

THE CREATION AND DISTRIBUTION OF PROFIT IN THE FIRM

Nilova S., F-34

Profit is considered to be one of the main factors of industrial production. Using profit, we can investigate efficiency of economic activities.

The urgency of the problem consists in profit maximization. In this terms firms worked out some conceptions, which lead to the reduction of costs.

The aim of the paper is to investigate the theoretical questions concerning to the profit creation and profit distribution.

What is a firm's profit? Revenue is the total amount of money that flows into the firm. This can be from any source, including product sales, government subsidies, venture capital and personal funds. The amount that the firm pays to buy input (land, capital, workers) is known as total cost.

That is,

$$\text{Profit} = \text{Total revenue} - \text{Total cost}$$

If all revenues do not cover total cost, in that case we receive negative profit. On the contrary, if total revenues do cover cost firm we obtain positive profit, and firm receives an opportunity to stay in business.

Usually the firm's earnings are distributed between government (in view taxes) and the owners of that firm (in form of dividends). The size of the dividend depends on two factors. First it depends on the amount of profit that has been made, and secondly it depends on how much of the profit is distributed to the development of the business (investment, leasing, research, etc). Since the shareholders are the owners of the business, they are entitled to the share of the profits in the form of dividends.

The amount of the profit that each shareholder receives depends on how many shares they own. The more shares they own, the larger the proportion of the company they own and therefore the more of the profit they should receive.

Profit is a vital source of funds for investment of any company and if it is all distributed to the shareholders, it would damage the long-run firm performance. However, at the same time the shareholders are entitled to the profit as the reward for the risk that they have taken investing in the company.

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