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Calculation of the Invested Capital Profitability in the Financial Condition Analysis Process

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Abstract: The article examines the issues of calculating the return on invested capital according to the financial statements. Proposals are given to implement the results of the methodology on the practice of joint- stock companies. The use of the method of factor analysis in this direction when calculating the profitability of capital investments based on financial data used in developed foreign countries has a positive result. In particular, the increase in profits under the influence of the factor of turnover of capital and profitability of income allows you to calculate the return on investment.

Keywords: *invested capital, financial statements, discounting, discount rate, profitability of income, capital turnover.*

I. Introduction

The appeal of the President of the Republic of Uzbekistan Shavkat Mirziyoyev to the Oliy Majlis focused on three important factors of economic development: an open economy, healthy competition, a business and investment environment [7].

Evaluating the attractiveness of the investment climate in our country, the head of our state noted: “We will accelerate economic development only through active attraction of investments, launching new production capacities and will consistently continue an active investment policy, which is an important condition for the development of our economy. We can achieve a positive result if we can carefully form investment projects for regions and sectors for investors who want to invest in our economy.

In this regard, the organizational and legal regulation of the placement of business entities, the provision of benefits and preferences to them should be carried out in free economic zones and small industrial zones. We must attract investment in our country not only in the sectors of the economy, but also in the field of scientific research –“know-how”.

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If we talk about investment, the volume of joint investments with the World Bank, European Bank for Reconstruction and Development, Islamic and Asian Development Banks and other international financial institutions amounted to $ 8.5 billion.

Today, 456 projects worth $ 23 billion in foreign investments are being implemented in our country. In 2019, it is planned to invest about 138 trillion soums. or 16% more than in 2018.

The volume of foreign direct investment in this area will increase by almost 1.5 times compared with the current year and will reach 4.2 billion dollars. As a result, 142 modern enterprises will be commissioned ”[7].

In the “Strategy for Action for the Further Development of the Republic of Uzbekistan, the tasks of “further expanding lending to small business and private entrepreneurship and promising investment projects” are defined [8].

Investment activity reflects the process of placing investment resources (cash, stocks, intellectual property, loans, land and other real estate) in the economy either by earning income (profit) or by achieving social efficiency.

The economic literature indicates that investments are divided into production and financial investments in the direction in which they are directed.

Production (real) investments are expenses that are the main factor for the development of a particular sector and type of enterprise, the growth of real capital, i.e. growth of production assets, working capital and development of research and development projects.

A financial (portfolio) investment represents the cost of securities and other financial investments. These costs can not directly increase the tangible capital, but they will bring additional profit to the enterprise. Additional profits will include a positive exchange rate or a positive change over time.

Investments are divided into long-term (more than 1 year) and short-term (up to one year) depending on the type of investment that they spend during a certain period of time.

Investment costs are difficult for enterprises to invest, since investment income is intended only for future profits. For this reason, enterprises must first evaluate the cost-effectiveness of the proposed projects and obtain accurate information about their many financial needs in order to make rational investment decisions.

II. Analysis of thematic literature

The well-known economist J.M.Keyns noted in his works: “Investments show the current growth of capital assets as a result of effective functioning and a part of the value of the corresponding income of the current period not spent for consumption” [3].

L.I.Egorova in her research recognizes that investments are defined as a combination of resources and investments in foreign economic literature [2].

PV Taranov in his monographic study connects investments with the competitive environment in modern foreign economic activity and notes that it is necessary to make any investments that bring economic benefits to investment objects [6].

Scientist economist, Ph.D. Sh.I.Mustafakulov analyzed the attractiveness of investments from the point of view of the socio-economic and innovation-investment potential of the country's regions and proposed a model for econometric analysis of investment factors [4].

According to Yulia Yusupova, one of the authors of the concepts of taxation in Uzbekistan: “On the other hand, the country's investment attractiveness is not limited to taxes. Business is interested in almost all aspects of the economy: protection of property rights, administrative barriers, financial sector indicators, rules of the game, and so on. And, of course, one of the most important factors of investment attractiveness is openness and transparency of policies and legislation and the absence of unexpected actions "[11].

As M.Amonbaev notes, joint-stock companies are a tool for attracting and effectively managing investments: "A joint-stock company is a form of management of the most suitable shareholder for large enterprises with long-term goals" [1].

The logical continuation of this opinion and its interpretation are the definitions of prof. B.Yu. Khodiyev and B. Berkinov: "The fact is that the share capital allows the company to attract investment resources that are necessary for the expansion of production through the sale of securities (shares) in stock markets." Another advantage of this form is that there are no restrictions on the composition of participants (shareholders) or authorized capital, and shareholders are not responsible for the obligations of the company "[9]. Research Methodology. Research methodology uses methods such as observation, synthesis, grouping, and comparison.

III. Analysis and results

The cost method was widely used to evaluate performance before the transition to a market economy. Currently, economic policies aimed at reducing the share of state property and state intervention in the economy, activating domestic and foreign investors and developing joint-stock companies require a new approach to profitability - to calculate the effectiveness of investments (or their individual elements: capital investments, capital).

The relationship between the absolute economic effect of capital costs (E), income from spent capital (I) and the volume of investments (Ii) can be expressed by the following formula:

$$\mathbf{E = I\text{-}Ii}$$

When the amount of income from capital investments exceeds their initial size, the term of return on investment is implied. In the following case, capital gains from capital costs will become moderate. This indicator is the most important indicator of the effectiveness of capital costs of production in the economy.

In practice, long-term investments in small business entities pay for themselves in 2-3 years, and to cover long-term investments will take 10-15 years or more. The economic efficiency of investment is determined by the profit from capital investments.

