Finance and Banking

Earning Power Analysis on The Basis of the Intermediary Balances of Administration

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Abstract: The profit and loss account, within the basic (developed – version) system, allows the establishment of the intermediary results account or of the intermediary balances of administration. Indices involved in the case of the intermediary balances of administration are necessary in making decisions both at the firm level and at that of third parties that are economically and financially related to the firm.

Keywords: profit, results account, margin, intermediary balances

Jel Classification: M41, H42

The step-like structure of indicators, which starts from the most comprehensive (i.e. accounting period production and mark-up) and ends with the most synthetic one (i.e. accounting period net profit), suggests that these indices formed a series referred to as *a cascade of intermediary balances of administration.* Each such balance reflects the financial administration result at the respective accumulating stage[1].

The intermediary balance of administration stands for the difference between two values. By way of repeated subs tractions, several indices are obtained i.e. indicators describing profitableness and firm management (some are found as such in the profit

[1] Stancu I., *Finanţe. Teoria pieţelorfinanciare. Finanţele întreprinderilor. Analiza şi gestiunea financiară (in translation.: Finances. Financial Markets Theory. Firm Finances. Financial Analysis and administration),*Ed. Economică Pbsh., Bucharest, 1996, p.329

and loss account others are calculated as it is in the case of intermediary balances of administration). Absolute magnitude-describing profitability indicators are as ponderous in consequence as those to be further dealt with i.e. useful indices in firm administration assessment.

The margin, as net profitability indicators must be made one of in the economic and financial analysis, is dealt with in such terms as[1]:

- The **production cost margin** i.e. the difference between the selling price of goods and their production costs.
- The **commercial margin or mark-up** i.e. the difference between the selling price of firms' goods and their historical costs.
- The **margin of variable costs,** which reflects the difference between the selling price and the variable costs.

The direct cost margin, which stands conspicuously for the difference between the sale price and the direct cost (thus, it includes the indirect cost in the profit) is calculated at product level and it does acquire the significance of **contribution margin**.

The **financial period production** is an indicator which is mostly applied to industrial units and is made the use of in measuring the global volume of activity i.e. the sold output, the stocked production and the immobilized production.

The value added is the encashment over plus that exceeds the value of third parties' consumption, namely the wealth originated in turning firm (technical, human, financial) resources to account, or, to put it differently, it stands for the amount of labour factor, capital factor and state factor remuneration[2].

It is calculated by using two different methods:

1. **the substractive method** (i.e. the difference – based or synthetic method), which is of two types:
    - the value added stands for the difference between the financial period output and the intermediary consumption;

[1] Mărgulescu D., Cişmaşu I.D., Vâlceanu G., Şerban C., *Analiza economico-financiară (in translation: Economic and Financial Analysis)*, România de Mâine Foundation Pbsh., Bucharest, 1999, p.201

[2] Mărgulescu D., Niculescu M., Robu V., *Diagnosticul economico-financiar (in translation: Economic and Financial Dyagnosis)*, Romcart Pbsh., Bucharest, 1994, p.182

- the value added is found by subtracting the intermediary consumption from the rate of turnover; intermediary consumption values are difficult to assess.

2. **the additional or earmarking method**, which stands for summing up staff, paying off and interest – oriented expenses, levies and taxes, dividends and the net output in the whole financial period.

The gross operation excess (deficit). This indicator mirrors the gross economic output at firm level; it is influenced only by the operating activity and not by the paying off or provision – concerned system, by the fiscal policy or dividend – earmarking manner.

The gross operation excess is the monetary surplus virtually resulted from the operating activity, which derives in cash collections (either immediate or subsequent) and in operating expenses involving urgent or subsequent payment operations. Operating revenues followed by encashment are made up of the selling output and the operating subventions.

Operating expenses involving payments consist in: the purchasing cost of sold commodities, third party consumptions, levies, taxes and similar payments as well as staff expenses (wages, personal insurance and social protection).

The gross operation excess or taken operating gross deficiency must be taken for the difference between the value added – possibly increased by operation – oriented subsidies received by the company – and the staff – concerned expenditure, which is to be rounded with fiscal expenses (except for the tax on profit)[1].

The gross operation excess is made use of in the analysis process in making resemblances (both in space and dynamics) with the output of firms with the same activity.

The balance sheet method is the one used in the structural analysis of such indicators as: the market supplement (or mark-up), the operating term output, the value added and the gross operation excess.

