USAGE EFFICIENCY CURRENT ASSETS IN ENTERPRISES

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Article history:		Abstract:
		The article discusses the existing methods of asset analysis, approaches to the analysis of current assets, presents the shortcomings of the existing methodology, proposes the author's methodology for the analysis of current assets, summarizes the existing methods, as well as adds new coefficients and clarifies the main directions of the analysis of current assets. The analysis of such an element of current assets as accounts receivable and cash is considered. In an analysis of individual elements of current assets, the structure of current assets are proposed and their influence on the final financial result is substantiated.

INTRODUCTION

The condition and efficiency of the use of current assets largely determine the property and financial position of the enterprise. As the names suggest, current assets are those groups of assets that can be converted into cash within one financial year. Examples of current assets are short-term investments made by the company in other marketable securities, trade receivables, cash and cash equivalents, etc. current assets can be grouped as a collection of assets that are not easily convertible into cash within one financial year, and therefore are those that the company holds for the long term or life of the company. Examples of current assets are equipment purchased by the company, property intended for use by the company, construction in progress, furniture and improvements, etc. Depending on the nature of the business, the ratio between current and current assets will change. A manufacturing company will have more current assets than a retailer.

RESEARCH AND METHODS

There are two approaches to the analysis of current assets: static and dynamic. The static analysis evaluates the value and structure of current assets on a certain date, and also reveals changes over a certain period. The dynamic analysis allows you to reveal the reasons for changes in the total value of current assets and their components. The results of such an analysis make it possible to manage the need for current assets and, consequently, for their financing.

Let's consider the main directions of static analysis of current assets. The main source of

information for such an analysis is the Balance Sheet (Form No.1), although other financial accounting and reporting data may be used to detail it.

The first stage of the analysis is an assessment of the structure of assets to obtain an overall picture of the financial condition of the enterprise. So, some experts propose to calculate the ratio of current and long-term assets, which characterizes the structure of assets in the most aggregated way:

$$r.c.a. = \frac{\text{Current assets}}{\text{Long term assets}}$$

The value of this coefficient is largely due to the industry-specific features of the circulation of enterprise funds. In the course of the analysis, it is necessary to find out the reasons for the sharp change in the coefficient. To do this, the dynamics of the absolute value and the share of long-term and current assets is determined. In addition to the above ratio, a more specific analysis of the dynamics of current assets is needed. You should evaluate the items that have made the greatest contribution to the change in the total value of current assets. Assessment of the positive or negative dynamics of stocks, receivables, cash should be carried out by comparing with the dynamics of financial results (form No.2 "Report on financial results"). With different efficiency of using current assets, the growth of inventories in one case can be assessed as a result of the expansion of the volume of activities, and in the other - as a result of a decrease in business activity and a corresponding increase in the period of turnover of funds.

Particular attention should be paid to the

comparability of data, as well as compliance with the principles of estimating balance sheet items from one reporting year to another. To take into account these requirements, in our opinion, the information provided in the reporting forms is not enough. It is necessary to involve accounting policy data and make special adjustments in order to comply with the principle of comparability of indicators.

Analysis of the state of current assets is carried out not only to assess changes in the property status of the enterprise, but also to assess its liquidity. The liquidity of an enterprise acts as an external manifestation of financial stability, the essence of which is the provision of current assets with long-term sources of formation.

As you know, the following main indicators are used to assess liquidity:

-*the current liquidity ratio* shows what amount of current assets falls on one monetary unit of short-term debt:

$$R_{cl} = \frac{\text{Current assets}}{\text{Short-term accounts payable}}$$

The value of the indicator can vary significantly by industry and activity, and its reasonable growth in dynamics is usually regarded as a favorable trend. The lower critical value of the indicator is 2.

This coefficient has a number of features that must be taken into account in the spatiotemporal comparison. First, the numerator of the ratio includes an estimate of inventories and receivables. Since the methods for estimating reserves may vary, this affects the comparability of indicators. Secondly, the value of the coefficient, in principle, is closely related to the inventory management policy: for example, some enterprises, through the introduction of a system for the supply of raw materials and materials, known as "just in time" (Just in time), can significantly reduce the level of stocks, those reduce the value of the current liquidity ratio to a level lower than the average for the industry, without prejudice to the financial condition. Thirdly, some enterprises with a high turnover of funds can afford relatively low values of the current ratio.

