managers will track to keep an appropriate level of this installment, to be able to keep the positions and to achieve performance criteria.*

Key words*: financial profitability, profits, performance*

INTRODUCTION

In this paper we presented aspects regarding profitability, economic category expresses the ability of the company to profit, reflecting its performance. The major goal of the enterprise is both increasing wealth of enterprise life participants (shareholders, employees, creditors, State), and increasing its value, in order to ensure its own development. Achieving this objective is conditional on deployment of cost-effective activities, allowing the remuneration of the factors of production and capital used, regardless of origin.

The authors of this work were used as research data collection from a variety of sources, analysis, interpretation and formulation of conclusions.

The rate of return represents a ratio indicative of results (profit or loss) and an indicator reflecting a workflow activity (turnover, resources consumed) or a stock (equity total assets) [10]. The rate of return is a relative size that expresses the extent to which the capital as a whole brings profit. In all financial indicators, rate of return, is among the most used indicators of efficiency of enterprise activity [4]. In profit and rate of return reflects the results of business of the undertaking of all stages of the economic circuit.

To evaluate the performance of a business we are looking for ways to evaluate financial and economic consequences of management decisions, with regard to investments, operations and finance. Questions to which we must find solutions are effective if resources are used, if the profitability of the firm is at the expected level and if financing options are chosen properly and prudently.

Performance can be considered as representing the position of the resulting excellence through an ongoing effort, carried out in the framework of competitions, commensurable through various methods.

The performance represents the attainment of the objectives proposed. It can be positive, if the proposed objective is to gain profit and negative if the proposed objective is to get the loss. The result is considered the main accounting indicator to measure the financial performance of the company [2].

For internal analysis of most companies are using a variety of indicators and standards, which divide into components impact decisions affecting performance, income or shareholders' expectations. The systems of indicators show the relationships and the effects of decisions on these segments, which are based on ties with financial profitability (ROE) effect.

MATERIALS AND METHODS

In the analysis of a firm's financial position, relying primarily on the role and importance of the rate of return in the firm's financial performance, it starts at uniting three patrimonial elements: assets-liabilities-equity.

The assets represent resources controlled by the enterprise from past events and that is expected to obtain the economic benefits in the form of future cash flows.

Debts are present obligations arising from past events, the settlement of which will result in decrease in future economic benefits through reduced cash flows.

Own capital, also called net assets or capital invested by shareholders, constitute the residual interest of shareholders in the company in which they have invested after total assets were deducted the debts.

RESEARCH RESULTS

SOURCES OF FINANCING

The funding policy of the enterprise must choose the funding sources of the undertaking in order to ensure proper functioning, its present and future performance.

After membership funds, funding sources may be:

-financing of own funds (capital increases, self-financing);

-financing through fixed-term engagements (debenture loans, bank loans).

From the point of view of their effort to obtain funding sources over the long term can be divided into:

-internal financing (self-financing);

-external financing (capital loans and increases various) [3, 5, 8, 10].

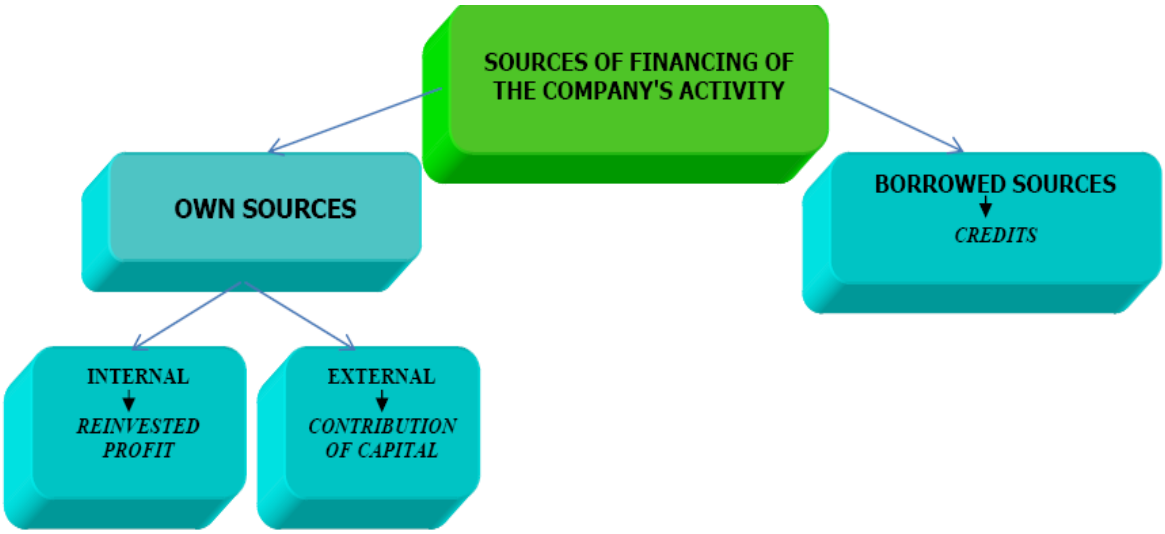

Figure 1. Sources of financing of the company's activity

Besides internal and external own resources, the enterprise can also leverage to finance the short, medium and long term resource needs.

