

**Kyiv National University of Trade and Economics**

Economics and Finance of Enterprise Department

**FINAL QUALIFYING PAPER**

**on the topic:**

**Management of company's current assets financing**

by materials of the limited liability company

«Trade Company VNIS», Kyiv

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**Kyiv, 2018**

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## ABSTRACT

**Vasylenko A.A. "Management of company's current assets financing" (based on the materials of LLC "Trade Company VNIS", Kyiv). – Manuscript.**

Final qualifying paper on the specialty 051 "Economics", specialization "Financial Management". – Kyiv National University of Trade and Economics. – Kyiv, 2018.

The final qualifying paper is devoted to theoretical, methodological and practical aspects of management of company's current assets financing. It allows to investigate the basic principles, methods and means of determining needs to finance current assets of the company and develop ways to improve the management of company's current assets financing.

**Key words:** current assets, policy and strategy of current assets financing, efficiency of current assets financing management.

## АНОТАЦІЯ

**Василенко А.А. «Управління фінансуванням оборотних активів підприємства» (за матеріалами ТОВ «Торгова компанія ВНІС», м. Київ). – Рукопис.**

Випускна кваліфікаційна робота за спеціальністю 051 «Економіка», спеціалізація «Фінансовий менеджмент» – Київський національний торговельно-економічний університет – Київ, 2018.

Випускну кваліфікаційну роботу присвячено теоретичним, методичним і практичним аспектам управління фінансуванням оборотних активів підприємства. Представлена робота дозволяє дослідити основні засади, методи та засоби визначення потреби фінансування оборотних активів підприємства та розробки шляхів покращення управління фінансуванням оборотних активів.

**Ключові слова:** оборотні активи, політика та стратегія фінансування оборотних активів, ефективність управління фінансуванням оборотних активів.



## INTRODUCTION

**Actuality of the theme.** Nowadays, when the Ukrainian economy has switched to market functioning methods, each enterprise independently decides, what products should be released and at what prices to implement them. At the same time, the effectiveness of a company becomes a prerequisite for survival in the competitive environment of market economy. This is achieved, first of all, by the successful management of an enterprise on a whole, and its production process, in particular.

In this context, it is important to note that elaboration of an efficient production process is impossible without a rational organization of asset management of an enterprise, including current assets. To this end, planning and financing of current assets is urgently needed, which ensures the rational use of available resources and serves as a prerequisite for ensuring efficient and stable financial and economic activity, determining reserves to increase its profitability and solvency, etc. That is, the importance and relevance of the study of the financing of the company's current assets is unquestionable. In general, much attention is paid to the issue of the effectiveness of the formation, use, planning and financing of current assets in the operating or investment process in the overall management system. In this case, financing of current assets is a relatively new area of functional management of an enterprise. It is a system integrating the methodological principles of financial management, innovation management, accounting, control, logistics and other special fields of knowledge.

The study of problems in the organization of accounting and analysis, in particular, planning and financing of current assets, is devoted to the scientific works of such national scientists and economists as Blank I.A., Lakhtionova L.A., Pavlovskaya O.V., Prytulyak N.M., Nevmerzhitskaya N. Y., Korobova M.Y., Izmaylova etc.

Among the foreign authors, this issue was considered in the scientific works of M.I. Bakanova, I.T. Balabanova, V.V. Kovaleva, M.N. Kreinina, V.F. Palia, R.S.

Sayfulin, A.D. Sheremeta, etc. Also, this issue was considered by such economists as A. Smith, J. Stuart Mill, K. Marx, M. Matthew, P. Perer, etc.

However, without reducing the achievements of these studies, it should be noted that the planning and financing of current assets need further research due to the difficulty of forecasting the value of current assets in an unstable economy.

**The aim** of the final qualifying paper is to summarize the theoretical and methodological grounds regarding the current assets financing of an enterprise and to make on this basis proposals for improving the efficiency of current assets financing management.

**The tasks** of the final qualifying paper are as follows:

- to reveal the essence and structure of current assets of an enterprise and to consider approaches to their classification;
- to investigate the policy and strategy of current assets financing;
- to characterize the system of indicators of efficiency to manage current assets of an enterprise;
- to analyze availability of current assets in the LLC "Trade Company VNIS";
- to characterize the current assets financing sources in the LLC "Trade Company VNIS";
- to estimate the current assets efficiency financing in the LLC "Trade Company VNIS";
- to explain the appropriate current assets financing policy in the LLC "Trade Company VNIS";
- to calculate the planned needs in the LLC "Trade Company VNIS" in current assets in the perspective period;
- to substantiate the sources of current assets financing in the LLC "Trade Company VNIS" taking into account the planned needs;
- to develop general recommendations for increasing efficiency of current assets financing management in the LLC "Trade Company VNIS".

**The object** of research is the process of management of current assets financing.

**The subject** of research is theoretical, methodological and applied aspects of the formation of the mechanism of current assets financing in the enterprise.

**Organizational and economic characteristics of the enterprise.** All-Ukrainian Research Institute of Selection (VNIS) is an independent economic entity that has the rights of a legal entity and carries out production, research and commercial activities in order to receive the corresponding profit based on the decisions of the founder on his property with the right to hire a workforce.

Location of the Company: Ukraine, Kyiv, Vasylkivska Street, 30.

VNIS is the leader of domestic varieties and hybrids of leading crops, the first private breeding establishment in Ukraine, known to many farmers and entering the world market.

The purpose of the enterprise is the production of agricultural products, namely, seeds of cereals, technical and other crops, processing and marketing, saturation of the market with quality goods and services, other types of economic activities for profit.

Net income from the sale of products (goods, works, services) the LLC "Trade Company VNIS" in the reporting period amounted to 16276,4 thousand UAH, which is 11272,5 thousand UAH (or 225.27%) more than in 2015. It also has significant growth and cost of sold products, which has increased by 10099,5 thousand UAH, that is 699,17% in 2017, compared with 2015. The gross profit of the company in 2017 amounted to 4732,4 thousand UAH, that is, it increased by 1173,0 thousand UAH (32,95%) compared to 2015.

The net profit of the company in 2017 amounted to 484,2 thousand UAH, that is, compared to 2015, it decreased by 1183,5 thousand UAH, that is, by 70,97%.

The basis of final qualifying paper is a systematic approach. In order to study the economic essence of the current assets of the enterprise and to justify the approaches to planning their volumes, general scientific and specific **methods** were used: theoretical generalization, dialectics, scientific abstraction and logical analysis; comparative analysis, situational approach, induction and deduction; to determine the trends in current assets management and assess the effectiveness of



their formation and use - observation, grouping, economic and financial analysis. Logical methods have been applied in developing recommendations for increasing efficiency of using current assets of an enterprise.

**The information base** of the study are legislation and regulations in the field of financial and economic activity of the enterprise management, official materials of the State Statistics Committee of Ukraine, textbooks, manuals, monographs, scientific articles, materials of scientific conferences, accounting and reporting data of the LLC "Trade Company VNIS", etc.

**The scientific novelty** of the obtained results is to improve the theoretical and methodological principles of managing the financing of current assets of domestic enterprises in order to increase the efficiency of their management.

**Approval of research results.** The main provisions and scientific achievements of the thesis were discussed and received positive feedback on: The student's International forum «Trade and Service sphere: world educational and scientific trends» (May, 16-17, 2018, Kyiv).

**The practical significance** of the obtained results and conclusions is that the proposed developments will form the methodological basis of sound management of the current assets of enterprises in conditions of development of a market environment. The implementation of the methodological recommendations outlined in the work will be useful in improving the choice of the strategy of further development of enterprises, planning their current economic activity.

**The structure of the final qualifying paper.** The work consists of an introduction, three sections, conclusions and proposals, references and appendices. The total volume of work is 98 pages and includes 23 figures, 21 tables, 15 formulas. The references contain 72 titles. The final qualifying paper has 2 appendices.

## **SECTION 1**

### **THEORETICAL FUNDAMENTALS WHICH REVEAL MANAGEMENT OF CURRENT ASSETS FINANCING AT AN ENTERPRISE**

#### **1.1. The essence, structure and classification of current assets of an enterprise**

In conditions of integration of Ukrainian enterprises into the international economic space, there emerges a necessity for a unified interpretation and methodology of the study of such a diverse economic category as "current assets", which is relatively new to Ukrainian economic theory and practice.

In general, the term "current assets" is treated differently, depending on the stages of economic development. Thus, in political economy generalizations of the concept of current and fixed capital were introduced by Adam Smith [18]. The scientist considered the way in which they bring income as One of the differences between them. The scientist noted that the current capital which can give income to its owner may be used only in one way - when using it in the circulation.

At the same time, Adam Smith divided current capital into:

- 1) money in circulation;
- 2) edible supplies that are in the hands of both producers and merchants which are for sale with benefits;
- 3) materials for accommodation, clothes, pets, jewelry, more or less finished or in the hands of workers for their final production and circulation;
- 4) finished and usable goods in warehouses and merchants stores that are stored for the purpose of selling them with profit or which are on ships or in carts that carry them to the account of buyers or consumers".

John Stuart Mill clearly pointed out the multiple participation of fixed capital in the production process. The researcher noted that a significant part of capital, embodied in tools of production, characterized by a more or less long existence, is



not excluded from it, but remains in it, and the function of this part of capital is not limited to a single use [10].

In the work of Karl Marx there is stated: "The cost of current capital - in the form of labor and means of production - is advanced only at that time, during which the product is manufactured, and is advanced in accordance with the scale of production [9].

The division of assets on the current ones and fixed ones was also studied by M. Matthew and P. Perera [54]. The authors note that the division of assets into fixed ones and current ones is borrowed from the practice of accounting in the economy through the judicial sphere at the end of the nineteenth - the beginning of the twentieth century. It was believed that one of the main benefits from the division of assets into the fixed and current is the ability to evaluate, based on this, the liquidity of the entity.

In terms of the administrative system, the concept of "current funds" was more common. Understanding the essence and functions of current funds was at that time monotonous. The main function was considered as settlement and payment services of funds circulation, financing of the current costs of an enterprise. The current funds include the amounts needed to purchase materials, raw materials, wages for production and administrative personnel, for paying taxes and other expenses paid by an enterprise in the current period.

Since the early 50's, a debate arose between the economists, resulting in a set of competing with each other concepts and definitions of current funds. Thus, V.P. Dyachenko wrote: "The current assets of an enterprises consists of revolving funds and funds of circulation". In the textbook of political economy of 1954 it is said: "Manufacturing revolving funds and funds of circulation in their aggregate compose current assets of an enterprise". Clarifies this definition M.M. Usoskin: "the totality of revolving funds and funds of circulation in their monetary terms is the current funds of an enterprise" [54]. Later, this definition was given in the work of Y.I. Usatova, M.N. Vitebsk, B.S. Gerashchenko. The authors defined a new concept as the sum of the other two (revolving funds and funds of circulation) [54].

In particular, to simplify, current assets began to be identified with current funds.

International Accounting Standard №1[53] «Presentation of Financial Statements» states that "Current assets are cash and cash equivalents that are not restricted in use, as well as other assets intended to be realized or consumed during the operational cycle or during twelve months from the balance sheet date".

Analyzing the concept of "current assets" in various literature sources, we can distinguish several approaches of economists to the interpretation of the essence of this category [54]:

- a set of revolving funds and funds of circulation;
- current means of enterprises, which are reflected in the asset part of their balance sheet;
- cash and cash equivalents and other assets used in one operating cycle;
- a set of tangible values that serve the current economic activity of an enterprise and are fully consumed during one operating cycle;
- means of an enterprise which completely transfer their value to the cost of manufactured products.

The conducted research confirms the absence of a unified methodological approach to the notion of current assets (Fig. 1.1).

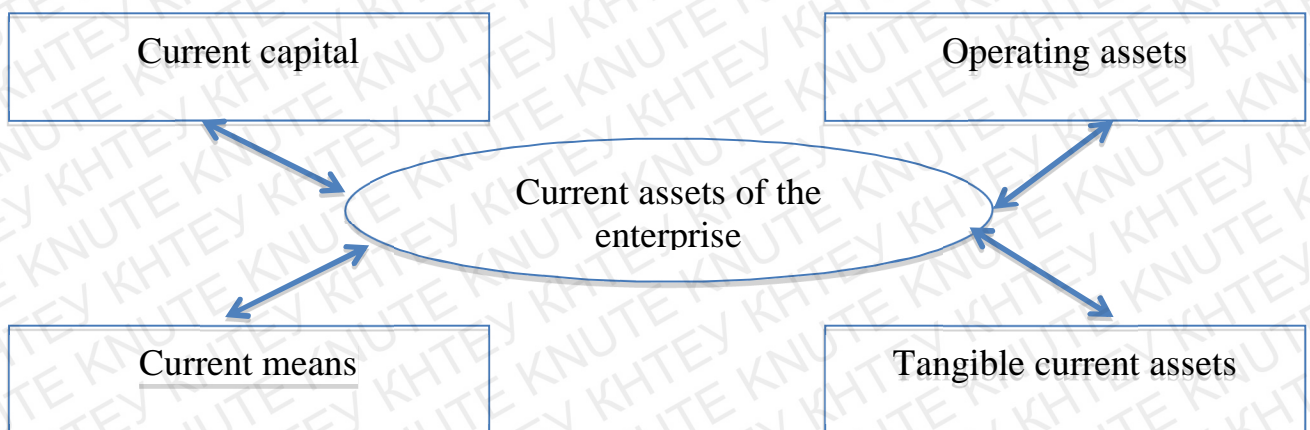


Fig. 1.1. Generalization of scientific approaches to the notion of the concept of "current assets" [54]

After analyzing the above mentioned notion and definition of current assets, we are to propose our own definition of this concept. Current assets are a set of property values of an enterprise serving the current economic process and are fully/partially consumed during one operating (production and commercial) cycle.

As a rule, current assets include revolving funds and funds of circulation (Fig. 1.2) [54].

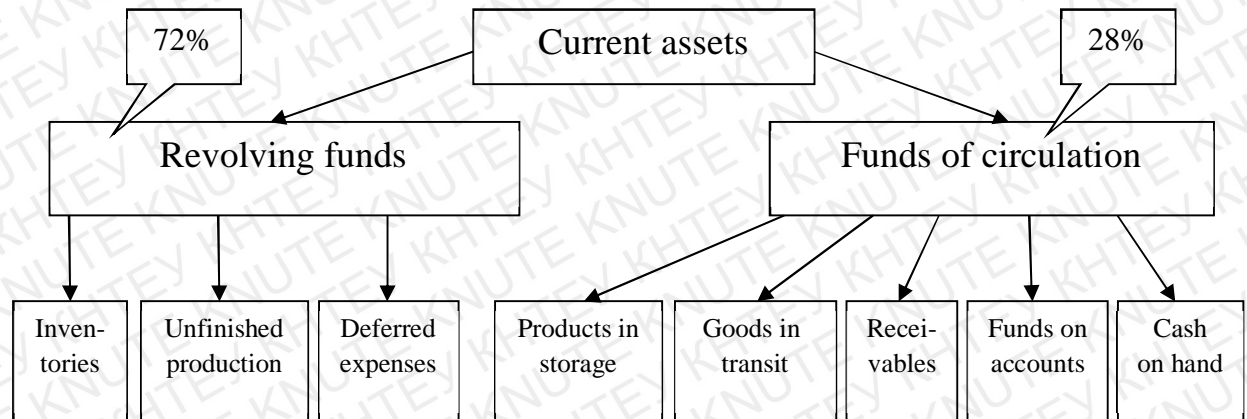


Fig. 1.2. Elemental composition and structure of current assets of an enterprise [25, 45, 54]

In recent years, in the industrial sector of Ukraine's economy, the share of revolving funds in the amount of current assets averaged to 70-72%, and the share of funds of circulation was 28-30% [58].

Revolving funds are a part of the production assets of an enterprise which are fully consumed in each technological cycle of manufacturing products and completely transfer its value to the value of these products. Revolving funds of an enterprise have tangible and cost form.

In the practice of planning and accounting of economic activities revolving funds traditionally include:

- inventories - stocks of raw materials, basic and support materials, finished materials, purchased semi-finished products, fuel, spare parts, containers and other tangible values intended for production;



- unfinished production - is objects of work, processing which is not completed by an enterprise. It only exists in those enterprises where the length of the production cycle is greater than one day. In value, unfinished production covers the cost of purchasing materials, spare parts, structures, raw materials, wages and other funds necessary to complete a production cycle;

- deferred expenses are the costs of acquiring assets necessary for the production of assets that have not yet been received by an enterprise. This is an advanced cost of raw materials, materials, etc. After an enterprise receives these elements, the value of the corresponding current assets is transferred from the group "costs of future periods" to the group "inventories". Also, this group includes expenses for research, development of new equipment, rent, etc., which are carried out in the current year, but the cost of production will be attributed in the next period [54].

Along with revolving funds, there are funds of circulation, that is, those that operate in the sphere of circulation (sales of products). They include the following elements:

- products ready for realization in the storage of a company - are finished products that have been tested and received, fully stocked in accordance with contracts with customers and meet the technical requirements. These products are for sale;

- goods in transit are the products that are on the way to the customer or in his responsible storage (on the balance sheet account);

- funds on a company's accounts and cash at the cash desk are those which are on the current account of an enterprise in the bank and available in the cash desk;

- accounts receivable are accounts payable and are usually created in connection with the supply of credit or subscription for materials, components, etc. [54].

The structure of current assets is characterized by the ratio of their individual elements in the total bulk of current assets which is expressed as a percentage. This

structure can be quite different, depending on the industry to which a company belongs, but in general, in the industry:

- 2/3 of current assets is revolving funds, and
- 1/3 - funds of circulation.

Factors that affect the structure of current assets:

- duration of the production cycle;
- level of specialization, concentration, cooperation of production;
- location of an enterprise;
- the complexity of products being produced;
- terms of delivery;
- product completeness and packaging requirements;
- payment system and payment discipline.

Current assets ensure the continuity of production and sales of goods and services of an enterprise (Fig. 1.3).