-*the quick liquidity ratio* is calculated for a narrower range of current assets, since the least liquid part of them - inventories is excluded from the calculation:

$$R_{ql} = \frac{\text{Accounts receivable + cash}}{\text{Short-term accounts payable}}$$

The meaning of this ratio comes down to the fact that receivables and payables are a form of mutual lending to counterparties. Any enterprise should strive to ensure that the amount of credit provided to customers (accounts receivable) does not exceed the amount of credit received from suppliers (accounts payable).

Analyzing the dynamics of this coefficient, it is necessary to pay attention to the factors that caused its change. So, if the growth of the quick liquidity ratio was mainly due to the growth of unjustified receivables, then this is unlikely to characterize the activity of the enterprise on the positive side.

In our opinion, when calculating the indicator, it is necessary to take not the entire amount of short-term receivables, since the presence of receivables that are unlikely to be collected can lead to distortion of the analysis results;

-*the absolute liquidity ratio* is the most stringent criterion for the liquidity of the enterprise. It shows how much of short-term liabilities can be repaid immediately if necessary:

$$R_{al} = \frac{\text{Cash}}{\text{Short-term accounts payable}}$$

In our opinion, the value of this coefficient can vary greatly depending on the sectors of the economy: in the sphere of material production, its value will be lower than in organizations in the financial sector.

In addition to the above main liquidity indicators, some authors provide the following ratios:

quick liquidity ratio showing what part of the short-term debt the company can repay at the expense of cash and short-term investments:

$$R_{ql} = \frac{\text{Cash + Short-term investments}}{\text{Short-term accounts payable}}$$

In our opinion, in the calculation of this coefficient, it is necessary to include not the entire set of financial investments, since the specifics of the republic's economy impose restrictions on the ability to quickly sell most financial instruments. To obtain reliable results of the analysis, it is necessary to take into account only highly liquid financial investments;

ratio when raising funds characterizes the degree of coverage of accounts payable with material components of current assets:

$$R_{rf} = \frac{\text{Tangible current assets}}{\text{Short-term accounts payable}}$$

The recommended value is from 0.5 to 1.0. Similar to the previous indicator, in our opinion, the value of this indicator can vary significantly depending on the sectoral affiliation of the enterprise.

The considered indicators characterize the main directions of the static analysis of current assets.

Another direction is the *dynamic analysis of current assets.* It involves an assessment of the turnover and profitability of current assets, as well as an analysis of their individual elements. The information base of the analysis is the data of the "Balance Sheet" (form No. 1) and the "Report on Financial Results" (form No. 2).

Indicators of turnover and average terms of turnover characterize the business activity of the enterprise. The lower the turnover of current assets, the greater the need to attract additional sources of financing. Thus, the turnover of current assets is closely related to the solvency and liquidity of the enterprise.

In the practice of analysis, various turnover ratios are used, which can be determined both for all current assets of the enterprise, and for their individual components.

HELL. Sheremet, E.V. Negashev and others are invited to calculate:

- *the turnover ratio of all current assets.* It characterizes the number of turnovers per period committed by each monetary unit invested in current assets:

$$TR_{aca} = \frac{\text{Sales revenue}}{\text{Average value of current assets}}$$

In our opinion, the calculation of this coefficient should be clarified by introducing an indicator of the amount of income from investments into the numerator. This position allows you to more accurately characterize the turnover of funds, since current assets serve not only the operating, but also the investment activities of the enterprise.

The growth of turnover is assessed positively, subject to the profitable activity of the enterprise. If the profitability of sales is negative (i.e., the company's activities are unprofitable), then the growth in asset turnover leads to an acceleration of losses.

When determining sales revenue for calculating this indicator, a problem arises, which comes down to choosing between the amount of payment for shipped products and the revenue reflected in the income statement. According to O.V.Efimova, the key indicator is precisely the volume of sales, while the amount of receipts of cash and other means of payment can be defined as the desired value, calculated taking into account the expected shipment of products.

Along with the turnover ratio of current assets, a derived indicator is calculated - the *duration of one turnover of all current assets:*

$$T = \frac{\text{Length of * Average}}{}$$

$$_{owta} = \frac{\text{reporting period value of in days current assets}}{\text{Sales revenue}}$$

A decrease in the duration of a turnover means an acceleration in the turnover of funds, and an increase in the duration means its slowdown. Thus, the dynamics of asset turnover is inversely proportional to the dynamics of the turnover duration.

The overall turnover rate and the duration of one turnover are influenced by individual elements of current assets (inventories, work in progress, receivables, cash and short-term investments). Therefore, to detail the analysis, an assessment of their turnover is carried out.