The effectiveness of an investment project (Ie) implemented on the basis of an economic project is determined by the following formula:

$$\mathrm{Ie} = \frac{\mathrm{P}}{\mathrm{Ia}}$$

Where:
P - profit from investments
Ia - the amount of investment.

In this case, the investment efficiency should be more than one unit, and then the costs incurred will be reimbursed. In international operations, the return on investment is determined by the ratio of annual balance sheet (P) to total net worth:

$$\mathrm{Ip} = \frac{\mathrm{P}}{\mathrm{A1 + A2 + A3 + A4}}$$

where:
Ip - profitability of unprofitable investments;
P - annual balance sheet profit;
A1, A2, A3, A4 - cost of the advanced capital by quarters.

The return on equity is calculated on the basis of the famous DuPont formula [5]

$$\mathrm{ROA} = \frac{\text{Net profit}}{\text{Moderate value assets}} = \frac{\text{Net profit}}{\text{Return}} + \frac{\text{Return}}{\text{Moderate value assets}}$$

where: ROA (Return On Assets) - the rate of return on assets;

(The turnover of capital is characterized as the "productivity" of capital, that is, the return of fixed and current assets).

ROA = ROS x Ctr. assets

where**:** ROS (Return On Sales) - the rate of return on sales;

Ctr. assets - the turnover ratio of assets

Multiplying the layouts of the two formulas, we get the following relation:

Calculate the return on investment capital based on the data of joint-stock company "Istikbol" (table 1).

Table 1

The balance sheet data of the joint-stock company at the end of the reporting period (thousand soums) *

Assets (property)	Sum	Passive (capital)	Sum
1. Fixed assets (buildings, structures, power transmission devices, etc.) and intangible assets	166481.0	1. Equity, debts and other liabilities	206168.0
2. Long – term investments	2065.0		
3. Circulating means (inventories, cash, uncompleted production, finished products, goods, and etc.)	37662.0		
Total (balance)	206168.0	Total (balance)	206168.0

Source: Development of authors is based on conditional numbers.

Table 2

Report about the financial outcomes (thousand soums)

Expenses	Sum	Income	Sum
Cost price of realized products, works and services	313248.0		
Cost period expenses	38403.0	Turnover (income)	
Expenses for financial activity	21752.0		
Taxes	34527.0		413361.0
Net profit (entry record)	5431.0		
Total	413361.0	Total	413361.0

Source: Development of authors is based on conditional numbers

According to the above tables, the return on invested capital of a joint stock company is reflected by the Dupont formula and pyramid (Figure 1).

We consider the relevant proposal of the academic economist Sh.I.Mustafakulov about the need to establish the publication of the "Annual statistical map" form of the State Committee on Statistics on the attractiveness of the investment environment in the city of Tashkent and regions of the country, and in the first paragraph of the proposal should indicate the economic efficiency of investment [4].

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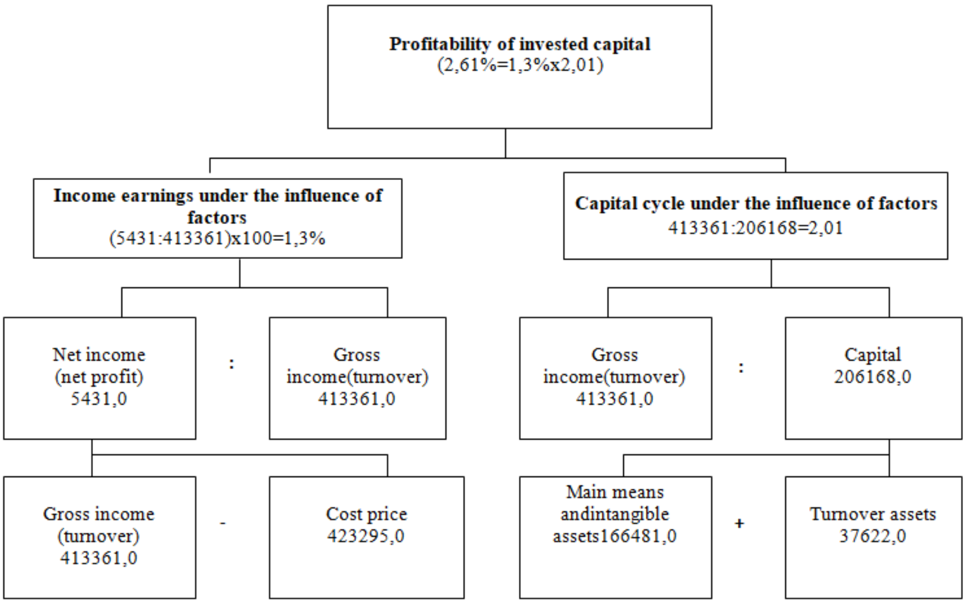

Figure 1. Return on invested capitalCalculations using the Dupont Pyramid [5]

The process of temporary investment of enterprises' funds at current value in order to make a profit in the form of a future interest rate is called discounting, the indicator of its result is the discounted value.

The cost discount rate (DC) is determined by the following formula:

$$\mathbf{Dc} = \frac{\mathbf{Ic}}{\mathbf{M\ amf}}$$

Where**:**

IC is the cost of investment;

M amf - the amount of the flow of annual funds.

Due to the fact that it takes a lot of time to implement the investment process, there is a need to compare money with their return during the investment. To this end, we consider it necessary to use the concepts of future and real value of money.

IV. Conclusion

Currently, one of the most important conditions for the development of our economy is the achievement of the dynamic development of our economy by consistently continuing an active investment policy, actively attracting foreign and domestic investment and launching new production facilities.

A rational way to achieve positive results on this issue is the ability to carefully form investment projects across regions and sectors for investors seeking to invest in our economy.

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