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ESSENCE OF THE COMPANY'S CURRENT ASSETS, STRATEGIES FOR FINANCING

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Koliesnichenko A. S., Shen H. Essence of the Company's Current Assets, Strategies for Financing

The article focuses on the present-day economic situation, which is characterized by instability and high dynamism of the external environment, mainly affecting the formation and use of assets by companies. General approaches to the allocation of the essence of circulating assets have been formed. In this context, their interpretation, main groups and characteristics are considered. It is determined that the essence of current assets is expressed through the relationships between the following groups of indicators: inventories and return on assets, accounts receivable and return on assets, as well as relations between cash together with cash equivalents and return on assets. On this basis, a structural and logical scheme of the policy of managing the current assets of the company has been built. This allowed to define that the policy of management of current assets of enterprise is a multiaspectual process that concerns the main directions of the policy of formation and financing of current assets. It is substantiated that the policy of managing current assets should ensure a compromise between the risk of liquidity loss and profitability. Three strategies for financing current assets are considered. A conservative strategy for managing current assets can correspond to a moderate or conservative type of current liability management policy, but not to an aggressive one. Any type of current liability management policy can be matched by a moderate current asset management policy. An aggressive current asset management strategy can be consistent with an aggressive or moderate current liability management policy, but not a conservative one. Understanding all the advantages and disadvantages of the strategies for financing current assets allows the company to improve production capabilities, financial position, work with certain types of current assets and ensure the dynamic growth of the company in the strategic perspective.

Keywords: *current assets, financing strategies, liquidity, inventories, management policies.*
Fig.: *8.* ***Tabl.:*** *1.* ***Bibl.:*** *14.*

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Колєсніченко А. С., Шень Х. Сутність оборотних активів підприємства та стратегії фінансування

У статті сфокусовано увагу на сучасній економічній ситуації, яка характеризується нестабільністю та високою динамічністю зовнішнього середовища, що в основному впливає на формування та використання компаніями своїх активів. Сформовано загальні підходи до виділення сутності оборотних активів. У цьому контексті розглядається їх інтерпретація, основні групи та ознаки. Визначено, що сутність оборотних активів виражається через взаємозв'язки між такими групами показників: запаси та рентабельність активів, дебіторська заборгованість і рентабельність активів, а також між грошовими коштами й їх еквівалентами та рентабельністю активів. На цій основі побудовано структурно-логічну схему політики управління поточними активами компанії. Це дозволило визначити, що політика управління оборотними активами підприємства є багатоаспектним процесом, який стосується основних напрямів політики формування та фінансування оборотних активів. Обґрунтовано, що політика управління поточними активами повинна забезпечувати компроміс між ризиком втрати ліквідності та прибутковістю. Розглянуто три стратегії фінансування оборотних активів. Консервативній стратегії управління поточними активами може відповідати помірний або консервативний тип політики управління поточними пасивами, але не агресивний. Будь-якому типу політики управління поточними зобов'язаннями може відповідати помірна політика управління поточними активами. Агресивна стратегія управління поточними активами може відповідати агресивній або поміркованій політиці управління поточними зобов'язаннями, але не консервативній. Розуміння всіх переваг і недоліків стратегій фінансування оборотних активів дозволяє компанії поліпшити виробничі можливості, фінансове становище, роботу з окремими видами оборотних активів і забезпечити динамічне зростання компанії в стратегічній перспективі.

Ключові слова: *поточні активи, стратегії фінансування, ліквідність, запаси, політика управління.*
Рис.: *8.* ***Табл.:*** *1.* ***Бібл.:*** *14.*

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Maximizing the value of the enterprise plays an important role in its activities, in particular, it acts as the main financial goal. At the same time, the study of key determinants that increase economic value performs a both theoretical and practical role. Most of the financial literature contains information on numerous factors affecting the value of the enterprise. Especially among these factors should be highlighted net working capital and its elements, in particular: the level of cash associated with receivables, inventories and operating cash balances.

Volumes of the retail trade turnover of enterprises for 9 months of 2019–2021 are presented in the *Fig. 1*.

groups and features; to overview the company's current asset management policy, to reveal the strategies for financing the current assets.

