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The Critical Analysis of Profit for its Allocation Decision-Making

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Abstract

The decrease of the business property can cause a reduction in the production ability of the enterprise to the extent causing an involuntary closing of business activities. It is usually caused not only by the reported loss, but also by the greater distribution of profits, as is the amount of the real level of the enterprise's distributable profit. A thorough analysis of the reported accounting profit described in this paper should be the starting point for the allocation of profit. It is important to be able to identify and assign a portion of the accounting profit, corresponding to the non-realised profit and fictitious profit, where eventual release outside the enterprise threatens the future performance of the enterprise. These portions of the reported profit do not correspond to the actually made, realised and real production, which is a necessary condition to achieve a real profit to possible safety division to investors.

Keywords: analysis of profit; production ability; profit allocation; decision-making.

JEL classification: D24; G32; M11; M40.

1. INTRODUCTION

Nowadays, the very actual and important problem in the management of enterprises is the issue of recognised profit quantification and its correct distribution. The problem is that enterprises use accrual accounting with a recognised profit, but with cash flows not allowing them to continue to do business and pay out the shares smoothly. This means the enterprise needs to indebt itself to be able to provide assets recovery and pay out the shares, which leads to the expensive and uneconomic equity capital (Kubascikova and Paksiova, 2014).

The greater distribution of profits, as is the amount of the real level of the enterprise's distributable reserves profit of the business causes reduction of business property and in future reduction in the production ability of the enterprise to the extent causing an involuntary closing of business activities. The analysis of the business property's changing trends of the entity should be one of the most important tasks of the financial analysis for the assessment of the financial situation of the enterprise. Very important in this context is to conduct a thorough critical analysis of profit creation and quantification for any decision-

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making on its allocation. A thorough analysis of the reported accounting profit must be the starting point for the allocation of profit, which does not compromise the further existence of the enterprise.

Accounting is always the starting point for determining the economic result of a business, whether profit or loss. It is the only accounting tool that needs to be considered, given the summaries of the company's revenues and expenses for the accounting period, the difference of which represents the achieved economic result. The adjustment of book-keeping and financial statements is always dependent on the business environment law in the country in which the enterprise operates. Several countries currently draw on International Financial Reporting Standards (IFRS) when drawing up their financial statements. According to IASB, around 140 countries have adopted the IFRS to some extent. Leuz and Wysocki (2008) highlight the influence of political, legal, cultural and social environment on the economic institutions, as well as capital market, financial reporting, ownership structures, their dividend policy, protection of creditors and investors. The development of IFRS (IAS) was bound to the requirements of the professional institutions regarding unification of the financial reporting in line with the need to satisfy investors' needs on capital markets to have timely and relevant information. Ball *et al.* (2003) reviews and evaluates economic consequences of mandatory IFRS application. Prochazka (2017) also reviews recent literature oriented on the evaluation of IFRS adoption by new Central and Eastern EU member states and evaluates consequences of their adoption in both, positive and negative aspects. To reach a society-wide advantage resulting from the international harmonisation of financial reporting, some specific prerequisites must be met, as it is not possible to regulate centrally the application of any unified rules. The basic prerequisites are incentives for companies when applying standards, as well as a functional way of their enforcement. However, mere meeting these prerequisites and using standards cannot guarantee the very quality of accounting and making true and accurate picture on a given accounting unit in financial reporting. The quality of accounting is achieved based on the function of internal regulations of the given accounting unit, and by its way of financial reporting standards application (Ball *et al.*, 2000; Ball *et al.*, 2003). The quality of accounting can be neither increased nor decreased by merely changing the accounting standards (Leuz *et al.*, 2003). Mandatory or voluntary adoption of the international framework of the financial reporting within the countries must be set for the special conditions of a given country otherwise their application is ineffective and more problematic then effective. Therefore, the mandatory or voluntary adoption of these special conditions for the financial reporting standards application in selected accounting units and countries must be secured, so the internationally harmonised accounting can be used. Influence of such institutional impacts and frameworks on information reporting in the statements of finances, reporting and quality of income trading, protection of investors, as well as the influence of IFRS adoption in such aspects are discussed by Leuz *et al.* (2003), Jeanjean and Stolowy (2008), Istrate *et al.* (2015), Houqe *et al.* (2012), Ball *et al.* (2000). However, they do not review components of a created and reported accounting unit's business profit from the perspective of a potential threat of the business property as a potential of a future production capability of the enterprise.

