

## ANALYSIS OF THE RESULT OF THE FINANCIAL YEAR AND OF THE EARNINGS PER SHARE

**PhD. Student Anatol MELEGA**

*Stefan cel Mare University of Suceava, 720229, Romania  
melega.anatol@gmail.com*

**PhD. Student Vasilica - Monica ANCUȚA (ARSENE)**

*Stefan cel Mare University of Suceava, 720229, Romania  
monica.arsene@gmail.com*

### **Abstract**

*The issue of management and administration of the entity, regardless of the object of activity and the proposed purpose is complex. The assessment of differences in performance and financial position depends on the nature of the entity, the system of instruments used in wealth management. In order to withstand the competitive environment, any entity needs information, without which the decision-making process through which the entity is managed could not take place. To obtain this information, an analysis of the annual financial statements is required to assess the entity's financial position and performance. The information is useful both for the entity that analyzes the financial statements and for suppliers, customers, potential investors, financial creditors and anyone who wants to know information about the entity. This paper aims to present the main theoretical and practical aspects related to the delimitation and analysis of the result of the financial year and, implicitly, of the earnings per share.*

**Key words:** *accounting; enterprise performance; Earnings Per Share*

**JEL Classification:** *M40*

### **I. INTRODUCTION**

In order to withstand fierce competition, any entity must occupy and hold a strong place in that market and conduct a business that is sufficiently profitable to achieve the proposed objectives. The result of the exercise is the strong indicator within any entity, as being positive or negative, it is possible immediately to assess the economic and financial situation in which the entity is at that time.

The performance of the entity is significant and essential information for most users. Information about the entity's financial position, financial performance and changes in financial position is provided by the financial statements (statements), useful to existing and potential investors, lenders and other creditors, in the decisions they make regarding the provision of resources to the entity. Any activity or economic agent cannot progress, it cannot develop, if it does not make a profit.

The activity of any enterprise consists of various transformational processes, which generate consumption (expenses) and, at the same time, produce results (revenues). Given their nature, these processes are grouped into financial activity and operating activity.

The object of activity of each entity is achieved by using the factors of production, material resources and, respectively, human resources. Some of these resources are consumed, others are gradually depreciated (depreciated), and some resources (human resources) must be remunerated. The monetary expression of the consumption of the factors of production, human and material, determined by the obtaining and sale of material goods, the execution of works and the provision of services form the operating expenses. The recovery of these expenses is made on account of operating income, the expenses being included in the cost of goods, works or services and, subsequently, in the selling prices.

Economic results can appear in the form of profit or loss. Profit represents those incomes that have exceeded the expenses, and losses - the expenses that have not been covered by the incomes. From the point of view of financial reporting, the result of the economic activity of the entity is presented through the profit and loss account, which reflects the profit or loss for the year.

### **II. THEORETICAL CONSIDERATIONS REGARDING THE RESULT OF THE EXERCISE AND EARNING PER SHARE**

In the explanatory dictionary the concept of „result” is defined as „that which results from an action, from a fact, from a calculation; consequence; result” (see <https://dexonline.ro/definitie/rezultat>). From the economic

point of view, the result must be perceived as a final or intermediate effect of some economic actions, more or less deliberate, being the one that confirms or refutes the usefulness of these actions. The concept of result is a subjective concept, which does not mean that a given result cannot be measured objectively, but the concept of result varies depending on the people who do the analysis or for whom this analysis is done (Niculescu & Lavalette, 1999:255).

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According to the authors Ristea, Lungu and Jianu (2004: 231), expenditures are “decreases in economic benefits recorded in the accounting period in the form of outflows or decreases in the value of assets, or an increase in liabilities, which result in reductions in equity other than those resulting from their distribution to shareholders.”

Revenue is an increase in economic benefits recorded during the accounting period in the form of inflows or increases in assets or decreases in debt, which are included in increases in equity other than those resulting from the shareholders contribution.

The result of the exercise is defined in terms of the entity's profitability, so the equation used is of the form:

$$\text{RESULT OF THE EXERCISE} = \text{EXERCISE REVENUES} - \text{EXPENSES YEAR}$$

The income category includes both the amounts or values collected in ones own name from current activities and earnings from other sources.

The entity's expenses are represented by the amounts paid or payable for: consumption of stocks and services provided, from which the entity benefits; staff costs; performance of legal or contractual obligations.

The structure of the result for the year includes the following indicators:

- operating result (Rexpl- EBIT);
- financial result (Rf);
- gross result (Rb);
- net result (Rn).

The *operating result* measures the commercial and industrial performance of the entity, being independent of the financial and fiscal policy, but takes into account depreciation and provisions. It is also known as operating income and expresses the surplus of operating income over operating expenses.

The *financial result* is the result of the financial activity, it includes elements of financial flows and elements corresponding to the attached risks.

The *gross result* for the year is obtained by summing the operating result with the financial result. This result is the residual balance between total revenue and total expenditure.

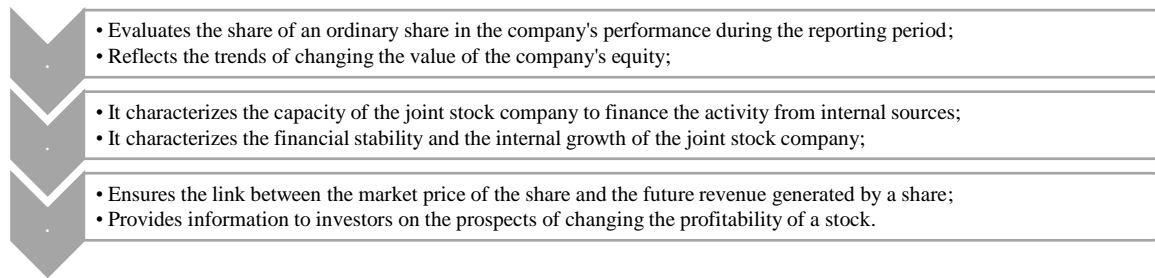
The *net result* for the year represents the final balance after applying the tax rate on the taxable result (fiscal result).

The entity's performance or non-performance is the measure of producing future financial flows (income), by using the resources at its disposal (expenses of the period) and, last but not least, the degree of efficiency in the use of new resources (profit or loss).