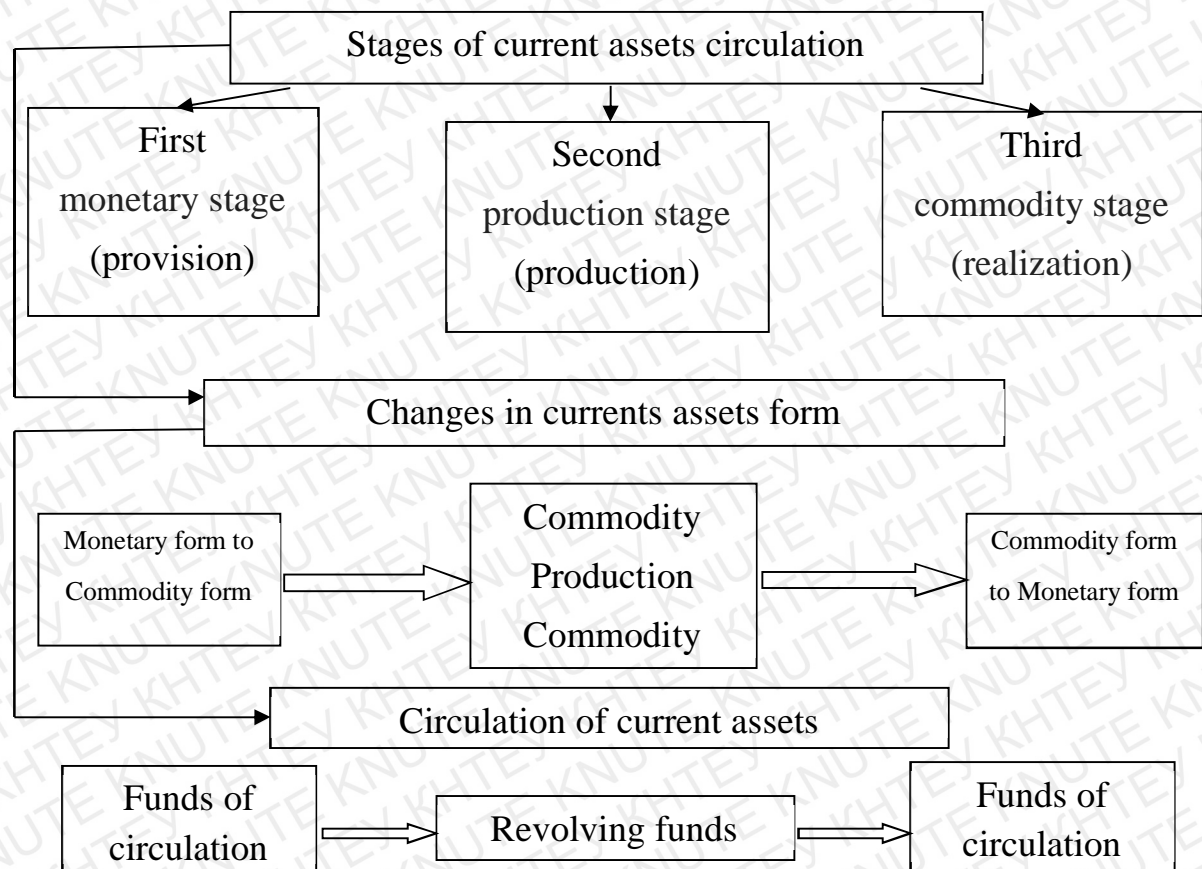


Fig. 1.3. Stages and forms of current assets circulation [2, 32, 37]

In the circulation of the current assets there are three stages:

- monetary stage,
- production stage and
- commodity stage.

At the first stage which takes place in the sphere of circulation, current assets are in a monetary form, then they are spent for the purchase of raw materials, fuel and other tangible assets necessary for an enterprise activity.

At the second stage, which takes place in the production sphere, the machine and inventory values are used in production. In this case, the value of inventories is fully realized in the cost of the product created.

At the third stage of the cycle (sphere of exchange) the newly created product of labor is transformed into a monetary form.

The structure of current assets reflects the 2nd section of the asset balance of an enterprise (table 1.1) [53].

*Table 1.1*

**Representation of current assets' items in an enterprise balance sheet**

| Current Assets  | Line code   |
|---|-------------|
| Inventories   | 1100        |
| Current biological assets                               | 1110        |
| Accounts receivable for products, goods, work, services | 1125        |
| Accounts receivable for settlements:                    | 1130        |
| - on issued advances                                    |             |
| - with budget   | 1135        |
| - including income tax                                  | 1136        |
| Other current accounts receivable                       | 1155        |
| Current financial investment                            | 1160        |
| Cash and cash equivalents                               | 1165        |
| Deferred expenses                                       | 1170        |
| Other current assets                                    | 1190        |
| <b>Total for the Section II</b>                         | <b>1195</b> |

Current assets have the following main functions:

- production function- that is to ensure the continuity of the production process.



- payment and settlement function - is used in the sphere of turnover and payments of an enterprise.

Purposeful management of current assets of a company needs their preliminary classification. An economically justified classification of current assets is an important prerequisite for the successful organization of accounting, since it depends on the ability to timely and clearly manage current assets, the possibility of operational analysis and forecasting, which ultimately affects the validity of managerial decisions.

We will characterize a more detailed classification of current assets on the basis of:

1) by the nature of participation in the operational process, current assets are divided into:

- current assets in the sphere of production - assets serving the production cycle of an enterprise (stocks of raw materials, materials, semi-finished products, work in progress, finished products);
- current assets in circulation - assets serving the financial (monetary) cycle of an enterprise (cash, accounts receivable, current investments).

2) Depending on the planning methods [25]:

- rationed current assets - are circulating assets that can be accurately determined and recorded as planned values. Their volume can be precisely determined in advance to ensure a continuous process of production. Rationed current assets include means in inventories, production, in the balance of finished products in warehouses of an enterprise;
- non-rationed current assets - these are current assets that can not be accurately established or fixed in the form of a standard or planned volume. Non-rationed current assets include all assets in circulation, except for finished goods in warehouses.

3) By the nature of sources of funding there are distinguished:

- gross current assets (current assets in general), characterizing their total volume, formed from both own and attracted capital;

- net current assets, which characterize the part of their volume formed on the basis of equity capital and long-term liabilities. The amount of net working assets is calculated as the difference between the value of gross current assets and the amount of short-term current financial liabilities;

- own current assets characterize that part which is formed at the expense of a company's own capital.

4) By types. This classification is carried out through the description of the balance sheet items included in Section 2 "Current Assets" (see table 1.1):

- inventories (finished goods, goods, work in progress, semi-finished products, production shortages, production reserves);

- current biological assets;

- receivables;

- current financial investments;

- cash and cash equivalents;

- deferred expenses;

- other types of current assets [54].

5) By degree of liquidity, in the economic literature current assets are divided into [43]:

- high liquidity - current assets, which can be instantly and without additional efforts converted into cash. These include cash and current financial investments. For the most part, an indicative term for their conversion is allocated - up to 90 days. Therefore, we believe that in the same group there can be attributed the current receivables of regular customers, which are timely calculated for the delivered goods (performed work, services performed);

- medium liquidity - these assets include current assets, which require additional time to be transferred to cash. These include commodity stocks, finished goods and, mainly, receivables;

- low-liquidity - assets that require a long time to implement. These include, in general, production inventories of an enterprise, non-in-demand products, and biological assets.

6) According to the form of functioning there are distinguished:

- monetary current assets - this form is divided into to cash and cash equivalents;
- real current assets - other current assets.

The system of organization of current assets is based on certain principles. First, they make enterprises independent in terms of disposal, management of current assets. Second, they determine the planned necessity and the allocation of current assets by individual elements and subdivisions. Third, they adjust the calculated and current standards taking into account changing business requirements: volumes of production, prices for raw materials and materials; suppliers and consumers; forms of applied calculations. Fourth, the formation of current assets at the expense of own resources and borrowed funds in amounts that ensure the normal financial condition of an enterprise. Fifthly, conducting analysis of the efficiency of the current assets used to accelerate their rotation.

Consequently, we can conclude that current assets are a comprehensive economic category because it includes all other concepts and takes into account the specifics of the property part of the production entities.

## **1.2. Policy and strategy of current assets financing of an enterprise**

In modern conditions of management, an enterprises of all forms of ownership are given a wide independence in maneuvering of current assets. They have the right to determine the planned need for current assets and manage them during the year. They have the right to sell unused tangible assets to other enterprises, organizations and population at market prices. As domestic reserves at the disposal of enterprises, there is also an economy that comes from accelerating the turnover of current assets. The net profit remaining at the disposal of an enterprises may be used to form reserve funds intended to cover losses and unpredicted losses.



In today's operating environment, business executives must constantly decide on where to invest temporarily free funds to provide funding, where to get the necessary resources to ensure an uninterrupted process of production, which may be the volume of debts, reinvestment of profits, assets restructuring. In view of this, there is an increasing need for the formulation the principles of financing of current assets of enterprises. Therefore, one of the main tasks of financial management of an enterprise should be to determine the most suitable and rational for the organizational structure of current assets and to ensure the effective implementation of a company strategy for financing current assets.

The theoretical foundations of financing of current assets of enterprises are reflected in the works of Western scholars: Eugene F. Brigham [1], J. C. Van Horne [19], S. Vishwanath [20]. Ukrainian scientists have made a significant contribution to the development of the theory and practice of managing current assets of enterprises, among them A. Baldinuk [24], I. Blank [27], A. Semenov [65], and Russian economists V. Kovalev [40] and others. Despite the availability of a wide range of scientific research concerning current assets management of enterprises, the problem of explaining the strategy of current assets financing with the consideration of the specifics of the subjects of management and the peculiarities of the sources of financing their activities remains relevant.

To survive in a market environment, each enterprise must ensure the efficient use and acceleration of the turnover of current assets, maintain a sufficient level of solvency and liquidity of the balance sheet.

Under these conditions, an enterprise must develop a policy of integrated operational management of current assets, consisting of:

- the choice of the optimal level and rational structure of current assets, taking into account the specifics of an enterprise activity;
- determination of the size and structure of sources of financing of current assets.

The definition of sources of current assets formation is an important task for an enterprise, since they provide a continuous process of production, and their lack can lead to a reduction in production, and as a consequence - of a decrease in profits.

Traditionally, sources of current assets formation are (Fig. 1.4):

- own funds;
- equal to own (stable liabilities);
- attracted funds.

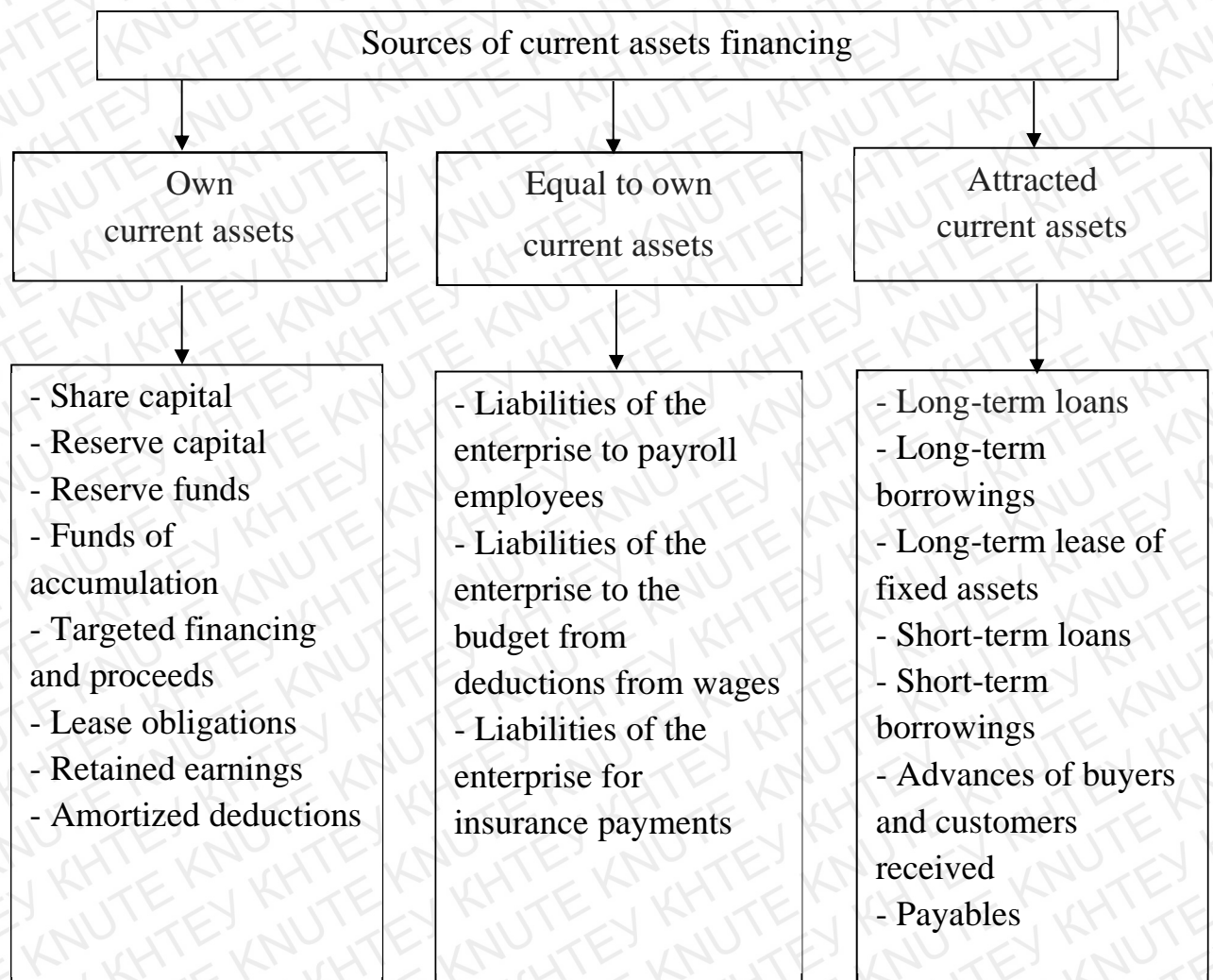


Fig. 1.4. Sources of current assets financing [55, 69, 72]

There are three types of policies for integrated operational management of current assets:

- aggressive,
- conservative,

- moderate.

Aggressive policy has the following features:

- an enterprise provides financial and economic activity without limiting the increase of the current assets;
- an enterprise accumulates stocks of raw materials, materials and finished goods, increases receivables and free balances of funds in accounts with the bank.

Such enterprise activity involves an increase in the share of current assets in the total bulk of property up to 50% and more, with the period of their turnover is over 90 days. Aggressive policies do not, as a rule, provide high return on assets and contribute to reducing the risk of technical insolvency. Unfavorable external conditions in the commodity market can cause a decrease in financial stability and loss of solvency.

In providing the conservative policy of current assets management, the characteristic features is that a company constrains the growth of current assets and seeks to minimize them. In this situation, the share of current assets in the total bulk of property is not more than 40%, decreasing and the period of their turnover. Such a policy is carried out by an enterprise in conditions of sufficient certainty. That is, the conditions and volumes of sales, the timing of receipt of funds and payments are known in advance, are the necessary inventories, and the terms of their delivery are predetermined [61].

Conservative management of current assets is based on stable financial and economic activity of an enterprise, with high profitability of assets. However, due to unpredictable trends in changing market conditions in the commodity and financial markets, there are potential risks of high technical insolvency.

Moderate policy of managing current assets of an enterprise occupies an intermediate position. It is characterized by an average level of profitability and turnover of assets.

In accordance with the type of management of current assets, a company conducts a certain financial policy for the formation of sources of funds. The aggressive policy of managing short-term liabilities of an enterprise corresponds to



a significant proportion (more than 50%) of short-term loans and loans in the total amount of sources of funds. At the same time, the financial leverage effect can grow to 30-50% of the profitability of assets, increase constant costs due to interest payments on borrowed funds.

The conservative policy of managing short-term liabilities is characterized by the lack or low proportion of short-term loans and loans in the currency of the balance sheet. In this case, non-current and current assets are covered only by equity and long-term liabilities.

A moderate policy is characterized by a neutral share of loans and loans in the currency of the balance sheet.

The purpose of the strategy of financing current assets is to choose the optimal level and rational structure of current assets, taking into account the specifics of each company's activities [28].

Based on the goal, the financial manager must solve the following tasks:

- to analyze the use of current assets over the past period;
- to determine the risk of insolvency of buyers, calculate the forecast value of the reserve for doubtful debts;
- to choose the optimal ratio between cash and investments in short-term securities;
- to determine the amount and structure of sources of financing of current assets;
- to develop a strategy for financing current assets.

The strategies for financing current assets depend on the principles which laid in their fundamentals for the financing of the variable part. In this case, a constant part of current assets is determined at the level of minimum demand for current assets in the investigated period. The variable part is the difference between the actual and the minimum need for current assets.

Part of current assets, which is financed by own and long-term borrowed capital, is called net working capital.  $\text{Net working capital} = \text{Current assets} - \text{current liabilities}$ . The greater the net working capital, the lower the risk of liquidity loss.

Depending on the choice of the financial manager of the sources of coverage of the variable part of current assets, there are allocated four strategies for financing working assets:

- 1) ideal strategy;
- 2) aggressive strategy;
- 3) conservative strategy;
- 4) compromise strategy.

According to the Ideal strategy, the current assets are financed by current liabilities, non-current ones are equity and long-term liabilities. The term "ideal" means not in the direct sense of the ideal, but the equality of current assets with current liabilities. From the standpoint of liquidity, this model is the most risky, since in the case of simultaneous presentation by creditors of all obligations, a company will be forced to sell part of their fixed assets [40].

The essence of this strategy is that long-term liabilities are set at the level of non-current assets, that is, this model has the following form:

- I. long-term passive (equity and long-term liabilities) = non-current assets;
- II. current liabilities = current assets.

Long-term liabilities include: own funds (authorized capital, additional capital, reserve capital, retained earnings) and borrowed (long-term bank loans, other long-term loans).

Non-current assets include: intangible assets, construction in progress, fixed assets, long-term financial investments, long-term receivables (property arrears), deferred tax assets, other non-current assets.

Consequently, in real life this model is practically not found because it is the most risky, since under unfavorable conditions (for example, when it is necessary to pay with all the creditors at the same time) an enterprise may face the necessity of selling a part of fixed assets to cover the current accounts payable. The essence of this strategy is that long-term liabilities are set at the level of non-current assets.

Zero working capital also ensure a smooth and uninterrupted working capital cycle, and it would pressure the finance managers to improve the quality of the current assets at all times, to keep them 100% realizable. There would also be a constant displacement in the current liabilities and the possibility of having over-dues may diminish.

The tendency to postpone current liability payments has to be curbed and working capital always maintained at zero. Zero working capital would call for a fine balancing act in financial management, and the success in this endeavour would get reflected in healthier bottom lines [5].

The aggressive strategy consists in financing long-term financing of non-current assets and a constant part of current assets. The variable part of current assets is fully covered by short-term debt, a constant part due to long-term liabilities, irreversible - equity. The risk is high. Such a strategy can be afforded only by a company that has no problems with the resumption of short-term loans or receiving commercial loans from suppliers (see fig. 1.5).

From the standpoint of liquidity, this strategy is also risky, since in practice it is not possible to limit the minimum to current assets. The aggressive model for financing current assets is as follows:

- I. long-term financing = fixed assets + permanent current assets;
- II. short- term financing = temporary current assets.

The benefits of this policy are the benefits of using cheaper short-term financing compared to the long-term one. This strategy also allows to reduce the need for equity capital. However, the reverse side of such a policy is the high probability of a lack of financial resources, the difficulty of paying current accounts, which creates a bankruptcy risk.

The main drawbacks of this strategy are that it needs frequent financing and also increases risk as the firm is vulnerable to sudden shocks. A conservative current asset financing strategy would go for more long-term finance which reduces the risk of uncertainty associated with frequent refinancing.



The price of this strategy is higher financing costs since long-term rates will normally exceed short term rates. But when aggressive strategy is adopted, sometimes the firm runs into mismatches and defaults. It is the principle of corporate finance that long-term assets should be financed by long-term sources and short-term assets by a mix of long and short-term sources[12].

