European Journal of Business Startups and Open Society

Vol. 4 No. 3 (March - 2024): EJBSOS

http://inovatus.es/index.php/ejbsos

Understanding Financial Performance: Key Metrics and How to Calculate Them

Omanov Rustam Farmonovich

Karshi engineerimg economics institute Faculty of Finance

Abstract: The article talks about what financial indicators are and their importance for a businessman, investor and any other person involved in business. Therefore, information is given about some financial indicators and methods of their calculation are presented.

Key words: financial performance, key metrics, return on equity, return on assets, profit margin, earning per share

INTRODUCTION

When it comes to understanding financial performance, it's essential to assess and measure key metrics that provide insights into the health and stability of an organization. By understanding these metrics and how to calculate them, businesses can make informed decisions about their financial strategies. This article aims to explore the key metrics used to evaluate financial performance and provide guidance on how to calculate them effectively. Whether you're a business owner, investor, or financial professional, gaining a deeper understanding of these metrics can empower you to make better financial decisions and drive long-term success.

METODOLOGY

The methodological basis of the research is the use of comparative analysis methods of scientific articles, reports and statistical data, which allows a comprehensive review of existing knowledge. Literature review shows the importance of financial indicators.

RESULTS AND DISCUSSION

When it comes to evaluating the health and success of a business, one of the most important factors to consider is its financial performance. Financial performance refers to the accomplishment of the business's financial goals during a specific time period, encompassing the acquisition and distribution of funds as determined by factors such as profitability, leverage, capital adequacy, and solvency. Financial performance, or the business's capacity to oversee and manage its own assets. Corporate managers may use data from cash flow, balance sheet, profit-loss, and capital change as a foundation for their choices. Understanding technical and fundamental analysis is crucial, and knowledge of finance is required to comprehend how the business finances itself through accounting, finance management, and economics. This encompasses a variety of metrics and indicators that can give insight into how well a company is faring financially, and can help stakeholders make informed decisions about its future.

Key metrics used to assess financial performance include revenue, profit margins, cash flow, and return on investment, among others. These metrics can be calculated using a combination of financial statements, such as the income statement, balance sheet, and cash flow statement.

To get a clear picture of a company's financial performance, it's important to analyze these metrics over time and compare them to industry benchmarks and competitors. This can help identify trends, strengths, and areas for improvement, and inform strategic planning and decision-making.

Overall, understanding financial performance is crucial for businesses of all sizes and industries. By tracking and analyzing key metrics, companies can better manage their finances, attract investors, and ultimately achieve long-term success.

To calculate financial performance, typically a few key financial ratios are used. Here are a few important ratios to consider:

1. Return on Equity (ROE): This ratio measures a company's profitability by showing how much profit the company generates with the money shareholders have invested.

Return on Equity (ROE) is a financial metric that measures the profitability of a company in relation to its shareholders' equity. It is calculated by dividing the company's net income by its average shareholders' equity.

$$\text{Return on Equity (ROE)} = \frac{\text{Net Income}}{\text{Shareholders' Equity}}$$

ROE is an important indicator of a company's financial performance and is often used by investors to evaluate the efficiency of a company in generating profits from the shareholders' investments. It provides insight into how effectively a company is utilizing its equity to generate profits. A higher ROE generally signifies a more efficient use of shareholder capital and is considered favorable by investors.

2. Return on Assets (ROA): This ratio shows how efficient a company is at using its assets to generate earnings.

Return on Assets (ROA) is a financial ratio that measures a company's profitability by showing how efficiently it generates profits from its assets. It is calculated by dividing the net income by the average total assets.

$$\text{Return on Assets (ROA)} = \frac{\text{Net Income}}{\text{Total Assets}}$$

ROA provides insight into how well a company is utilizing its assets to generate earnings.

3. Profit Margin: This ratio measures how much of each dollar in sales is kept as profit.

The profit margin is a measure of a company's profitability, calculated as the net income divided by the revenue.

$$\text{Profit Margin} = \frac{\text{Net Income}}{\text{Revenue}}$$

It can be expressed as a percentage, showing the portion of revenue that represents profit.

The profit margin is very important in a business because it indicates the efficiency and profitability of the business operations. It reflects the percentage of revenue that remains after all expenses have been deducted. A healthy profit margin is crucial for sustaining and growing a business, as it allows for reinvestment, expansion, and the ability to weather economic downturns. It also helps attract investors and lenders, as they look for businesses with strong profitability. Essentially, the profit margin is a key indicator of the financial health and long-term viability of a business.

4. Earnings Per Share (EPS): This ratio shows how much profit a company has generated per each outstanding share of common stock.