The authors Islam, Rahman, Tonmoy, Choudhury and Mahmood (2014) argue that the indicator „Earnings per share” is considered the most important indicator in measuring the performance of the enterprise, allowing relevant comparisons in time and space. Noticing the importance of the information that can be provided, listed companies calculate this indicator in its two forms: basic earnings per share and diluted earnings per share.

IAS 33 „Earnings per share”, the purpose of which is to determine and present, as the name implies, earnings per share, is in particular the calculation of the denominator of this indicator in relative terms, namely the 'weighted average number of shares outstanding. The information obtained from the calculation of the „earnings per share” indicator is particularly important for users of financial statements, especially in the case of savings where private investment is essential. The logical composition of the indicator allows relevant comparisons in terms of performance both in space, between different companies and in time within the same company.

The authors Chirilov and Țiriulnicova (2019) identified several informational objectives of the earnings per share indicator (see Figure 1), which argue that economic decisions on investing in shares are conditioned by the authenticity, clarity and integrity of information on the size and evolution of earnings per share.



**Figure 1 – Objectives of information on earnings per share**

Source: Chirilov & Țiriulnicova, 2019

Improving the decision-making process by investors, creditors, customers and suppliers will only be done if entities provide access to relevant and comparable information in a single global language.

The result indicators quantify in value form the finality of a lucrative economic activity, the level of quantification being broader or more synthetic depending on the needs of analysis.

Lee, Petter, Fayard and Robinson (2014) consider that accounting results can have the following uses:

- guide of the dividend and accumulation policy of the entity;
- means of predicting future results;
- means of evaluating the quality of enterprise management;
- means of assessing the value of decisions taken by other groups related to the entity concerned;
- managerial tool in a number of areas inside or outside the entity (pricing policy, salary negotiations, credibility with credit agencies, etc.).

The absolute level of result indicators provides information with predilection about the size of the economic entity that characterizes it and less about its performance. In the paper *Impact of Dividend Policy, Earning per Share, Return on Equity, Profit after Tax on Stock Prices*, Hunjra, Ijaz, Chani, Hassan and Mustafa (2014), argue that the informational value of these absolute quantities is appreciated by the general public, non-specialist in economic issues and less appreciated by economic and financial analysts.

### **III. CONSIDERATIONS ON THE OVERALL RESULT OF THE FINANCIAL YEAR AND EARNING PER SHARE IN THE CONTEXT OF INTERNATIONAL ACCOUNTING STANDARDS**

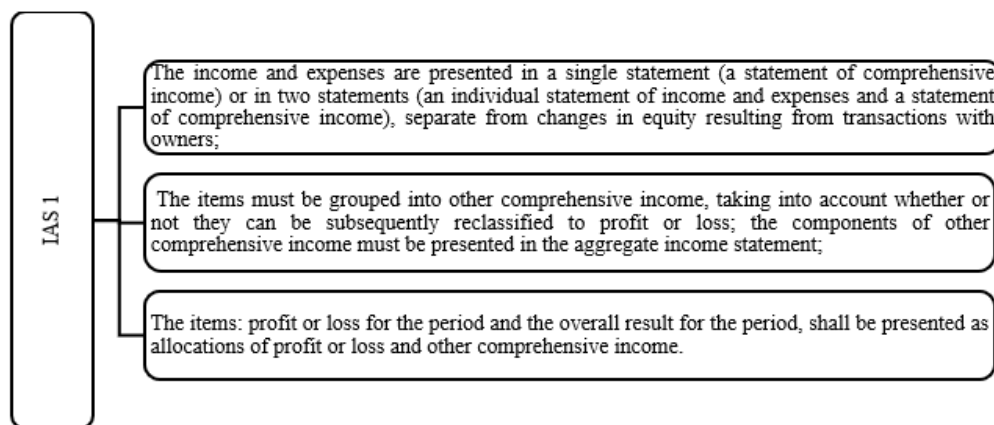
As a whole, accounting is a technology that is applied in a variety of political, economic and social contexts. Due to the development of these areas, the situation of a global accounting environment has been reached, in which there is an increasing emphasis on unity at the level of financial reporting. National and international bodies focus their efforts on accounting convergence, between the international accounting framework, developed by the International Accounting Standards Board (IASB) and based on International Financial Reporting Standards (IFRS), respectively the American one, guided by Accounting Standards Financial Statement (FAS) promulgated by the Council for Financial Accounting Standards (FASB) in the United States and the USDpean one, drawn up by specific USDpean directives (Ienciu & Ienciu, 2013).

At the international level, the two regulatory bodies (IASB and FASB) assign a major interest in the accounting treatment of earnings and earnings per share, respectively, through the two specific regulations: IAS 1 „Presentation of Financial Statements” and IAS 33 „Earnings per share”.

The objective of IAS 1 „Presentation of Financial Statements” is to clarify the presentation of components that relate to other comprehensive income and to help users of financial statements distinguish between components of other comprehensive income that may be subsequently reclassified (recycled) to the income statement and those that can never be reclassified to the income statement.

The current accounting model of an entity's performance allows certain items of gains and losses not to be recognized in the calculation of profit or loss for the period, but to be recognized directly in equity. In principle, all items of income and expense recognized in a period are required to be included in the profit or loss for the period, but certain IAS / IFRS standards require that these categories (eg revaluation surplus, exchange rate differences, gains and losses from the revaluation of financial assets held for sale) are recognized directly as changes in the statement of equity. The financial statements would not be complete if they provided shareholders only with information related to the profit for the year, but not with information on changes in equity.

IAS 1 provides some clarification on how to present financial statements and their content (see Figure 2).



**Figure 2 – The content and presentation of the Financial Statements in accordance with IAS1**

Source: International Accounting Standards Board (2015)

Profit or loss means total income less expenses, excluding components of other comprehensive income.

The global result expresses the change in equity during the period resulting from transactions and other events, includes all elements of profit or loss and other elements of the global result.

Other comprehensive income is items such as income and expense (including reclassification adjustments) that are recognized in profit or loss for the period. According to the International Accounting Standards Board (2015) other elements of the overall result include: revaluation changes and surpluses; gains and losses resulting from the translation of the financial statements of a foreign operation as well as revaluations of defined benefits.