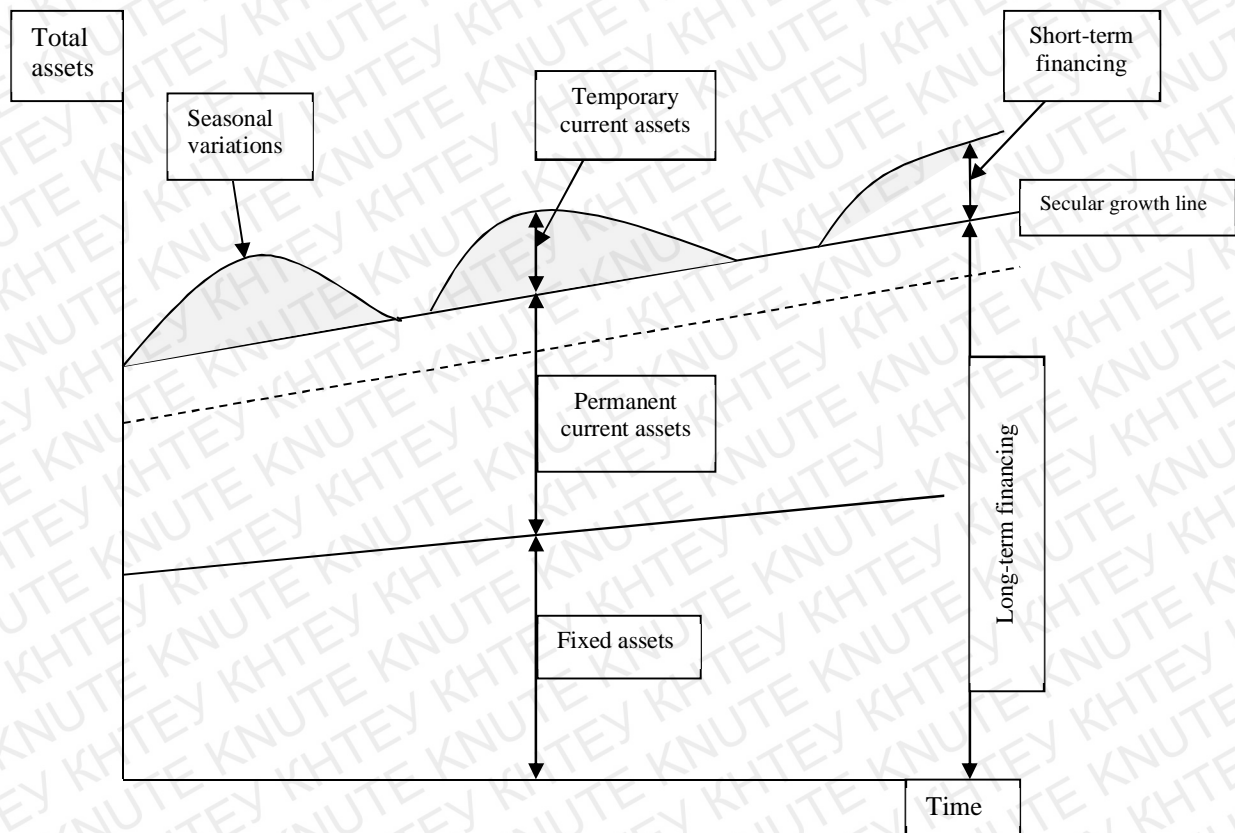


Fig. 1.5. The aggressive strategy for current assets financing [42, 44]

A conservative strategy is to fund almost all assets at the expense of long-term sources. Current assets are long-term liabilities, non-current ones are equity. A conservative strategy is used at the initial stages of a company's existence, provided that the amount of the capital of the owners of an enterprise is sufficient and the availability of long-term loans for investment financing.

In this case there are no short-term payables, there is no risk of liquidity loss, that is, the model has an artificial appearance. In economic activity, it does not happen that there are no payables.

This model has the following form:

- I. long-term financing = fixed assets + permanent current assets + temporary current assets;
- II. equity = fixed assets;
- III. long-term liabilities = current assets.

A company attracts short-term loans and loans only in those times when the need for additional resources is maximal.

This policy ensures a company's sustainability, since it almost always has long-term resources.

However, since long-term sources are more expensive than short-term ones, this can lead to higher costs for company capital and lower profits [45].

A conservative strategy suggests not to take any risk in current assets management and to carry high levels of current assets in relation to sales.

Surplus current assets enable the firm to absorb sudden variations in sales, production plans, and procurement time without disrupting production plans.

It requires to maintain a high level of current assets and it should be financed by long-term funds like share capital or long-term debt (Fig. 1.6).

Availability of sufficient working capital will enable the smooth operating activities of a firm and there would be no stoppages of production for want of raw materials, consumables.

Sufficient stocks of finished goods are maintained to meet the market fluctuations. The higher liquidity levels reduce the risk of insolvency.

But lower risk transforms into lower return.

Large investments in current assets lead to higher interest and carrying costs and encouragement for inefficiency.

But conservative policy will enable a firm to absorb day to day business risks and assures continuous flow of operations.

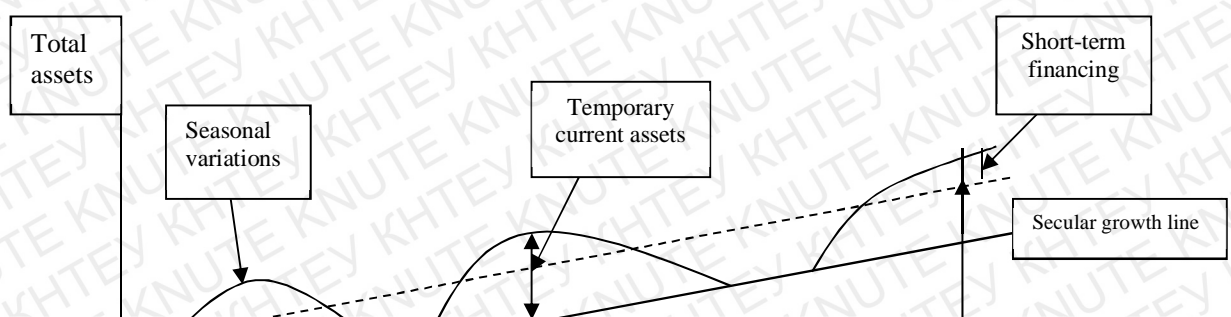


Fig. 1.6. The conservative strategy for current assets financing [42, 44]

A compromise strategy is to finance non-current assets, a fixed part of current assets and about half of the variable part of current assets at the expense of long-term sources. The rest of the current assets are funded on a short-term basis. The model is the most real, but in some periods a company may have surplus current assets, which reduces their profitability[13].

The compromise model for financing current assets is as follows:

- I.       long-term passive = non-current assets + constant part of current assets  
+ 0.5variable part of current assets;
- II.       equity = non-current assets;
- III.       long-term liabilities = constant part of current assets + variable part of  
current assets;
- IV.       current liabilities = 0.5variable part of current assets.

With a compromise model in separate periods of economic activity, an enterprise may have excessive current assets, which negatively affects the amount of profit. At the same time, it allows to maintain the liquidity of the balance of an enterprise at the appropriate level [7].



During their activities, organizations choose appropriate strategies for financing current assets of an enterprise. The type of strategy may depend on the size of an enterprise (Table 1.2).

Table 1.2

**Strategies of current assets financing  
in different sectors of economy [7, 24, 27]**

| Sectors of economy  | Strategy of current assets financing that is used | Reasons   | Advantages of the strategy   |
|---|---|---|--|
| 1   | 2   | 3   | 4  |
| Primary sector of economy<br><br>(branches of the economy, whose products are mostly raw materials for other industries. Includes agriculture, fisheries, forestry and mining)  | An aggressive strategy                            | <ul style="list-style-type: none"> <li>- supplies and sales are perfectly arranged and failures are extremely rare, there is accurate information on the timing of payments, the amount of supplied products and future costs</li> <li>- part of its fixed current assets the company finances through a short-term loan</li> </ul> | <ul style="list-style-type: none"> <li>- maximum profitability, however, any supply failures will lead to a stoppage of production</li> <li>- provides a large deferral of payment and a fairly moderate system of lending</li> <li>- high level of sales at average market prices.</li> <li>- benefits from using cheaper short-term financing in comparison with long-term financing</li> </ul>                                    |
| Secondary sector of economy<br><br>(branches of the economy, turning raw materials into finished, ready-for-use, product, for example, the production of cars from steel or the manufacture of clothing from fabrics) | A conservative strategy                           | <ul style="list-style-type: none"> <li>- the timing of payments and the volume of supplies are not clearly determined by the contractual obligations of the parties</li> <li>- the company attracts short-term loans and borrowings only at times when the need for additional resources is maximized</li> </ul>                    | <ul style="list-style-type: none"> <li>- the level of risk of stopping production is minimal, however, the cost of saving stocks decreases, which reduces the level of profitability</li> <li>- minimal losses from bad accounts receivable, but the level of sales of products is not high enough</li> <li>- the ability to make scheduled payments on time, but there is a possibility of losses from cash depreciation</li> </ul> |

*End of the table 1.2*

| 1  | 2                     | 3   | 4  |
|--|-----------------------|---|--|
| Tertiary sector of economy or service sector<br><br>(includes economic activities related to | A compromise strategy | <ul style="list-style-type: none"> <li>- the timing of payments and the volume of supplies are not clearly defined by the contractual obligations of the parties</li> </ul> | <ul style="list-style-type: none"> <li>- average yield</li> <li>- average risk of stopping production</li> </ul> |

|   |  |  |  |
|---|--|--|--|
| services: financial and banking activities, transport, wholesale and retail trade, insurance, information industry) |  | - during a financial year the company has both long-term and short-term assets, and due to seasonal fluctuations, the value of current assets varies |  |
|---|--|--|--|

Thus, the choice of the appropriate sources of funding in order to manage current assets of a company ultimately determines the ratio of the parameters of the efficiency of the use of current assets and the level of risk affecting its financial stability and solvency.

From the point of view of optimization of profitability and risk, the most optimal strategy is a compromise financing. It optimally combines the level of profitability and average risk, provides a sufficiently high level of financial stability and solvency of an enterprise. However, based on the priority of the goals of financial and economic activity of an enterprise at certain stages of its development, the other financing strategy may become optimal. In general, when choosing a financing strategy, it is necessary to find the desired relationship between the level of profitability of the use of equity capital and the level of risk of reducing the financial sustainability of an enterprise, which is estimated by the amount of its net working capital.

Therefore, the choice of appropriate sources of funding for the management of current assets of a company ultimately determines the ratio of the parameters of the efficiency of current assets and the level of risk affecting its financial stability and solvency. The purpose of the strategy of financing current assets is to choose the optimal level and rational structure of current assets, taking into account the specifics of each enterprise.

Therefore, strategies for financing current assets are based on the chosen policy of managing current assets.

### **1.3. The system of indicators of efficiency to manage current assets financing at an enterprise**

In trade, compared with other spheres of the economy, the share of current assets in the property of enterprises is the highest. The financial condition of enterprises depends directly on the structure, placement, efficiency of use and structure of sources of current assets financing.

State of current assets is availability of current assets at a certain date of the reporting period. Comparison of the actual availability of current assets with the norm allows to determine the deficit or surplus of own current assets. The deficit of own current assets - exceeding the normative value of current assets exceed their actual availability.

The deficit of own current assets may result from the fault of an enterprise itself and other enterprises as a result of changes in the conditions of management that are not taken into account in due time, because of natural disasters and for other reasons.

Surplus of own current assets is when the actual availability of current assets exceeds their established norm [48].

The surplus of own current assets may arise as a result of overmaking of the profit plan, incomplete payments to the budget, the free receipt of inventory from other organizations, the incomplete use of profit for the purposes provided by the financial plan, etc.

The economic efficiency of the use of current assets is expressed in the useful result obtained by an enterprise in the course of its activities. The criterion for the effectiveness of the use of current assets is minimization of current means, which is advanced, when maximizing the final production and financial results of an enterprise.

According to the Statement 1 "Balance sheet" (statement of financial position), Statement 2 "Statement of financial results" (Cumulative Income Statement), in order to assess the state and effectiveness of the use of current assets



of an enterprise, the following indicators of turnover of current assets are determined and analyzed:

1. Index of current assets turnover ( $I_{\text{turn}}$ ) - shows the number of turns per year and is determined by the ratio of products sold ( $Q$ ) to the average annual balance of standardized current assets ( $\overline{CAst}$ ) is calculated by the formula 1.1 [54]:

$$I_{\text{turn}} = \frac{Q}{\overline{CAst}}, \text{ turnover for the year} \quad (1.1)$$

The average annual value of the balance of current assets is calculated by formula 1.2 [67]:

$$\overline{CA} = \frac{\overline{CA_1} + \overline{CA_2} + \dots + \overline{CA_{12}}}{12}, \quad (1.2)$$

2. Index of current assets load factor - the value is reversed to the index of turnover. Shows the value of current assets are per hryvnia of realized products and is calculated by formula 1.3 [67]:

$$C_{\text{load}} = \frac{1}{C_{\text{turn}}}, \quad (1.3)$$

3. Duration of one turnover of current assets - characterizes the duration of one turnover of current assets in days and is calculated by formula 1.4 [67]:

$$D = \frac{F_{\kappa}}{C_{\text{turn}}} = \frac{F_{\kappa} \cdot \overline{CA_{st.aver}}}{Q}, \text{ days} \quad (1.4)$$

where  $F_{\kappa}$  - is the duration of the studied period (90 or 360 days), days.

This formula, as well as the conclusions that can be drawn on its basis, allow to describe in detail the economic processes taking place at an enterprise, to get closer to the understanding of one of the basic laws of economy, which forms the expression "time is money".

Implementation of this connection can be seen in the following scenarios:

- the same increase in sales can be achieved either by increasing the value of current assets, or by increasing the turnover rate of current assets for their unchanged volume;
- at its economic result, saving time is equivalent to saving money: reducing the period of turnover allows, without prejudice to the volume of sales, to abandon the part of current assets, or with the same value of current assets - to increase the volume of sales;
- insufficient volume of current assets can be somewhat offset by time: it is necessary to make current assets turn around faster, shortening the periods of supply of raw materials, manufactured goods, sales of finished goods;
- any inhibition of the number of current assets makes it pay for this money.

In order to prevent a decrease in sales volumes, an enterprise is forced to increase its current assets (this is usually done by arrested wages, which precludes its timely payment).

4. Index of efficiency and profitability of current assets. They are calculated according to the formulas 1.5 and 1.6 [54]:

$$Cee = \frac{P}{\bar{CA}}, \quad (1.5)$$

$$Pr_{CA} = \frac{P}{\bar{CA}} \times 100, \% , \quad (1.6)$$

where P - profit from sales of goods for a financial year, UAH.

If the index of efficiency of current assets is an absolute indicator and characterizes profit per 1 UAH of current assets, then the profitability of current assets is a relative indicator that determines the degree of use of current assets. If the values of the first and second indicators are larger, then the current assets are used more effectively.

As a result of the acceleration of the rotation of current assets from circulation, tangible resources and sources of their formation are released, and in case of slowing - additional assets are attracted to circulation.

The release of current assets may be absolute and relative.

Absolute one occurs when the actual current assets balance is less than the norm or the balances of the previous period while maintaining or exceeding the volume of sales for a certain period.

Relative release occurs in cases the acceleration of their rotation occurs simultaneously with the growth of an enterprise's production program, and the growth rate of production balances outstrips the growth rate of the balances of current assets [29].

The sum of the released (additionally attracted) current assets as a result of the change in its the turnover ( $\Delta CA_{\text{released}}$ ) companies can be calculated by the formula 1.7 [67]:

$$\Delta CA_{\text{released}} = \frac{\text{sales volume in the reported year}}{360} * (Db - Drep), \quad (1.7)$$

where Db, Drep - average duration of one turnover of current assets, respectively, in the base year and reporting years, days.



The acceleration of the turnover of current assets and the release of a certain amount as a result of them allows a company to direct them for its own purposes and to do it without additional financial resources.

In addition to the indicators of turnover, the assessment of the efficiency of the use of current assets in practice is carried out by a system of indicators:

- general indicators (tangible form of products, tangible productivity, proportion of tangible costs in the cost of production, index of materials use);
- individual indicators (the efficiency of consumption of individual elements of tangible resources, as well as the establishment of a reduction in the tangible composition of separate products).

In foreign literature, the term "working capital" is more common than current assets. Working capital is a financial metric which represents operating liquidity available to a business, organization or other entity, including governmental entities.

Any improvement proposal or strategy must be backed up by facts. By gaining an understanding of the metrics that influence working capital within your organization, you will be in a better position to positively influence the overall process. Start with the simplest metrics first and focus on the largest sections of your business or the areas that experience the most volatility.

Gaining visibility over the following metrics and understanding their variability will provide the basis for any improvement efforts [59]:

Days Sales Outstanding (DSO) – DSO shows, how long it takes to collect cash from customers. Faster sales collections have a positive working capital impact.

$$= \frac{12}{h} \times 365 \quad (1.8)$$

Days Payables Outstanding (DPO) – DPO shows how long it takes to pay customers. Longer payment durations have a positive impact on working capital.

$$= \frac{12}{h} \times 365 \quad (1.9)$$

Days of Inventory Outstanding (DIO) – DIO shows how quickly inventory is sold. Selling stock faster has a positive impact on working capital as it means that cash is not tied up in unsold goods.

$$DIO = \frac{\text{Inventory}}{\text{Trailing 12 Months Cost of Revenue}} \times 365 \quad (1.10)$$

Cash Conversion Cycle (CCC) – The CCC uses DSO, DPO and DIO to demonstrate how effective a company is at managing its short term assets and liabilities. This is a key indicator of management efficiency.

$$= + - \quad (1.11)$$

A short cash conversion cycle indicates that a company is managing their working capital cycle in an efficient manner and cash is being converted quickly from raw materials to cash sales receipts.

To make working capital improvements, finance and treasury teams must be firmly aligned with the people managing the various components of the cycle while also having a firm grasp of the performance metrics and KPI's. Without access to, and an understanding of, the metrics that govern your working capital cycle it will be impossible to initiate positive changes.

Consequently, the efficiency of using current assets at an enterprise is important, since it has a significant impact on the overall efficiency of the entire set of funds attracted by an enterprise. The very method of analysis of turnover of current assets is to compare the indicators of turnover of current assets of an enterprise for the reporting period with similar indicators for the last reporting

period. In this way, there are trends of improvement or deterioration. This information is useful for shareholders, potential investors, potential buyers, suppliers, etc.

As a conclusion, current assets are an important part of a company's capital and ensure the smooth functioning of the production process. They are constantly in motion, consistently passing the stages of the cycle and changing their shape. Current assets are classified by a number of features: in terms of turnover, by elements, by affiliation, by coverage of valuation, by sources of formation. The basis of rational use of current assets is considered to be their normalization - the definition of the minimum necessary, but sufficient for the uninterrupted process of production value. The criterion for the effectiveness of the use of current assets is their reversibility. The faster the current assets passes all stages of the cycle and return to a company in the form of sales proceeds, the more efficiently they are used. Management of the use of current assets involves a constant search for factors and reserves to accelerate their turnover.



## SECTION 2

### **ANALYSIS OF CURRENT ASSETS STATE AND EFFICIENCY OF CURRENT ASSETS FINANCING MANAGEMENT IN THE LLC «TRADE COMPANY VNIS»**

#### **2.1. Analysis of the current assets dynamics and structure in the LLC «Trade Company VNIS»**

The LLC «Trade Company All-Ukrainian Research Institute of Selection» is an independent economic entity that has the rights of a legal entity and performs production, research and commercial activities in order to gain the corresponding profit based on the decisions of the founder on property with the right to hire a workforce.

The full name of the company is the Limited Liability Company "Trade Company VNIS". Location of the Company: Ukraine, Kyiv, street Vasylkivska, 30. The Company's office is located in the city center, where it is convenient to hold meetings and negotiations, as well as it helps to create and maintain the corresponding image of the company.