The key difference between current assets and other categories is the ability of these assets to be converted into cash within one year. These assets include cash, marketable securities, receivables, all types of inventories and any other assets that can be converted into cash within one year.

General approaches to distinguishing the essence of current assets can be presented in three directions: interpretation, main groups, and features (*Fig.* 2).

From a practical point of view, current asset management can be considered as working capital management.

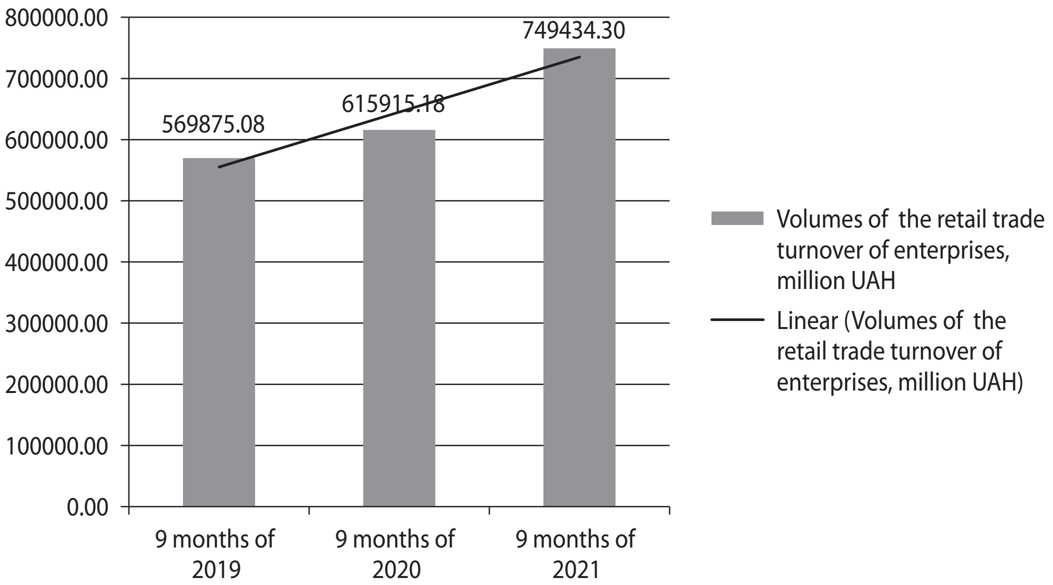

Fig. 1. Volumes of the retail trade turnover of enterprises in Ukraine

Source: based on the data of State Statistics Service of Ukraine [1].

Data of Fig. 1 indicate the presence of a growing trend in the volume of retail turnover of Ukrainian enterprises in recent years. That is, the total number of stocks within the country, which are used by all enterprises, is growing. This requires a careful study of the accounting features of this accounting object.

A significant contribution to the development of the theoretical foundations and the directions for the formation and effective use of working capital was made by such well-known domestic and foreign scientists economists as D. Firman, A. Alam [2]; M. I. Furqoni [3]; M. Imanah [4]; C. Lubis, B. S. Marpaung, A. M. Marpaung [5]; J. Rajagukguk, H. Siagian [6]; A. R. Tantra, D. A. Ani, F. D. Jayanti [7]; I. Harvest Major, S. Azali, N. Doutimiareye [8], etc. However, a number of questions regarding the further generalization of the principles of effective use of the company's current assets, research the concept of current assets and major strategies to their financing remain unanswered.

The main *purpose* of this study is to form the key approaches to considering the essence of current assets,

The company's ability to fulfill its short-term obligations that are due in the near future depends on the availability of available cash or other current assets that can be converted into cash in the shortest possible time (J. J. Muthoni, H. Shimelis, R. Melis [9]).

Effective investment in current assets is the most important factor in improving the financial performance of industrial goods manufacturing companies, which, in turn, affects the positioning of the country's economic sectors. To this end, M. I. Harvest, S. Azali, N. Doutimiareye [8], using the example of Nigeria, examined the relationship between investments in current assets and the financial performance of the listed industrial goods manufacturing firms. The authors explored the relationships between such groups of indicators: inventories and return on assets, trade receivables and return on assets, as well as between cash and cash equivalents and return on assets.