IFRS clearly does not solve the issue of profit-sharing and management decisions aimed at preserving business property and production ability in the future. Rather, it is about adjusting financial reporting to the correct reporting of past events of the enterprise in financial terms. In the context of a critical analysis of profit quantification and its distribution, in IFRS we can identify alternative solutions to the issue of capital conservation and the methods for recognizing and measuring assets and liabilities. The conceptual framework of IFRS describes both, the financial and physical (material) understanding of capital, but it does not clearly specify which capital assumptions and their retention, and the related permissible valuation of assets and liabilities, and quantification of business result should be used by the entity. Selection of the appropriate concept of capital maintenance should be based on the principle that profit should not be reported until the enterprise during an accounting period maintains the amount of its net assets in both financial and physical terms.

In the Central and Eastern European countries, national accounting regulation still prevails. Businesses in European Union countries, and also in the Slovak Republic, prepare financial statements in accordance with the accounting legislation in the country in which they operate and they are always in compliance with the relevant EU directives. In general, the quantification and critical profit analysis can be based on the same principles that can be applied in the profit analysis ascertained under any regulations if they are tailored to the particular reporting requirements. In the Slovak Republic, the requirements of the Commercial Code are imposed partially on the profit distribution of some enterprises as well. These enterprises are obliged to create a statutory reserve fund in their own capital not only at the time of their establishment, but also every year from the minimum of law-fixed percentage of the profit realised for the previous accounting period until the required height is reached. This issue had been solved in papers by Kosovska *et al.* (2017), Paksiova (2017a). Double taxation of profit distribution in the Slovak Republic as a problem was analysed by Krajciova *et al.* (2017).

The aim of this paper is to analyse theoretical basis of constructive critical analysis of profit creation and quantification for a decision-making on its allocation. The subject matter of this paper is highly actual because profit or loss are indicators of entity's development and derive the entity's profitability and viability and determining the financial strategy of enterprises.

In this paper, several methods of examination such as analysis, comparison and synthesis were used. We examined mainly international and national legislation with an emphasis on the area of reporting and other book publications and publications in journals and conference proceedings related to research problems. Out of the legislation, the important ones were the accounting law in SR and in European Union as well. Financial statements are important for an assessment of the enterprises financial situation. In the Slovak Republic they are regulated by Act no. 431/2002 Coll. on Accounting, as amended, following the transposition to the national legislation of Directive 2013/34/EU of the EP and of the Council.

2. BUSINESS PROPERTY AND BUSINESS DEVELOPMENT

Business property is the most important indicator to identify and assign a portion of the accounting profit, corresponding to the non-realised profit and fictitious profit to continued decision-making of managers, associates and shareholders. To ensure a good future in doing business, enterprises should orient to sustainable business property. The decision on the way of division of the reported profit, any undertaking received in the present is therefore a strategic one, especially in relation to the future of the business. The strategy determines the long-term objectives, procedures for activity realization and distribution of resources, which contribute to meeting the entity's objective (Glautier and Unterdown, 1991). A produced profit may be considered the main internal sources of an entity's financing. The entity's strategic management is in the responsibility of its owners, top management and department of strategic management. When creating the strategy, it is necessary to analyse external environment and internal environment and select the appropriate strategy based on the results. External factors are “accepted” by an entity and must be adapted to the new conditions. The internal factors may be actively influenced by entity, and thereby take advantage of opportunities and eliminate the threats, which arise from external environment (Sebestova and Wagnerova, 2007). Corporate strategy can be focused on the development and growth of the entity, transition to diversification, stabilization, growth, downturn or revitalization of the entity. In this, maintenance of assets and capital is very important (Tumpach and Bastincova, 2014; Markovic *et al*., 2013). Organizing the movement of capital, cash, receivables and payables is the content of the entity`s financial strategy for enterprise development. The movement of the parameters quantifies the benefits of all business activities therefore financial strategy is an important part of entity's management. But *“the survival of an entity does not depend only on the area of business, but according the previous analysis, on non-financial ratios such as cooperation, level of project management and others”* (Sebestova and Nowakova, 2013).

