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EBIT AND EBITDA MEASURES IN COMPANY ACCOUNTING AND REPORTING

Considering the role and applicability of such profitability indicators in the national accounting system as profit before taxes and interest, as well as deduction of depreciation, indicates the lack of widespread practical significance of these values. However, the specifics of calculating ebit and ebitda according to IFRS-accounts demonstrate the relevance of studying these economic figures in the theoretical and applied aspects within the context of the application of international accounting standards.

Investigation of the role of different financial measures in accounting reporting is widely elucidated in economic literature (Ervin L. Black [1], Koshechkov A. [3], Luciano R. [2], Podshivalova V. [4]). There are growing interest to that indicators of analysts, investors and other stakeholders to assess the financial position and value of companies. Thus, significance of using EBIT and EBITDA in accounting reporting is still actual.

Historically, the calculation of EBIT and EBITDA is based on US GAAP reporting, but EBIT and EBITDA are also used to analyze the financial condition and valuation of companies, including those that report according to international standards.

Calculation of these indicators based on IFRS-reporting has its own characteristics. In addition, companies use a different methodology for calculating these indicators.

These indicators represent two distinct groups of additional income measures.

Often before the calculation of the EBITDA index, EBIT and EBT are found.

EBT is Earnings before Taxes reflects profit before tax. It is equal to the balance profit of the enterprise (1):

$$EBT = TR - TC + T, \quad (1)$$

where, TR – total revenue, TC – total cost, T – tax.

EBIT means Earnings before Interest and Taxes. It can be calculated in this way (2) and (3):

$$EBIT = TR - TC + T + I \quad (2)$$

or

$$EBIT = NR + T + I, \quad (3)$$

where, TR – total revenue, TC – total cost except depreciation, T – tax, I – interest, NR – net revenue.

EBIT (also called operating profit) reflects the profit taking into account the paid interest on liabilities.

If you add the amount of depreciation to the EBIT value, you get EBITDA.

EBITDA stands for Earnings before Interest, Taxes, Depreciation and Amortization, which means profit before taxes, interest on loans and without depreciation. It can be calculated in this way (4):

$$EBITDA = TR - TC + T + I + D, \quad (4)$$

where, TR – total revenue, TC – total cost except depreciation, T – tax, I – interest, NR – net revenue, D – depreciation.

In fact, there are types of profit that stands between the gross profit and the company's book profit.

Initially, EBIT and EBITDA were calculated on the basis of US GAAP statements and are currently regulated by the rules of the US SEC (Securities and Exchange Commission).

According to the provisions set forth by the SEC, a classic formula for calculating EBIT and EBITDA is established based on US GAAP reporting. Its essence is to prohibit the purification of these indicators from other expenses, except from the profit tax, interest and depreciation.

Indicators that are calculated in a different way can not be called EBIT and EBITDA. Therefore, companies that deviate from the classical formula for any reason use other designations for these indicators. Most often, the definition is added «adjusted» to the main name. For example: «adjusted EBIT», «adjusted EBITDA», «adjusted OIBDA» and so on.

Currently, EBIT and EBITDA are widely used in the analysis of company's' activity including the following derived indicators:

- EBITDA margin % (EBITDA margin);
- Debt / EBITDA (liabilities/EBITDA);
- Net Debt / EBITDA (net debt/EBITDA);
- EBITDA / Interest expense (EBITDA/interest expense).

EBITDA does not provide information about profit or profitability, as it does not take into account the actual state of affairs – the need for capital investments and the debt and tax burden on the business. It only simulates the ideal situation of a business that has embarked on a sustainable development path that does not require capital investment and that has paid off its debts without paying taxes. The calculation also does not reflect funds received by the company on the basis of the results of the reporting period, since it is not an indicator of cash flow [3].

Thus, EBIT and EBITDA figures came to the national microeconomics from the norms of the world financial reporting standards. Although they are not even regulated in our country, their use is necessary to assess the effect of the company's activities, especially for comparison with other business entities.

References

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