The study provided empirical evidence on the relationship between investment in current assets and fi-

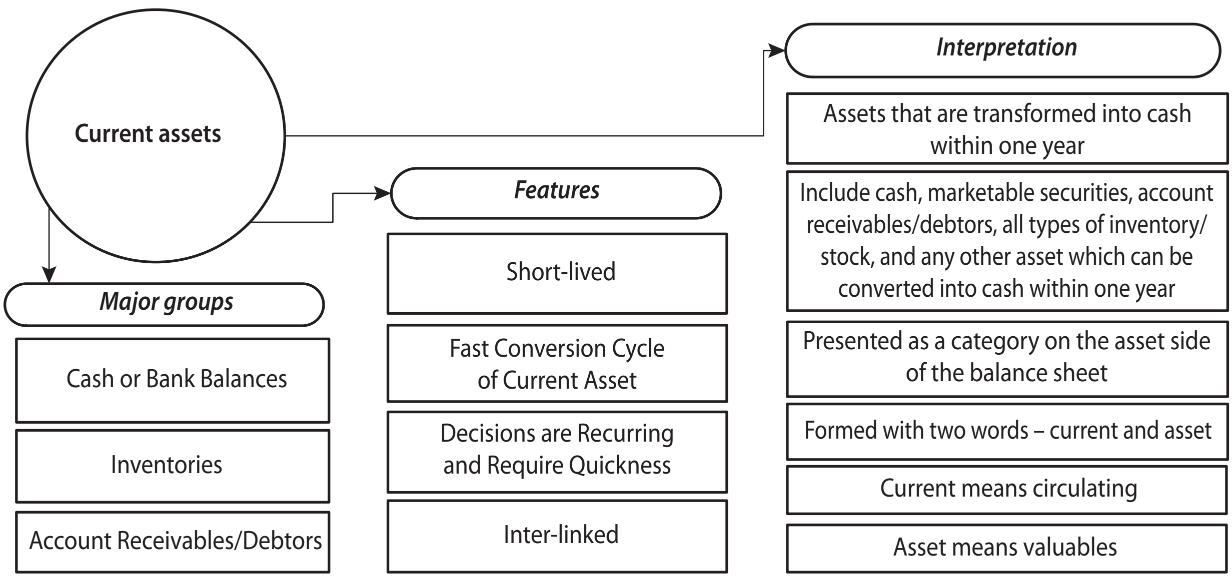

Fig. 2. General approaches to distinguishing the essence of current assets

Source: created by the authors.

nancial performance of the goods manufacturing firms incorporated in Nigeria. Based on the data obtained from the annual financial reports an exchange group of the selected industrial goods manufacturing firms from Nigeria, it is concluded that:

- inventories have a negative relationship and significantly affect the earnings per share of the listed industrial goods manufacturing companies;
- accounts receivable have a positive relationship and do not significantly affect the profitability of assets of the listed companies producing industrial goods;
- cash and cash equivalents have a positive relationship and significantly affect the profitability of assets of the listed companies producing industrial goods.

Operational activity is an important business process. Financial managers are trying to find an appropriate amount of operating activity. The money used by companies in their daily activities is mainly concerned with the integrated management of the liquid assets of any business and its liabilities (T. Khalaf [10]).

Since the financial position of the companies directly depends on the state of current assets and assumes a comparison of expenses with the results of economic activity and reimbursement of expenses with own funds, companies are interested in the rationality of the organization of working capital.

That is, there is a task to organize the movement of current assets with the minimum possible amounts in order to obtain the greatest economic effect. Therefore, the problems of creating such financial management mechanisms of companies that would correspond to the market conditions management and ensure a sufficient level of their solvency, liquidity, profitability, acquire special importance. In this context, it is important to choose an effective policy of financing the current assets (Ye. Donin [12]).

It is worth recognizing that firms could not continue to exist without a balanced treatment of their functionality units. Expert and professional supervision of the current processes contributes to the adoption of short-term financial decisions. It addresses all aspects affecting the smooth running of the business. Particular attention to the current business processes is directly related to high profit at low cost of making this profit (N. B. M. Edi, N. B. Mohad Saad [11]).