[1] Chebac N., *Informaţiile contabilităţii în procesul de analiză şi decizie* (in translation: Acconting Informations in the Decision-Making and Analysis Process), Alma Publishing House, Galati, 2002, p.157

As the different types of output (profit or loss) are shaped up under different factors, it is factor analysis to be approached in such a context[1].

The evolution of the indicators included in the Balance sheet and in the Profit and Loss Account is depicted in table 1. The above account is structured on three levels that explain the obtained result, according to the structure of activity in a firm, in operating, financial and manifold other terms. The profit and loss account allows the calculation of light intermediary balances of administration that stand for as many steps in "moulding" the net output in the financial period: the mark-up, the operation output, the value added, the financial period production, the financial period current output, the egregious result and the net result of the financial period[2].

To conclude, one could state that intermediary balances of administration are magnitudes, results i.e. indicators obtained through economic, "cascade" calculations as in tables 1. and 2:

Table no 1. **ROL Thousand**

REVENUES	**Financial period**		
	2002	**2003**	**2004**
1. Commodity sales	247.957	-	-
2. Sold output	72.765.004	85.741.658	91.626.837
3. Stored output	-	-	-
4. Immobilized production	-	-	-
5. Subtotal I (5=2+3+4)	72.765.004	85.741.658	91.626.837
6. Financial period output	72.765.004	85.741.658	91.626.837
7. Operating subsides	-	-	-
8. Subtotal II (8=6+7)	72.765.004	85.741.658	91.626.837
9. Value added	18.945.220	12.552.435	7.976.027
10. Operating subsides	-	-	-

[1] Ţole M., *Analiza economico-financiară a firmelor* (in translation: Economic and Financial Analysis of Firms), România de Mâine, Foundation Pbsh., Bucharest, 2000, p. 189

[2] Chebac N., Op.cit., p.155

11. Subtotal III (11=9+10)	18.945.220	12.552.435	7.976.027
12. Gross operation excess	13.485.706	6.765.178	2.030.984
13. Revenues from operating provisions	-	-	50.000
14. Other operating revenues	37.754	1.913.610	74.230
15. Subtotal IV (15=12+13+14)	13.523.458	8.678.788	2.155.214
16. Operation result (profit)	8.855.932	4.062.415	-
17. Financial revenues	19.630	9.283	258.032
18. Subtotal V (18=16+17)	8.875.562	4.071.698	258.032
19. Egregious revenues	-	-	-
20. Current operation result (profit)	8.874.579	4.066.580	-
21. Egregious result (profit)	-	-	-
22. Operation result before taxation	8.874.579	4.066.580	-
EXPENSES			
23. Cost of sold commodities	247.957	-	-
24. Third parties' operation consumption	50.622.299	69.267.602	79.665.547
25. Expenses with third party-made works	3.197.485	3.921.621	3.985.263
26.Subtotal I (26=24+25)	53.819.784	73.189.223	83.650.810
27. Taxes, levies and similar payments	258.523	161.100	66.528
28. Staff expenses	5.200.991	5.626.157	5.878.515
29. Subtotal II (29=27+28)	5.459.514	5.787.257	5.945.043
30. Gross operation deficit	-	-	-
31. Paying off and provision			

expenditure	2.668.717	2.896.337	2.493.039
32. Other operating expenses	1.998.809	1.720.036	-
33. Subtotal III (33=30+31+32)	4.667.526	4.217.668	2.493.039
34. Operation result (losses)	-	-	337.825
35. Financial expenses	983	5.118	586.065
36. Subtotal IV (36=34+35)	983	5.118	923.890
38. Egregious expenses	-	-	-
39. Current results of the financial period (losses)	-	-	65.858
40. Egregious result	-	-	-
41. Tax on profit	2.456.608	1.030.445	-

Intermediary Balances of Administration

Table no 2 **ROL Thousand**

Tabular of Administration Balances	**2002**	**2003**	**2004**
Rate of turnover	73.012.961	85.741.658	91.626.837
Mark-up	-	-	-
Operation production	72.765.004	85.741.658	91.626.837
Value added	18.945.220	12.552.435	7.976.027
Gross operation excess	13.904.230	6.765.178	2.030.984
Operation result	8.855.932	4.062.415	-337.825
Current result of the financial period	8.874.579	4.066.580	-665.858
Egregious result	-	-	-

Financial period result before taxation	8.874.579	4.066.580	-665.858
Financial period result subsequent to taxation (net profit or loss)	6.417.971	3.036.135	-65.858

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