For this purpose, it can mainly use the credit market, the bond market and the leasing market

The structure and evolution of funding sources determines a variable activity outcome. Main sources of financing of the enterprise's activity can be grouped in own sources and borrowed according to Figure 1.

From the point of view of its own sources, there are many alternatives, namely times recourse to self-financing, or bring new capital inputs.

RATE OF FINANCIAL RENTABILITY

The system rates represent an effective tool used in the analysis of the profitability of the activity. Rates are calculated as the ratio between an effect and one indicator of effort, either between two indicators of effects, being expressed as a percentage.

Financial profitability constitutes a basic indicator that characterizes the performance of enterprises, which are under the direct incidence of the commercial policy (commercial profitability), efficiency of capital employed (economic profitability) and the financial policy of the undertaking [1, 7].

Financial rate of return, known in international theory as „return on equity", allows the appreciation of investments ' efficiency of the shareholders ' equity and the opportunity of maintaining them, by calculating the ratio between net profit or loss for the financial year and own capital [6].

This rate constitutes a relevant indicator in the assessment of enterprise's market position. A pay increase in capital employed ensures:

- Easy access to financial resources due to the confidence of tenants to reinvest in the enterprise and to potential investors-holders of financial resources available for investment;
- Capacity development.

Financial rate of return may be expressed by the following relations: [1, 3, 9]

• *Financial rate of return of permanent capital:*

$$\mathbf{Rf=}\ \frac{R_{cu}}{K_{pm}} * 100$$

$$\mathbf{Rf=}\ \frac{R_{gr}}{K_{pm}} * 100$$

$$\mathbf{Rf=}\ \frac{R_{ne} + D}{K_{pm}} * 100$$

• *Rate of return on equity* (ROE)

$$\mathbf{Rf=}\ \frac{R_{ne}}{K_{pr}} * 100$$

Where:

Rf – rate of financial return;

R_{cu} – current result;

K_{pm} – permanent capital;

R_{gr}- gross result;

R_{ne} – net result;

D – interest;

K_{pr}- equity.

At the level of influence factors on the rate of return on financial capital can be analyzed according to the following:

$$\mathbf{Rf=}\ \frac{R_{ne}}{K_{pr}} * 100$$

In the specialty theory, regards financial profitability rates, represented as follows:

• *Return on Total Assets (RTA),* calculated relationship: [1, 3, 4, 5,10]

$$\mathbf{RTA=}\ \frac{R_{ne}}{A_t} * 100$$

Where:

At - total assets.

Analysis of the rate of return on total assets may be based on a combination of two indicators, rotation rate and the rate of return on assets (calculated based on the net profit or loss).

$$\mathbf{RTA=}\ \frac{R_{ne}}{A_t} * 100 = \frac{CA}{A_t} * \frac{R_{ne}}{CA} * 100$$

Where:

CA – turnover.

Secondary indicators (asset turnover and profit margin) will determine if the variability of the RTA is determined by changes in the efficiency of assets and/or profit margin, thus facilitating a more thorough analysis.

If the variability of the RTA is based on changes in profit margin, the analysis should focus on ways of increasing of products (the changing mix of sales volume, sales price, by the analysis of elasticity at the request of a particular product), and expenses (salaries, management influence administrative costs, etc.). The analysis can be broadened and the other indicators (fixed costs/sales). If the variance is determined by RTA variation speed of rotating assets, then we must examine a whole series of indicators.

• *The rate of return of capital used employed (RCE*): [3, 5, 9, 10]

$$\mathbf{RCE=}\ \frac{R_{id}}{K_p} * 100$$

Where:

R_{id} – result before tax and interest

The financial rate of return, taking into account the origin of the capital, is sensitive to the financial structure of the company and is influenced by the degree of indebtedness of the company.

Financial rate of return to capital and return on capital and reserves highlight the investments made by the shareholders of an undertaking to buy shares of the company. The profit, as important source for financing the activity, forming part of the undertaking's capital and reserves and remunerate shareholders participation, in particular through dividends. This indicator highlights growth efficiency from the point of view of capitalization and reserves.

To determine the rate of return on financial capital and personal considering the methodology for calculating depreciation and provisions net of deductible expenses and non-deductible, in determining the taxable profit.

Rates of return economic and financial profitability rates are very important for users, but there are many obstacles in the context of their use. Basic problems arise from the form of the outcome or the capital is taken into account. The relationship between the three forms of yield (commercial, economic and financial) is presented in Figure 2 [3].