The source of formation of the Company's property is the participant's monetary and property contributions, income from the sale of products, services and other types of economic activity, income from securities, bank loans, and others. At the time of establishment of the company, according to the Charter, there was a Statutory Fund in the amount of 50 (fifty) UAH. The company operates on the principles of complete economic computation, self-financing and self-purchase, ensures social development and stimulation of employees at the expense of accumulated funds, is fully responsible for the results of its own economic activities and meeting its obligations to suppliers and consumers, the budget, banks, as well as in front of the staff according to the current legislation.

Management of an enterprise is carried out by its founder or a person authorized by him - the director. All decisions of the founder (director) are obligatory

for the employees of an enterprise, except for cases, if this decision is different to the current legislation.

An enterprise carries out operational and accounting of the results of its activity, maintains statistical reporting in the form established by the state statistics authorities and bears responsibility for its reliability. An enterprise independently determines the payroll, as well as other types of payment for employees. Foreign economic activity is carried out on the basis of the Law of Ukraine "On Foreign Economic Activity", international treaties and other acts.

The purpose of an enterprise activity is production of agricultural products, namely, seeds of cereals, technical and other crops, processing and marketing, saturation of the market with quality goods and services, other types of economic activities for profit.

An enterprise has no own or leased agricultural land. In the process of production, specialized agricultural enterprises participate with which the Company has concluded contracts for the cultivation of seeds. Processing (preparation for sale) of products is carried out at specialized factories.

The Institute's activities are aimed at the creation and large-scale introduction of new varieties and hybrids of important crops. High performance is based on a profound analysis of the needs of the crop industry and market trends, high knowledge intensity both in the selection process and seed production. Rapid reproduction of new hybrids with high adaptive potential is carried out under the direct control of breeders without the involvement of intermediaries, ensures complete preservation of the properties of hybrids and high quality seeds. The scientific work on the creation of varieties and hybrids of sunflower, corn, sugar and fodder beet, rapeseed, wheat, barley and other crops is continuously underway.

Advantages of VNIS:

- quality control of products comes from the creation of a hybrid to the implementation of seeds;
- own scientific and selection station allows introducing modern seed technologies for the creation of new highly productive varieties and hybrids;

- Department of Plant Biotechnology (Research and Development) allows to accelerate the process of creating new plant forms and increase their qualitative and quantitative characteristics;
- the scientific and diagnostic laboratory carries out quality control in full compliance with international quality standards ISO / TR17623 and ISO / TR17622;
- seed material is refined in modern seed plants;
- quality seeds, which ensures high and stable yields;
- dealer network and established two-way communication with the client.

The main information about the LLC "Trade Company VNIS" at the beginning of 2018 is presented in the table 2.1.

*Table 2.1*

**Information about the LLC "Trade Company VNIS"  
at the beginning of 2018**

|                                    |   |
|------------------------------------|---|
| Full name of the company           | Limited Liability Company «Trade Company VNIS»  |
| Beginning of the activity          | year 1999   |
| Selected strategy at the beginning | Become a leader in the market   |
| Target group                       | final consumer  |
| ЄДРПОУ Code                        | 39592572  |
| Territory (region)                 | Kyiv  |
| Location (postal address)          | Ukraine, Kyiv, street Vasylkivska, 30   |
| Head                               | Antipov Igor Olexandrovych  |
| Phone number                       | +380 (44) 507-11-70<br>+380 (67) 505-47-42<br>+380 (50) 440-36-96                               |
| E-mail:                            | info@vnis.com.ua  |
| Web-site:                          | http://vnis.com.ua/   |
| Main activities                    | KVED code 46.21:<br>wholesale trade in grain,<br>- raw tobacco,<br>- seeds and<br>- animal feed |
| Share capital                      | 50 UAH  |
| Number of employees                | 12  |

The main factors that may affect the normal functioning of the LLC «Trade Company VNIS» are given in Table 2.2, among which can be highlighted:



- political,
- production and technological,
- social,
- financial and economic factors.

From the table it can be concluded that all possible negative factors of influence on the analyzed enterprise are related to fluctuations of prices for raw materials, energy resources, in relation to sales volume, and the period of time for which such a product will be sold, as well as from flawed tax policy.

*Table 2.2*

**The main factors influencing the operational activity of the LLC «Trade Company VNIS»**

| Group of factors             | Description of problems   | What changes are expected to affect the company   |
|------------------------------|---|---|
| Political                    | State policy on raw materials and energy  | Rising prices for raw materials, as well as for energy  |
| Production and technological | Solving issues of modernization of production and revenues for the production of benign raw materials | The growth of the cost of new technological lines and equipment, insufficient stocks of raw materials of high quality                     |
| Social                       | Reducing the purchasing power of the population   | Due to rising raw material prices, the growth of product prices may exceed the growth rate of household incomes, which will reduce demand |
| Financial and economic       | The availability of finance for the purchase of fixed assets, inventories and so on                   | Financial and economic indicators depend on solving the mentioned problems  |

Henceforth, we will analyze the main indicators of organizational and economic activity like net revenue from sales of products (goods, works, services), cost of goods sold, gross profit, financial result before taxation and Net income in the LLC "Trade Company VNIS" during 2015-2017 (Table 2.3, Fig. 2.1).

*Table 2.3*

**Dynamics of main indicators of the LLC "Trade Company VNIS"  
financial and economic activity in 2015-2017**

| Indicators,<br>ths UAH                                      | 2015   | 2016    | 2017    | Absolute deviation,<br>ths UAH (+; -) |               | Relative deviation,<br>% |               |
|---|--------|---------|---------|---------------------------------------|---------------|--------------------------|---------------|
|   |        |         |         | 2017/<br>2016                         | 2017/<br>2015 | 2017/<br>2016            | 2017/<br>2015 |
| Net revenue from sales of products (goods, works, services) | 5003,9 | 30669,1 | 16276,4 | -14392,7                              | 11272,5       | -46,93                   | 225,27        |
| Cost of goods sold  | 1444,5 | 11884,3 | 11544,0 | -340,3                                | 10099,5       | -2,86                    | 699,17        |
| Gross profit  | 3559,4 | 18784,8 | 4732,4  | -14052,4                              | 1173,0        | -74,81                   | 32,95         |
| Financial result before taxation                            | 1883,9 | 15273,0 | 1126,9  | -14146,1                              | -757,0        | -92,62                   | -40,18        |
| Net income  | 1667,7 | 14555,3 | 484,2   | -14071,1                              | -1183,5       | -96,67                   | -70,97        |

Dynamics of net income from sales of products and cost of sold product in the LCC «Trade Company VNIS» in 2015-2017 represented in fig.2.1.

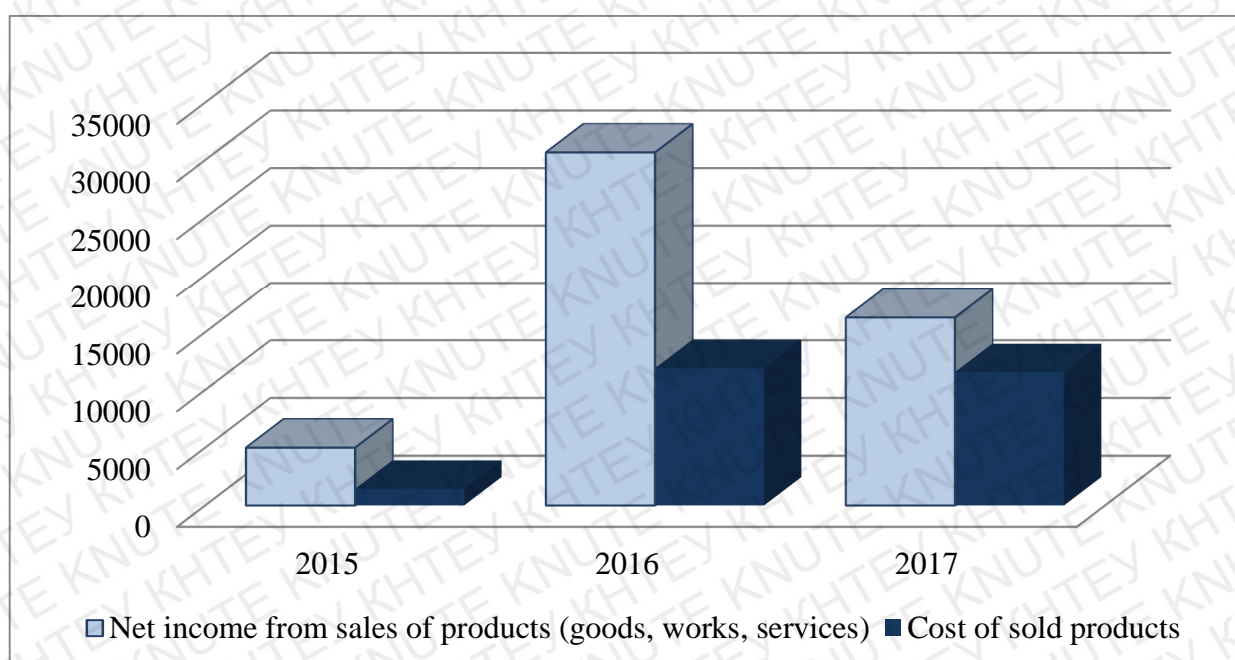


Fig. 2.1. Dynamics of net income from sales of products (goods, works, services) and cost of sold product in the LCC «Trade Company VNIS», ths UAH



As we can see from the Table 2.3 and Figure 2.1 net income from sales of products (goods, works, services) the LCC «Trade Company VNIS» in reporting period amounted to 16276,4 ths UAH, which is 11272,5 ths UAH (or by 225,27%) more than in 2015. Also cost of goods sold increased rapidly and in 2017 and amounted to 11544 ths UAH, which is 10099,5 ths UAH (or by 699,17%) more than in 2015.

Gross profit of the enterprise in 2017 amounted to 4732,4 ths UAH, which is 1173 ths UAH (or by 32,95%) more than in 2015. Insignificant growth of gross profit, in comparison with the growth of net income from sales of products (goods, works, services), is explained by the fact that the growth of the cost price of the products sold took place at a faster pace than the growth of net income from sales of products (goods, works, services) (Fig. 2.2).

Financial result before taxing in 2017 amounted to 1126,9 ths UAH, which is 757 ths UAH (or by 40,18%) less than in 2015. Decreasing in financial result before taxation is connected with the huge growth of cost of goods sold in 2017 in comparison with 2015, and also growth of operating expenses of the enterprise.

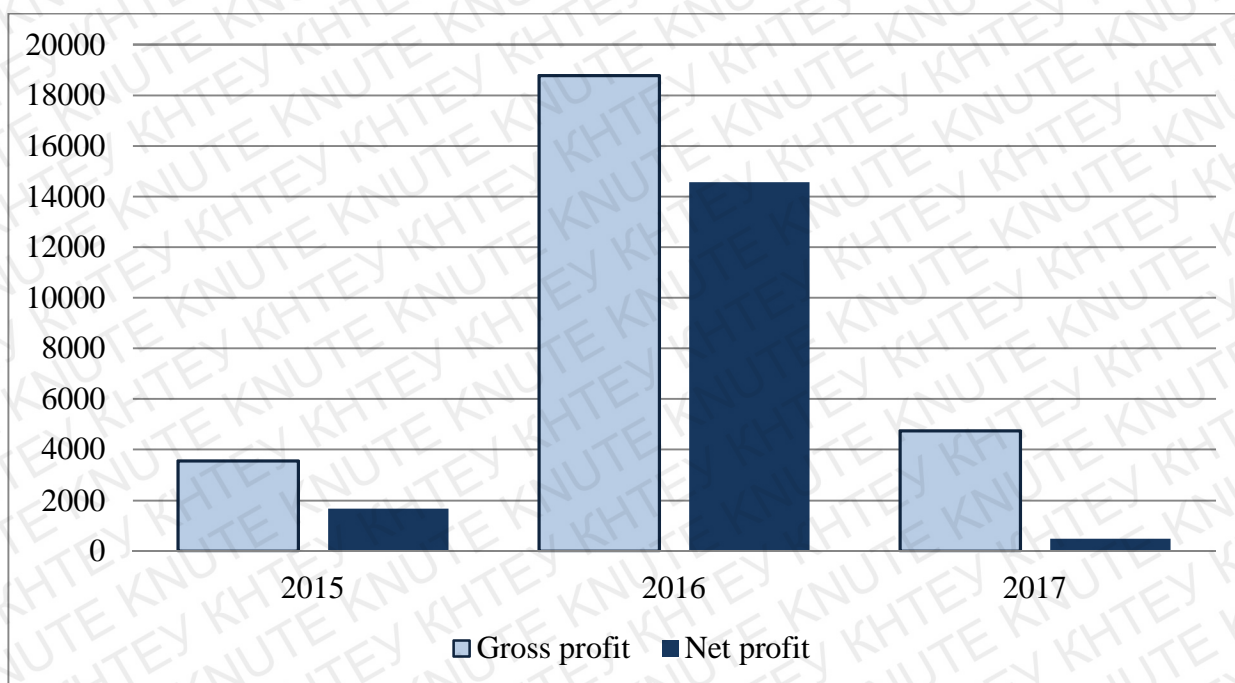


Fig. 2.2. Dynamics of gross profit and net profit of the LCC «Trade Company VNIS», ths UAH



Net profit of the enterprise in 2017 amounted to 484,2 ths UAH, which is 1183,5 ths UAH (or by 70,97%) less than in 2015. Decreasing in net income is connected with the huge growth of cost of sold product in 2017 in compare with 2015, and also growth of operational expenses of the enterprise (Fig. 2.2).

Thus, although net income from sales of products (goods, works, services) increased in the company, but the simultaneous increase in the cost of goods sold and increase in other operating expenses led to a sharp decrease in net profit of the LCC «Trade company VNIS».

At the same time, the stability of financial condition of the company depends on the correctness and feasibility of investing financial resources in assets, so it is necessary to study, first of all, structure of the property for its assessment, as well as the reasons for their change. Particular attention is paid to the study of causes that negatively affect the financial state of the enterprise.

To study this issue, there can be applied a model of economic analysis that involves the following operations:

- definition of specific components of current assets in its total value for 2015, 2016 and 2017;
- definition of absolute and relative deviation by comparing 2016 data with data for 2015, 2017 with data for 2016;
- determination of the reasons for changing data in 2016 compared to 2015, 2017 compared to 2016, and above all, those that negatively affect the financial state of the enterprise.

And, in order to correctly analyze dynamics and structure of the current assets of the LCC «Trade company VNIS» in the future and to determine the efficiency of their use, it is necessary, first of all, to analyze the property status of the enterprise (its assets) during the investigated period (Table 2.4) according to the data of financial statements.

Table 2.4

**General assessment of the state of the LCC «Trade company VNIS»  
property for 2015-2017**

| Components                  | 2015    | 2016    | 2017    | Deviation |           |
|-----------------------------|---------|---------|---------|-----------|-----------|
|                             |         |         |         | 2016/2015 | 2017/2016 |
| I. Assets, ths UAH          | 11832.0 | 28626.4 | 18690.5 | +16794.4  | -9935.9   |
| 1.1 Fixed assets, ths UAH   | 50.3    | 177.0   | 175.4   | +126.7    | -1.6      |
| % to the property           | 0.5     | 0.6     | 0.9     | +0.1      | +0.3      |
| 1.2 Current assets, ths UAH | 11781.7 | 28449.4 | 18515.2 | +16667.7  | -9934.2   |
| % to the property           | 99.5    | 99.4    | 99.1    | -0.1      | -0.3      |

From the data of the analytical table 2.4, we can make the following conclusions:

1) the total value of the property at the disposal of the enterprise for the period from 2015 to 2017 increased by 6858.5 thousand UAH or 58% due to the increase in current assets, in particular, receivables;

2) in 2016 the total value of assets increased by 16794.4 thousand UAH or 141.9% comparing with 2015;

3) ) in 2017 the total value of assets decreased by 9935.9 thousand UAH or 65.3% comparing with 2016;

4) the basis of the company's assets are current assets, since their share in the overall structure of the property at the end of 2017 amounted to 99.1% and only 0.9% of the total value of the property accounted for fixed assets, which increased by the end of 2017 by 125.1 thousand UAH (or by 248.7%) compared to 2015 (Fig. 2.3).

Consequently, the structure of the current assets of the LCC «Trade company VNIS» is constant and did not change significantly during the investigated period.

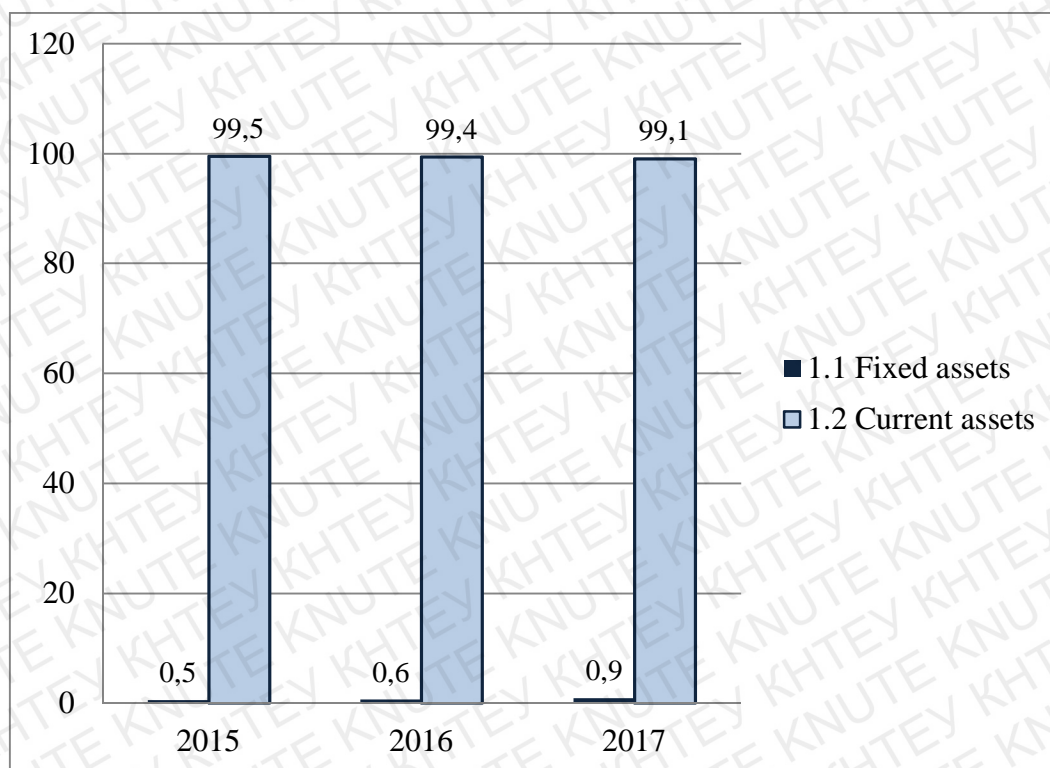


Fig. 2.3. Dynamics of property structure of the LCC «Trade Company VNIS»,

%

To begin, we will analyze the dynamics of volumes and rates of change in current assets of the enterprise during the analyzed period (Tables 2.5 and 2.6).

During the analysis of current assets dynamics of the volume of the LCC «Trade company VNIS» we can see that in 2017 it amounted to 18515,2 ths UAH which is 9934,2 ths UAH (or by 34,92%) less than in 2016 and 6733,5 ths UAH (or by 57,15%) more than in 2015.