2.1 Understanding the business property

The understanding of the business property must always be a criterion for correct determining of the accounting unit's economic result, as well as its distributable part. This issue is closely connected with the used methods of valuations admitted by financial accountancy laws and applied by an accounting unit. A detailed analysis of the development of the business capital as a future production and performance ability of the property and capital development as a source of coverage for this capital should be one of the basic tasks of the financial analysis (Slosarova, 2014). This analysis should not only be made once in few years, but at least periodically to the date of statement of finances, because usually there is no linear growth or decline of the accounting unit's business property, but periods of growth and decline change in irregular intervals. Too long interval between these individual analyses can lead to the situation when an accounting unit does not recognise the threat of a business property decline on time and does not adopt measures to reverse an adverse situation in a good time. The basic source of information provision for the financial analysis; for the correct assessment of the accounting unit's financial situation, development of a change in a business property and capital invested by owners in an enterprise should by accounting, and predominantly statements of finances (Prochazka and Pelak, 2016).

The decline of the accounting unit's business property may be caused by the reported loss or by higher profit distribution in comparison with the sum of actually achieved distributable profit (Paksiova and Kubascikova, 2015). In the following analysis we focus on defining various understanding of the business property in connection with specific indicators and methodical means applied in given systems. The basic division of the understanding of the business property (Paksiova and Kubascikova, 2014) to capital, proprietary and performance of the business property may be further divided according to the way of quantification into absolute and relative (Paksiova and Kubascikova, 2015).

- Absolute capital understanding of the business property is quantified in an absolute sum of financial means invested by owners.
- Relative capital understanding of the business property is quantified as a share of invested financial means by owners in the total sum of capital – own and borrowed.

- Absolute understanding of the business property according to the proprietary is quantified as total netto sum of a property in financial units.
- Relative understanding of the business property according to the proprietary is quantified as shares of individual proprietary on a total property in percentage. In the sum it is 100%.
- Absolute expression of business property performance is quantified as a sum of a performance – overall production of an enterprise in measurement units of performance (e.g. in pieces) a year.
- Relative expression of business property performance is quantified as shares of property components on achieved total production of a performance in percentage. In the sum it is 100%.

If we evaluate the business property of an enterprise from the modern perspective of a broader understanding, we can also distinguish:

a) Financial understanding of the business property of an enterprise

- broader understanding:
  - from the perspective of the capital structure of an enterprise,
  - from the perspective of the property resources
    - *own resources* – internal (produced profit),
      – external (owners' contributions),
    - *borrowed – liabilities* towards the third parties (from banks, State, vendors, employees),
- narrower understanding:
  - net assets of an enterprise in historical prices, or stable purchasing power of the financial unit,
  - the equity in a nominal value, or stable purchasing power of a financial unit,
  - differential value (assets – liabilities).

b) Physical understanding of the business property of an enterprise

- broader understanding:
  - *absolute business property* – absolute structure of the property according to specific types and forms,
  - *relative business property* – evaluated from the perspective of achieved production and its structure, distinguished into production property according to types, executive property according to types and other property,
  - *combined business property* – absolute with substantial property and relative with other property,
  - *qualified business property* – business property of an enterprise derived from the amount of achieved outputs in units of quantity or profits in financial units.
- narrower understanding:
  - net assets of an enterprise according to types and expressed in current prices valuation
  - *absolute* business property in performance potential in units of quantity,
  - *relative* business property in performance potential in units of quantity,
  - *combined* business property in performance potential in units of quantity.

2.2 Broader concept of the business property

The business property of an enterprise is analysed further below in a broader concept. The broader concept may be the physical understanding of the business property of an enterprise. If the business property of an enterprise is evaluated from the perspective of its significance for further entrepreneurial activities, it can be divided according to its significance for achieving enterprise's outputs. The starting point here is the relative performance understanding of the business property of an enterprise. Within this, each type can have a significance coefficient (k) (1 – the most significant, 0 – the least significant) assigned. The business property of an enterprise can then be a property with a quantification represented by a sum of significance and corresponding property type valuation coefficient conjunctions (Paksiova, 2014). These significance coefficients may be chosen by an enterprise, or based on the broad scale of options ranged from < 0,00 to 1,00 >, or chosen by an enterprise from several basic categories with assigned verbal, descriptive and numerical terms of the property significance for simplification of the work done by employees and introduction of certain standards for the unification of personal and time procedures. Since the property of an enterprise is to a large extent variable, to determine the significance coefficient for each property type it is still a very labour-demanding matter (even though it is a one-time activity under stable conditions), and there might be a problem with determining a criterion for assigning the significance coefficient to the property. Such a criterion may, for example, be a property share on achieved profits, e.g. goods for sale should have $k = 1$, as much as irreplaceable material for production of products; on the other hand, a vehicle used by the management may have $k = 0$, however, a vehicle used for sold goods transport, since this is a part of invoiced services or goods prices, may have $k = 0.5$, because it can, but not necessarily, be a part of achieved invoiced outputs. When determining k, the main thing to consider is whether the ownership of the given property type is a necessary condition to achieve profits from the entrepreneurial activity. If it is, then $k \geq 0.5$.

