

METHODOLOGY FOR CALCULATION OF KEY INDICATORS OF BUSINESS STATISTICS

Economic activity represents merging of various types of resources (human resources, technology, information networks, etc.), which results in various types of goods and/or services. Economic activity is considered as use of resources, existence of production process and therefore product output.

In practice, the majority of entities are engaged in mixed types of activities (they conduct more than one type of activities at the same time). Accordingly there are distinguished:

- principal activity,
- secondary activity,
- ancillary activity.

Principal activity is an activity, which contributes most to the value added of a particular economic entity or the activity the value added of which exceeds that of any other activity. It is not necessary that the principal activity account for 50% or more of the total value of an economic entity.

Ancillary activity is an activity that creates conditions for carrying out economic activities (principal and secondary) by an entity (bookkeeping, transportation, storage, purchasing, promotion, repair and maintenance).

Types of economic activities are specified in national classification of Georgia “Types of Economic Activities” (sec 006-2016), based on European classification of types of economic activities NACE (No-menclature des Activités de Communauté Européenne).

Law of Georgia “On entrepreneurs” defines **business activity** as lawful and repeated activity, which is oriented to get profit, and which is carried out independently and is well organized.

An enterprise is an economic entity, which produces goods or renders services, independently makes economic decisions on distribution of own resources (possesses a certain degree of freedom on decision-making). An enterprise carries out one or several kind of activity in one or several places. An enterprise can be individual (physical) or legal person.

Enterprises are grouped **by size** as follows: large, medium and small.

Till 2017 year size of enterprises was determined by the following methodology:

Large enterprise is an enterprise, where average annual number of employed exceeds 100 persons or volume of average annual turnover - 1.5 million GEL.

Medium size enterprises are all enterprises of organizational-legal form, where average annual number of employed ranges from 20 to 100 persons or average annual turnover – from 0.5 million to 1.5 million GEL.

Small size enterprises are all enterprises of organizational-legal form, where average annual number of employed does not exceed 20 persons and average annual turnover - 0.5 million GEL.

Since 2017 size of enterprises determined by the following methodology:

Large enterprise is an enterprise, where average annual number of employed exceeds 249 persons or volume of average annual turnover - 60 million GEL.

Medium size enterprises are all enterprises of organizational-legal form, where average annual number of employed ranges from 50 to 250 persons or average annual turnover – from 12 million to 60 million GEL.

Small size enterprises are all enterprises of organizational-legal form, where average annual number of employed does not exceed 50 persons and average annual turnover - 12 million GEL.

Turnover is an indicator of an economic activity during an accounting period. It corresponds to the volume of sales of goods or services made by the entity. Turnover includes all taxes or duties on goods and services (except value added tax, and also other taxes, being in direct connection with turnover). It includes all the expenses (transportation, packing, etc) which are imposed on buyer, even if they are included in invoice separately. Reduction, discount or concession of prices and also cost of returned package can be deducted from turnover (only discount on price can be deducted in case of payments by cash). Turnover does not include sale of fixed capital, and the subsidies on production, which are received from the state bodies.

Production value determines quantity of production made by an economic entity, and volume of realized output including goods or services bought for resale and changes in stocks of finished goods.

Production value at basic prices is defined as follows:

Turnover

- * Capitalized output
- Purchases of goods and services for resale
- * Subsidies on products (Income from product- or turnover-related subsidies)
- +/- Change of stocks of incomplete production volume (+ increase, - reduction)
- +/- Change of stocks of finished products (+ increase, - reduction)

+/- Change of stocks of goods and services for resale (+ increase, - reduction)

= **Production value at basic prices;**

In trade, intermediate activities, supply of electricity and natural air, transport and communication (only in separate cases) production value is difference between values of goods (services) realized by an enterprise (turnover) and their acquisition (purchase);

Capitalized output (output – for own final use) is cost of those goods, which are made by own efforts and remain to producers for own final consumption or investment. That means production of

both basic materials and non-material assets (elaboration of software etc.). Output, made for own final use is output, which is not sold and cost of which will be estimated according to basic prices, which exist for similar output. If it is impossible to make such estimation, estimation can be made according to the expenses of production. It is necessary to note that goods can be included also in the investments.

Purchases of Goods and Services implies the total of all goods and services purchased during the reporting period (irrespective of whether goods or services are intended for resale in the same form and quality or not).

Purchases of goods and Services for Resale implies goods and services intended for resale in the same form and quality, purchased during the reporting period.

Number of persons employed implies (employees, employed shareholders and employed family members in case of family owned enterprise) of the company during reporting period.

Number of employees is defined as persons who work for an enterprise; whose labor relations are regulated through an agreement or contract concluded with an enterprise; and who received or paid salary.

The examples discussed for the presentation of calculation of number of persons employed and employees:

Let us assume that from the 1st to 12th (i.e. during 12 days) of the 1st month (31 days) 30 employees worked in the enterprise and from 13th to 31st (i.e. during the following 19 days) - 50 employees. Respectively average number of employees during the 1st month will be: $(12 \times 30 + 19 \times 50) / 31 = 42.3$

Average number of employees for remaining months will be calculated similarly.

Average number of employees during 12 months will equal arithmetic mean of figures for 12 months, i.e. Total of average number of employees for each month shall be divided by 12.

Those employed for incomplete work day or incomplete work week, if not provided otherwise in the legislation, will be included in the number of employees in proportion to actually worked out time (first

of all worked man hours are divided by normal duration of working day and then by number of work days. For instance, if in a company where the standard working day duration is 8 hours and working days per month equal 23 (in case of five day work week), if person worked 92 man hours, he/she will be counted as 0.5 man in the average monthly number of employees ($92 / 8 / 23 = 0.5$).

Number of employees on holidays and weekends shall be the number of employees on the previous working day. For example, if duration of the work week of an enterprise is 5 days and on Friday 40 people worked in the company, then number of employees on Saturday and Sunday will be 40.

If a company was not been functioning during the entire reporting period (seasonal company and etc.) then for calculation of average annual number of employees it is required to summarize average monthly numbers of employees during the worked months and divide the total by 12. If an employee has some other work (including own business or work in his/her estate) major activity will be the one on which he / she spends more time (regardless size of income)

Personnel costs are calculated by summing of all kinds of expenditures accrued on employed persons in the reporting period: remuneration of work (salary, supplement, bonus, vacation assistance, compensation benefits, etc), accrued on employed persons (including income tax) or issued in natural form during the reporting period. As well as social assistance from enterprise funds, expenses by educational, health care, cultural and other aspects.

Value added in basic prices is calculated on the basis of output, to which the subsidies on products are added, and purchasing of goods and services are subtracted (except products, that are bought

for as-is-resale), and also changes in stocks of materials and supplies are added or subtracted.

This amount is value added, which is estimated according to cost of various factor expenses of industrial activity of the economic entity.

Value added at basic prices is defined as follows:

Turnover

- Purchase of goods and services

+/- Change in stocks of goods and services

* Capitalized output (or output, made for own final use)

* Subsidies on products (Income from product- or turnover-related subsidies)

= Value added at basic prices

Intermediate consumption is defined as volume of those goods and services, which are consumed during production. In this case, fixed capital is excluded, consumption of which is considered as consumption of fixed capital. Goods or services during production may be used or transformed.

Intermediate consumption is defined as follows:

Purchase of goods and services

- Purchase of goods and services for as-is-resale

+/- Change in stocks of materials and supplies

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= Intermediate consumption

Fixed assets is defined as productive assets, which repeatedly or durably (over one year) are used in production.