Problems of financing working capital by enterprises were studied by economists Z. Arshad and Ya. Gondal [13], G. Nabi et al. [14], and others. At the same time, additional studies require questions regarding the establishment of correspondences between the types of management policies of the components of current assets of modern enterprise and the policies of their financing.

The company's current asset management policy is part of the overall financial strategy, which consists in forming the necessary volume and composition of current assets, optimizing the structure of their financing sources, etc. Implementation of this policy should ensure long-term production and efficient financial activity of the company.

An effective management of current assets involves the selection and implementation of a certain financial policy.

It should be noted that the current asset management policy of the company is a multi-faceted process that concerns the main aspects of the policy of formation and financing of current assets (*Fig. 3*).

At some optimal level of working capital, profit becomes maximum. A further increase in the amount of

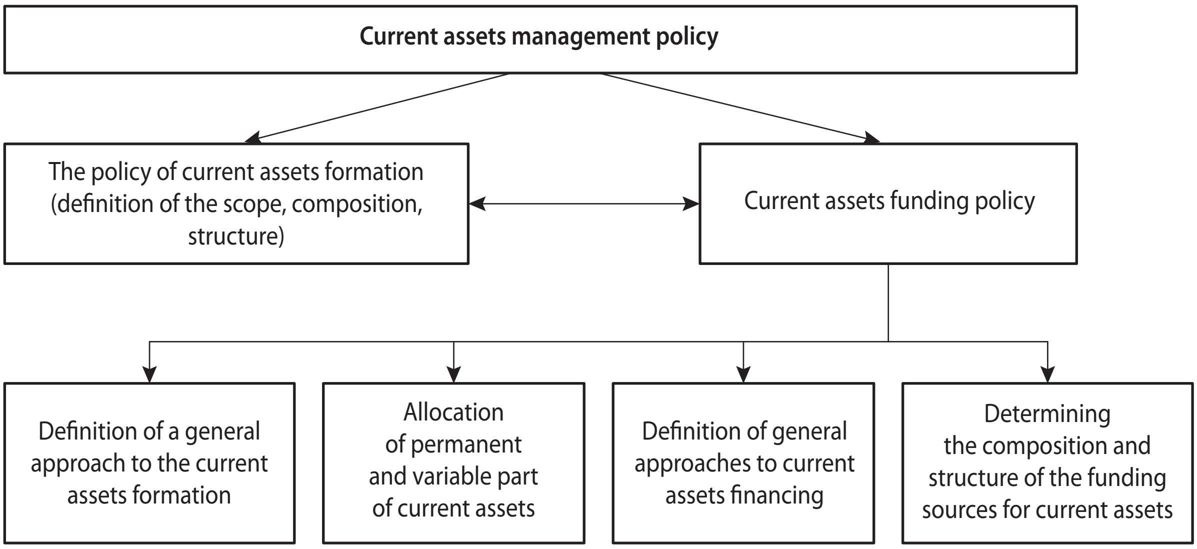

Fig. 3. Structural and logical scheme of the company's current asset management policy

Source: based on Ye. Donin, 2017 [12].

working capital will lead to the eventuality that the company will have at its disposal temporarily free, idle current assets, as well as excess financing costs, which will cause a decrease in profit.

Thus, the current asset management policy should provide a compromise between the risk of liquidity loss and profitability. Achieving this compromise boils down to solving two important problems:

- ensuring solvency;
- ensuring an acceptable volume, structure and profitability of assets.

The implementation of each of these tasks is achieved in the process of developing a special policy for the formation of working capital at the enterprise.

There are alternative types of the company's policy of working capital formation depending on the choice of sources of financing of their variable part, that is, the choice of the relative amount of net working capital.

The choice of a certain type of policy comes down to the volume of long-term liabilities and the calculation on its basis of the volume of net working capital as the difference between long-term liabilities and non-current assets. Accordingly, each type of policy corresponds to its own basic balance equation. There are conservative, moderate (optimal, compromise), and aggressive policies that are illustrated by the *Fig. 4*.

As the graph shows, the same volume of production and sales of products, depending on the chosen strategy, can determine a significant range of fluctuations in the planned amount of working capital.