In addition to the considered procedure for determining the duration of the turnover of assets, a more accurate calculation can be used, which is based on the "account mobility formula" proposed by I.F.Sherr:

$$\text{Turnover period} = \frac{\text{average account balance} * \text{period duration}}{\text{turnover for the period}}$$

where the average account balance is the arithmetic value of the balance of property or liabilities accounted for in a particular active account.

Dynamic analysis of current assets involves not only an assessment of turnover rates, but also an analysis of the profitability of using current assets.

The profitability of current assets is a generalized characteristic of the effectiveness of their use.

In its most general form, profitability is a relative indicator that measures the effect obtained with the costs or resources used to achieve this effect:

$$P = \frac{\text{The value of the economic effect}}{\text{The amount of resources or costs}}$$

This is how one of the main key indicators is defined - the Cost Income Ratio (CIR - Cost Income Ratio) to assess the performance of joint-stock companies and other business entities with a state share.

In relation to the analysis of the effectiveness of the use of current assets, the effect obtained is correlated with the amount of funds invested in these assets, i.e. as a base indicator (the denominator of the fraction) is the valuation of resources.

HELL. Sheremet, E.V. Negashev to assess this indicator, the value of net profit is taken into account:

$$R = \frac{\text{Net profit}}{} *$$

= $\dfrac{\text{Average value of}}{\text{current assets}}$ 100%

According to the authors, when calculating the indicator, it is advisable not to include accounts receivable in current assets, payments for which are expected more than 12 months after the reporting date.

A positive result of activity is the growth of the values of these indicators. Moreover, the smaller the amount of funds used, the higher their effectiveness. In order to detail the analysis, the authors propose to compare the dynamics of the profitability of current assets with a similar indicator calculated for all assets of the enterprise. Such a comparison should be based on a thorough analysis of the reasons for the change in the share of current assets in all assets of the enterprise. We fully agree with this approach, but in order to further refine the analysis, in our opinion, it is advisable to evaluate the private profitability of individual elements of current assets in order to identify their impact on the overall profitability.

Noteworthy is another approach to assessing the efficiency of using current assets, in which, when calculating the profitability of current assets, the result from the sale of products (works, services) and the result from investment activities are used:

= $R\ \dfrac{\text{Result from the sale of products} + \text{Result from investment activity}}{\text{Average value of current assets}}$ *100%

Such an approach, in our opinion, does not allow us to fully assess the effectiveness of the use of current assets, since the calculation of the indicator does not include the result of financial activity. Meanwhile, in a market economy, this factor can significantly adjust the efficiency of using current assets. It seems that the most accurate assessment of the return on assets can be obtained based on the net profit indicator, as the final effective indicator of all financial and economic activities.

Thus, the profitability of current assets, in our opinion, is a general indicator of the effectiveness of their use. This indicator reflects the general ability to generate profit, which, as already noted, is the main motivational feature of entrepreneurial activity.

The analysis of individual elements of current assets is carried out with the aim of further detailing the above areas of analysis. To conduct such an analysis, more detailed information about the state of individual elements of current assets is required, therefore, in addition to financial reporting data, information on synthetic and analytical accounting accounts is used.

Consider the most common analysis procedures.

- *Analysis of inventories*. In the process of analysis, according to O.V.Efimova, it is necessary to take into account the following factors: the policy of suppliers regarding the supply of material assets; permissible limits within which the value of reserves may fluctuate; the possibility and volume of purchases in excess of normal needs in anticipation of price increases or shortages of material assets; danger of obsolescence and damage to material assets.

The most general information about the effectiveness of the use of stocks can be obtained by evaluating their turnover.

The day of calculating the turnover of inventories A.D. Sheremet and E.V. Negashev propose to use the following formula:

$R_{oz} = \dfrac{\text{Production cost}}{\text{Average inventory value}}$ *100%

The disproportion of stocks in relation to the cost price can be caused either by excess balances of stocks of raw materials, materials and work in progress, or by excess stocks of finished products and goods. In the first case, this may mean an increase in production volumes, in the second case, a decrease in demand for finished products and goods of the enterprise.

A slightly different approach is proposed by O.V. Efimova: the numerator of the indicator uses the amount of expenditure (loan turnover) for the corresponding item. This approach, in our opinion, allows a more reasonable approach to determining the actual turnover of material assets.

The decrease in inventory turnover serves as the basis for a thorough analysis of the organization of production and economic processes, the effectiveness of marketing policy.

