SOURCES OF FINANCING OF THE OPERATING CYCLE

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Abstract

The choice of how to finance the operating activity is determined by its cost, by the financial structure of the own resources available, as well as under conditions of risk reduction, because a possible insufficiency of the financial resources influences the solvency, liquidity and profitability of the activity carried out by the company, the results of the activity and implicitly the returns expected by investors depending on the financing policy.

Not always an optimal financial structure must have a minimum cost of capital, but rather a reduction of the weighted average cost of capital so as to lead to an increase in the firm's value, an increase in the security of the assets. The capital of the company is considered the sources of financing used in a permanent and sustainable way, to finance the fixed assets, and the determination of the optimal size of the capital is a problem of the top management of the company having a maximum importance in the financial management of the company.

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Classification JEL:

1. INTRODUCTION

In order to carry out the business activity in good conditions, in analyzing the choice of financing sources suitable for performing in good conditions and at the functional parameters, the management of the company must make a balanced analysis of the financing sources and here I refer to the analysis of the period of use, their cost. , the impact of taxation on the financing policy. The actual size of the assets recorded in the accounting may be different from the market value of the company, because the economic assets available to the company may be diminished or increased at the market value level so that the assets without value in case of the insolvency of the company are eliminated.

The size of the assets of a company is faithfully reflected in the balance sheet, which records the shareholders' wealth in accounting terms, but in order to achieve the financial objectives of economic performance and efficiency, the management of the company must take into account the profitability of the activity, liquidity and risk reduction, by achieving a balance between the own resources and the borrowed ones that lead to the increase of the autonomy of the company.

An optimal financing cycle decision may be the one that balances the contradictory relationship between increasing financial autonomy (by using its own sources, using which is accompanied by rigidity in financing needs greater than the minimum and permanent ones) and the need to resort to mobile sources. , elastic of capital, to cover the temporary needs and to complement their own sources (the call which is accompanied by an intensification of the banking control in relation to the use of the credits and the guarantee of their repayment) [9].

2. BUSINESS CAPITALITIES - PERMANENT AND SUSTAINABLE FINANCING SOURCES

The financial equilibrium of the company is directly influenced by the profitability indicators because they participate in the formation of the working capital. In a patrimonial approach in order to have a financial balance at the company level between resources and needs, it is necessary that the stable resources be sufficient for the stable allocations.

Regardless of the form of presentation, the balance sheet is the photograph of the company and must reflect the way in which the equality between the assets and liabilities of the balance sheet is realized, as well as the way of covering the financing needs from the available resources (own, debts) [6].

The sustainable sources or the permanent sources that are at the moment available to the company, are represented by the surplus of resources that fully fund the fixed assets being a balance in the medium and long term on the one hand and the surplus released from the short term activity to cover the current assets. and represents permanent and sustainable sources of funding.

The working capital represents the part of the permanent capital used to finance the current assets, imposed by the differences between the amounts receivable and the amounts to be paid, as well as the gap between the average term for converting current assets into liquidity and the average duration in which short-term debts become outstanding [4].

From the theoretic point of view, it is sufficient that the sum of the permanent capital is at least equal to the sum of the permanent uses, but effective for the enterprise would be that a part of the current assets be financed from permanent resources, that is to say the sum of the permanent resources exceeds the permanent allocations. , a situation in which the company has a margin of safety [5].

The assets represent needs of a permanent nature and must be covered with permanent capital, and the current assets representing the operating cycle expenses should be covered mainly from the working capital but also from the short-term debts formed by treasury loans and obligations towards of suppliers (sources attracted).

The financial analysis uses the notion of working capital that represents the working capital of the company and is determined by two equivalent formulations, the first reflecting the medium and long term financial balance, that is the difference between permanent capital and net fixed assets, and the second reflecting the financial balance. in the short term as the difference between current assets and treasury resources:

Working capital
→ Permanent capital - Fixed assets
→ Current assets - Treasury resources

Both methods of calculation lead to the same result, with the distinction that the first method creates the possibility of appreciating the way of financing the investments, while the second method creates the possibility of assessing the short-term financial balance.

The first method represents the part of the permanent capital remaining after the financing of the fixed assets that the company dedicates to the financing of the current assets, is the part of the capital with weak demandability, which serves to finance the assets with sufficiently high liquidity [7].

The second method, reflects the short-term financial balance, highlights the purpose of the working capital fund, ie the potential liquidity surplus, which in financial terms means the margin of company safety and the management of the assets in order to prevent the risk of bankruptcy of the company.

Net working capital or liquid working capital, determined on the basis of the financial balance (which presents the net cash flows, grouped by time factor), provides information that can be used in operational decision-making, but also in analysis and forecasting activities [8].

As the working capital increases, the company's margin of safety also increases, which shows that a larger part of current assets is financed from permanent capital [7].

The rates of structure of the balance sheet are obtained from the vertical analysis and are determined by relating the assets and capital positions of the balance sheet to their total. These rates highlight the financial characteristics of the company such as: the ability of assets to become liquid, the autonomy and financial independence of the company, the quality of the short-term financial balance or the financial (financing) structure of the enterprise [1].