An aggressive approach is the riskiest among the current assets financing strategies. It does not provide for the maintenance of any reserves to cover spontaneous current assets needs. This means that only some part of permanent current assets is financed by long-term financing.

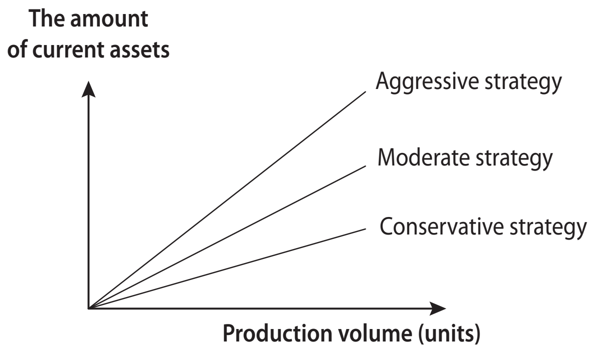

Fig. 4. Strategies for financing current assets

Source: based on Ye. Donin, 2017 [12].

The remaining and temporary working capital, including seasonal fluctuations, are covered by short-term borrowings. Using this approach allows you to reduce interest costs and increase business profitability, but it also carries the greatest risk.

A moderate approach, also called a hedging strategy, follows the principle of matching. According to this approach, non-current assets should be financed by long-term financing, and current assets by short-term financing.

Therefore, with a moderate approach, business entities should use long-term financing to finance non-current assets and permanent working capital. The need for temporary working capital should be met through short-term financing.

The conservative approach has the lowest risk and the lowest return among other current assets financing strategies. Businesses use long-term financing to finance not only non-current assets and permanent current assets, but also a certain part of temporary current assets.

This approach also has low liquidity risk due to excess cash.

For a more thorough analysis of these policies, it is advisable to analyze their advantages and disadvantages of implementation (*Tbl. 1*).

The moderate model is provided as *Fig. 6*.

The conservative model looks as follows (*Fig.7*).

Each of the listed types of current asset management policy must be matched by a financing policy, i. e. management of equity or current liabilities.

Table 1

Characteristics of current assets financing strategies

Strategy	Advantages	Disadvantages
Aggressive	Short-term financing is generally cheaper compared to long-term financing, which allows for lower interest costs. However, this approach violates the matching principle, according to which non-current assets and permanent working capital must be financed through long-term financing	Businesses need to frequently access short-term borrowing to rebuild both their permanent working capital and temporary working capital. As a result, the risk of refinancing increases sharply, and enterprises become vulnerable to any interruptions in access to short-term borrowing
Moderate	Lower reinvestment and interest rate risk compared to an aggressive approach because short-term financing is only used to finance temporary working capital	Has lower profitability due to higher interest costs due to a higher proportion of long-term financing used to finance fixed working capital
Conservative	The lowest reinvestment and interest rate risk among other working capital financing strategies. In addition, this occurs to a higher level of liquidity and solvency, so such an enterprise can access short-term borrowings to cover new working capital needs	The lowest risk also to the lowest return, after long-term financing usually has a higher cost than short-term financing. Financing temporary working capital through long-term financing also results in businesses incurring interest costs even though they have no need for temporary working capital

Source: based on B. Mohamad and M. Saad, 2010; Z. Arshad and Ya. Gondal, 2013; M. Hasnain, 2013; G. Nabi, 2016; Pirashanthini at el., 2013; Ye. Donin, 2017.

That is, each of the strategies has its pros and cons, according to which it is necessary to thoroughly assess the situation with the structure of Lego Group's current assets.

Schematically, the aggressive model looks as provided below (*Fig. 5*).

Depending on the type of current asset financing strategy chosen, we can talk about the main schemes of capital formation of the company.

Therefore, an aggressive type of policy will be characterized by an attempt to form sources of financing the current assets at the expense of borrowed funds.

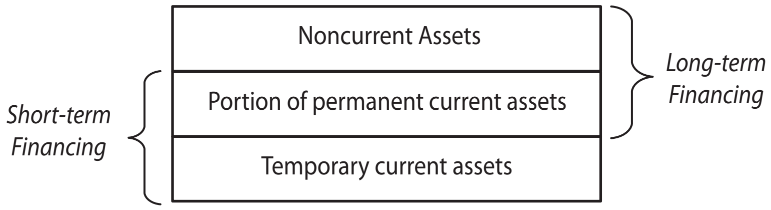

Fig. 5. The aggressive model of management of current assets

Source: based on Ye. Donin, 2017 [12].