It is advisable to determine the turnover indicators both in the context of the main groups (inventory, work in progress, finished goods), and in the context of individual types within each group.

When analyzing the size and structure of stocks, special attention should be paid to assessing the availability of the enterprise with normal carry-over stocks of raw materials, materials, finished products, as well as identifying excess and unnecessary stocks.

To study the dynamics of stocks of inventory items in conjunction with changes in production and sales volumes, we propose to determine the relative level of stocks in days of consumption:

$3 = O * D / R,$

where O is the balance on the balance sheet date for the relevant item of tangible current assets;

R - turnover on the consumption of this type of assets for the reporting period;

D - the number of days in the reporting period.

It is also necessary to evaluate the structure of reserves using the reserve accumulation factor, which is calculated by the formula:

$K_n = PZ + WIP/GP + T$,

where PZ - the share of inventories in the total amount of current assets;

WIP - the remains of work in progress;

GP - stocks of finished products;

T is the share of goods.

The stock accumulation coefficient characterizes the level of inventory mobility of goods and materials. Ideally, it should be less than 1.

A more detailed analysis of the movement and structure of goods and materials is carried out according to warehouse accounting cards by comparing actual stocks with stock norms. As a result, excessive and unnecessary stocks of goods and materials are identified.

In the process of analysis, O.V.Efimova proposes to determine the timing and amount of purchases of raw materials. In this case, the most significant justification is the "order point". In this case, such concepts as "minimum stock" can be used, which is such a level below which the existing stock of material assets should not decrease; "Maximum margin", which characterizes the volume that should not be exceeded. It is advisable to determine the minimum and maximum levels in relation to the rate of their consumption in days.

"Order point" corresponds to the quantitative level of stocks, upon reaching which it is necessary to repeat the order for their replenishment. The specified level can be considered as the sum of two components: a minimum of stocks and the amount of stocks that will be spent from the moment the order is placed until the receipt of material values. The task of analysis in this regard is to substantiate the conditions for placing an order that do not allow their complete exhaustion.

"Order size" determines the quantity of materials for which an order for their replenishment should be made.

Analyzing the foregoing, it should be noted that the considered areas of analysis of inventories are intended mainly to assess the use of industrial raw materials and much less often - finished products.

- *Analysis of receivables*. The main purpose of this stage of the analysis is to develop and justify a customer lending policy aimed at accelerating settlements and reducing the risk of non-payment. In general, the change in accounts receivable for the period can be characterized according to the data of form No. 1 "Balance sheet". For internal analysis, analytical accounting information should be involved, disclosing data on the size and structure of receivables, the presence and volume of overdue debts, as well as specific debtors, the delay in settlements with which creates problems with current solvency.

One of the areas of analysis is the assessment of the age structure of receivables, which allows you to get a picture of the state of settlements with buyers, identify overdue debts, and also evaluate the dynamics of its repayment by individual groups of debtors.

To do this, it is customary to rank receivables according to the timing of occurrence. The most common is the following grouping: up to 30 days, from 31 to 90, from 91 to 180 days, etc. Such a gradation allows not only to assess the structure of debt, but also to assess the probability of its repayment: the longer the period of debt formation, the greater the probability of its non-payment.

According to O.V.Efimova, for the analysis of receivables, it is advisable to use indicators characterizing its size and structure, maturity, the share of receivables in total current assets, as well as the share of doubtful debts. The last indicator characterizes the "quality of debt".

To assess the liquidity of receivables, the coefficient of its turnover (collection) is calculated. Most authors propose the following formula for calculation:

$$R_{odz} = \frac{\text{Sales revenue}}{\text{Average receivables}}$$

A slightly different calculation procedure is proposed by V.B. Ivashkevich: in the numerator of the indicator, it is necessary to use the amount of credit turnover on accounts receivable. In our opinion, this approach is more justified, since it most accurately characterizes debt collection.

Data on the prevailing collection rates can be used to predict receivables and expected receipts from buyers and customers.

As O.V.Efimov, when calculating this indicator, there is a problem associated with the distortion of the result due to the peculiarities of reflecting receivables in the balance sheet. Currently, balances of receivables in the balance sheet include value added tax. At the same time, the amount of revenue reflected in the

income statement is cleared of the amount of accrued tax. As a result, the numerator and denominator of this formula turn out to be incomparable, and the result of the calculation is distorted (overestimated).