The sources drawn or the operating debts represent those debts that must be paid by the company within a period of time and not at the appearance of these debts, an interval established by common agreement if we refer to the clients who supply raw materials, material and data established by the legislator if we we refer to taxes, taxes and expenses with salaries.

The management of the company cannot abuse these sources because due to the lack of liquidity it can be very easy to reach a difficult situation for the company and the only solution left available and to which the company can call is financing by short-term loans to meet these gaps.

The sources attracted are numerous but uncertain and the general management of the company depending on the specific activity and here I refer to the characteristics of the operating cycle, must predict both the size of the operating debts to assume but also the duration of demand and at the same time the relationships contract with third parties of the company.

The financing requirement depends on the company depending on the duration of the operating cycle, the speed of stock rotation and not least on the evolution of salaries, social obligations and other elements related to the operation that the general management of the company must take into account, because the level of stocks varies very quickly and the receivables are renewed continuously.

A firm in financial difficulty in order to use the available permanent capital must undergo a restructuring in terms of reducing or eliminating non-productive expenses so as to lead to increased profit margins and consequently a sustainable capital increase for work.

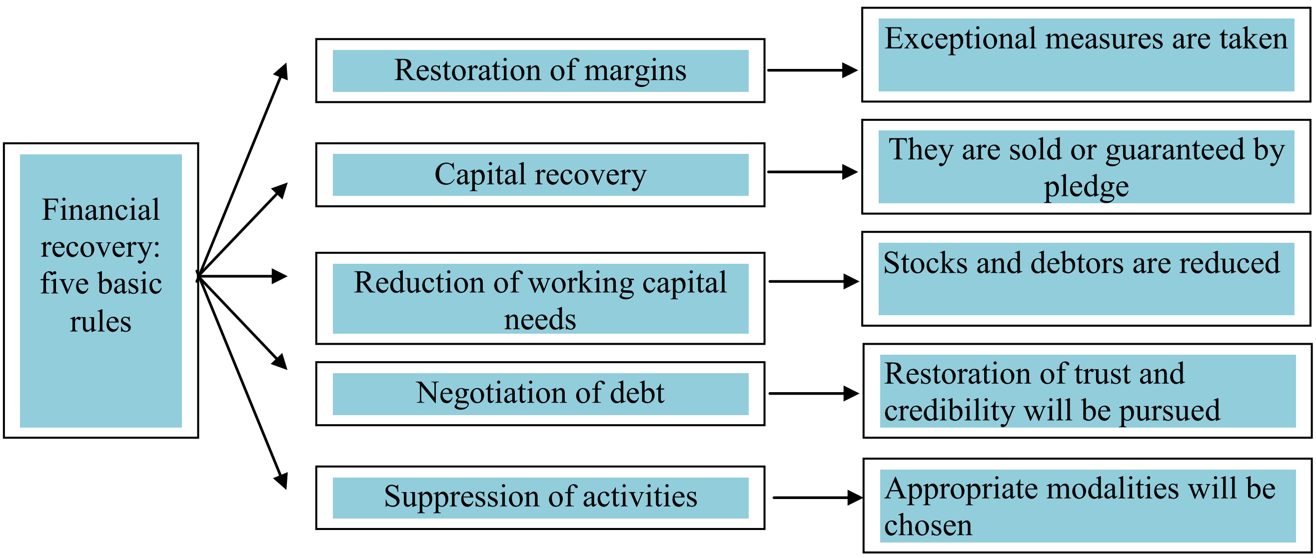

Fig. 1. Basic rules for restoring the financial balance
Source: Bărbulescu C., 2002, pag.302. [2]

In the specialized literature for forecasting the financing need, the proportionality between turnover and stocks is taken into account, so that depending on the policy imposed by the owners of capital, the top management within the company adopts either an aggressive or a defensive policy. or an intermediary policy.