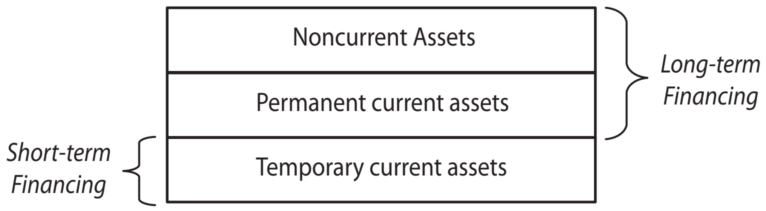

Fig. 6. The moderate model of management of current assets

Source: based on Ye. Donin, 2017 [12].

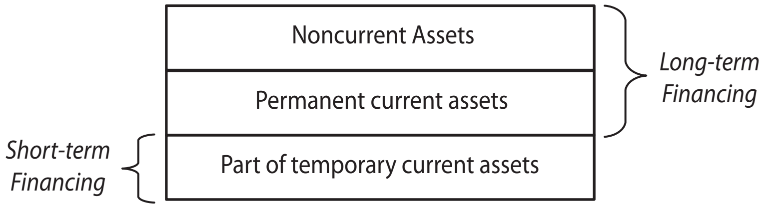

Fig. 7. The conservative model of management of current assets

Source: based on Ye. Donin, 2017 [12].

Short-term loan prevails in the total amount of all liabilities. Such a company has a greater financial risk, since it depends on the specific weight of loan funds, tangible assets, etc. in the overall capital structure.

A conservative type of policy will be characterized by the formation of the company's capital only at the expense of its own types and long-term sources of financing. A company that uses only its own capital has maximum financial stability. However, thanks to this, such a company limits the pace of its own development in the future, because having given up the capital raised during the period of favorable conditions on the loan market, it will remain without an additional source of financing the growth of assets.

A company with a moderate type of policy will introduce mixed financing, which involves the formation of capital both at the expense of its own and at the expense of borrowed funds, which are attracted in different proportions. This approach assumes that equity and long-term debt capital should finance non-current assets, the fixed part of current assets and approximately half of the variable part of current assets, while the other half of the variable part of current assets should be financed by short-term debt capital. Net working capital will be equal to by the amount of the sum of the system part of current assets and half of their variable part.

The current assets financing model, which can be considered ideal, shows that the working capital is equal to the short-term liabilities, i. e. the net working capital amounts to zero (*Fig. 8*).

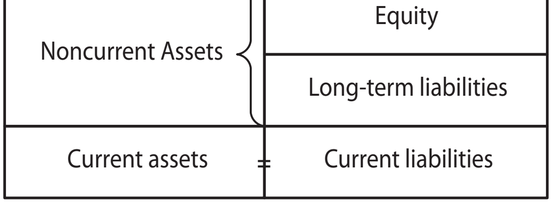

Fig. 8. The ideal model of management of current assets

Source: based on Ye. Donin, 2017 [12].

In real life, such a model is practically not to be found. In addition, from the standpoint of liquidity, it is the most risky venture.

CONCLUSIONS

General approaches to distinguishing the essence of current assets are formed. In this context interpretation, main groups and features are considered. On this base structural and logical scheme of the company's current asset management policy is built. In addition, three current assets financing strategies are considered. A moderate or a conservative type of current liability management policy may correspond to a conservative current asset management policy, but not to an aggressive one. No type of current liability management policy can correspond to a moderate current asset management policy. An aggressive current asset management policy may be matched by either an aggressive or a moderate type of current liability management policy, but not by a conservative one. Understanding all the advantages and disadvantages of the current asset financing strategies allows the company to improve its production capabilities, financial situation, improve work with certain types of current assets and ensure dynamic growth of the company in a strategic perspective.

In further research, it is worth highlighting the issue of analyzing the factors that influence the choice of a strategy for financing current assets, as well as modeling options for the company's development in this direction. ■

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