In order to ensure comparability of the elements involved in determining the duration of repayment by buyers of their obligations, it is proposed to include in the calculation the amount of receivables net of VAT. We fully agree with this approach.

Another direction in the analysis of receivables was proposed by V.V.Kovalev and O.V.Efimova. The emergence of receivables leads to the immobilization of the company's funds. This process is accompanied by indirect losses in the income of the enterprise. To assess the real value of receivables, the authors propose to calculate its discounted value. At the same time, in the first source, the coefficient of the fall in the purchasing power of the monetary unit acts as the discount rate, and in the second - the cost of financial resources (cost of capital). The proposed methods can be used to predict receipts from debtors.

- *Analysis of funds* is reduced mainly to the analysis of their movement. The sources of information are the data of Form No. 1 "Balance Sheet", Form No. 4 "Cash Flow Statement", data on synthetic cash accounts.

The purpose of this stage of analysis is to assess the financial stability and profitability of the enterprise. Its starting point is the calculation of cash flows (Cash Flow), which is carried out by a direct or indirect method. With the direct method, Cash Flow is calculated as the difference between cash receipts and expenses associated with their payment. With the indirect method, the starting point is the amount of profit (loss) for the analyzed reporting period, which is adjusted by adding all expenses that are not related to the movement of cash (for example, depreciation), and subtracting all income that is not related to cash flows.

The most complete methodology for analyzing cash flows was proposed by N.V. Volodina. The author proposes the calculation of the following indicators:

Interest coverage (interest refers to the price of using borrowed funds):

$$\text{Interest coverage} = \frac{\text{Cash Flow before interest payment}}{\text{The amount of interest paid}}$$

This indicator allows you to understand what part of the interest can be paid out of Cash Flow and to what extent Cash Flow could decrease without

compromising the fulfillment of obligations to counterparties for the payment of interest.

$$\text{Self-financing potential} = \frac{\text{Cash Flow - Dividends}}{\text{Long-term accounts payable}}$$

The indicator characterizes the possibility of covering long-term accounts payable.

The dynamics of the degree of debt or its repayment in the future depends not only on the ability of the enterprise to pay interest, but also to return the principal amount of the debt:

$$\text{Degree of debt} = \frac{\text{Borrowed funds and accounts payable}}{\text{Cash Flow after dividends, interest, taxes}}$$

For domestic analysts, this indicator is of particular importance in predicting the solvency of an enterprise. It is based on the assumption that in a crisis situation, debts increase due to sales problems, and at the same time the amount of Cash Flow decreases.

Profitability of all assets relative to the amount of cash flow:

$$\text{Return on equity} = \frac{\text{Cash Flow} * 100\%}{\text{The value of all assets}}$$

In addition to the above indicators, other indicators are also calculated that allow assessing the liquidity, financial policy of the enterprise, the return on its capital, as well as using them for operational and strategic financial planning.

CONCLUSIONS

Summing up the above, we consider it necessary to note that the analysis of individual elements of current assets is represented by an assessment of the state and efficiency of the use of inventories, finished products, receivables and cash. At present, almost no attention is paid to cost-effectiveness analysis in work in progress and short-term investments. In our opinion, in a market economy, the role of these components is high enough to ensure the effective operation of the enterprise.

Having considered the main methods for analyzing current assets, we can conclude that they operate both with the total amount of current assets and the value of their individual elements. The efficiency and financial stability of an enterprise is influenced not only by the volume of current assets, but also by their structure. Existing methods of

analysis do not address the issues of assessing the impact of the structure of current assets on the final performance indicators. In our opinion, the rational allocation of current assets between their components is of great importance for ensuring the continuity of the enterprise, has an impact on its financial performance. At the same time, under the structure of current assets, we mean the totality of the shares of each of their elements.

Summarizing the economic essence and classification of current assets, as well as existing methods for their analysis, we came to the following conclusions:

- current assets represent the value advanced in cash for the formation of production working capital, which are constantly moving from one functional form to another, thereby ensuring the continuity of the production process and sales of products;
- for the purposes of the study, the existing classification of current assets was supplemented by their division into aggregated elements (material reserves, stocks of finished products, receivables and cash), as well as assets, the increase in the share of which leads to an increase in net profit, and assets, the increase in the share of which leads to a decrease in net profit;
- the volume and structure of current assets affect the financial stability of the enterprise and the efficiency of its activities;
- existing methods for analyzing current assets do not consider the impact of their structure on the final performance indicators;
- there is a dependence of financial results on the structure of current assets.

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