Current assets in 2016 amounted to 28449,4 ths UAH which is 16667,7 ths UAH (or by 141,47%) more than in 2015.

So, as a result, current assets of the enterprise do not have a clearly expressed tendency to increase or decrease in 2015-2017 years.

Their fluctuations mostly depend on changes in amount of inventories and accounts receivable during the reporting period of the LCC «Trade company VNIS».



Table 2.5

**Dynamics of current assets volume of the LCC «Trade company VNIS» in 2015-2017, ths UAH**

| Indicators   | Current assets<br>as of |            |            | Absolute deviation from<br>the basis as of |            | Deviation from the<br>previous period as of |            |
|--|-------------------------|------------|------------|--|------------|---|------------|
|  | 31.12.2015              | 31.12.2016 | 31.12.2017 | 31.12.2016                                 | 31.12.2017 | 31.12.2016                                  | 31.12.2017 |
| Inventories:   | 8324,3                  | 13484,4    | 4 699,9    | 5160,1                                     | -3624,4    | 5160,1                                      | -8784,5    |
| - finished products                                  | 6 721,5                 | 8 688,5    | 4 336,3    | 1967,0                                     | -2385,2    | 1967,0                                      | -4352,2    |
| Accounts receivable<br>for goods, works,<br>services | 2 630,1                 | 12 098,9   | 13 534,3   | 9468,8                                     | 10904,2    | 9468,8                                      | 1435,4     |
| Accounts receivable<br>with the budget               | 0,0                     | 2 300,4    | 0,0        | 2300,4                                     | 0,0        | 2300,4                                      | -2300,4    |
| Other current accounts<br>receivable                 | 797,7                   | 537,3      | 167,3      | -260,4                                     | -630,4     | -260,4                                      | -370,0     |
| Cash and cash<br>equivalents                         | 29,7                    | 18,0       | 99,7       | -11,7                                      | 70,0       | -11,7                                       | 81,7       |
| Deferred expenses                                    | 0,0                     | 2,6        | 2,6        | 2,6  | 2,6        | 2,6   | 0,0        |
| Other current assets                                 | 0,0                     | 7,8        | 11,4       | 7,8  | 11,4       | 7,8   | 3,6        |
| Total current assets                                 | 11781,7                 | 28449,4    | 18515,2    | 16667,7                                    | 6733,5     | 16667,7                                     | -9934,2    |

Analyzing the dynamics of current assets volume of the enterprise, it can be seen that in 2016, compared to 2015, inventories of the company increased by 5160,1 ths. UAH, or 61.99%. In 2017, compared to 2016, inventories of the company decreased by 8784,5 ths. UAH, or 65,15%. And in total sum for the period of 2015-2017, amount of inventories decreased by 3624,4 ths. UAH, or 43,54%.

Among the current assets of the company we can allocated finished products. In 2017 finished products amounted 4336,3 ths. UAH which is 4352,5 ths. UAH (or by 50,09%) less than in 2016. In 2016 finished products amounted to 8688,5 ths. UAH which is 1967,0 ths. UAH (or by 29,26%) more than in 2015. In total sum for the period of 2015-2017, the amount of finished products decreased by 2385,2 ths. UAH, or 35,49%.

In 2017 accounts receivable for goods, works and services amounted 13534,3 ths. UAH which is 1435,4 ths. UAH (or by 11,86%) more than in 2016. In 2016 accounts receivable for goods, works and services amounted 12098,9 ths. UAH which is 9468,8 ths. UAH (or by 360,02%) more than in 2015. In total sum for the period of 2015-2017 years, amount of accounts receivable for goods, works and services increased by 10904,2 ths. UAH, or 414,59%.

Accounts receivable with the budget existed only in 2016 and amounted 2300,4 ths. UAH.

In 2017 other current accounts receivable amounted 167,3 ths. UAH which is 370,0 ths. UAH (or by 68,86%) less than in 2016. In 2016 other current accounts receivable amounted 537,3 ths. UAH which is 260,4 ths. UAH (or by 32,64%) less than in 2015. In total sum for the period of 2015-2017 years, amount of other current accounts receivable decreased by 630,4 ths. UAH, or 79,03% (Table 2.6).

In 2016, compared to 2015, cash and cash equivalents of the company decreased by 11,7 ths. UAH, or 39,39%. In 2017, compared to 2016, cash and cash equivalents of the company increased by 70,0 ths. UAH, or 453,89%. And in total sum for the period of 2015-2017 years, amount of cash and cash equivalents increased by 81,7 ths. UAH, or 235,69%.

Table 2.6

**Dynamics of current assets rate changes of the LCC «Trade company VNIS» in 2015-2017, ths UAH**

| Indicators   | Current assets<br>as of |            |            | Rate of change<br>by chain, % |            | Base<br>rate of change, % |            |
|--|-------------------------|------------|------------|-------------------------------|------------|---------------------------|------------|
|  | 31.12.2015              | 31.12.2016 | 31.12.2017 | 31.12.2016                    | 31.12.2017 | 31.12.2016                | 31.12.2017 |
| Inventories:   | 8324,3                  | 13484,4    | 4 699,9    | 61,99                         | -65,15     | 61,99                     | -43,54     |
| - finished products                                  | 6 721,5                 | 8 688,5    | 4 336,3    | 29,26                         | -50,09     | 29,26                     | -35,49     |
| Accounts receivable<br>for goods, works,<br>services | 2 630,1                 | 12 098,9   | 13 534,3   | 360,02                        | 11,86      | 360,02                    | 414,59     |
| Accounts receivable<br>with the budget               | 0,0                     | 2 300,4    | 0,0        | 100                           | -100,00    | 100                       | 0          |
| Other current accounts<br>receivable                 | 797,7                   | 537,3      | 167,3      | -32,64                        | -68,86     | -32,64                    | -79,03     |
| Cash and cash<br>equivalents                         | 29,7                    | 18,0       | 99,7       | -39,39                        | 453,89     | -39,39                    | 235,69     |
| Deferred expenses                                    | 0,0                     | 2,6        | 2,6        | 100                           | 0,00       | 100                       | 100        |
| Other current assets                                 | 0,0                     | 7,8        | 11,4       | 100                           | 46,15      | 100                       | 100        |
| Total current assets                                 | 11781,7                 | 28449,4    | 18515,2    | 141,47                        | -34,92     | 141,47                    | 57,15      |



Deferred expenses in 2016 and 2017 amounted to 2,6 ths. UAH. So any changes exist.

In 2017 other current assets amounted 11,4 ths. UAH which is 3,6 ths. UAH (or by 46,15%) more than in 2016. In 2016 other current assets amounted 7,8 ths. UAH.

Analyzing current assets structure of the LLC «Trade Company VNIS» (Fig. 2.4), in 2015 the largest share was taken by company's inventories (70,65%), the second place took accounts receivable for goods, works, services (22,32%). And at the third place were other current accounts receivable (6,77%).

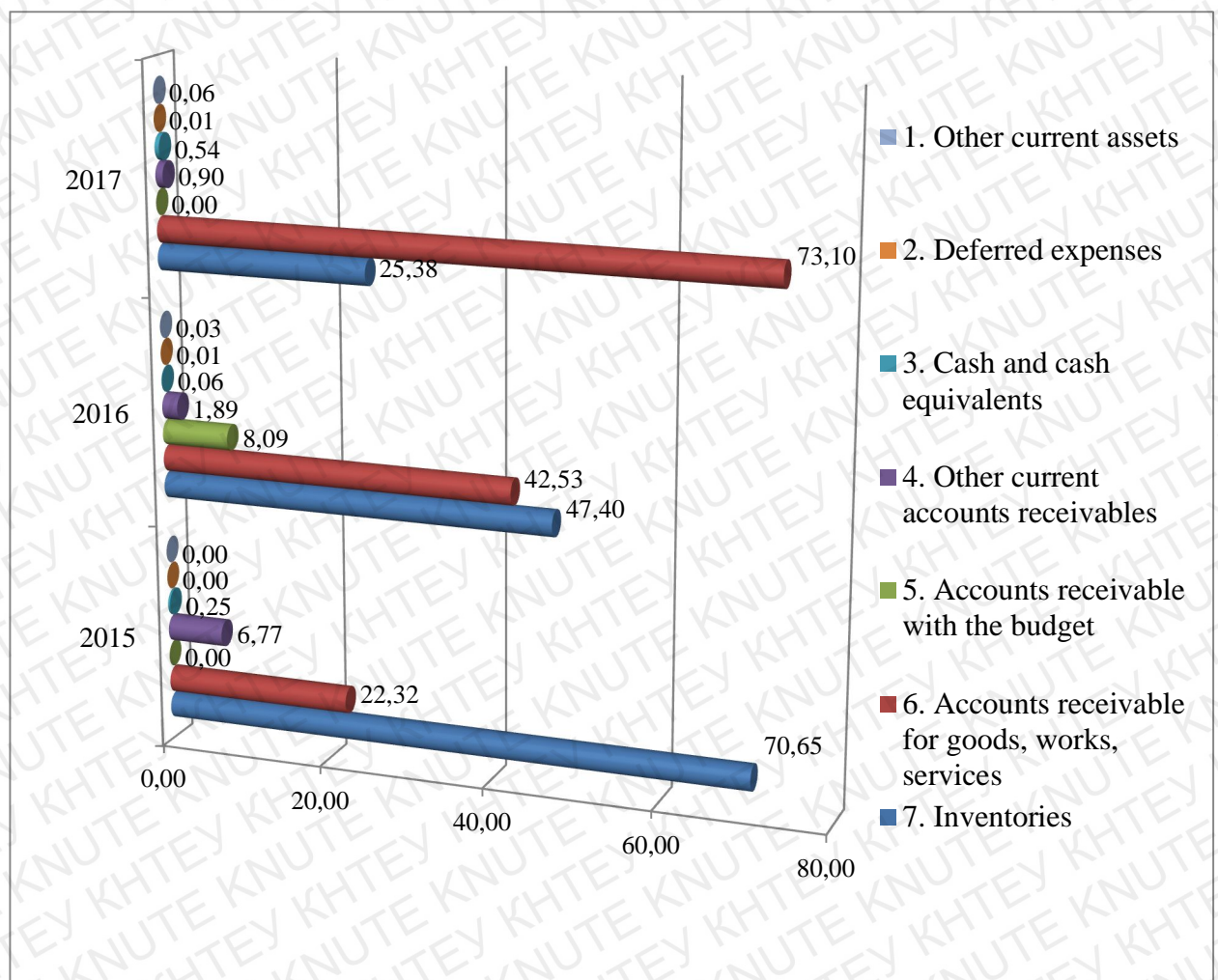


Fig. 2.4. Dynamics of current assets structure of the LLC «Trade company VNIS» during 2015-2017, %

In 2016 the largest share among current assets was taken by company's inventories (47,40%), the second place took accounts receivable for goods, works,

services (42,53%). And at the third place were accounts receivable on settlements with the budget (8,09%).

In 2017 the largest share among current assets was occupied by company's accounts receivables for goods, works, services (73,10%), the second place took inventories (25,38%). And at the third place were other current accounts receivable (0,90%).

An important consideration for assessing the efficiency of using current assets of an enterprise is the analysis of its structure in the directions of investment. This structure can be quite different depending on the industry to which the company belongs, but in general, according to economic theory and practice, in the industry of 2/3 of current assets - it is revolving funds, and 1/3 - funds of circulation. Based on table 2.7, will trace the changes in the structure of current assets of the LLC "Trade Company VNIS" in the areas of use.

*Table 2.7*

**Current assets dynamics of the LLC «Trade company VNIS»  
during 2015-2017**

| Indicators                          | 2015 year |      | 2016 year |      | 2017 year |     | Deviation 2017/2015 |       |                       |
|-------------------------------------|-----------|------|-----------|------|-----------|-----|---------------------|-------|-----------------------|
|                                     | ths UAH   | %    | ths UAH   | %    | ths UAH   | %   | ths UAH             | %     | Structural changes, % |
| Current assets                      | 11781,7   | 100  | 28449,4   | 100  | 18515,2   | 100 | 6733,5              | 57,2  | -                     |
| among them:                         |           |      |           |      |           |     |                     |       |                       |
| Current assets in production sphere | 1602,8    | 13,6 | 4798,5    | 16,9 | 366,2     | 2   | -1236,6             | -77,2 | -11,6                 |
| Current assets in circulation       | 10178,9   | 86,4 | 23650,9   | 83,1 | 18149,0   | 98  | 7970,1              | 78,3  | +11,6                 |

Thus, during 2015-2017, the structure of current assets of the company significantly deteriorated, as a significant reduction of current assets in the field of production (by 11,6%) and, accordingly, their flow to the sphere of circulation, which negatively affects the process of production and sales of products of the



enterprise, as this may lead to a lack of current assets for the production process, untimely payments, etc.

## **2.2. Analysis of the current assets financing sources in the LLC «Trade Company VNIS»**

Determination of sources of current assets financing is carried out at the enterprise in order to provide the need for them with the appropriate financial means. The enterprise analyzes the state of current assets in the previous period, and then the principles, structure and amounts of financing of current assets are formed.

In determining the structure of current assets financing, there can be allocated the main sources of their formation:

- own capital;
- borrowed capital.

Own sources of financing of current assets of the enterprise include:

- statutory fund (capital);
- deductions from profit for special purpose funds;
- targeted financing and target revenues (from the budget, industry and interbranch extrabudgetary funds).

Own sources of current assets formation are not enough. Meet the need for additional funds by attracting financial resources an enterprise can use:

- short-term and other bank loans;
- commercial loans;
- accounts payable.

Sources of formation of current assets to a large extent determine the effectiveness of their use. Due to specific features of the circulation of capital in a particular enterprise, establishing the optimal ratio between own and borrowed sources is an important task of the managerize system. An adequate minimum of own and borrowed funds should ensure the continuity of the flow of current assets



at all stages of the cycle, which meets the needs of production in tangible and financial resources, as well as provides timely and complete calculations with suppliers, the budget, banks and other links.

Determining the sources of current assets formation is an important part of the work of a financier at any enterprise.

The insufficiency of sources of current assets formation leads to a lack of financing of economic activity and to financial complications. The availability of superfluous sources of current assets in the enterprise contributes to the creation of excessive stocks of inventory, the diversion of current assets from economic turnover, reducing liability for the targeted and rational use of both own and borrowed funds.

Effective management of current capital involves not only rational allocation of capital in the assets of the enterprise, especially current ones, but also maintenance of the optimal ratio of own and borrowed sources of current assets formation, since the financial stability of the company directly depends on it.

Therefore, the analysis of the sources of current assets formation demand appropriate attention.

The main tasks of the analysis of sources of formation of the company's current assets is the study and assessment of:

- changes in the structure of all sources of funds and, in particular, in the structure of own and borrowed capital, in the availability of their own current assets and their share in the amount of their own funds and in tangible current assets at the end of the reporting period, compared with its beginning;
- rationality of the formation of the structure of sources of funds.

Characteristics of the relationship between own and borrowed capital reveals the essence of the financial state of the enterprise (Table 2.8).

**Assessment of the capital structure of the LLC «Trade Company VNIS  
in 2015-2017**

| Indicators                    | 2015     |      | 2016     |      | 2017     |      |
|-------------------------------|----------|------|----------|------|----------|------|
|                               | ths. UAH | %    | ths. UAH | %    | ths. UAH | %    |
| I. Equity and liabilities     | 11832,0  | 100  | 28626,4  | 100  | 18690,5  | 100  |
| 1.1. Equity                   | 68,4     | 0,6  | 14623,6  | 51,1 | 15107,8  | 80,8 |
| 1.2. Liabilities              | 11763,7  | 99,4 | 14002,8  | 48,9 | 3582,7   | 19,2 |
| 1.2.1. Long-term liabilities  | 0        | 0    | 0        | 0    | 0        | 0    |
| 1.2.2. Short-term liabilities | 11763,7  | 100  | 14002,8  | 100  | 3582,7   | 100  |

The analysis of the capital structure of the LLC «Trade Company VNIS» showed that it experienced significant changes over the period of 2015 to 2017. Thus, the share of equity at the end of 2015 amounted to 0,6%, and the borrowed capital, respectively, 99,4%. In 2016, the share of equity increased to 51,1%, while the share of borrowed capital decreased to 48,9%. In 2017, the share of equity increased to 80,8%, while the share of borrowed capital decreased to 19,2%. So, in 2015 the enterprise was operating mainly with borrowed capital which had a significant risk for investors. In 2017, the enterprise significantly changed the structure of capital and began to operate mostly with equity. This testifies to the low level of financial stability of the investigated enterprise and its high dependence on external sources of financing. So it suggests an improvement in the level of financial stability of the investigated enterprise and a reduction in its dependence on external sources of financing.

To resolve the issue of providing the company with its own funds, we will calculate the value of its working capital. The company's own working capital is calculated as the difference between all available working capital and short-term borrowed funds. Calculation of the amount of own working capital is reflected in Table 2.9.

Table 2.9

**The amount of own working capital  
the LLC "Trade Company VNIS" for 2015-2017, ths UAH**

| Indicators                | Formulas  | 2015    | 2016    | 2017    |
|---------------------------|---|---------|---------|---------|
| Working capital           | $WC = \text{current assets}$  | 11781,7 | 28449,4 | 18515,2 |
| Short-term borrowed funds | $\text{Short-term borrowed funds} = \text{current liabilities}$     | 11763,7 | 14002,8 | 3582,7  |
| Own working capital       | $\text{ownWC} = \text{current assets} - \text{current liabilities}$ | 18,0    | 14446,6 | 14932,5 |

Thus, the company's own working capital in 2015 amounted to 18 thousand UAH, and in 2017 it was 14932,5 thousand UAH, which indicates its decrease by 14914,5 thousand UAH. So, provision of the company with its own working capital is growing, which is a positive movement for the enterprise.

For the LLC "Trade Company VNIS" own sources of financing of current assets is the profit remaining at the disposal of the enterprise. Profit of the company is directed to covering the growth of the standard of current assets. Traditionally, the source of coverage is the profit that remains at the disposal of the enterprise and is used at its discretion.

The amount of own current assets, which are determined by the enterprise, is not a constant value. The amount of its current assets during the preparation of the financial plan is adjusted annually in connection with the change in the volume of production, product mix, supply and sales conditions. In addition, there are problems with untimely receipt of funds for shipped products, untimely and incomplete fulfillment of contractual obligations by suppliers, and due to other circumstances, which cause the need for additional funds. It is virtually impossible to cover this need only with its own sources. Therefore, it is economically unfeasible to create current assets only at the expense of own sources, since this reduces the company's ability to finance its own costs and increases the risk of financial instability of the enterprise. In this case, the company is forced to apply for financial resources in the form of short-term bank loans and other loans, commercial loans, payables.



Assignment of bank loans - financing costs associated with the acquisition of fixed and current assets, seasonal needs of the enterprise, temporary increase in inventories, with the emergence (increase) of accounts receivable, tax payments and other liabilities.

The condition and guarantee of the survival and development of any enterprise as a business process is its financial stability (Table 2.10). If an enterprise is financially sustainable, then it is able to "withstand" unexpected changes in market conditions, and not be on the verge of bankruptcy. Moreover, the higher its stability, the greater the benefits to other enterprises of the same sector of the economy in obtaining loans and attracting investment. The financially stable enterprise is timely calculated on its obligations with the state, extra-budgetary funds, personnel and counteragents.