The statement of profit or loss and other comprehensive income will present the following sections, in addition to profit or loss and other comprehensive income:

- profit or loss;
- other elements of the overall result;
- the overall result for the period, which is the total of profit or loss and other elements of the overall result.

If the entity wishes to present an individual statement of profit or loss, it will not disclose the profit or loss section of the statement of comprehensive income.

The entity shall not disclose any item of income or expense as an extraordinary item in the income statement or other comprehensive income or in the notes. A mandatory requirement for the company is the recognition of each item of income and expense for a period of profit or loss, unless IFRS provides or permits a different method.

IAS 1 requires the entity to present income tax for each component of other comprehensive income, including reclassification adjustments, either in the statement of profit or loss and other comprehensive income, or in notes, to provide users with tax information. related to these components, because the components often have different tax rates than those applied to profit or loss.

The components of other comprehensive income may be presented in two ways:

- or without the related fiscal effects;
- or before the related tax effects, the entity allocating the tax between the items that can be subsequently reclassified to the profit or loss section and those that will not be subsequently reclassified to the profit or loss section.

IAS 1 „Reporting of Financial Statements” applies to all entities, including entities that report consolidated financial statements and entities that report individual financial statements. The standard prescribes the basis for the presentation of general financial statements to ensure comparability with both the entity's financial statements for prior periods and the financial statements of other entities IAS 1 also sets out the provisions for the presentation of financial statements, guidelines for structure and minimum provisions for their content.

The objective of IAS 33 „Earnings per share” is to prescribe the principles necessary for determining and presenting the earnings per share, which allow a better comparison of the performance indicators of different entities within the same reporting period, as well as the indicators of the same entity, entities from one reporting period to another.

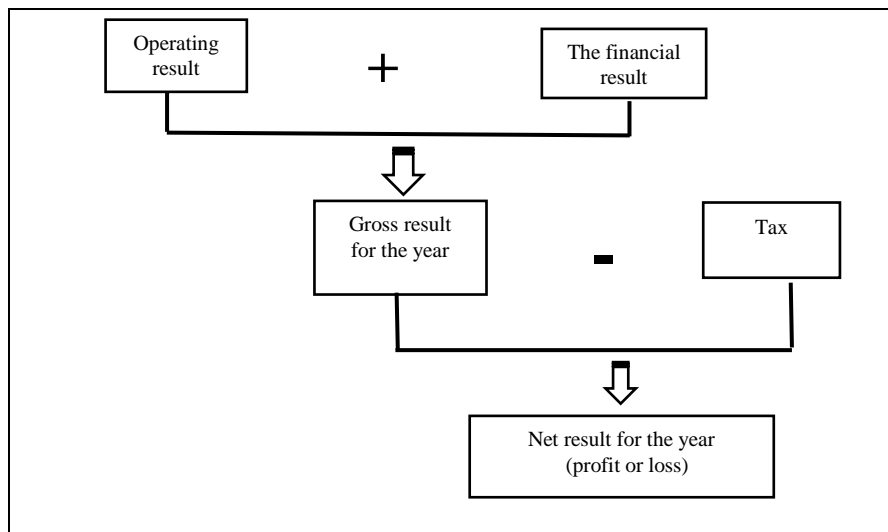
IAS 33 applies to undertakings whose common (ordinary) shares or potential common (ordinary) shares are traded on the stock exchange but also to undertakings which have no obligation to do so, however, provide information on the earnings per share. It is well known that equity instruments are securities that can take the form of common shares and preference shares, as well as other similar instruments, representing what belongs to the holders of the company's equity (IASB, 2015:963).

IAS 33 defines two terms that measure earnings per share: basic earnings per share and diluted earnings.

**IV. STRUCTURAL ANALYSIS OF THE RESULT FOR THE YEAR BASED ON THE PROFIT AND LOSS ACCOUNT**

The results of the entity summarize the efficiency and profitability with which the entire economic activity of the entity was carried out.

The net result is formed, according to the structure of the profit and loss account, as follows:



**Figure 3 – Formation of the net result**

Source: developed by the authors

Based on the structure of the profit and loss account, the following accounting margins can be determined:

- |                              |   |                           |   |                    |
|------------------------------|---|---------------------------|---|--------------------|
| 1. Operating result          | = | Operating income          | - | Operating expenses |
| 2. Financial result          | = | Financial income          | - | Financial expenses |
| 3. Net result for the year   | = | Gross result for the year | - | Income tax         |
| 4. Gross profit for the year | = | Operating result          | + | Financial result   |

For the structural analysis of the result of the exercise we consider the following hypothetical example at a commercial company ( see Table 1):

**Table 1. Indicators on the structure of the result for the year**

No.	Indicators	2018	2019	Deviation (+,-)	Structure for the year 2018	Structure for the year 2019
	A	1	2	3 = (2)-(1)	4	5
1.	Operating income	41.515.578	49.504.367	+ 7.988.789	-	-
2.	Operating expenses	40.887.668	48.709.896	+ 7.822.228	-	-
3.	Operating result (1 - 2)	627.910	794.471	+ 166.561	167,58	121,83
4.	Financial income	922	3.443	+ 2.521	-	-
5.	Financial expenses	254.146	145.779	- 108.367	-	-
6.	Financial result / Loss (4-5)	- 253.224	- 142.336	+ 110.888	- 67,58	- 21,83
7.	Gross result for the year / Profit (3+ 6)	374.686	652.135	+ 277.449	100	100
8.	Income tax	74.673	136.074	+ 61.401	19,93	20,87
9.	Net result for the year / Profit (7- 8)	300.013	516.061	+ 216.048	80,07	79,13

\*Notes: The share of corporate income tax in gross profit =  $\frac{\text{Income tax}}{\text{Gross Results}} * 100\%$ ; Share of net result in gross result =  $\frac{\text{Net results}}{\text{Gross results}} * 100\%$

Source: developed by the authors

Analyzing the results from Table 1, we notice that the net result of the analyzed company registered a favorable increase by 216.061 USD in the current period compared to the previous one.

From the structure of the indicators related to the gross result, the largest share is recorded in the operating result, for both periods. In 2018 it represents 167,58%, and in 2019 – 121,83%. This is explained by the fact that the revenues from the exploitation activity have a higher tendency to increase than the expenses from the exploitation activity both in 2018 and in 2019.