In simple terms, the property can be divided into two groups – business property (or property of a substantive nature) with $k \geq 0.5$, and other property with $k < 0.5$. In this case, the business property of an enterprise is a property with $k \geq 0.5$, i.e. business property in an overall valuation (sum of the overall valuation of corresponding business property types) – absolute business property, or relative business property, when significance coefficients are assigned within the business property group, and will express the value of the relative business property after multiplying by the corresponding property type valuation and subsequent summing up.

If this property is analysed from the perspective of resources, own resources of an enterprise will be represented by resources corresponding to the business property. These own resources will be made of owners' contributions or the produced profit, not to jeopardise the business property of an enterprise and subsequent business productivity.

Within this understanding, the balance sheet equation may be modified in the financial terms as follows:

$$\textit{business property} + \textit{other property} = \textit{own resources of an enterprise} + \textit{borrowed resources of an enterprise} \tag{1}$$

while maintaining business performance requires at least:

$$\textit{business property} \leq \textit{own resources of an enterprise} \tag{2}$$

$$\textit{business property} \leq \textit{owners' contributions} + \textit{undistributed profit from the past years} - \textit{unliquidated loss of the past years} + \textit{profit (- loss) of a current period} \tag{3}$$

Within this broader understanding of the business property of an enterprise it is of an utmost importance to choose the correct property valuation method, because it must be determined whether performance is to be maintained in past prices, current prices or future prices. Another important issue is whether a change in the financial unit purchasing power is taken into account in considering this business property of an enterprise.

If the individual property items are analysed from the perspective of types,

a) the ***business property – main assets*** may be further divided into:

- *main business long-term assets*:
  - main business long-term intangible assets,
  - main business long-term tangible assets,
  - main business long-term financial assets.
- *main business short-term assets:*
  - main business stocks,
  - main business financial assets.

b) and ***other property – other assets*** into:

- *other long-term assets:*
  - other long-term intangible assets,
  - other long-term tangible assets,
  - other long-term financial assets.
- *other short-term assets*:
  - other stocks,
  - other liabilities,
  - other financial assets.

In case of a short-term assets we may apply a principle, that since they are short-term assets with a form that changes in a single year within the assets turnaround circle, exchange of the assets in the form of stocks for the assets in the form of the financial assets can be accepted, mainly if it is an easily available type of stocks, that can be procured on the free market at any moment of an enterprise's existence. In the case of scarcely available stocks, this rule should be applied with greater care, and their supply contracts should be examined thoroughly first.

In a modified version, this proposed division may already be seen in the conclusion of the financial statements horizontal analysis, where year-on-year changes of statements entries are evaluated. Year-on-year changes may be expressed by various methods. The most common include: enumeration of an absolute difference, expression of a change in terms of percentage, expression of a development using basic and chain indexes. *Horizontal analysis of the balance sheet* is aimed at evaluating an adequacy of relationships between property and financial resources of an accounting entity. Required relations between property and its coverage resources are expressed in two rules, i.e. golden balance sheet rule and golden financing rule. The *golden balance sheet rule* only allows a use of long-term financial resources for a financial coverage of fixed assets. These may be the equity and long-term borrowed capital. The correct state of matters is, when there is more long-term resources than a long-term property volume. In this case, the accounting entity is *overcapitalised*. On the other hand, if the long-term resources do not suffice for long-term property coverage, the accounting entity is *undercapitalised.* The *golden financing rule* requires the financial resource to be available for an adequately long time corresponding to the minimum lifecycle of the property procured on its basis.

For a sustainable business development, a relevant tool is a retention of the proceeds in an enterprise by sustainable and growing business property in financial (monetary) understanding and physical (material) understanding as well.