*Table 2.10*

**Indicators of financial sustainability of the LLC "Trade Company  
VNIS" during 2015-2017**

| Indicators                               | Standard value | 2015   | 2016 | 2017 | Deviations from the previous period |       |
|--|----------------|--------|------|------|-------------------------------------|-------|
|  |                |        |      |      | 2016                                | 2017  |
| 1. Financial leverage                    | <1             | 171.98 | 0.96 | 0.24 | -171.02                             | -0.72 |
| 2. Equity ratio                          | >0,5           | 0.006  | 0.5  | 0.8  | 0.44                                | 0.3   |
| 3. Index of maneuverability of own funds | >0,2           | 0.26   | 0.9  | 0.9  | 0.64                                | 0     |
| 4. Return on equity                      | >0,4           | 27.5   | 1.04 | 0.08 | -26.46                              | -0.96 |
| 5. Return on assets                      | increasing     | 0.16   | 0.5  | 0.06 | 0.34                                | -0.44 |

From these calculations we can see that the company was not completely autonomous in 2015, but during 2016 and 2017 company improved financial sustainability and became less dependent from borrowed capital. In 2015 and 2016, the use of financial resources of all property was a negative indicator, but in 2017 it has already reached 0.2, which is a positive trend, as it is going to increase.

In addition, in order to assess the sources of current assets formation, it is necessary to reconcile the amounts of receivables and payables, as it should be borne

in mind that payables are simultaneously a source of accounts receivable (Table 2.11, Figure 2.5).

Table 2.11

**Comparative analysis of accounts receivable and accounts payable of the LLC "Trade Company VNIS"**

| Indicators                        | 2015   | 2016    | 2017    | Deviation 2017 to 2015 |         |
|-----------------------------------|--------|---------|---------|------------------------|---------|
|                                   |        |         |         | ths. UAH               | in %    |
| Accounts receivable, thousand UAH | 3427.8 | 14936.6 | 13701.6 | +10273.8               | +299.72 |
| Accounts payable, thousand UAH    | 3247.0 | 11956.3 | 1559.2  | -1687.8                | -51.98  |

As can be seen from the table 2.11, during 2015-2017, a significant decrease in the payables of the enterprise took place.

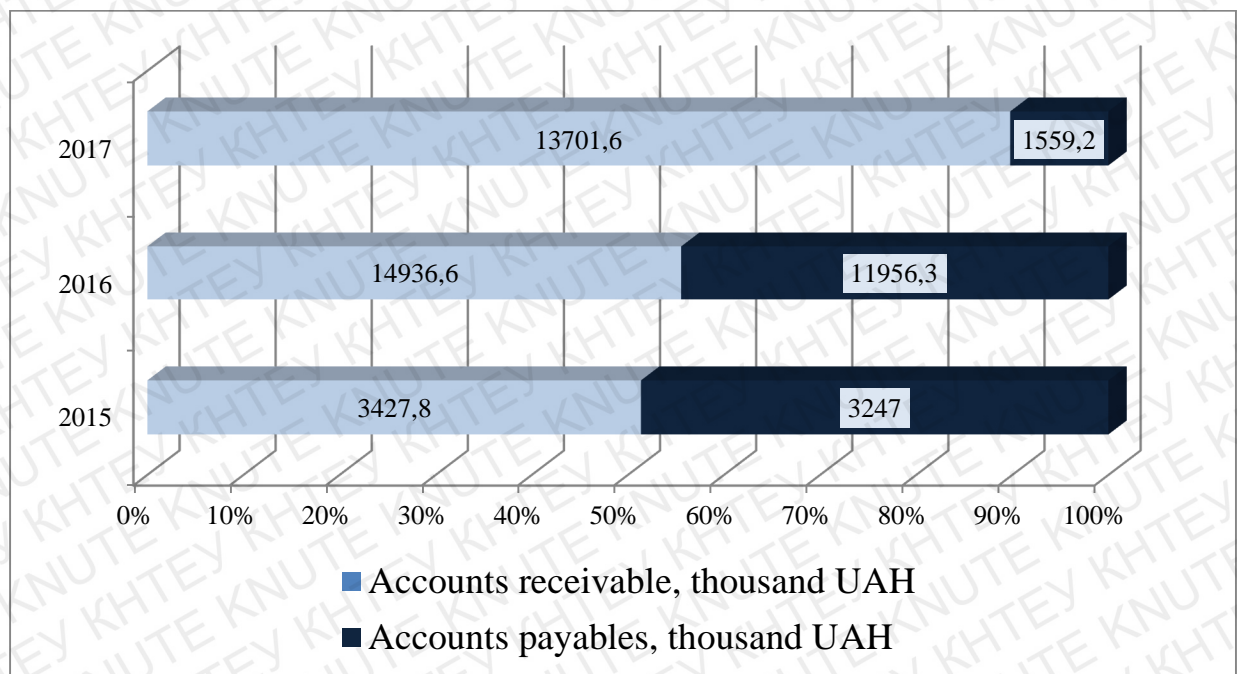


Fig. 2.5. The dynamics of accounts receivable and accounts payable of the LLC "Trade Company VNIS"

In 2017, the receivables significantly exceeds the payables, (by 12142.4 thousand UAH), which may indicate an improvement of relations with customers, that is, an increase in the number of buyers of products.

Also, a significant excess of the receivables of the company over the payables may be a consequence of the solvency of the enterprise, its ability to timely meet their obligations in time or the desire not to overdue the payment of funds, without using them as a source of funding. And this, in any case, leads to positive consequences, as one of the best indicators of a healthy financial state of an enterprise can be called a situation when the payables do not exceed the receivables.

After assessing the level of financial stability of an enterprise, it is also necessary to calculate the performance indicators of its activity. The results of calculations are given in the table. 2.12.

*Table 2.12*

**Calculation of the performance indicators of the LLC "Trade Company VNIS" for 2015-2017**

| Indicators                        | 2015   | 2016    | 2017   |
|-----------------------------------|--------|---------|--------|
| Gross profit, ths UAH             | 3559,4 | 18784,8 | 4732,4 |
| Net income, ths UAH               | 1667,7 | 14555,3 | 484,2  |
| Gross profit margin, %            | 71.1   | 61.2    | 30.9   |
| Profitability of current assets,% | 14.16  | 51.2    | 2.6    |
| Return on equity,%                | 24.4   | 0.99    | 0.03   |
| Profitability,%                   | 2438.2 | 99.5    | 3.2    |

According to the table 2.19, it is possible make conclusions on the reduction of the level of efficiency of use of property and resources of the company in 2017 compared to 2015, which in turn indicates a significant deterioration in the financial condition of the enterprise in the studied period. For example, the return on equity of the enterprise in 2017 decreased by 24.1%, the gross profit margin decreased by 40.2%, and the profitability of current assets decreased by 11.56%. This means reducing the company's return on equity and products sold and decreasing in net income of the enterprise.

Thus, for today the financial condition of the LLC "Trade Company VNIS" is accompanied by:

- diversion of equity to cover too expensive material and technical base;



- increase in receivables;
- decrease of current liabilities for calculations, etc.

### **2.3. Estimation of efficiency of current assets financing in the LLC «Trade Company VNIS»**

Current assets are the "engine" of an enterprise, since the most effective use of them not only determines liquidity and solvency, but also the possibility of sustainable economic growth of an enterprise. Effective use of current assets is determined by their turnover - the ability of enterprises to use the available fixed and current capital effectively.

Asset turnover is calculated as:

- 1) the duration of one turnover in days of assets turnover (in days);
- 2) the number of turnovers in the reporting period (coefficient of turnover, turnover rate).

The stability of the financial state of the company has a significant impact of accelerating the turnover of current assets because:

- first, the amount of annual turnover depends on the turnover rate of assets (a company with a small amount of funds, but more efficient use of it, can achieve the same turnover as a company with a larger volume of funds but with a lower rate of turnover);
- second, the turnover ratio is related to the relative value of costs, which reduces the cost per unit of output;
- third, the acceleration of turnover at one or another stage of the circulation of funds (for example, reducing the time spent in the warehouse) reduces the duration of turnover at other stages of the production process.

All these lead us to present a system of indicators of turnover of current assets and study the impact on the enterprise activities. By analyzing certain literature sources [24, 33, 44, 54] in which these data are analyzed, one can conclude that there

is no single approach, and each scientist considers it appropriate to pay attention to certain indicators.

The method of analysis of turnover indicators of current assets is to calculate the indicators of turnover of the enterprise on the basis of financial reporting "Statement of financial position", "Statement of comprehensive income" for 2015, 2016 with similar indicators for 2017. Also, the impact of each factor on the change of these indicators is calculated. In this way, there are trends in the improvement or deterioration of the use of current assets. This information is useful for shareholders, potential investors, potential buyers, suppliers, etc.

Analysis of the turnover of the company's current assets can be made using the data of the table 2.13.

*Table 2.13*

**Analysis of current assets turnover  
of the LLC "Trade Company VNIS" for 2015-2017**

| Indicators                                | 2015    | 2016    | 2017    | Deviations from the previous period |          |
|---|---------|---------|---------|-------------------------------------|----------|
|   |         |         |         | 2016                                | 2017     |
| 1   | 2       | 3       | 4       | 5                                   | 6        |
| 1. Revenue, ths. UAH                      | 5003.9  | 30669.1 | 16276.4 | +25665.2                            | -14392.7 |
| 2. Average current assets, ths. UAH       | 11781.7 | 28449.4 | 18515.2 | +16667.7                            | -9934.2  |
| 3. Duration of the period, days           | 360     | 360     | 360     |                                     |          |
| 4. Asset turnover ratio                   | 0.42    | 1.08    | 0.88    | +0.66                               | -0.2     |
| 5. Duration of the 1 (one) turnover, days | 857     | 334     | 409     | -523                                | +75      |
| 6. The ratio of funds in circulation      | 2.35    | 0.93    | 1.14    | -1.42                               | +0.21    |
| 7. Inventory turnover ratio               | 0.17    | 0.88    | 2.46    | +0.71                               | +1.58    |

*End of the table 2.13*

| 1                                     | 2    | 3    | 4    | 5     | 6     |
|---------------------------------------|------|------|------|-------|-------|
| 8. Accounts receivable turnover ratio | 1.46 | 2.05 | 1.19 | +0.15 | -0.86 |
| 9. Accounts payable turnover ratio    | 0.44 | 0.99 | 7.4  | +0.55 | +6.91 |
| 10. Days sales of inventory (DIO)     | 2103 | 414  | 149  | -1689 | -265  |

|   |      |     |     |       |      |
|---|------|-----|-----|-------|------|
| 11. Days sales outstanding (DSO)        | 250  | 178 | 307 | -72   | +129 |
| 12. Days payables outstanding (DPO)     | 820  | 367 | 49  | -453  | -318 |
| 13. Cash conversion cycle (DIO+DSO-DPO) | 1533 | 225 | 407 | -1308 | +182 |

The calculated turnover ratio shows that during the period from 2015 to 2017 the number of revolving current assets increased from 0.42 to 0.88 turns. Accordingly, the ratio of asset turnover in circulation in the course of 3 years decreased from 2.35 to 1.14, that is, by 1.21, which indicates a more efficient use of current assets during the analyzed period (Fig. 2.6, Fig. 2.7).

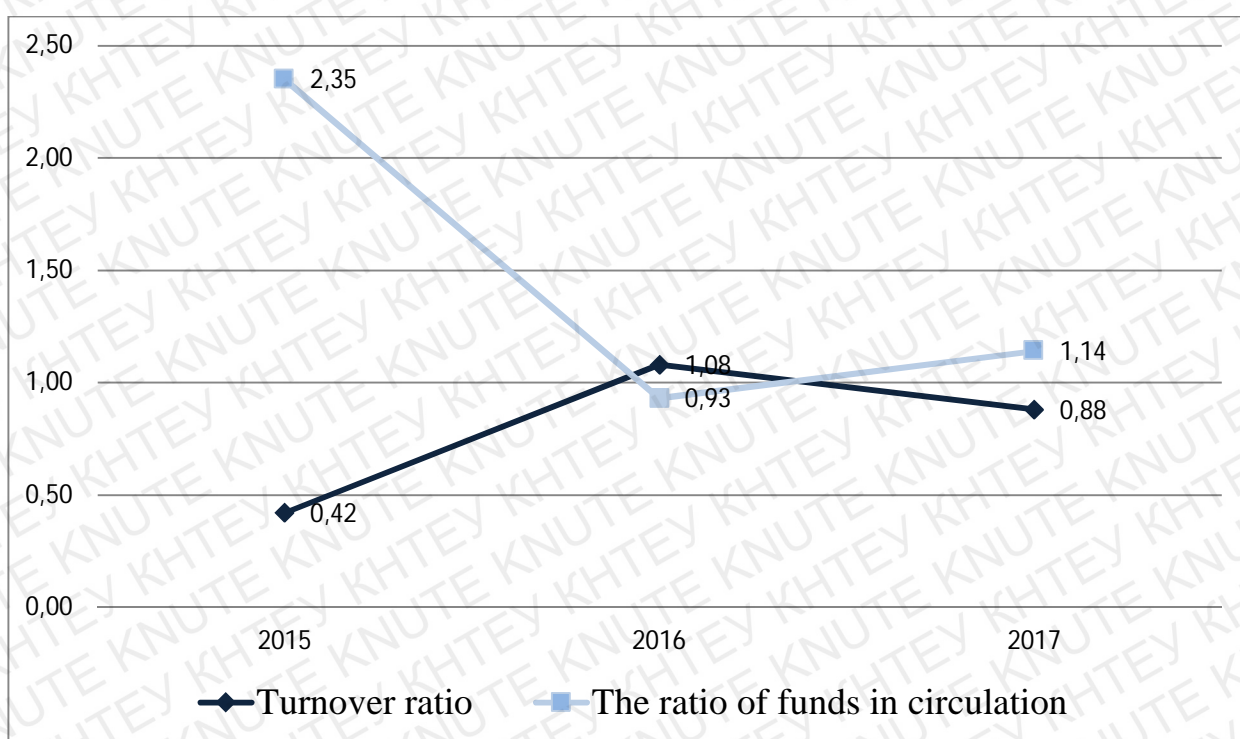


Fig. 2.6 Dynamics of indicators of turnover of current assets of the LLC «Trade Company VNIS»

According to the data in table 2.13, duration of the one turnover of current assets of the LLC «Trade Company VNIS» in 2015 was equal to 857 days. It means that in 2015 current assets of the company made one turnover during 857 days in average. This is because of small sales volume at relatively large amounts of current assets.



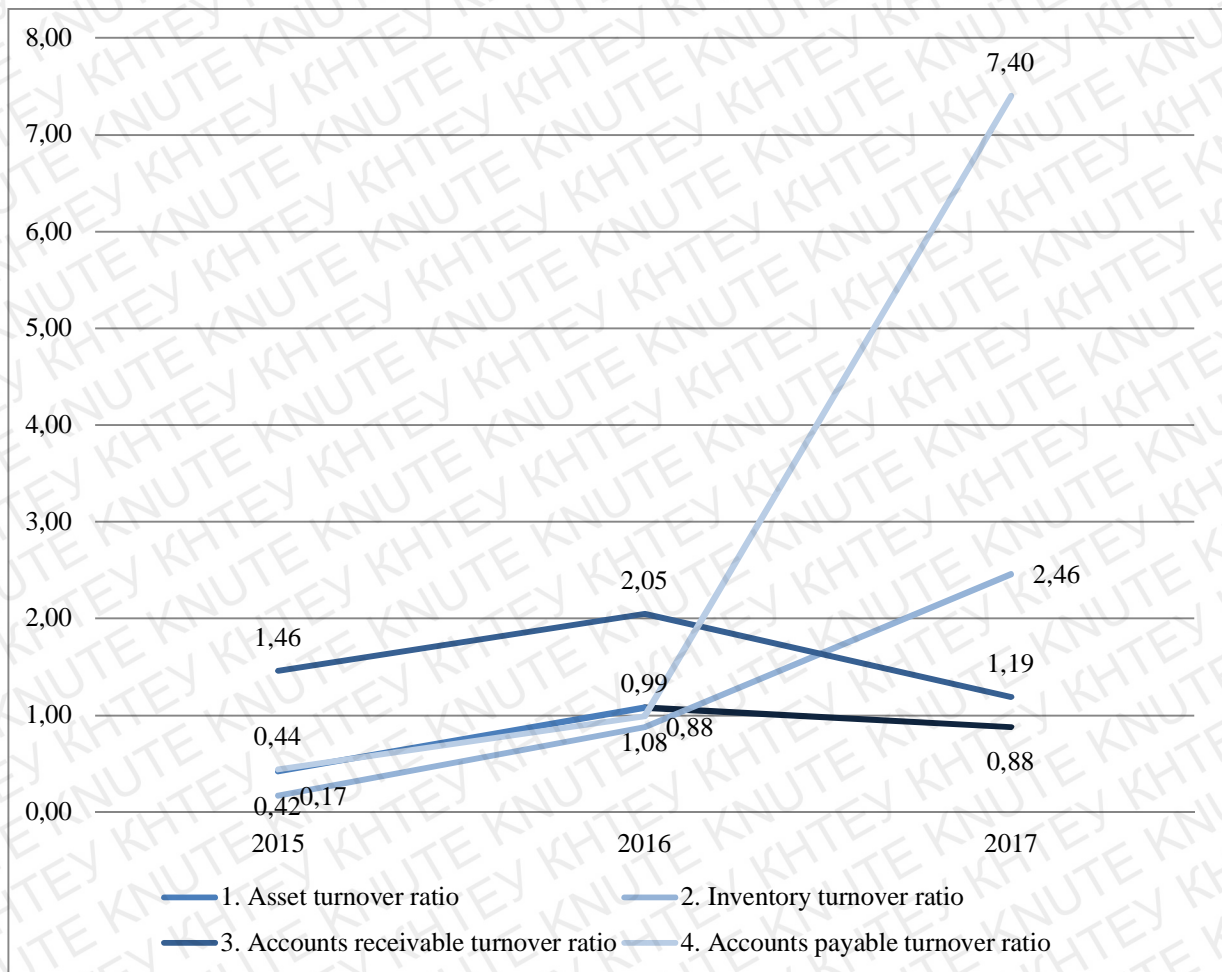


Fig. 2.7 Dynamics of indicators of turnover of the LLC «Trade Company VNIS»

Based on the above data, one can conclude that the duration of one turnover of current assets for 2015-2017 decreased by 448 days, that is, there was an acceleration in the turnover of current assets. This led to:

- 1) an increase in the turnover ratio of current assets by 0.46;
- 2) a decrease in the rate of asset turnover in circulation by 1.21 UAH.

Using the index of asset turnover in circulation, there can be determined the magnitude of the economic effect. In 2015, for receiving 1 UAH of revenue the LLC "Trade Company VNIS" spent 2.35 UAH. of current assets, and in 2016 – 0.93 UAH, that is less by 1.42 UAH. for every 1 UAH of revenue. In 2017, to receive 1 UAH of revenue there were spent 1.14 UAH, by 0.21 UAH, more than in 2016, but by 1.21 UAH less than in 2015.

In the process of analyzing the efficiency of the company's current assets it is necessary to consider them according to the degree of liquidity.

The liquidity of the company's balance sheet is expressed in the extent of the company's liabilities to its assets, the term conversion of which in money corresponds to the maturity of liabilities. Therefore, to determine the liquidity of the balance, it is necessary to compare the results for each group of assets and liabilities.

The balance of liquidity of the LLC "Trade Company VNIS" in 2017 is reflected in the table 2.14.

