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The Main Criteria for Making Financial Decisions on Financing the Working Capital of the Enterprise

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Abstract: In this article, the scientific basis of the formation and management of working capital of the enterprise is studied, and relevant scientific conclusions are presented.

Keywords: working capital, current capital, development of the real sector, receivables, product sales, liquidity level, financing sources, Own credit funds, profitability

At the present time, in a number of developing countries, the current problems related to the improvement of the practice of financing the working capital of enterprises (the high level of inflation, the high rate of depreciation of the national currency, the high level of import of raw materials, the low level of use of commercial bank loans by enterprises, etc.) existence is observed.

In the USA, Germany and France, the well-developed circulation of commercial bills and the existence of the practice of collection of receivables play an important role in the financing of working capital of companies.

At the same time, there are problems related to improving the efficiency of working capital financing practices of enterprises of our republic. The fact that the amount of debtor-creditor debt between enterprises is large, their cash flow is weak, and the level of use of loans from commercial banks by enterprises is one of the urgent problems in this regard.

The amount of working capital is determined not only by the needs of the production process, but also by random factors. Therefore, it is recommended to divide working capital into fixed and variable types.

There are two main interpretations of the concept of "permanent working capital" in the theory of financial management. According to the first interpretation, the part of receivables and production reserves that is always needed throughout the operating period is working capital. This is, for example, the amount of current assets that are always at the disposal of the enterprise according to the average time parameter.

According to the second interpretation, constant working capital is the minimum amount necessary to carry out production activities.

This approach means that the company needs certain minimum working capital to carry out its activities, for example, a cash balance in the current account, which is some analogue of reserve capital. In the following statements of the data, we adhere to the second interpretation.

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The variable working capital category reflects additional current assets needed during the peak period of the process or as an insurance reserve. For example, the need for additional production-inventory reserves may be related to maintaining a high level of sales during the current seasonal sales period.

At the same time, along with the development of sales, the amount of receivables increases. Additional funds are needed for the supply of raw materials and supplies, as well as to pay for labor activities that precede the period of high-level entrepreneurial activity. The purpose of working capital management is to determine the volume and composition of working capital sufficient to ensure long-term production and effective financial activity of the enterprise, the sources of their compensation and the ratio between them..

When working capital is low, production activity cannot be maintained at the level of demand. As a result, there may be a possibility of loss of liquidity, periodic interruptions in business and low profits. In the most optimal period of working capital, the profit appears to be maximum.

As a result of further increasing the amount of working capital, the enterprise will have temporarily idle, inactive current capital, as well as excess costs associated with financing. As a result, the amount of profit will decrease.

Thus, the strategy and tactics of working capital management should ensure a trade-off between the risk of loss of liquidity and performance. This solves two important issues.

1. Solvency provision.

This condition does not arise if the company is unable to pay its bills, default, and possibly declare bankruptcy. A company that does not have an adequate level of working capital may face the risk of insolvency.

2. Ensuring reasonable composition and profitability of assets.

Different levels of current assets are known to affect profits in different ways. For example, a high level of production and material reserves require a lot of current costs, respectively. At the same time, a wide range of ready-made products can later create a basis for increasing sales and increasing profits.

Every decision related to maintaining a moderate level of cash, receivables and inventory should be taken into account in terms of the profitability of these types of assets and the optimal structure of working capital.

The possibility of a decrease in the level of liquidity or a decrease in efficiency due to the size and composition of working capital may cause the following events:

1. Lack of funds.
2. Lack of own credit funds.

Circumstances related to the risk of insufficient financing of working capital include:

1. High level of creditor indebtedness.

When an enterprise buys material reserves on credit, a creditor debt related to certain payment terms arises.

It is possible that the company bought a large amount of stock that it will not need in the near future or at a high price. As a result, when the amount of credit and the amount of unused reserves are too large, the company will not have funds to pay the debts. This, in turn, leads to non-fulfillment of obligations.

2. Imbalance between sources of short-term and long-term debt funds.

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Although long-term sources are usually more expensive, in some cases, they can provide a large amount of income when the increase in liquidity is less. For many business managers, the efficient use of various sources of money is a relatively new challenge.

3. The large weight of long-term debt funds in the volume of liabilities.

Long-term debt funds play an important role in the technical and technological rearmament of enterprises. However, the high weight of long-term debt funds in the volume of liabilities leads to an increase in the amount of costs associated with covering them.

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