Regarding the structure of the financial result, it has a negative weight for both periods (-67,58% for 2018, and -21,83% for 2019), which is a negative impact for the entity.

The revenues from the financial activity, both for 2018 and for 2019 are lower compared to the expenses related to the financial activity.

The profit tax has a share of 24,89% for the period 2018 and 26,37% for the period 2019. There is an increase of this indicator in the structure, which means that the expenses regarding the profit tax have also increased.

**IV.1. PROFITABILITY RATE ANALYSIS**

Profitability, being a form of expression of economic efficiency, is defined as the ratio between the result obtained (effect) and the means used (effort). Any human action presupposes that the effect precedes the effort. This summary content motivates the entity's approach at the end of the efficiency assessment criteria.

Profitability rates are synthetic indicators, which assess in relative form the profitability situation and the unit's ability to produce profit. Profitability rates are among the most important indicators that assess the overall efficiency of an entity's activity, as they reflect the results obtained as a result of going through all stages of the economic circuit: supply, production and sales.

The importance of knowing profitability rates:

- favors the orientation of the production structure on products, branches and sub-branches, in the sense of finding those that offer the greatest advantage. Economic flows are permanently redirected, imprinting an unequal development on economic activities;
- stimulates management through rational use of resources;
- contributes to strengthening the entrepreneur's interest in product differentiation, focusing on modernizing the concept of quality;
- favors market segmentation and differentiation of trade strategies.

The main rates of return that can be determined are (see Table 2):

**Table 2. Profitability rates, significance, determination models**

Indicator	Meaning	Calculation model
Commercial profitability rate ( $R_c$ )	It expresses the efficiency of the entity's business activity, as well as the profitability of turnover, which is determined as the ratio between the efferent profit of turnover (Pr) and the turnover (CA).	$R_c = \frac{Pr}{CA} * 100$
Rate of return on resources consumed ( $R_{rc}$ )	Represents the correlation between the profit obtained from the realization of the products and the total costs related to these achievements; it is calculated on the basis of the ratio between the profit related to the turnover (Pr) and the expenses related to the turnover (Ch).	$R_{rc} = \frac{Pr}{Ch} * 100$
Economic rate of return ( $R_e$ )	Reflects the efficiency of using the total assets of the entity and the capital invested to achieve the expected performance; is determined as the ratio between gross result (P) and total assets (At).	$R_e = \frac{P}{At} * 100$
Financial rate of return ( $R_f$ )	It expresses the degree of efficiency of the use of equity, determined as the ratio between the net result (Pn) and equity (Kp).	$R_f = \frac{Pn}{Kp} * 100$

Source: Solomon, 2013: 72

The analysis of the efficiency of the supply, storage and sale policy, of the price policy practiced, is performed with the help of the commercial profitability rate, which offers the possibility to cover all the expenses of the entity.

The detailed analysis of the commercial profitability rate highlights the contribution margin of each product, which makes up the range of products to be sold, to the commercial profitability of the entity, thus ensuring the possibility of maintaining in the production plan those products capable of making the maximum contribution, in correlation with market requirements, and with the resources available to the entity.

Economic profitability expresses the efficiency of the material and financial means allocated to carry out the activity of the entity. The capital committed by the entity during a financial year is represented by equity and borrowed capital. The return on capital in the form of dividends or interest is made after strategic investments (fixed assets), operating investments (working capital needs) and equilibrium investments (to ensure cash) are covered.

The rate of economic return expresses both the degree of remuneration of the capitals engaged in the activity of the entity and the method of remuneration of the risks assumed by shareholders or associates for the capital invested in the entity. The size of the economic rate of return has a decisive role to play in determining how to finance it in the long and short term.

The rate of financial profitability allows the assessment of the efficiency of the capital investments of the shareholders and the opportunity to maintain them. This rate is a relevant indicator in assessing the entity's market position. An increasing return on invested capital ensures:

- rapid access to financial resources due to the confidence of current owners to reinvest in the enterprise;
- potential investors - holders of financial resources available for investments;
- development capacity.

The indicators used in the diagnostic analysis based on the rate of return are presented in Table 3.

Table 3. Calculation of profitability rates

No.	Indicators	2018	2019	Deviation (+, -)	Achievement indices (%)	Growth rate, %
1.	Profit related to turnover (Pr), USD	330.500	480.756	+ 150.256	145,46	+ 45,46
2.	Net turnover (CA), USD	34.761.006	37.051.025	+ 2.290.019	106,59	+ 6,59
3.	Turnover expenses (Ch), USD	34.430.506	36.570.269	+ 2.139.763	106,21	+ 6,21
4.	Total assets (At), USD	22.374.117	25.368.318	+ 2.994.201	113,38	+ 13,38
5.	Equity (Kp), USD	8.834.842	9.040.240	+ 205.398	102,32	+ 2,32
6.	Gross result (P), USD	374.686	652.135	+ 277.449	174,05	+ 74,05
7.	Net result (Pn), USD	300.013	516.061	+ 216.048	172,01	+ 72,01
8.	Commercial profitability rate ( $R_c = \frac{Pr}{CA} * 100$ )	0,95	1,30	+ 0,35	136,84	+ 36,84
9.	Rate of return on resources consumed ( $R_{rc} = \frac{Pr}{Ch} * 100$ )	0,96	1,31	+ 0,35	136,46	+ 36,46
10.	Economic profitability rate, ( $R_e = \frac{P}{At} * 100$ )	1,67	2,57	+ 0,90	153,89	+ 53,89
11.	Financial rate of return, ( $R_f = \frac{Pn}{Kp} * 100$ )	3,40	5,71	+ 2,31	167,94	+ 67,94

Source: developed by the authors

According to the data analyzed at our company, the rate of commercial profitability increased in the current year compared to the previous one from 0,95% to 1,30% by 0,35%, which is a profitable situation for the entity, there is a fulfillment of the program established due to the increase in self-financing capacity.

For the entity, the economic profitability has a favorable influence, increasing by 0,90% in the current year compared to the previous one.

A positive upward trend is also observed at the rate of financial profitability, whose increase is 2,31% from 3,40% in the previous year to 5,71% in the current year.

An unfavorable appreciation for the entity is the rate of return on consumed resources, which increased by 0,35% in the current period compared to the previous one, caused by the increase in turnover expenses from 34.430.506 USD to 36.570.269 USD by 2.139.763 USD.