*Table 2.14*

**The balance of liquidity of the LLC "Trade Company VNIS" in 2017,  
ths UAH**

| Standard    | Assets  | At the beginning<br>of the reporting<br>period | At the end of the<br>reporting period | Equity and<br>Liabilities             | Starting balance | Ending balance | Payment surplus or<br>lack |                   |
|-------------|---|--|---------------------------------------|---------------------------------------|------------------|----------------|----------------------------|-------------------|
|             |   |  |                                       |                                       |                  |                | Starting<br>balance        | Ending<br>balance |
| A1 ≥<br>L 1 | 1. The most<br>liquid assets<br>(A1)                    | 18,0   | 99,7                                  | 1. Immediate<br>Liabilities<br>(L1)   | 14002,8          | 3582,7         | -<br>13984,8               | -<br>3483,0       |
| A2 ≥<br>L 2 | 2. Quickly<br>implemented<br>assets (A2)                | 14936,6  | 13701,6                               | 2. Short-term<br>liabilities<br>(L 2) | -                | -              | 14936,6                    | 13701,6           |
| A3 ≥<br>L 3 | 3. Slowly<br>implemented<br>assets (A3)                 | 13494,8  | 4713,9                                | 3. Long-term<br>liabilities<br>(L 3)  | -                | -              | 13494,8                    | 4713,9            |
| A4 ≤<br>L 4 | 4. Assets that<br>are difficult<br>to implement<br>(A4) | 177,0  | 175,4                                 | 4. Permanent<br>liabilities<br>(L 4)  | 14623,6          | 15107,8        | 14446,6                    | 14932,4           |
|             | Balance   | 28626,4  | 18690,5                               | Balance                               | 28626,4          | 18690,5        | x                          | x                 |

For a given enterprise, the ratio of assets and liabilities does not correspond to the estimated condition, that is, its balance is not completely liquid:

- at the beginning of 2017 we have:

1) A1 < L1; 2) A2 > L2; 3) A3 > L3; 4) A4 < L4;

- at the end of 2017 we have:

A1 < L1; 2) A2 > L2; 3) A3 > L3; 4) A4 < L4.

This means that:

1) there are not enough cash and cash equivalents to repay the loan debt and immediate liabilities (shortage at the beginning of 2017 - 13984,8 ths. UAH, and at the end of 2017 3483,0 ths. UAH);

2) the liquidity of the balance improved somewhat during the year, as at the end of the reporting period, the enterprises reduced the problems with the repayment of current liabilities for goods, works, services and other current obligations.

Consequently, the company needs to continue the positive trend of increasing the liquidity balance, as it affects its financial position. Particular attention should be paid to increasing the number of the most urgent assets and repayment of debts with suppliers and partners for goods, works and services.

The analysis conducted under this scheme is approximate. A more detailed analysis of liquidity we can make using financial ratios. In addition, such an approach to liquidity analysis is used in practice much more often. Therefore, liquidity characteristics, as a rule, are supplemented by the calculation of financial indicators of liquidity (Table 2.15).

In 2015 current ratio of the enterprise was 1.00, next year it increased by 1.03 and was 2.03, and in 2017 increased by 3.14 and was 5.17. Normative value for this ratio is 1.5-2.5. Since enterprise indicators are within the range of the value of the ratio, we can conclude that the company has a sufficient amount of free resources.

*Table 2.15*

**Liquidity indicators of the LLC «Trade Company VNIS»  
during 2015-2017**

| Indicators      | Standard | 2015  | 2016  | 2017  | Deviations from the previous period |        |
|-----------------|----------|-------|-------|-------|-------------------------------------|--------|
|                 |          |       |       |       | 2016                                | 2017   |
| 1.Current ratio | >1-2     | 1.00  | 2.03  | 5.17  | +1.03                               | +3.14  |
| 2.Quick ratio   | >0,6     | 0.29  | 1.07  | 3.86  | +0.78                               | +2.79  |
| 3.Cash ratio    | >0,2     | 0.003 | 0.001 | 0.028 | -0.002                              | +0.027 |



|                        |  |      |         |         |          |        |
|------------------------|--|------|---------|---------|----------|--------|
| 4. Net working capital |  | 18.0 | 14446.6 | 14932.5 | +14428.6 | +485.9 |
|------------------------|--|------|---------|---------|----------|--------|

Quick ratio according to the table 2.15 of the enterprise in 2015 was 0.29, next year it increased by 0.78 and was 1.07, and in 2017 increased by 2.79 and was 3.86. In 2015, this ratio did not even exceed the lowest of 0.6, which indicates that the company was not able to repay part of its current liabilities at the expense of the most liquid current assets - cash and cash equivalents, financial investments and receivables. But in 2016 and 2017 the situation improved.

In 2015 cash ratio was 0.003, in 2016 was 0.001 and in 2017 is 0.028 and does not exceed the lowest norm of 0,2, indicating the company's failure to pay short-term liabilities in the nearest future without waiting for payment of receivables and selling other assets.

The reason for the lack of liquid current assets is a shortage of own sources for self-financing, as well as diversion of funds into accounts receivable and a high indicator of payables.

Consequently, in the section were analyzed the main indicators of the LLC «Trade Company VNIS». On the basis of the analysis, the key indicators will be planned for 2018, an analysis of the company's current assets financing policy will be made and the ways of improvement the management of current assets will be proposed.

### **SECTION 3**

## **WAYS TO IMPROVE MANAGEMENT OF CURRENT ASSETS**

### **FINANCING IN THE LLC «TRADE COMPANY VNIS»**

#### **3.1. Explanation of current assets financing policy appropriateness in the LLC «Trade Company VNIS»**

To the question of current assets there is given much attention in literature [8, 30, 47, 61]. The peculiarity of current assets lies in its dual nature. On the one hand, they act in the form of assets embodied in material assets, means of the sphere of production and the sphere of circulation (production stocks, material assets in production, finished products, work in progress, cash in the cashier, on the current account and other accounts in the bank). On the other hand, their formation as assets of an enterprise is inextricably linked with the specific sources of capital that ensure this formation. The clarification of this connection caused the appearance of terms that clarify this concept - working capital, etc.

Revolving assets of the sphere of production serve the sphere of production and completely transfer their value to the value of finished goods. At the same time, circulating assets of the sphere of circulation do not directly participate in the production process, but ensure the unity of production and circulation. Thus, current assets provide a single process.

Consequently, the current assets of an industrial enterprise are characterized by a group of mobile assets with a usage period of up to one year that directly serve its operational activities and, due to their high level of liquidity, should ensure its solvency under current financial liabilities.

Part of the overall financial strategy of the company, consisting in the formation of the required volume and structure of current assets, optimization of the structure of the sources of their financing is the policy of managing the current assets of the enterprise. The implementation of this policy should ensure long-term productive and efficient financial activity of the enterprise. Effective management

of working assets involves the choice and implementation of a specific financial policy.

It should be noted that management of current assets of the enterprise is a multi-faceted process that deals with the main aspects of the policy of formation and financing of current assets (Fig. 3.1).

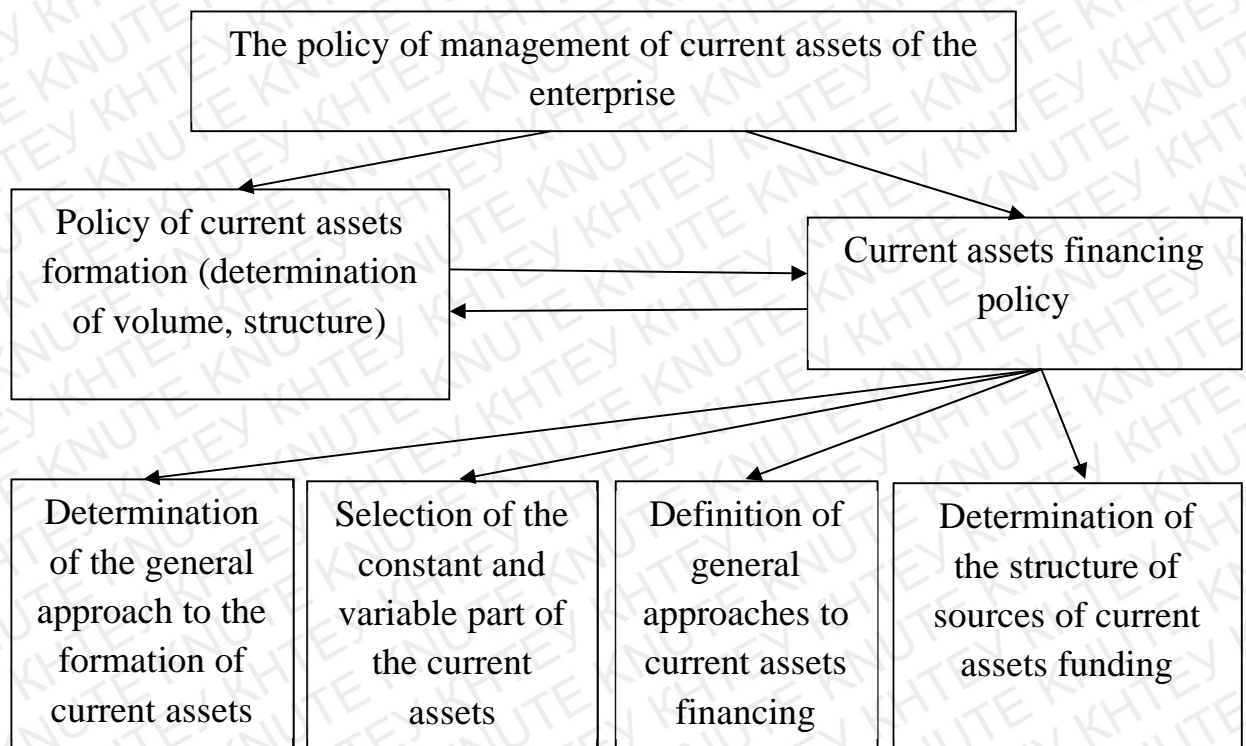


Fig. 3.1 Structural and logical scheme of current assets management of the enterprise

Thus, the policy of managing current assets should ensure a search for a compromise between the risk of loss of liquidity and profitability. The achievement of this compromise amounts to the solution of two important tasks [36]:

- 1) ensuring solvency;
- 2) 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 current assets financing policy at the enterprise.

First, we determine permanent and temporary parts of current assets of the LLC «Trade Company VNIS» for 2017 (Fig. 3.2).



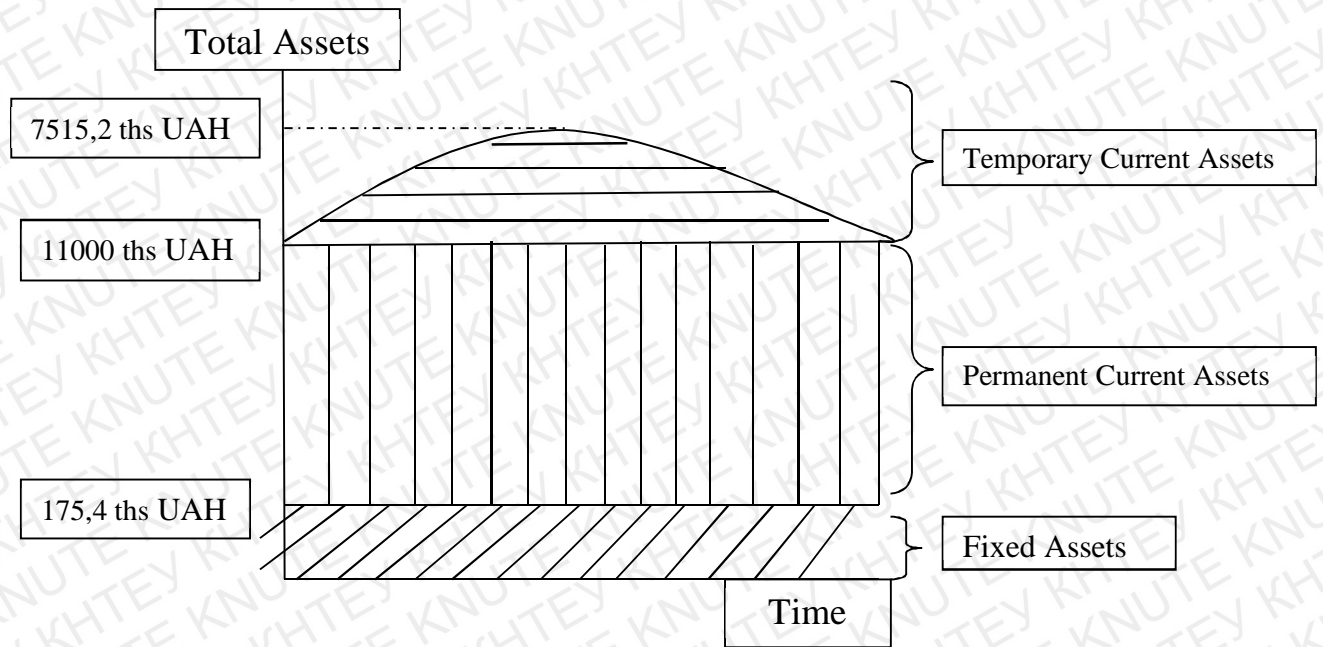


Fig. 3.2. Assets in 2017 of the LLC «Trade Company VNIS»

According to the figure 3.3, the LLC «Trade Company VNIS» is characterized by moderate current assets financing model. The LLC «Trade Company VNIS» of moderate type is introduced by mixed financing, which involves formation of capital both at the expense of own and at the expense of borrowed funds, which are involved in different proportions.

|  |   |
|--|---|
| Fixed Assets<br>(175,4 ths UAH)              | Equity<br>(15107,8 ths UAH)             |
| Permanent Current Assets<br>(11000 ths UAH)  |   |
| Temporary Current Assets<br>(7515,2 ths UAH) | Current liabilities<br>(3582,7 ths UAH) |

Fig. 3.3. Moderate current assets financing model

This approach implies that at the expense of its own and long-term borrowed capital, non-current assets, a fixed part of current assets and approximately half of the variable of current assets should be financed, while at the expense of short-term

borrowed capital, there is financed the other half of the variable part of the current assets.

Net working capital will be equal to the sum of the amount of the fixed part of current assets and half of their variable part.

So, according to moderate approach, fixed assets and permanent current assets of the LLC «Trade Company VNIS» are financed with long-term funds and temporary current assets of the LLC «Trade Company VNIS» are financed with short-term funds (Fig. 3.4).

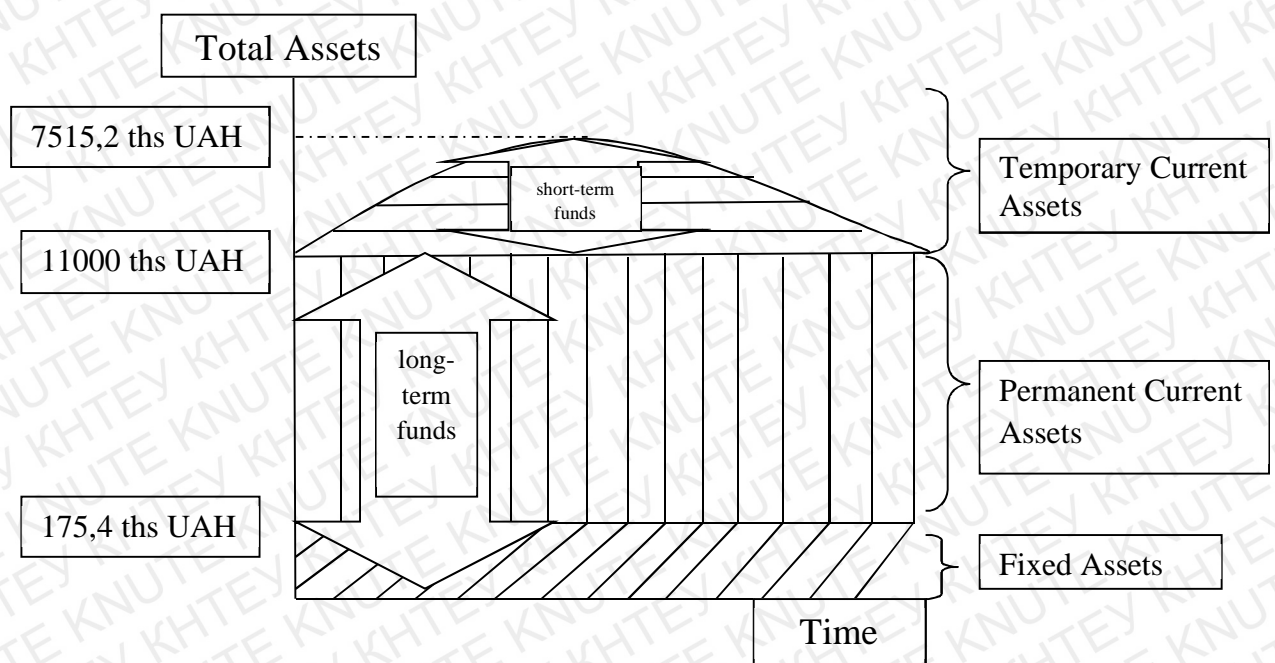


Fig. 3.4 Moderate Approach to current assets financing

Moderate current assets financing model of the LLC «Trade Company VNIS» is characterized by following features:

- 1) Liquidity. Liquidity is balanced i.e. neither high nor low. It attempts to strike a balance between liquidity and cost of idle funds.
- 2) Profitability. Because of cut to cut management, a balance is achieved between interest cost and loss of profitability. Moderate profitability is maintained here. It is greater than conservative and lesser than aggressive.

- 3) Risk. Risk is balanced here. The firm will bow down to bankruptcy only in an extremely bad situation.
- 4) Asset utilization. Is important because its success is often tied to its ability to manage and leverage its assets. A moderate asset utilization ratio means the company is being more efficient with each UAH of assets held.
- 5) Working capital. Moderate working capital is maintained to stay somewhere between conservative and aggressive strategies.

The policy of managing current assets at an enterprise in conditions of financial instability is one of the main and important components of the formation of a successful management system on the whole. In addition, the quality of current assets management will depend on the solvency of the business entity, the level of its profitability, the formation of opportunities for work in unpredictable situations, the level of production and sales.

Consequently, the analysis of current assets management at the enterprise allows us to identify shortcomings and risks in its implementation, to improve the model for determining the optimal sources of financing of working capital depending on the strategic direction of enterprise development and, consequently, to increase the efficiency of the use of current assets of the enterprise.

### **3.2. Grounding of current assets financing sources in the LLC «Trade Company VNIS» taking into account their planned needs in the perspective period**

As it was noted in the part 1.3, for the effective management of current assets, a prerequisite is the planning of their volume and funding sources in the planning period. The possibility of substantiating the planned need for current assets and its coordination with possible sources of financing becomes real in the process of developing the balance of current assets of the enterprise. Its development is carried out in three stages:



1. Grounding of the planned needs of the enterprise in current assets.
2. Determination of the structure and volume of sources of financing of current assets.
3. Determination of the need for additional attraction of funds for financing needs for current assets [39].

Determining the need for current assets in the planned period is a prerequisite for the effective use of current assets of the enterprise. The formation of current assets in insufficient volume will complicate the normal flow of economic activity. Excessive amounts of current assets will lead to additional costs for their storage, as well as a lack of profit from their use.

The total need of the enterprise in current assets is influenced by the following factors:

- 1) the scope and sphere of the enterprise activity;
- 2) terms of procurement of material and technical resources;
- 3) conditions for the realization of finished products;
- 4) the length of the production process;
- 5) the turnover of production and sales.

