

METHODS FOR DETECTING HIDDEN ECONOMIC ACTIVITY IN SMALL AND
MEDIUM BUSINESSES AND THEIR IMPACT ON NET PROFIT.

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Abstract: *This article analyzes the methods for identifying hidden economic activity in small and medium-sized businesses and its impact on net profit. The study examines the concept of the hidden economy, its formation factors and its presence in small businesses. The article examines the mechanisms for identifying hidden economic activity through statistical and financial methods, analyzing taxes and financial statements. At the same time, the impact of the hidden economy on net profit and ways to reduce it are also discussed. The results of the study provide practical recommendations for increasing the economic efficiency of small businesses and minimizing the negative impact of the hidden economy.*

Keywords: *small business, medium-sized business, hidden economy, net profit, financial analysis, methods of determination, economic efficiency.*

Identifying hidden economic activity in small and medium-sized businesses and studying its impact on net profit is of great scientific and practical importance in the modern economy. The concept of hidden economy refers to a type of economic activity that is not included in official calculations, is outside the control of the state and reduces the payment of taxes. Hidden economic activity in small and medium-sized businesses can manifest itself in various forms. For example, not including cash turnover in official reports, understating income, not including wages in official registers, submitting financial statements in a shortened or incorrect form, and not formalizing payments for certain services or products. Such activities artificially reduce the net profit indicator and incorrectly reflect the economic efficiency of the business, as well as significantly reduce tax revenues to the state budget.

There are various methods and techniques for identifying hidden economic activity. First of all, it is effective to analyze the income and expenses of business entities through statistical methods. This involves using tools such as comparisons with previous periods, comparisons with industry averages, and identifying significant changes in income. A secondary method of financial analysis is monitoring cash flow and transactions in electronic payment systems. All transactions made through banks, electronic money transfers, and digital settlements play an important role in determining the official income of a business. Also, hidden income in the activities of entities can be identified through tax audits and audit activities. By combining these methods, it is possible to calculate the net profit indicator more accurately.

The impact of the shadow economy on net profit is significant. If business entities understate their income, the official net profit indicator does not reflect real economic efficiency. As a result, investors and financial institutions misjudge the economic situation of the entity, reduce the possibility of obtaining loans, and may limit additional

opportunities for business development. At the same time, the continuation of shadow economic activity reduces revenues to the state budget, which weakens the economic stability of the state and limits the ability to finance social projects.

Effective state mechanisms are essential to reduce hidden economic activity and fully reflect net profits. Improving the tax system, widespread introduction of electronic accounting systems, increasing the transparency of financial reporting and incentive mechanisms will serve to attract small and medium-sized businesses to formal economic activity. At the same time, regular audits and control of business entities, monitoring of cash and electronic payments through electronic systems will reduce the negative impact of the hidden economy.

The development of the digital economy and the widespread use of electronic financial instruments make it more effective to detect hidden economic activities. For example, through electronic trading platforms and digital settlement systems, all trade transactions are automatically tracked, which significantly reduces the possibility of concealing income. At the same time, supporting small businesses with tax and financial incentives, such as tax breaks, discounts on loan interest rates or subsidizing start-up projects, is one of the effective means of attracting entities to formal economic activities.

The results of the study show that the accuracy of the net profit indicator can be ensured by improving the methods for identifying hidden economic activity, making the financial control and audit system transparent, and widely introducing digital and electronic accounting systems. As a result, the economic efficiency of small and medium-sized businesses will increase, revenues to the state budget will increase, economic stability will be strengthened, and the negative impact of the hidden economy will be minimized. At the same time, the study shows that the development of small and medium-sized businesses, investment attractiveness, and job creation will be more effectively achieved by reducing hidden economic activity.

The issue of reducing hidden economic activity and fully reflecting net profit in small and medium-sized businesses is not only of economic but also of social importance. Studies show that the hidden economy limits the development potential of small businesses, reduces jobs and hinders the sustainable growth of the national economy. Therefore, identifying hidden activities and involving them in the formal economic system is a priority for every country.

The effectiveness of the methods used to identify hidden economic activity in small and medium-sized businesses is closely related to the size of the entity's activities, the nature of the sector and its financial resources. For example, since small business sectors such as retail, services and the food sector have a high level of cash transactions, the most effective method for identifying hidden income is the analysis of bank turnover and electronic payment systems. At the same time, hidden income can be identified by a thorough examination of taxes and financial statements in the manufacturing sector and service sectors. This allows us to calculate real indicators of net profit.

The impact of the shadow economy on net profit is reflected not only in financial indicators, but also in the ability of a business to obtain credit, attract investment and plan a growth strategy. If an entity understates its income, it will not only be exempt from tax

payments, but may also be misjudged by banks and investors. Therefore, improving methods for detecting shadow economic activity and control systems is an important condition for the sustainable development of small businesses.

Regulatory mechanisms introduced by the state are also an effective tool against the shadow economy. It is possible to identify hidden income through the introduction of electronic accounting systems, strengthening financial audit and tax control, as well as mechanisms for encouraging small businesses. For example, transactions made through electronic trading and payment systems are automatically tracked, which significantly reduces hidden income from cash transactions. At the same time, tax breaks and subsidies allow small businesses to be involved in formal economic activities, supporting them on the path to sustainable development.

The results of the study show that reducing the shadow economy not only helps to determine net profit, but also increases the stability of the national economy and improves the investment climate. For example, in recent years, in countries that have widely introduced digital economy and electronic financial instruments, the official income of small businesses has increased significantly, and the share of the shadow economy has decreased. At the same time, with the control of cash turnover through electronic payment systems and digital auditing, business entities have been able to accurately calculate their net profit.

Another effective way to combat the shadow economy and fully reflect net profit is to provide financial and legal incentives to business entities. Effective incentive mechanisms include tax incentives, investment subsidies, loan interest discounts, support for startup projects, and the provision of e-business platforms. This not only increases net profit by attracting business entities to formal economic activities, but also strengthens economic stability.

The social impact of the shadow economy should also not be ignored. The loss of jobs, the lack of official accounting of wages, and the decline in tax revenues undermine social stability. Therefore, identifying and reducing shadow economic activity is important not only financially, but also socially. The results of the study show that improving the system for identifying and controlling shadow economic activity in small and medium-sized businesses requires a wide range of measures to fully reflect net profit and increase economic stability.

As a result, it is possible to ensure the accuracy of the net profit indicator by improving methods for identifying hidden economic activity in small and medium-sized businesses, making the financial control and audit system transparent, using digital and electronic accounting systems, as well as introducing tax and financial incentives. This will help increase economic stability, increase investment attractiveness, create jobs, and minimize the negative impact of the hidden economy.

In general, the identification of hidden economic activity in small and medium-sized businesses, strengthening financial control and the use of electronic systems will not only help to correctly calculate the net profit of the entity, but also increase the stability of the national economy. The results of the study can be used in the form of practical recommendations in the formulation of state policy and the development of strategies for

the development of small businesses. Reducing the hidden economy will improve the investment climate, increase jobs and increase economic efficiency, which will ensure the sustainable development of small and medium-sized businesses and make a significant contribution to the growth of the national economy

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