Needs of statements of finances information users should by decisive in choosing the concept of understanding of the business property. Consequently, from this concept a way of evaluation is derived to see if there was a preservation, growth or erosion of the business property and connected performance decline. Only after this evaluation of the development it can be determined, if the profit was generated, followed by its quantification and distribution. Capital concept (financial understanding) of the business property should be chosen when users of statements of finances information user orient on a nominal capital value and its protection in nominal terms. If, however users orient on preservation and growth of operational capacities of an enterprise, the concept of the physical understanding of the business property should be chosen, i.e. in a specific form of a business property, preservation of the enterprise performance or of the achieved enterprise income. The division of the profit should then depend on the requirement to preserve the business property in the chosen way of understanding. The division of the reported business profit in the financial accountancy agreed by the owners (investors) is mostly connected with their requirement for the maximisation of the share on profit paid to them each year. This, however may make it harder for the management to manage and develop their enterprise, especially when it comes to the profit distribution without rational realised property in time of share payments (Kubascikova and Paksiova, 2014).

3. REPORTED INFORMATION FOR DECISION-MAKING BASED ON THE CONSTRUCTIVE CRITICAL ANALYSIS OF PROFIT CREATION AND QUANTIFICATION

In decision-making processes of the enterprise, the management must constantly use the information provided by an accounting, should it be information from the past (financial accounting), or future predictions (managerial accounting). Quantification of the distributable profit and the correct justification of an investor's proposal for the profit distribution is one of the most important decisions the management must make every year because the share of own and borrowed sources in the enterprise operations financing is one of the most important things, as regards the future development of the enterprise (Kubascikova and Paksiova, 2014). One of the basic outcomes of the financial accounting is the statements of finances that is in the Slovak Republic regulated by the Law on Accountancy and other relevant regulations of the Ministry of Finances based on the size classification of enterprises.

3.1 Size classes of enterprises and reported financial information for decision-making

The entity according to Directive 2013/34/EU of the EP and of the Council is classified into size classes (Table no. 1), if not exceeding two of those three criteria provided. According to Act on Accounting, criteria for classification into size classes are defined differently.

Table no. 1 – Comparison of criteria for categorisation into size classes according to Directive 2013/34/EU of the EP and of the Council and Act on Accounting in Slovakia, in 2017

Cat. of entities	**Directive 2013/34/EU of the EP and of the Council** - Undertakings which on their balance sheet dates do not exceed the limits of at least two of the three following criteria	**Act No. 431/2002 on Accounting, as applicable** - An accounting unit that meets at least two of the following conditions is classified as
Micro	*Micro-undertakings* a) balance sheet total: EUR 350,000; b) net turnover: EUR 700,000; c) average number of employees during the financial year: 10.	*Micro accounting unit* a) total sum of assets did not exceed EUR 350,000; b) net turnover did not exceed EUR 700,000; c) the average calculated number of employees did not exceed 10 during the accounting period.
Small	*Small undertakings* a) balance sheet total: EUR 4,000,000; b) net turnover: EUR 8,000,000; c) average number of employees during the financial year: 50.	*Small accounting unit* a) total sum of assets exceeded 350,000 but did not exceed EUR 4,000,000 b) net turnover exceeded EUR 700,000 but did not exceed EUR 8,000,000; c) the average calculated number of employees exceeded 10 but did not exceed 50 during the accounting period.
Medium	*Medium-sized undertakings* a) balance sheet total: EUR 20,000,000; b) net turnover: EUR 40,000,000; c) average number of employees during the financial year: 250	not defined
Large	*Large undertakings* - on their balance sheet dates exceed at least two of the three following criteria: a) balance sheet total: EUR 20,000,000; b) net turnover: EUR 40,000,000; c) average number of employees during the financial year: 250.	*Large accounting unit* a) total sum of assets exceeded EUR 4,000,000; b) net turnover exceeded EUR 8,000,000; c) the average calculated number of employees exceeded 50 during the accounting period.

Source: *Act no. 431/2002 Coll. on Accounting, as amended* and *Directive 2013/34/EU of the EP and of the Council*

For a micro entity, the maximum limit of considered criteria is determined and for a large entity it is the minimum threshold. Small entities fall to the interval limited by the criteria for micro and large entities. For classification, the entity assesses criteria for two accounting periods, it means, that the examined one is current and immediately preceding accounting period. If the entity detects that it has ceased to meet or exceeds the criteria for particular size class, it changes its classification beginning from the following accounting period. The total sum of assets is understood as the amount determined from the balance sheet with valuation of adjustments.

The annual financial statements by Directive 2013/34/EU of the EP and of the Council constitute a composite whole and shall for all undertakings comprise, as a minimum, the balance sheet, the profit and loss statement and the notes of the financial statements. The annual financial statements shall give a true and fair view of the undertaking's assets, liabilities, financial position and profit or loss. Small and large enterprises in the Slovak Republic have the same forms of statements and requirements to range of information reported in notes. The reduction of requirements on reporting financial information concern only on micro enterprises.