#### IV.2. ANALYSIS OF THE EFFICIENCY OF INCOME EXPENDITURE

In order to analyze the efficiency of the expenses related to the revenues, we will use the indicator of the efficiency rate of the total expenses, also called expenses per 1.000 USD total revenues (Rct):

$$Rct = \frac{Cht}{Vt} * 1.000 = \frac{\sum_{i=1}^n Ch_i}{\sum_{i=1}^n V_i} * 1.000 = \frac{\sum_{i=1}^n g_i * c_i^{(1000)}}{100} \quad (1)$$

where: Cht=  $\sum_{i=1}^n Ch_i$  represents the sum of the expenses on the two categories of activities: operation and financial;

$Ch_i$ = expenses at the level of each category of activity „i” (operating expenses, financial expenses);

$Vt = \sum_{i=1}^n V_i$ , represents the sum of income by categories of activities;

$V_i$ = income at the level of each category of activity „i” (operating expenses, financial expenses);

$g_i$  = income structure by categories of activities;  $g_i = \frac{V_i}{Vt} * 100$

$c_i^{(1000)}$ = efficiency rate of expenses by categories of activities (for example, expenses per 1000 USD operating income  $c_e^{(1000)} = \frac{Ch_e}{V_e} * 1000$ ).

**Table 4. Factor analysis of the indicator - Total cost efficiency rate (Rct)**

No.	Indicators	2018	2019	Deviation (+, -)	Achievement indices (%)	Growth rate, (%)
1.	Operating income, USD	41.515.578	49.504.367	+ 7.988.789	119,24	+ 19,24
2.	Financial income, USD	922	3.443	+ 2.521	373,43	+ 273,43
3.	Total income, USD	41.516.500	49.507.810	+ 7.991.310	119,25	+ 19,25
4.	Operating expenses, USD	40.887.668	48.709.896	+ 7.822.228	119,13	+ 19,13
5.	Financial expenses, USD	254.146	145.779	- 108.367	57,36	-42,64
6.	Total expenses, USD	41.141.814	48.855.675	+ 7.713.861	118,75	+18,75
7.	Expenses per 1000 USD operating income, ‰	984,88	983,95	+ 35,07	103,70	+3,70
8.	Expenses per 1000 USD financial income, ‰	275.646,42	42.340,69	- 233.305,73	15,36	-84,64
9.	Total cost efficiency rate, ‰	990,98	986,83	- 4,15	99,58	- 0,42
10.	Share of operating income, %	99,997779	99,993046	- 0,004733	99,995267	-0,004733
11.	Share of financial income, %	0,002221	0,006954	+ 0,004733	313,10	+ 213,10

Source: developed by the authors

A. The calculation model:  $Rct = \frac{Cht}{Vt} * 1.000$

1. Total change of the indicator ( $\Delta Rct$ ):

$$\Delta Rct = \Delta Rct_1 - \Delta Rct_0 = \frac{Cht_1}{V_1} * 1.000 - \frac{Cht_0}{V_0} * 1.000 = 986,83 \text{ ‰} - 990,98 \text{ ‰} = -4,15 \text{ ‰} \quad (2)$$

$$\Delta Rct (\%) = \frac{\Delta Rct}{Rct} * 1.00 = \frac{-4,15 \text{ ‰}}{990,98 \text{ ‰}} * 100 = -0,42 \text{ ‰}$$

Decomposition on factors influencing the indicator:

$$\Delta Rct = \Delta Rct_{(Vt)} + \Delta Rct_{(Cht)} \quad (3)$$

2. The influence of the change in total revenues (Vt):

$$\Delta Rct_{(Vt)} = \frac{Cht_0}{V_1} * 1.000 - \frac{Cht_0}{V_0} * 1.000 = \Delta Rct' - \Delta Rct_0 = \frac{41.141.814}{49.507.810} * 1.000 - 990,98 = 831,02 - 990,98 = -159,96 \text{ ‰}$$

3. The influence of the change in total expenditure (Cht):

$$\Delta Rct_{(Cht)} = \frac{Cht_1}{V_1} * 1.000 - \frac{Cht_0}{V_0} * 1.000 = \Delta Rct_1 - \Delta Rct' = 986,83 - 831,02 = +155,81 \text{ ‰} \quad (4)$$

4. Synthesis of the analysis results:

$$\Delta Rct = (-159,96) + (+155,81) = -4,15 \text{ ‰} \quad (5)$$

Interpretation of results:

The indicator „efficiency rate of total expenditures” registered a decrease of 4,15 ‰ (from 990,98 ‰ to 986,83 ‰), respectively by 0,42%; a favorable evolution for society determined by the influences of the factors: total income and total expenses.

The efficiency of total expenditure has improved, as the growth rate of total revenue outpaces the growth rate of total expenditure ( $I_{Vt} > I_{Cht}$ ;  $119,25\% > 118,75\%$ ).

Total revenues increased by 7.991.310 USD, from 41.516.500 USD in 2018 to 49.507.810 USD in 2019, which had the effect of reducing the efficiency rate of total expenditures by 159,96 ‰, favorable influence for our entity.

The total expenses also registered an increase of 7.713.861 USD, from 41.141.814 for 2018 to 48.855.675 USD for 2019, which determined the increase of the efficiency rate of the total expenses by 155,81 ‰, being an unfavorable situation for the company.