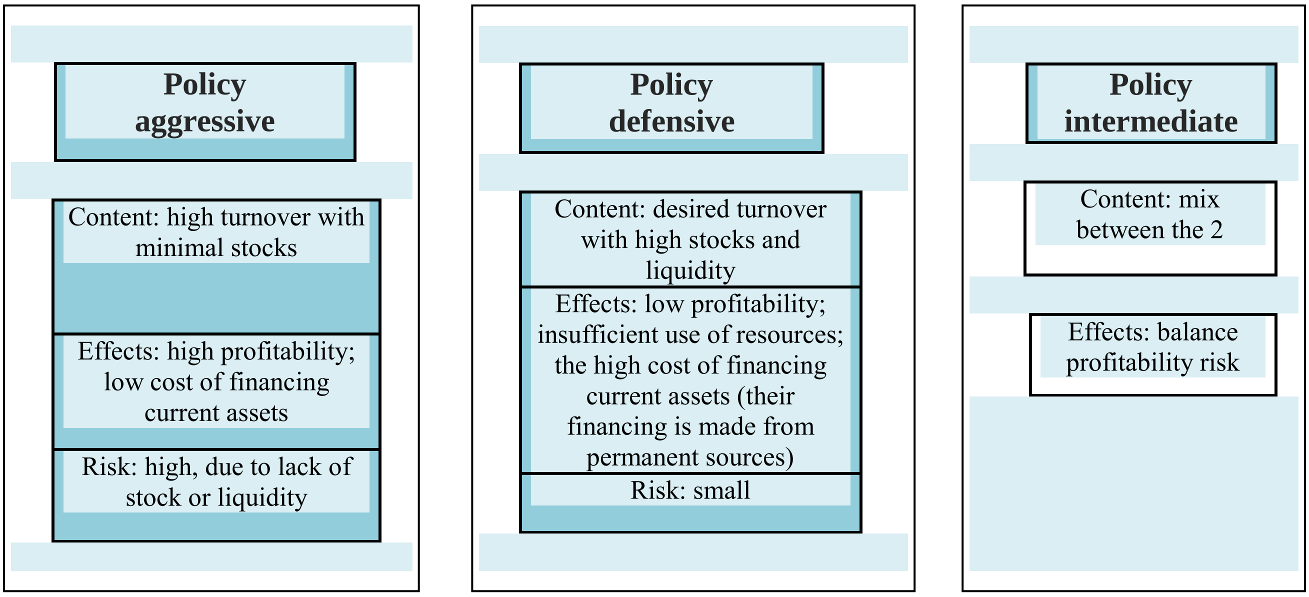

Fig. 2. Operational cycle management policies
Source: Vancea S. 2014, pag. 44. [10]

Given the link between current debt and turnover, in order to facilitate the decision-making process and to predict the financial policy, the general management of the company can calculate the following relationships, which are considered constant over time:

Rotation coefficient = Operating debts/ turnover

Average duration of payments = Operating debts/ turnover x360

The operating debts are regulated by tax laws if we refer to taxes, taxes and expenses with the personnel and through contracts if we refer to stocks and if the legal deadline for payment is exceeded, the company will be financially penalized.

The management of the company to supplement its own and attracted sources, because in the first months of the year it is faced with a deficit between receipts and payments, it uses cash bank loans, which will be covered from the net profit.

In order to be able to cope with the gap between the receipts and the payments of the period, the company must establish the anticipated size of the operating debts, taking into account mainly the estimated turnover for the current year, thus:

Expected operating debts = Planned turnover x Rotation coefficient

Expected operating debts = Planned turnover x Average duration of payments

The financing need for the operating cycle is generally called the operating working capital and it increases as the activity develops, in conclusion, it is an indispensable means of operating the company, an economic means of the same invoice as the investments, which is why it appears in the fixed assets, to be financed [10].

From the operating activity the company attracts short-term resources (current liabilities) from suppliers (through deferred payment of purchases), from employees (salary debts), from the state (fiscal debts), from shareholders (dividend debts) , so that the value of the investment made by the company in the temporary assets represents the part of the current assets remaining unfunded from the temporary liabilities attracted [3].

Bank loans have the role of mitigating the increase or reduction of the need for working capital in filling their own sources, this gap will be reflected in the size of the bank loans balance, the final cash balance reflects the difference between the receipts and the payments of the period, and if the payments are greater than the receipts. the period represents the cash deficit, and if the period receipts are greater than the payments the result represents the cash surplus.

CONCLUSIONS

As an indicator of financial balance and liquidity, the working capital allows for assessments regarding the possibility of financing fixed assets from permanent capital, which is why it is also called the indicator of financing of fixed assets or the indicator of fixed capital.

The working capital, as a financial flow, represents that part of the permanent capital, especially the long-term debts that fully fund the current assets and constitute for the enterprise the margin of safety.

Based on the financial balance that groups the posts according to the criterion of permanence, the financial balance involves financing the asset with a duration of more than one year from resources due over one year, and financing the assets under one year, from resources due less than one year.

An efficient management of the current liabilities implies that the volume of the discrepancies between receipts and payments is in favor of the payments, because in the specialized literature the operating debts are considered debts to third parties, which is a debt that is renewed continuously, and the company must permanently insure financial resources for carrying out the activity in good conditions.

In order to avoid exposing the company to the risk of insolvency, in the decision-making process, the managers must take into account mainly the structure and value of the resources used because according to these analyzes it is established which assets generate very high costs compared to the expected effects and are established in to what extent the borrowed sources have beneficial effects on the future activity. In order for a company to be considered in financial equilibrium, the debt ratio must be the result of a good level of treasury and of ensuring the needs of an appropriate bearing, in order to maintain or increase the degree of competitiveness and performance.

In order to compensate for the gap between receipts and payments for financing the operating cycle, the company must apply different start-ups that envisage on the one hand the acceleration of receipts by granting reductions to prepayments, delaying capital expenditures, renegotiating the payment term with suppliers, rescheduling financial debts. and on the other hand the renunciation of the investments envisaged after a cost-benefit analysis.

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