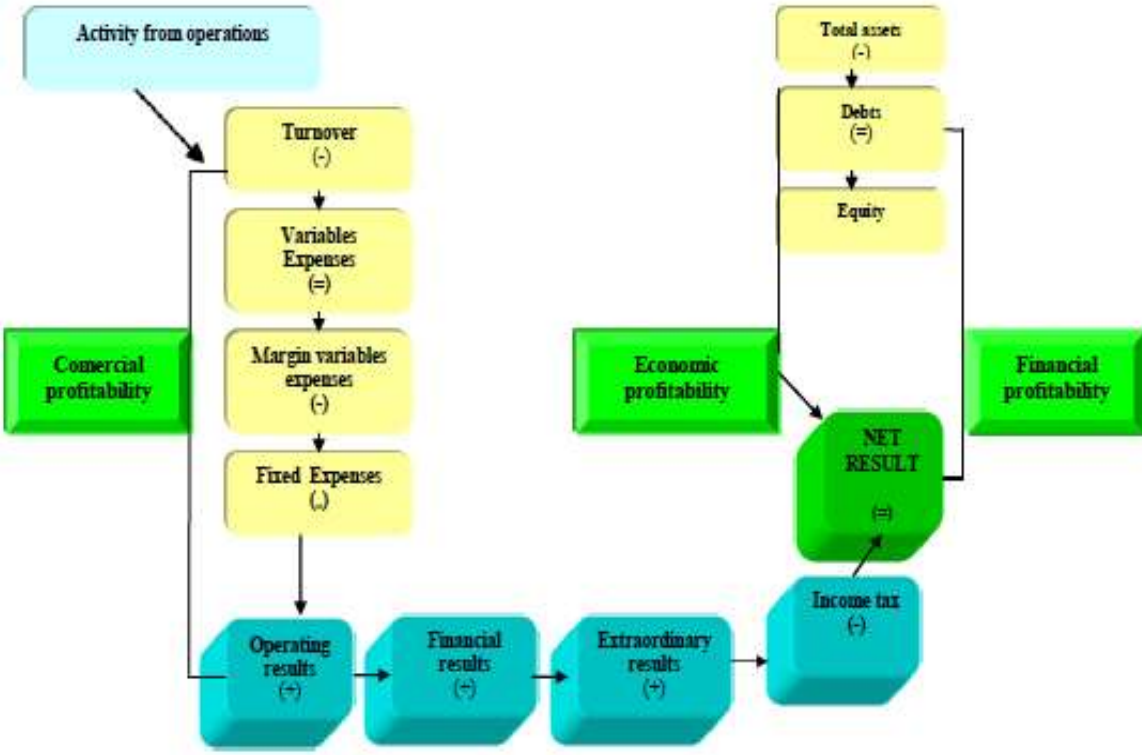

Figure 2. The interdependence between the rate of commercial profitability, the economic profitability rate and the rate of financial return

In connection with the determination of profit in economic and financial rates of return, we will specify the following:

• If you are comparing two or more companies using such rates of return, policies that take into account will be different and will have to make adjustments;

• Historical cost accounting tends to overestimate profit because depreciation is based on historical cost and not on current value, and latent earnings on assets are included in reported profit;

• Profit can be taken after adding extraordinary items that affect achievement comparisons [3, 9, 10].

Regarding the „shortcomings" of the economic and financial rates of return generated by the capital used in the calculation, you need to specify the following:

• In the event that it uses historical cost accounting, capital is undervalued; undercutting profits and capital, as well as overvaluing suited cumulative effects of historical cost accounting, would result in profitability ratios overvaluing suited;

• For businesses, the level of capitalization of intangible assets is different;

• Determination of discoveries which take into account can be difficult. For some businesses, the findings represent a continuous feature of financial arrangements; These findings should be presented in the form of debt. You can include all the interests arising

from debts and, as a consequence, it may exclude the interests of profit at the time of calculating the RCE [5, 6, 10].

Whatever the drawbacks noted, rates of return are basic indicators to characterize the performance of the enterprise. Systematic approach to the problem of profitability allows correct positioning of the company in the strategic system that it belongs to and the choice of the next guidelines.

CONCLUSIONS

The conclusion that emerges on the basis of the analysis is that the main rates of return used in economic and financial analysis of the company are: commercial rate of return, rate of return financial and economic rate of return.

The rate of return, as an indicator of efficiency, can be assigned different shapes as you consider gross profit or net income in the numerator, or changes the basis of reporting that expresses the effort or expense of the production process. The various models used for expressing the rate of return information have different power, reflecting the effectiveness of the various sides of the economic activity of the enterprise. Build indicators according to capital advanced or busy expresses predominantly the interests of investors, while the indicators build on resources consumed mostly expresses the interests of the economic unit managers.

Financial rate of return is a significant indicator in the assessment of economic and financial performance of the enterprise-both in the domestic as well as in diagnostic tests requested by foreign partners.

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