B. The calculation model:  $\Delta Rct = \frac{\sum_{i=1}^n g_i * c_i^{(1000)}}{100}$  (6)

1. Total change of the indicator ( $\Delta Rct$ ):

$$\Delta Rct = \Delta Rct_1 - \Delta Rct_0 = \frac{\sum_{i=1}^n g_{i1} * c_{i1}^{(1000)}}{100} - \frac{\sum_{i=1}^n g_{i0} * c_{i0}^{(1000)}}{100} = \frac{99,993046 * 983,95 + 0,006954 * 42.340,68}{100} - \frac{99,997779 * 984,88 + 0,002221 * 275.646,42}{100} = 986,83 \text{ ‰} - 990,98 \text{ ‰} = -4,15 \text{ ‰} \quad (7)$$



$$\Delta Rct (\%) = \frac{\Delta Rct}{Rct} * 1.00 = \frac{-4,15 \text{ ‰}}{990,98 \text{ ‰}} * 100 = -0,42 \text{ ‰} \quad (8)$$

2. *Decomposition on factors influencing the indicator:*

$$\Delta Rct = \Delta Rct_{(gi)} + \Delta Rct_{(ci)} \quad (9)$$

3. *The influence of changing the structure of income (gi):*

$$\begin{aligned} \Delta Rct_{(gi)} &= \frac{\sum_{i=1}^n g_{i1} * c_{i0}^{(1000)}}{100} - \frac{\sum_{i=1}^n g_{i0} * c_{i0}^{(1000)}}{100} = \Delta Rct^r - \Delta Rct_0 = \\ &= \frac{99,993046 * 984,88 + 0,006954 * 275.646,42}{100} * 1.000 - 990,98 = 1.003,98 - 990,98 = +13\% \end{aligned} \quad (10)$$

$\Delta Rct^r$  = the cost efficiency rate recalculated according to the actual revenue structure.

4. *The influence of the change of expenses to 1.000 USD income by categories of activities ( $c_i^{(1000)}$ ):*

$$\Delta Rct_{(cht)} = \frac{\sum_{i=1}^n g_{i1} * c_{i1}^{(1000)}}{100} - \frac{\sum_{i=1}^n g_{i1} * c_{i0}^{(1000)}}{100} = \Delta Rct_1 - \Delta Rct^r = 986,83 - 1.003,98 = -17,15 \text{ ‰} \quad (11)$$

5. *Synthesis of the analysis results:*

$$\Delta Rct = (+13) + (-17,15) = -4,15 \text{ ‰} \quad (12)$$

*Interpretation of results:*

The indicator „efficiency rate of total expenditures” decreased by 4,15 ‰ (from 990,98 ‰ to 986,83 ‰), respectively by 0,42%; a favorable evolution for the analyzed entity, determined by the influences of the factors:

1. income structure by activity categories ( $g_i$ );
2. expenses at 1.000 USD income by activity categories ( $c_i^{(1000)}$ ).

The structure of revenues by categories of activity ( $g_i$ ) deteriorates slightly, decreases the share of revenues from operating activity, from 99,997779% to 99,993046%, whose efficiency rate is higher than the average (983,95 > 986,83 ‰), having a negative impact on the entity, which determined the increase of the efficiency rate by 13 ‰.

Expenditures per 1.000 USD of income by categories of activities ( $c_i^{(1000)}$ ) had an unfavorable influence on the operating activity, which increased by 35,07 ‰, but due to the fact that expenses per 1,000 USD of financial income were -they decreased by 233.305,73 ‰, the efficiency of total expenditures improved, and, respectively, the efficiency rate decreased by 17,15 ‰, which is appreciated favorably at the whole enterprise level.

### IV.3. FACTORIAL ANALYSIS OF THE EXERCISE RESULT

The net result for the year represents the final balance after applying the tax rate to the taxable result, according to the formula:

$$\text{The net result (Rn)} = \text{The gross result (Rb)} - \text{Income tax (Ip)} \quad (13)$$

As we have already shown, the gross result is calculated according to the formula  $Rb = \text{Operating income (Rex)} + \text{Financial result (Rf)} = [\text{Operating income (Vex)} - \text{Operating expenses (Chex)}] + [\text{Financial income (Vf)} - \text{Financial expenses (Chf)}]$ . So the net result has the following formula:

$$Rn = Rex + Rf - Ch_{Ip} = Vex - Ch_{ex} + Vf - Ch_f - Ip \quad (14)$$

Based on the data from Table 1, we will perform the factorial analysis of the net result for the financial year / profit, to determine which factors contributed positively and negatively to the increase or decrease of the indicator.

1. We determine the total change in the net result for the financial year:

$$\Delta Rn = \Delta Rn_1 - \Delta Rn_0 = 516.061 - 300.013 = +216.048 \text{ USD} \quad (15)$$

$$\Delta Rn(\%) = \frac{\Delta Rn}{Rn_0} * 100 = \frac{+216.048}{300.013} * 100 = +72,01 \text{ ‰} \quad (16)$$

2. *Decomposition on factors influencing the indicator:*

$$\Delta Rn = \Delta Rn_{(Rex)} + \Delta Rn_{(Rf)} = \Delta Rn_{(Vex)} + \Delta Rn_{(Ch_{ex})} + \Delta Rn_{(Vf)} + \Delta Rn_{(Ch_f)} + \Delta Rn_{(Ip)} \quad (17)$$

3. *The influence of the change in the operating result (Rex):*

$$\Delta Rct_{(Rex)} = Rex_1 - Rex_0 = 794.471 - 627.910 = +166.561 \text{ USD} \quad (18)$$

The influence of changes in operating income (Vex):

$$\Delta Rct_{(Vex)} = Vex_1 - Vex_0 = 49.504.367 - 41.515.578 = +7.988.789 \text{ USD} \quad (19)$$

The influence of changes in operating expenses (Chex):

$$\Delta Rct_{(Chex)} = - (Chex_1 - Chex_0) = - (48.709.896 - 40.887.668) = - 7.822.228 \text{ USD} \quad (20)$$

4. *The influence of the change in the financial result (Rf):*

$$\Delta Rct_{(Rf)} = Rf_1 - Rf_0 = (-142.336) - (- 253.224) = + 110.888 \text{ USD} \quad (21)$$

The influence of changes in financial income (Vf):

$$\Delta Rct_{(Vf)} = Vf_1 - Vf_0 = 3.443 - 922 = + 2.521 \text{ USD} \quad (22)$$

The influence of changes in financial expenses (Chf):

$$\Delta Rct_{(Chf)} = - (Chf_1 - Chf_0) = - (145.779 - 254.146) = +108.367 \text{ USD} \quad (23)$$

5. *The influence of changes in income tax expenditures (Ip):*

$$\Delta Rct_{(ChIp)} = - (ChIp_1 - ChIp_0) = - (136.074 - 74.673) = -61.401 \text{ USD} \quad (24)$$

6. *Synthesis of the analysis results:*

$$\Delta Rn = (+166.561) + (+110.888) + (- 61.401) = (+7.988.789) + (- 7.822.228) + (2.521) + (+ 108.367) + (- 61.401) = +216.048 \text{ USD} \quad (25)$$

*Interpretation of results:*

The situation at the analyzed company is favorable, because in the current year it obtains a profit of 516.061 USD, by 216.048 USD more than in 2018, respectively by 72,01%, determined by the influences of the factors:

- Operating result, of which: operating income and operating expenses;
- The financial result: financial income and financial expenses;
- Income tax expenses.

