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PROFIT: THE ECONOMIC SENSE, PROBLEMS OF DEFINITION AND ACCOUNT DISPLAY

One of the main tasks of business financial accounting is the identification and recording of financial results of activity of enterprise in account and reporting – profit or loss. At the same time, the concept of profit has many meanings and definitions, which are differently perceived by the users of accounting information: business leaders, accountants, economists, tax officers, ordinary workers and others. All definitions of profit are built on two main concepts: income and expenses of the enterprise. So, the correct recognition and computation of these components of forming of the profit is important for the proper determination of profit. These questions are examined in this publication.

Some authors define the point of the profit as an economic category as follows: capital gain (K. Marx and F. Engels, E. Hendriksen and M. van Breda) the amount that can be spent by entrepreneur without encroachment on the capital (A. Smith, D. Hicks), the difference between total revenue and total expenditure (I. Blank, R. Nureyev) and others. In our view, properly and objectively total revenues and total costs of entrepreneur can be defined for the entire period of the effective functioning of the laid-down capital only jointly, i.e. the term of 100 percent depreciation of fixed assets. A profit is determined during the ongoing activity of the enterprise periodically, can never be completely objective, because it can not be determined reliably. The reason of this is that all payments are based on a number of conventional assumptions such as expected term useful life of fixed assets, depreciation methods and the accounting cost of repairs of fixed assets, inventory valuation methods and finished products and so on. Thus, the amount of profit, which is defined in the account and is reflected in the financial statements, must be regarded as approximate, but useful conditional evaluation of financial performance of the company during the reporting period.

All this leads to the theoretical and practical feasibility of the need to determine individual rates of profit for a specific purpose: taxation, enterprise performance evaluation, analysis and valuation, taking current and long-term management decisions and so on.