3.2 Profit and loss statement for small and large entities in the Slovak Republic

For the constructive critical analysis of profit creation and quantification is important to analyse information from profit and loss statement and notes to this statement. Changes in the structure of the profit and loss statement for different size groups of undertaking also affected the indicators that were directly quantified. Originally the profit and loss statement contained also indicators such as trade margin and added value, although in the new structure only net turnover and added value is disclosed. In total lines in original structure, profit or loss based on particular activities is disclosed, while in the new structure in total lines, also sums of costs, revenues and profit or loss individually according to particular activity are represented. Specific in original structure are lines relating to profit or loss from ordinary activities, which is the sum of profit or loss from operating and financial activities, and the line profit or loss from extraordinary activities. Since profit or loss from extraordinary activities were cancelled, there was no reason for total line for profit or loss from ordinary activities, because all disclosed revenues, costs and profit or loss fall into the category of ordinary activities (Table no. 2). Changes in structure of the profit and loss statement in small and large entities did not affect the number of reporting lines, i.e. 61 lines.

Table no. 2 – Profit and loss statement in small and large entities in the Slovak Republic

Structure of profit and loss statement in SR from 1 January 2015
Net turnover
Operating income
Operating expenses
Profit/loss from operations
Added value
Income from financial activities
Expenses related to financial activities
Profit/loss from financial activities
Profit/loss for the accounting period before tax
Income tax
Transfer of net profit/net loss shares to partners
Profit/loss for the accounting period after tax

Source: Measure of the Ministry of Finance of the Slovak Republic of 3 December 2014, no. MF/23378/2014-74; Measure of the Ministry of Finance of the Slovak Republic of 3 December 2014, no. MF/23377/2014-74

Items that need to be carefully analysed for proper assessment of their essence and impact on generated profits are mainly revenues. In particular, it is a matter of assessing whether the revenues are realised, or that they are as a result only from a change in valuation or a change in the method of measurement, book-keeping and reporting. In the case of underestimated costs, then the calculated profit is overestimated and must also be analysed to avoid the production capacity of the enterprise being compromised in the event of an overestimation outside the enterprise.

3.3 Balance sheet for small and large entities in the Slovak Republic

For the constructive analysis of the profit creation, it is important to analyse the balance sheet as well. The balance sheet principle and the balance equilibrium in the accounting statement gives a twofold perspective for the same property. The left side, asset side, gives the property reported in its specific form, the right side, liabilities side, gives the property reported from the perspective of its coverage. The balance equation expresses the equilibrium between assets and liabilities sides. This equilibrium expresses that every form of the property must have its own source it was acquired from. In time of reporting in the balance sheet, however, the original source of the specific form of the property form bound in the enterprise does not have to correspond to the source in time of its acquisition. It can be different due to a replacement of the original source of the coverage with other source of the coverage by the reporting period. In quantitative terms, however, in the balance equation the total sum of the property expressed in monetary units is always matching the sum of own equity and liabilities. The equilibrium between the property (P) and capital (C) in wider terms expresses the basic principle of reporting by the equation of P = C. If we divide the capital into own (OC) and borrowed (BC), we can express the modified balance equation as P = OC + BC. In the wider context we can see in accounting theories concepts like "business property/business property maintenance" and "capital/capital maintenance" as synonyms.

Vertical (financial) form of the balance sheet is considered by Slosarova (2014) to be a tool of a financial analysis. The indicator being detected in this form of a balance sheet as a difference between the short-term assets and short-term liabilities is a netto working capital and is often being used for the evaluation of an enterprise, or it can be understood as a free operative property with a form that can quickly change in time. To have this indicator positive it is important for a careful decision making about using and separating assets.

4. CONSTRUCTIVE CRITICAL ANALYSIS OF PROFIT

Commercial Code only states in its provisions regulating creation and use of legitimate reserve fund and indivisible fund in commercial corporations, minimal mandatory profit allowances to the funds, having only a partial "bad times" cumulative and safeguarding effect for the enterprises. Commercial Code does not state how to divide the profit beyond these mandatory allowances to the funds, e.g. regarding the preservation of assets. A thorough analysis of reported business profit must be the base for the profit division, in a way the further existence of the enterprises would be preserved (Paksiova, 2017b).