The increase of the operating result by 166.561 USD determined the increase of the benefit by the same amount, which represents a favorable situation for the entity.

Operating income increased from 41.515.578 USD in 2018 to 49.504.367 USD in 2019 by 7.988.789 USD, having as a positive result the increase of profit by 7.988.789 USD. The increase of operating expenses from 40.887.668 USD to 48.709.896 USD in the current year led to the decrease of the benefit by 7.822.228 USD, which is a disadvantage for the company.

The financial result had a positive impact on the profit, which, although it registered a loss for both periods of activity (2018 and 2019), increased the value of the profit by the amount of 110.888 USD.

The increase of the incomes from the financial activity have a favorable evolution for the company, contributing to the increase of the profit by 2.521 USD. Also, the decrease of the expenses from the financial activity, which determined the increase of the analyzed indicator by 108.367 USD, is positively appreciated.

The profit tax increased in the current year compared to the previous one from 74.673 USD to 136.074 USD, which had a negative influence, decreasing the value of the benefit by 61.401 USD.

## V. DETERMINATION AND ANALYSIS OF THE EARNING PER SHARE

The Earnings per Share indicator provides the opportunity for information users, especially investors, to know the effectiveness of the return on their investment in the company. This indicator analyzes the relationship between a company's profit in a year and the number of shares in that year. Financial analysts and investors often use this method to measure a company's profitability. By establishing methods for determining the profit / loss for the year, corresponding to joint actions and the weighted average of joint actions, IAS 33 aims to improve the comparability of this indicator between previous years and between different entities. However, it should be noted that because different companies use different accounting policies, earnings per share data have limitations. However, a consistently calculated denominator will improve the comparability of the results of different companies in the same period or of the same entity in different periods.

Rotilă (2018) argues that due to the difficulties of interpreting the differences found from one company to another (for example: different number of shares, categories of shares issued) this indicator does not offer the possibility of comparisons between all companies that calculate it, even when the comparison is made between homogeneous companies.

Earnings per share - base (R / A-base) are calculated by reporting the profit or loss (net result) of the year, corresponding to the common shares (PnAC), to the weighted average of the common shares, outstanding in the respective year (MpACc).

$$R/A\text{-base} = PnAC / MpACc \quad (26)$$

According to IAS 33, the net result of the period related to ordinary shares is determined as the difference between the net results of the period, from which minority interests and extraordinary items were excluded, and preferential dividends (Feleagă and Malciu, 2002: 93).

$$PnAC = Rn - Div \tag{27}$$

The weighted average of the common shares outstanding in the respective year represents the number of common shares outstanding at the beginning of the year (Si) adjusted by the number of shares repurchased (AR) or issued (AE) during that period, multiplied by a weighting factor (FP) of time. The time weighting factor is equal to the number of days in which the respective shares were in circulation (NZc) compared to the total number of days of the period (NZt) (Pătruț & Rotilă, 2010). It should be noted that in many cases this weighted average can be slightly approximated.

$$MpACc = (Si + AE - AR) \times FP \text{ unde, } FP = NZc/NZt \tag{28}$$

The net profit and loss for that period must be determined in accordance with IAS 8 „Net profit or loss for the period, fundamental errors and changes in accounting policies”.

If the company has a complex capital structure, there is a need to reflect in the financial statements, in addition to the information on earnings per share - basic, and information on earnings per share - diluted.

Earnings per share are considered an essential indicator in terms of assessing the company's performance. By calculating this indicator, it is possible to quantify the level of net profit related to an ordinary share. Thus, the indicator is of particular interest to shareholders and potential shareholders, who pay more attention to the result they could have by investing.

Earnings per share are determined on the basis of a ratio: the numerator is the net result from which the preference dividends are deducted, and the denominator is a weighted average number of ordinary shares outstanding.

Entities that record high earnings per share can generate significant dividends from equity holders. Theoretically, this type of result is available to be distributed to shareholders, but you can also opt for its reinvestment in the business. Regardless of how companies choose to use these resources, it is preferable for earnings per share to be as high as possible (Chirilov & Țiriulnicov, 2019: 540).

To analyze how to calculate the earnings per share, consider the following hypothetical example:

*Case study:* The following information is known regarding the year ended 31.12.2019:

- + Profit from ordinary activities before tax: 4.567.000 USD;
- Tax on profit from ordinary activities: 744.000 USD;
- = Profit after tax: 3.823.000 USD;
- Minority interests: 469.000 USD;
- = Profit attributable to shareholders of the parent company: 3.354.000 USD.

Dividends amounting to 654.000 USD were distributed as follows: for ordinary shares 490.000 USD and for preferred shares 164.000 USD.

At the beginning of 2019, there were 11.000 ordinary shares outstanding. On June 30, 2019, another 5.000 ordinary shares were issued.

$$\text{Net income from ordinary shares} = 3.354.000 - 164.000 = 3.190.000 \text{ USD}$$

$$\text{Weighted average number of ordinary shares} = 11.000 + 5.000 \times 6/12 = 13.500 \text{ action}$$

$$\text{Basic earnings per share} = 3.190.000 / 13.500 = 236,30 \text{ USD /actions}$$

In the event of a change in the number of shares, in order to ensure the comparability of the data, it is necessary to recalculate the result per share for the previous year.

The diluted earnings per share are calculated based on the method of calculating the basic earnings per share, taking into account the impact of all potential diluted shares issued. This represents only the basic earnings per share adjusted for the impact on earnings and the weighted average number of ordinary shares outstanding for all potentially dilutive common shares in that year. Net income for the year (corresponding to ordinary shares) increases with the value after tax of dividends and interest recognized during the year, which are related to potentially dilutive ordinary shares and are realized on the basis of any other changes in income or expenses for the year. In addition to the basic earnings per share, this indicator must be calculated and made public, This is because the company will often sign share issuance commitments in the future, which will lead to changes in the core earnings per share. When these promises are fulfilled and potential actions are announced, the impact on core earnings per share will double (Istrate, 2017: 157).