Earnings Per Share (EPS) is a financial metric that represents the portion of a company's profit allocated to each outstanding share of common stock. It is calculated by dividing the company's net income by the total number of outstanding shares.

$$\text{Earnings Per Share (EPS)} = \frac{\text{Net Income}}{\text{Average Outstanding Shares}}$$

EPS is an important measure of a company's profitability and is often used by investors to evaluate the company's performance and make investment decisions.

These ratios can provide insights into a company's financial health and performance. It's important to analyze these ratios in conjunction with other financial indicators and industry benchmar to get a comprehensive view.

In addition to the above indicators, the reserve ratio is also an important indicator for business. Failure to control the reserve ratio can cause existing financial assets to be frozen in warehouse or receivables. This can be one of the reasons that lead to bankruptcy of the business. The state as the best entrepreneur is seen below as an example of the state's reserve rationing policy.

The reserve ratio, also known as the reserve requirement, is the percentage of customer deposits that banks are required to hold in reserve, either in their vaults or on deposit at a central bank.

By adjusting the reserve ratio, central banks can affect the amount of money that banks can lend out and therefore influence the overall money supply in the economy. A higher reserve ratio means that banks must hold more deposits in reserve, which limits their ability to lend and can reduce the amount of money in circulation. Conversely, a lower reserve ratio allows banks to lend more, increasing the money supply and potentially stimulating economic activity.

Overall, the reserve ratio is an important tool for central banks to manage the stability of the financial system and control inflation. By adjusting the reserve ratio, central banks can help ensure that banks have enough funds to cover withdrawals while also influencing lending behavior and overall economic growth.

Financial indicators can also be targeted. For example, a manager who wants to buy a few new computers and an investor who is hesitant to bet on the company will naturally not have the same financial indicators of interest.

The best place to get information about a company's performance is the company's annual report. There you can find information about the results achieved by the company during the year. Therefore, using the given data correctly, other indicators can be calculated. This information can also be an important map of what the company should focus on in the next year. But this information is not always enough. Management decisions are always required in order for the enterprise or business to develop successfully and not break in the competition. Especially in today's globalization and strong competition, implementing a system designed for a year or longer will not solve all problems. It is considered necessary to regularly monitor this system and its indicators, to work on improving the indicators. The indicator that any system can express that it is working well is definitely the financial indicator. The financial indicator relates the results of the actions performed to the benefits that are important to everyone.

CONCLUSION

In conclusion, understanding financial performance is critical to making informed business decisions and assessing the overall health of a company. By analyzing key financial indicators such as profitability, liquidity, solvency and efficiency, businesses can gain valuable information about their operations and identify areas for improvement. Calculating these indicators provides a complete view of the company's financial situation and helps with strategic planning and resource allocation. It is important for businesses to regularly monitor and evaluate their financial performance to ensure long-term success and sustainability.

References:

1. Omanov, R. F. (2023). INSTITUTIONAL BASICS OF SMALL BUSINESS. *European International Journal of Multidisciplinary Research and Management Studies*, *3*(12), 153-157.
2. Omanov, R. F. (2023). ACCOUNTING PROCESS. *American Journal of Pedagogical and Educational Research*, *19*, 219-223.
3. Omanov, R. F. (2023). BENEFITS AND RISKS OF THE DIGITALIZATION. *Intent Research Scientific Journal*, *2*(12), 59-65.
4. Farmonovich, O. R. (2023). DIGITIZATION OF MANAGEMENT ACCOUNTING.
5. Farmonovich, O. R., & Umarzhonovna, N. G. (2023). Economic Aspects of the Development of Small Enterprises of the Kashkadarya Region.
6. Farmonovich, O. R., & Xusin o'g'li, R. Q. (2023). PROSPECTS FOR DIGITIZATION OF MANAGEMENT ACCOUNTING. *Conferencea*, 9-12.
7. Omanov, R. F., Khasanova, Y. M., Dustova, M. K., Farmonov, J. Z., & Nazarova, G. U. (2022). Digitalization Of The Economy: Possible Benefits And Risks. *Webology*, *19*(2), 620-626.
8. Farmonovich, O. R., & Azimovich, S. S. (2024). PROSPECTS FOR THE DEVELOPMENT OF SMALL ENTERPRISES IN UZBEKISTAN. *Intent Research Scientific Journal*, *3*(1), 40-43.
9. Omanov, R. F. (2023). ТРЕХФАКТОРНАЯ МОДЕЛЬ ОПРЕДЕЛЕНИЯ КРЕДИТОСПОСОБНОСТИ ПРЕДПРИЯТИЯ. *European Journal of Interdisciplinary Research and Development*, *22*, 141-143.