It is important to be able to identify (Figure no. 1) and earmark from the business profit a part that would correspond to the non-realised profit and virtual profit, as a potential release of those outside the enterprises would threaten their future performance. These parts of reported profit do not correspond to the real produced, realised and real performance, which is a necessary precondition to achieve a real profit.

A realised profit is a profit arising from the comparison of revenues and costs of a respective property type sale, or associated to the service provided outside the enterprise.

The non-realised profit, arising from the result-based revaluation of property to its increased real value, or from declaring exchange rate profits when recalculating assets and liabilities in a foreign currency as of the date of financial statements, shall be, until it is realised, a fictitious profit, that does not have to be realised in the future and until that happens the very basis of the enterprise erodes and its ability to fully perform its activities, being a precondition of revenue generation is jeopardised, as it is not able to reproduce its property.

BUSINESS PROFIT:

PAPER PROFIT – in its entirety represents FICTITIOUS PROFIT:
- profits from revaluation of property held within an enterprise
- non-realised exchange rate profit
- positive balance from variation in stocks of own production

REALISED PROFIT: from property and services sale
other realised profit (realised exchange rate profit)
- profit determined based on revenues (incomes) comparison in current prices and costs in historic prices

REAL (true) PROFIT:
- **a part of profit realised from property sale, corresponding to the comparison of revenues and costs in current (real) prices**

FICTITIOUS (false) PROFIT – a part of realised profit, corresponding to the difference between the costs in current prices and historic prices from realised property.

Source: author

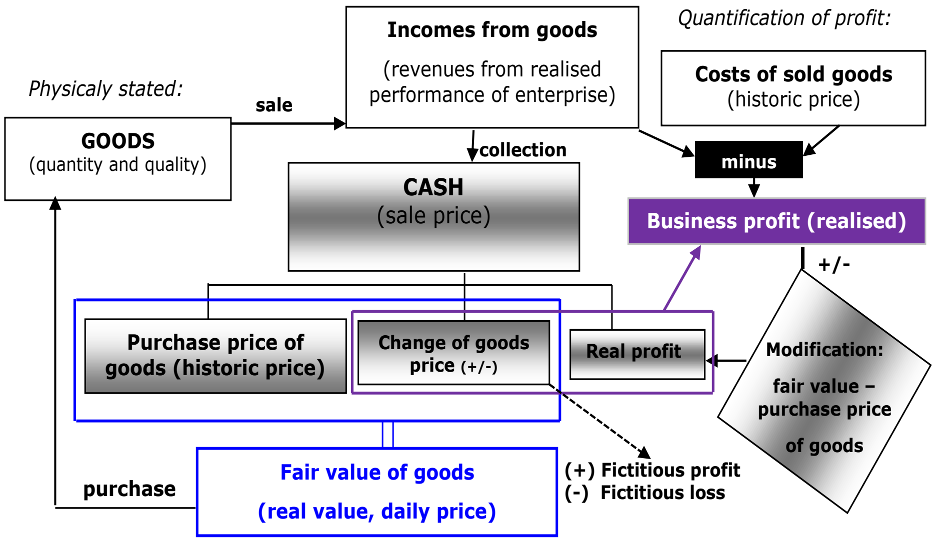
Figure no. 1 – Analysis of business profit

According to the accounting regulations in the Slovak Republic (Act no. 431/2002 Coll. on Accounting, as amended; Measure of the Ministry of Finance of the Slovak Republic of 16 December 2002, no. 23054/2002-92; Measure of the Ministry of Finance of the Slovak Republic of 3 December 2014, no. MF/23378/2014-74; Measure of the Ministry of Finance of the Slovak Republic of 3 December 2014, no. MF/23377/2014-74) some differences arising from property revaluation are accounted in a result-based way, which means they influence the amount of trading income – profit/loss for current period. This is true for the securities intended for trading, securities intended for sale by some securities brokers, as well as for commodities traded on the public market, not produced by the accounting unit itself and procured only for the purpose of further sale on the public market, and for securities and precious metals owned by the fund. In such cases, the increase/decrease of the property's real value and positive/negative difference from revaluation to the real value is accounted as revenues to the account 664 – Revenues from revaluation of securities (or 667 – Revenues from derivative operations) / as costs to the account 564 – Costs of revaluation of securities (or 567 – Costs of derivative operations) and is reported in a profit and loss statement when the trading income from financial activities is quantified, which is a part of the trading income from financial activities before taxation and subsequently of the trading income for an accounting period before and after taxation (Bednarova and Slosarova, 2015; Slosarova, 2014).