So, the calculation relationship for the action-diluted result indicator is as follows:

$$R/A\text{-diluted} = (PnAC + Dob + Div \pm En) / (MpACc + MpACs) \tag{29}$$

It should be noted that not all potential joint actions in the issue will have a diluting effect. For existing shareholders, any potential dilution is very interesting, as it indicates that current earnings may be reduced, may be distributed by dividends in the future, and the total market value of the company may be increased by dividing the number of shares.

Potential dilutive ordinary shares are considered to be converted into ordinary shares at the beginning of the period or on the date of issue of the potential common shares.

Diluted earnings per share are calculated by adjusting the basic earnings per share with the effect of potential shares (Cosmulese, 2019: 166). Thus, the net result for the period is increased by the following net tax items: dividends on preferred shares in the case of their conversion into ordinary shares, interest on bonds convertible into ordinary shares and all other elements that could not be included in the result if the issue of potential actions would not have taken place. In addition, the number of ordinary shares would be added to the number of shares that would result from the conversion of all potential shares into ordinary shares.

The need to calculate and present this indicator, in addition to the basic EPS, is generated by the fact that companies often enter into share issuance commitments in the future, which will result in a change in the basic EPS (Ciobanu, 2012: 25-33). When these promises are fulfilled and potential shares are actually issued, the impact on core earnings per share will be twofold:

- the number of existing shares will change;
- Profits can be affected, for example, by reducing interest expenses when converting debt into equity.

The potential change in EPS can be quantified by calculating diluted EPS. It should be noted that not all potential joint actions will result in dilution.

Dilutionary potential ordinary shares are considered to be converted into ordinary shares at the beginning of the period or on the date of issue of the potential ordinary shares.

A potential joint action is a financial instrument or contract that gives the holders the right to collective action. Examples of potential joint actions are (this listing is not exhaustive):

- Debt or equity instruments, including preferred shares that can be converted into common shares;
- Warrants and purchase options.

Potential common shares are considered a diluent only if the conversion into common shares would result in ongoing activities to reduce the net profit per share.

*Case study:* The company issued 42,574,725 bonds convertible into shares. The nominal value of a bond is 0.01 USD, the nominal interest is 10%. At the date of issuance of the bonds, it was established that on June 30, 2018, every 100 bonds can be converted into 105 shares. At the beginning of 2019, the company had 44,815,500 ordinary shares in circulation. We consider that the result of the year 2019 was profit, respectively 4,490,419 USD. Profit tax rate 16%.

Basic earnings per share =  $4.490.419/44.815.500 = 0,10$  USD/action

Calculation of diluted earnings per share:

Basic earnings per share: 4.490.419 USD

+ Interest saved ( $425.747,25 \times 10\%$ ) : 42.574,72 USD

- Tax reduction that no longer benefits ( $42.574,72 \times 16\%$ ): 6811,95 USD

= Diluted result: 4.526.181,77 USD

Ordinary shares outstanding: 44.815.500 actions

Potential actions ( $42.574.725 \times 105/100$ ): 44.703.461 actions

= Total number of shares: 89.518.961 actions

Diluted earnings per share =  $4.526.181,77 / 89.518.961 = 0,05$  USD/action

If the number of ordinary shares or potential common shares outstanding increases due to the capitalization or issue of free shares or a decrease in the nominal value of the shares, or the number of shares is reduced due to the return to the initial nominal value of the shares after the balance sheet date, by the publication of the financial statements the calculations used to determine the EPS must reflect these changes. Such transactions will change the number of shares without causing appropriate changes in the company's resources. Therefore, earnings per share (basic and diluted) for previous periods should also be recalculated.

If a company carries out major transactions in ordinary shares or potential common shares after the balance sheet date (except for the transactions mentioned above), such transactions will not affect the expressed EPS value because they will not affect the value of capital to generate net profit or loss during that period. However, companies are encouraged to object to the details of these transactions, if they are so important that their non-disclosure would affect the ability of users of financial statements to make assessments and make appropriate decisions.

## VI. CONCLUSIONS

The performance of a company is significant information for most users, being essential in economies based on private investment.

The provision of information about the results recorded by the entity following the performance of its activity, in order to fulfill its object of activity, belongs to the annual financial statements of the entity.

They provide data to a wide range of users, such as: current or potential investors, employees, creditors, suppliers and other commercial creditors, customers, managers of those entities, who will make economic decisions based on this information.

The annual financial statements are subject to economic and financial analysis in order to give more relevance and clarity to the information presented in them and to inform users of the financial statements about the performance achieved by the analyzed entity. Increasing the relevance, credibility and transparency of the information presented in the financial statements is a necessary and important objective of any entity.

The analysis of the result of the financial year represents the activity of diagnosing the financial position and the state of financial performance of the company at the end of the activity carried out. It also allows to identify the strengths and weaknesses of financial management, in order to substantiate a new strategy for maintaining and developing in a competitive environment. At the same time, the result of the entity's exercise interests the economic and financial-banking partners, in order to substantiate some possible cooperation actions with perspective. Both internal and external analysis aims to determine profitability and risk and, ultimately, the value of the entity.

Profit is a fundamental indicator used in the economic and financial analysis of the company's activity and indirectly influences the market price of the shares of that company. Obtaining a favorable result from the activity of the entity is the necessary solution to ensure financial balance.

The efficiency of the consumed resources, as well as the efficiency, as a whole, of the incomes seen through the prism of their capacity to generate profit is relatively satisfactory both on the whole company and at the level of the exploitation activity.

In a competitive economy, any entity wishing to maintain a high level of market must continuously improve the quality of its products, must know their cost, ensure the profitability and cash flow generated by each product or sector of activity. In part, and last but not least to have a good organization of economic and financial management.

The practical illustrations regarding the calculation of the result on basic action according to the provisions of IAS 33 will: allow the comparability of the information at domestic and international level; facilitate the efforts of practicing accountants in similar situations; leads to the elaboration of more appropriate decisions regarding the purchase, holding or sale of ordinary shares, etc.

Generalizing the above, we conclude that the implementation of the provisions of IAS 33 in the practice of domestic companies will ensure compliance with the requirements of transparency of information provided, increase investor confidence and prestige in the capital market.

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