FINANCIAL INDICATOR EBITDA AND ITS VALUE IN THE PROCESS OF FINANCIAL SANITATION OF ENTERPRISES

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In the system of financial indicators, in general, and financial sanitation, in particular, the EBITDA formula is of particular importance. The expression reflects the absolute result of the company. However, unlike gross profit or net financial result, this indicator brings specific shades to the analysis. First of all, just the difference between the gross income of the enterprise and its costs will not show the analyst the features associated with the tax regime, corporate accounting policies and the procedure for reimbursing fixed assets. For a more accurate assessment of the financial result, EBITDA was developed, the formula and calculation procedure of which directly comes from the financial statements of the entity.

The name of this derivative formula is “required” by the current international financial accounting standards. Actually, the name is an abbreviation-abbreviation of the basic categories displayed in the reports: Earnings Before Interest, Taxes, Depreciation and Amortization. The result is a concise reduction in EBITDA. What exactly does the indicator mean, so popular among investors and business analysts? In fact, the formula reflects the expected positive result of the main operating activities. In other words, the calculation covers the resulting direct specialization of the enterprise. A distinctive moment will be the fact that the calculation will show the full potential of the company to develop and generate financial flows. This is made possible by including the full amount of depreciation and interest paid by the company for attracting financial resources[1].

More on depreciation, interest payments and income tax liabilities:

Inclusion of additional elements to the profit on sales will provide users with valuable information. So, taxation of positive financial results becomes inevitable for each enterprise. Fiscal burden reduces the total profit of the subject. However, in assessing the real return on the investment project, such costs should be taken into account.

The amortization of fixed assets also naturally accompanies operating activities. Any equipment has a limited resource and will inevitably fail within the standard time period. However, even for a powerful enterprise, the acquisition of expensive assets can be a significant problem. Therefore, for the timely renewal of fixed assets developed a mechanism for the formation of depreciation. So, the subject gradually puts aside the replacement of worn-out equipment from the proceeds. In turn, the planned depreciation is laid in the cost of sales.

3.Often own financial resources are not enough to ensure the planned production volumes and pace of development. The way out of the situation are credit funds. Typically, capital investments are financed by long-term loans. In turn, short-term loans are attracted to replenish working capital. “The flip side of the coin” is to recognize interest that accrues on the principal amount of the debt. Interest paid reduces the final financial result of the company [2].

Thus, the calculation of EBITDA shows the investor a complete picture about the formation by the enterprise of the financial result from the main operating activities. In addition, one can judge the presence of internal reserves for financing, as well as the features of the depreciation policy and the strategy of attracting additional funds.

Elements of the formula are disclosed in the statements of enterprises. An informative basis is the report on financial results. In turn, the balance in the “Assets” section gives an idea of the amount of depreciation for the reporting period. National accounting standards are largely adapted to international practice. Nevertheless, indicators borrowed from foreign experts make it necessary to take into account the specifics of displaying accounting data precisely in the IFRS reporting forms. Thus, the EBITDA formula is calculated using 2 approaches: in accordance with IFRS and national standards.

EBITDA = Net income + Income tax expense - Reimbursed income tax + Extraordinary expenses - Extraordinary income + Interest paid - Interest earned + Depreciation deductions for tangible and intangible assets - Revaluation of assets.

If relevant information is available, the analyst will receive the most accurate result. It should be noted that access to the completeness of data in the course of financial rehabilitation will provide interested parties with the necessary analytical information for making strategic decisions.

EBITDA Benefits:

1. Using a simple calculation, a specific absolute value of the return on the main profile of the enterprise is determined.

2. The ratio is adapted to international financial reporting standards, which makes it accessible to perception in the implementation of foreign economic activity (FEA).

3. The exact value can be determined independently of the taxation system operating on the subject. Moreover, the absence of an object for fiscal load - profit - is not an obstacle for calculating the indicator [3].

4. The formula carries an analytical burden for entities with different capital structures. There is an opportunity to compare companies that practice different approaches to attracting financial resources.

5. The versatility of EBITDA will also help compare companies with different types of depreciation policies. The return can be calculated both in the case of intensive investment, and at the stage of completion of the life cycle of the subject.

6. An indirect advantage of the formula is the ability to analyze the cause-effect relationships of obtaining the final financial result. In other words, loss-making firms can use EBITDA to uncover bottlenecks and identify a deep crisis [4].

However, the EBITDA formula has flaws. First of all, it makes sense to use the indicator developed by international experts for the analysis of entities that actively attract loans and have a developed material and technical base. The formula is not suitable for individual entrepreneurs. For legal entities on a simplified taxation system, the calculation will show, in fact, the size of the profit from sales with depreciation.

In addition, the information base for the calculations should provide objective, undistorted accounting data. Key requirements include the correct assessment of fixed assets in terms of the correction of depreciation. In addition, the important point remains the correct display in the financial statements of the amount of interest-bearing liabilities for loans accepted.

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