Accounting of changes in production stocks level in case of increase and decrease of their level on revenue accounts of accounting group 61 – Changes in internal stocks level represents in case of a positive closing balance of these accounts the non-realised profit, because this revenue was not realised outside the enterprise. It only becomes realised when these own production stocks are sold and incomes from own products, goods or services are accounted.

In case of the realised profit, the risk of inception and division of the fictitious profit (Figure no. 1) is lower and associated with a change in realised (sold) property price in time. In this case, the fictitious profit represents the part of the realised profit corresponding to the difference between costs associated with realised performance and valuated in current prices, and their valuation in historic prices used when business profit is quantified. Real (true) profit is the part of the realised profit from realised performance, corresponding to the comparison of incomes and associated costs, both in current (fair value, real) prices.

Divisive profit is the part of business profit which, in case of its division outside the enterprise (by owner, associate, shareholder, co-op member) does not jeopardise the performance of the enterprise, i.e. production ability (assets in all ways of its understanding) stays preserved. For the correct identification of the divisive profit, it is thus important to quantify the real profit from the business profit (Figure no. 2), so we can consider the lower one divisive after their mutual comparison.



Source: author

Figure no. 2 – Quantification of a real profit from the sale of goods

Figure no. 2 shows the process of quantifying the real profit by separating the fictitious profit from the realised business profit.

5. CONCLUSIONS

For the distribution of the achieved financial result, especially profit, is important to do it, in order to preserve the property in the business entity, thus ensuring that the enterprise operates in the future.

The analysis of the business property's changing trends of the entity should be one of the most important tasks of the financial analysis for the assessment of the financial situation of the enterprise. The decrease of the business property can cause a future reduction in the production ability of the enterprise to the extent causing an involuntary closing of business activities. The reduction of business property is usually caused not only by the reported loss, but also by the greater distribution of profits, as is the amount of the real level of the enterprise's distributable reserves profit of the business. A thorough analysis of the reported accounting profit must be the starting point for the allocation of profit, which does not compromise the further existence of the enterprise. It is important to be able to identify and assign a portion of the accounting profit, corresponding to the non-realised profit and fictitious profit, where eventual release outside the enterprise threatens the future performance of the enterprise. These portions of the reported profit do not correspond to the actually made, realised and real production, which is a necessary condition to achieve a real profit. The division of real profit to the investors is the only thing that will not cause a threat to the existing abilities of an enterprise, neither in the short nor the long term. The decision on the way of division of the reported profit, any undertaking received in the present is therefore a strategic, especially in relation to the future of the business. For sustainable business development it is a relevant tool retention of the proceeds in enterprise by sustainable and growing business property in financial (monetary) understanding and physical (material) understanding as well.

Since the main of entity's internal resources is produced profit, constructive critical analysis of profit creation and its quantification is important for every decision-making on its allocation with a goal to maintain the enterprise's health. Items that need to be carefully analysed for proper assessment of their essence and impact on generated profits are mainly revenues. In particular, it is a matter of assessing whether the revenues are realised, or that they are as a result only from a change in valuation or a change in the method of measurement, book keeping and reporting. In the case of underestimated costs, then the calculated profit is overestimated and must also be analysed to avoid the production capacity of the enterprise being compromised in the event of an overestimation outside the enterprise.

A realised profit is a profit arising from the comparison of revenues and costs of a respective property type sale, or associated to the service provided outside the enterprises.

The non-realised profit, arising from the result-based revaluation of property to its increased real value, or from declaring exchange rate profits when recalculating assets and liabilities in a foreign currency as of the date of financial statements, shall be, until it is realised, a fictitious profit, that does not have to be realised in the future and until that happens the very basis of the enterprise erodes and its ability to fully perform its activities, being a precondition of revenue generation is jeopardised, as it is not able to reproduce its property. In case of the realised profit, the risk of inception and division of the fictitious profit is lower and associated with a change in realised (sold) property price in time. Real (true) profit is the part of the realised profit from realised performance, corresponding to the comparison of incomes and associated costs, both in current (real) prices. Divisive profit is the part of business profit which, in case of its division outside the enterprise (by owner, associate, shareholder, co-op member) does not jeopardise the performance of the enterprise, i.e. production ability (assets in all ways of its understanding) stays preserved.

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