

СЕКЦІЯ 2. ВІДНОВЛЕННЯ ПІДПРИЄМНИЦТВА У ВОЄННИЙ ТА ПОВОЄННИЙ ПЕРІОДИ

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LOST PROFITS CALCULATIONS OF BUSINESS ENTITIES: FEATURES OF DEFINITION AND ASSESSMENT

Russian armed aggression against Ukraine caused significant material losses to the Ukrainian economy: infrastructure disruption, destruction and damage of property of all forms of business ownership. Losses are especially noticeable for small and medium-sized businesses, having high

level of risk and income instability due to their high external dependencies. Small and medium-sized businesses, by their very nature, are focused on the available resources, which, in the first place, can be lost or damaged. Small business development, which performs a number of specific socio-economic functions, is the engine of many world economies. It is extremely important for the reconstruction of the economy of Ukraine in the post-war period. To restore Ukraine, there is a need to assess the losses of business entities, consisting of the cost of property damage and lost profits caused by military operations.

The lost profits calculation is based on two main parameters - the period during which a business entity, whose right was violated, was deprived of the opportunity to make a gain and the reasonable amount of profit in monetary terms [1].

The nominal loss of profits for each year of forced outage equals to the business owner's most likely profit during the year of normal operations.

When studying the methodology of lost profits calculation, we assume that the period of damage factor's impact has already passed for organization. During the time organization was deprived of rights, to make certain economic gain (lost profits). However, from an economic point of view, if a company's capital is frozen for certain reasons, as a result of which it was not able to use its production facilities, and therefore did not receive profit, the calculation is made using the interest income on a certain amount of capital for a specific period of making economic gain (lost profits). However, from an economic point of view, when ascertaining the fact of frozen company's capital for any reason, as a result of which it did not operate properly, i.e. did not generate income, the calculation is made bearing in mind the interest income regarding certain amount of capital during specific period.

One could make lost profits calculations using a number of financial indicators, which are determined on the basis of accounting and tax reporting. In case of the complexity of such calculations or the need to clarify the obtained results, it is advisable to substantiate the lost profits taking into account operational specifics in various sectors of national

economy and spheres of economic activity based on the analysis of the basic impact factors in monetary terms.

In this case, the customer must determine by him/herself the impact factors from the proposed list of factors, which caused losses or lost of profits.

The general impact factors on the lost profits and the algorithm for their calculation are as follows [2]:

1. Assessment of actual material losses caused by disruption (destruction) or damage to buildings, structures, technologies, etc.

2. Assessment of actual material losses caused by existing material facilities damage due to force majeure in times of war (absence of electricity, water and heat supply, etc.).

3. Lower level of business efficiency (short-term and long-term period): reduction in production volume (services provision) as a result of hostilities is determined on the basis of current business reporting; reduction in production volume (services provision) in forecast (future) period; decrease in products (services) demand (as a result of unemployment - expected unemployment rate, decline in the level of income - expected level, etc. based on official data); expected rise of cost of production, and therefore a fall in profit (change of suppliers, higher transportation costs, storage and other logistics, raw materials prices, including imported ones, etc.); expected inflation rate; additional staff costs amid forced outage (current business data on employees downtime costs - costs already incurred, and expected taking into account the duration of planned downtime); losses caused by inability for capacity expansion; possible staff outflow and additional costs for its restoration; changing terms of settlements with suppliers and buyers, additional costs to ensure transactions; financial resources` cost growth (required reserve ratio initiated interest rate growth due to fall in supply, etc.); lack of intellectual property profits taking into account their book value.

4. If there is an investment, it is necessary to adjust the terms of return on investment and calculate corresponding lost profits.

5. In case of loans, the mechanism of repayment terms and the costs need must be adjusted (including business entity`s smaller financial capacity to meet interest payment and repayment terms fixed in the contract).

6. Lost profits caused by economic deterioration and decline in the main business activity (any direct material losses, but business plummeted or stopped as a result of military actions).

7. Moral damage as a percentage of material harm.

The methodology of lost profits assessment for a business entity as a result of military actions (aggression) has been developed. The methodology includes calculation of business entity`s main operational indicators (groups of indicators) based on the analysis of its financial, accounting and tax reporting. It also takes into account the peculiarities and types of business activity when calculating the lost profits [1-3].

When calculating the lost profits, it is advisable to take into account the specifics of doing business in various sectors of national economy. Qualified personnel loss and additional training costs play an important role in manufacturing; service sector could make no gain without damage or property loss; agricultural sector is the most vulnerable sector in terms of lost profits caused by the war, as well as the most complicated field to calculate the lost profits due to the large number of impact factors to be taken into consideration.

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