Substantiation of the planned need for current assets involves assessing the need for certain elements of current assets:

- stocks of raw materials and materials;
- stocks of finished goods;
- current assets for financing receivables;
- cash;
- other types of current assets.

It should be noted that the first two groups of current assets are normalized assets. Therefore, when calculating the need for them, the norms of current assets are used, which the enterprise can calculate independently.

To the calculation of norms and standards of own current assets at enterprises should be given special attention. The effectiveness of using current assets,

acceleration of their circulation and the financial condition of the company depend on how economically grounded the calculated norms and standards are.

Expenses and risks associated with a lack of current assets:

- delays in the supply of raw materials and, as a consequence, an increase in the length of the production cycle and an increase in costs;
- decrease in sales due to insufficient inventory of finished products;
- additional costs for financing issues.

Expenses and risks associated with excess current assets:

- physical or moral aging of stocks;
- Increased costs of storing surplus stocks;
- refusal of debtors to pay (or bankruptcy);
- possible bankruptcy of banks in which funds are kept;
- an increase in property tax due to the growth of inventories;
- a significant reduction in the real value of accounts receivable and money resources in connection with inflation [5].

The optimal level of current assets will maximize profits at a given level of liquidity and commercial risk.

Thus, one of the key principles of current assets management is the regular determination of the company's needs in each type of asset and the assessment of the effectiveness of the planned amount of required resources [47].

In order to calculate the volumes of current assets of the LLC «Trade Company VNIS» for the planned period first, it is necessary to calculate the planned net income figures according to the data presented in Appendices A and B.

The calculations were carried out according to the following formula:

$$= \frac{\text{---}}{\text{---}} * \text{---}, \quad (3.1)$$

where *NI pl* – net income in planned period,

*NI rep* – net income in reporting period,

*NI bas* – net income in basic period,

$n$  – amount of years.

So, the net income in planned period of 2018 will be 29342,7 thousand UAH (Table 3.1).

Regarding the inventory, their calculation was made through the coefficient of elasticity, which is calculated by the following formula:

$$C_{el} = \frac{\Delta Inventory_{rep}}{\Delta Inventory_{bas}} = \frac{Inventory_{rep} - Inventory_{bas}}{Inventory_{bas}}, \quad (3.2)$$

where  $C_{el}$  - coefficient of elasticity,

$Inventory_{rep}$  – amount of inventory in reporting period,

$Inventory_{bas}$  - amount of inventory in basic period,

$Revenue_{rep}$  - amount of revenue in reporting period,

$Revenue_{bas}$  - amount of revenue in basic period.

And we get the following result:

$$C_{el} = \frac{\frac{4699,9 - 8324,3}{8324,3} - 1}{\frac{16276,4 * 1,2 - 5003,9 * 1,2}{5003,9 * 1,2} - 1} = -1,15$$

The result with «minus» means that amount of inventory and revenue changes in different directions, when the amount of inventories decreases by 1%, the revenue increases by 1.15%

Then we calculate the growth rate of inventories for the planned period,%:

$$Rgr_{Invpl} = Rgr_{NIpl} * C_{el} = \frac{-2,07}{-1,15} * (-1,15) = -2,07,$$

where  $Rgr_{Invpl}$  – growth rate of inventory in the planned period,

$Rgr_{NIpl}$  - growth rate of net income in the planned period.

We have the result -2,07, that means the amount of inventory in planned period will be decreased.

And we continue to calculate the inventory for the planned period:

$$Inventory_{pl} = Inventory_{bas} * (1 + Rgr_{Invpl}) = 4699,9 * (1 - 0,0207) = 4605,9,$$



where  $Invpl$  – amount of inventory in the planed period,

$Invrep$  - amount of inventory in the reporting period,

$RgrInvpl$  – growth rate of inventory in the planed period.

Consequently, the volume of planned inventory in 2018 amounted to 4605,9 thousand UAH. Which is 94 ths UAH less than in 2017, 8878,5 ths UAH less than in 2016, 3718,4 ths UAH less than in 2015. So, the LLC «Trade Company VNIS» has a steady tendency to decrease inventory for the investigated. This indicates an effective disposal of inventory, resulting in a significant part of the capital is not frozen for a long time in inventory, accelerating its reversibility.

Next we plan accounts receivable for goods, works, services. To begin with, we need to calculate the turnover period in days. It is calculated using the following the formula 3.3:

$$= \frac{\Sigma}{n} \cdot 360, \quad (3.3)$$

where  $TP\ rec$  – turnover period of receivables,

$n$  – amount of periods,

$NI\ pl$  – net income in the planed period.

The turnover period of accounts receivables for goods, works, services is 115,54 days.

Accounts receivables for goods, works, services for the planned period are determined by the formula 3.4:

$$= \frac{NI\ pl}{TP\ rec} \cdot D, \quad (3.4)$$

where  $Recpl$  – accounts receivable in the planed period,

$NI\ pl$  – net income in the planed period,

$TP\ rec$  – turnover period of accounts receivable,

$D$  – amount of days in the period.

According to the calculations of accounts receivable for goods, works, services in the planned 2018 should be 9292 thousand UAH.

Table 3.1

**The planned indicators of current assets of the LLC "Trade company VNIS" for 2018**

| Indicators, ths. UAH                               | Line code | 2015    | 2016     | 2017     | Turnover period, days | 2018    |
|--|-----------|---------|----------|----------|-----------------------|---------|
| Inventories  | 1100      | 8324,3  | 13484,4  | 4 699,9  | -                     | 4605,9  |
| Accounts receivable for goods, works, services     | 1125      | 2 630,1 | 12 098,9 | 13 534,3 | 115,54                | 9292,0  |
| Accounts receivable on settlements with the budget | 1135      | 0,0     | 2 300,4  | 0,0      | 9,53                  | 766,8   |
| Other current accounts receivable                  | 1155      | 797,7   | 537,3    | 167,3    | 6,23                  | 500,8   |
| Cash and cash equivalents                          | 1166      | 29,7    | 18,0     | 99,7     | 0,61                  | 49,1    |
| Deferred expenses                                  | 1170      | 0,0     | 2,6      | 2,6      |                       | 2,6     |
| Other current assets                               | 1190      | 0,0     | 7,8      | 11,4     | 0,08                  | 6,4     |
| Total current assets                               | 1195      | 11781,7 | 28449,4  | 18515,2  | -                     | 15223,6 |
|  |           |         |          |          |                       |         |
| Net income   | 2000      | 5003,9  | 30669,1  | 16276,4  | -                     | 29342,7 |

As a result, in the planned period, accounts receivable on settlements with the budget will be 766,8 thousand UAH, and the period of turnover will be 9,53 days. In turn, other current accounts receivable will reach 500,8 thousand UAH, the period of turnover will be 6,23 days (see fig. 3.5).

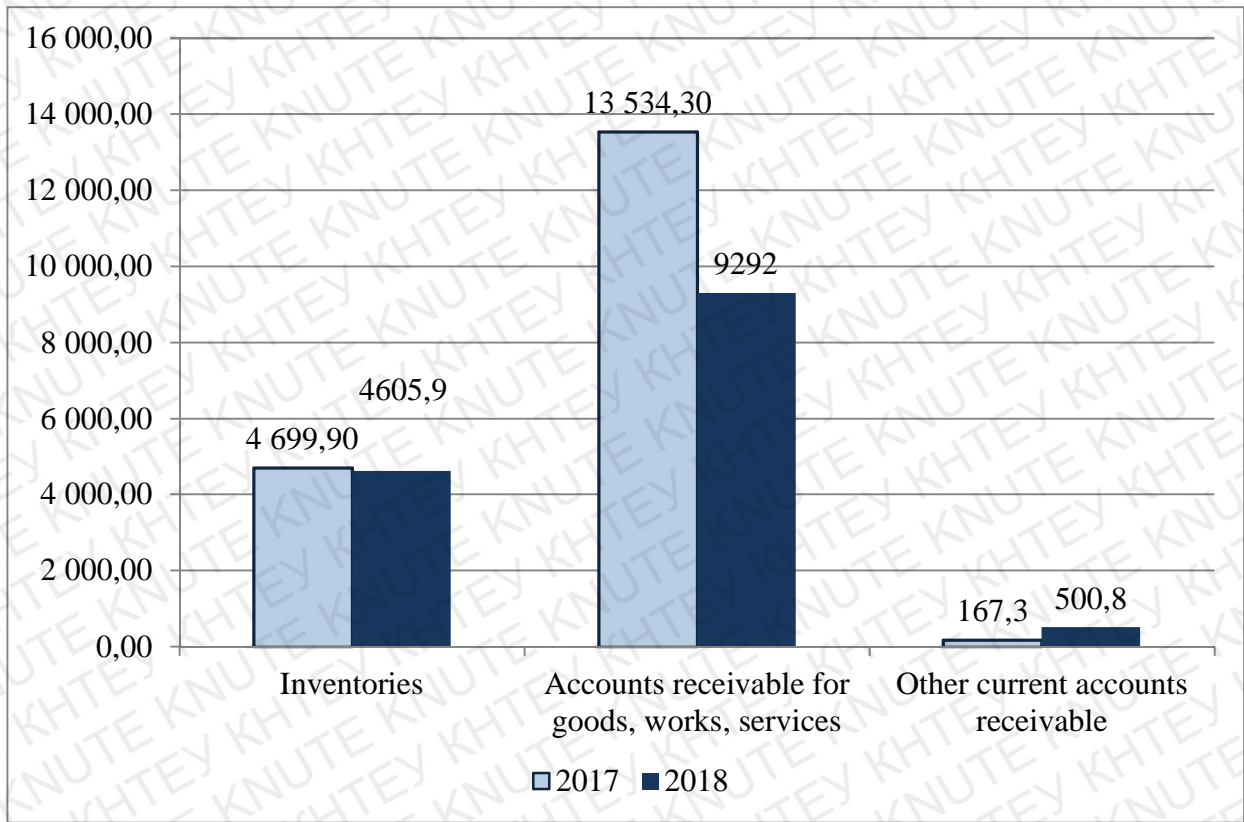


Fig. 3.5. The planned indicators of current assets of the LLC "Trade company VNIS" for 2018, ths UAH

Also, in the planned period, cash and cash equivalents will make 49,1 thousand UAH, and the period of their turnover 0,61 days.

Deferred expenses will stay at the same level with the amount of 2,6 thousand UAH.

And other current assets will reach 6,4 thousand UAH, and the period of their turnover will be 0,08 days.

Consequently, in this section of the final qualifying the calculation of all planned targets of the current assets of the company for the planned 2018 was made



and the planned volume of all current assets in 2018, which amounted to 15223,6 thousand UAH, respectively (see fig. 3.6).

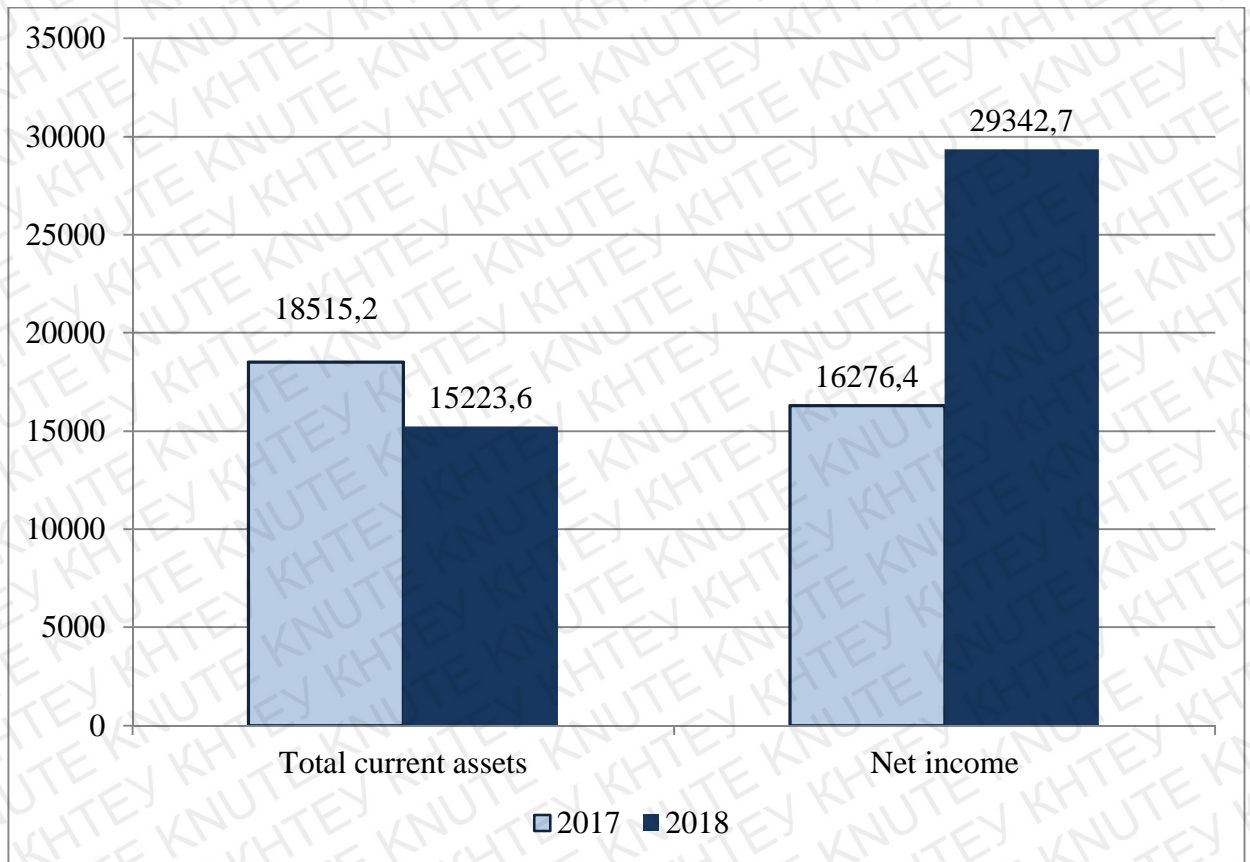


Fig. 3.6. The planned indicators of current assets of the LLC "Trade company VNIS" for 2018, ths UAH

For the effective management of current assets, a prerequisite is the planning of their volume and sources of financing in the planned period. The possibility of substantiating the planned need for current assets and its coordination with possible sources of financing becomes real in the process of developing the balance of current assets of the enterprise. Its development is carried out in three stages:

1. Justification of the planned needs of the enterprise in current assets.
2. Determination of the structure and volume of sources of financing of current assets.
3. Determination of the need for additional attraction of funds for financing needs for current assets.

Calculated previously, the need for current assets of the company in 2018 amounted to 4605.9 thousand UAH. On this basis, we will calculate the financial results of the company in 2018 (Table 3.2).

Table 3.2

**Planned indicators of financial performance of the  
LLC "Trade company VNIS" in 2018**

| Indicators, ths UAH                                       | Line code | 2015   | 2016    | 2017    | 2018    |
|---|-----------|--------|---------|---------|---------|
| 1   | 2         | 3      | 4       | 5       | 7       |
| Net income from sales of products (goods, work, services) | 2000      | 5003,9 | 30669,1 | 16276,4 | 29342,7 |
| Cost of sold products (goods, work, services)             | 2050      | 1444,5 | 11884,3 | 11544,0 | 16593,8 |
| Gross :   |           |        |         |         |         |
| income  | 2090      | 3559,4 | 18784,8 | 4732,4  | 12748,9 |
| loss  | 2095      |        |         |         |         |
| Other operating income                                    | 2120      | 71,2   | 0,2     | -       | -       |
| Other operating expenses                                  | 2180      | 1746,7 | 3512,0  | 3605,5  | 4534,9  |
| Financial result from operating activities:               |           |        |         |         |         |
| income  |           | 1883,9 | 15273,0 | 1126,9  | 8214,0  |
| loss  |           |        |         |         |         |
| Other income  | 2240      | -      | -       | -       | -       |
| Other expenses  | 2270      | -      | -       | -       | -       |
| Financial result before tax                               |           |        |         |         |         |
| income  | 2290      | 1883,9 | 15273,0 | 1126,9  | 8214,0  |
| loss  |           |        |         |         |         |
| Income tax  | 2300      | 216,1  | 717,7   | 642,7   | 856,0   |
| Net financial result:                                     |           |        |         |         |         |
| income  |           | 1667,7 | 14555,3 | 484,2   | 7358,0  |
| loss  |           |        |         |         |         |

The determined need of the enterprise in current assets must be ensured by the appropriate amount of financing. Sources of financing for this need can be both own and borrowed.

As such sources of funding are:

- own current assets, that is, the share of equity capital, is aimed at replenishing current assets;
- net profit of the enterprise;
- trade payables of the enterprise;
- internal payables of the enterprise;
- bank loans,
- future revenues;
- other borrowed funds of the enterprise.

At this enterprise, firstly, the financing of current assets is carried out at the expense of its own sources, namely, the profit from the activities of the enterprise, therefore, the actual financing of current assets for 2018 is 7358 thousand UAH.

Since the need for current assets exceeds the amount of own sources of funding, there is a need to attract additional financing from borrowed funds.

Therefore, the enterprise will need to attract short-term loans in the amount of UAH 7865,6 thousand (15223,6-7358,0) in 2018.

Consequently, we grounded the sources of financing of current assets in 2018, taking into account the planned need for them.

### **3.3 Directions of efficiency improvement of current assets financing management in the LLC «Trade Company VNIS»**

One of the key factors for the success of any business is the efficient use and financing of its current assets. This is especially true now in the context of the unstable economic system of Ukraine and the global economic crisis.

Issues of management of current assets of enterprises are becoming more and more relevant. Modern business practice requires the adoption of both weighted and non-traditional solutions based on a profound synthesis of the achievements of modern financial theory and the experience of financial management.



Effectively managed current assets can quickly achieve positive results in the financial recovery of the enterprise. Developing a strategy for financial rehabilitation of organizations necessarily involves development of the principles of use of current assets as the most mobile part of the property.

Efficient use of current assets, first, place involves determining the optimal amount, developing financing options and ensuring the effectiveness of their use. The optimal amount of current assets must, on the one hand, ensure uninterrupted effective operation of an enterprise, on the other hand - to minimize the presence of inactive current assets.

At some optimal level of current assets, profit becomes the maximum. Further growth of current assets will lead to the company having free assets, the maintenance of which leads to higher costs and lower profits.

Current assets of the agro-industrial enterprise the LLC «Trade Company VNIS» have their own characteristics:

- in agro-industrial production, as a rule, working time is much less than production time,
- in some periods, the labor process stops, and the production process continues under the influence of natural forces. Moreover, agricultural production does not always require the cost of labor. Consequently, expenses in agriculture are periodic and are divided in cycles,
- material expenses of the enterprises are accomplished at once in certain periods of time,
- when forming needs for current assets, uneven needs in different periods of the year should be taken into account,
- the period of the use of current assets to obtaining results will be advanced,
- a significant part of the current assets of the LLC «Trade Company VNIS» is formed in natural form, bypassing the monetary form,
- the part of current assets, which has an internal cycle (seeds, organic fertilizers), also bypasses the monetary form.

Analysis of the structure and efficiency of current assets use of the LLC «Trade Company VNIS» showed, in general, the balance of the financial performance of the company and its relative financial stability.

At the same time, a number of problematic aspects have been identified, the optimization of which will lead to an increase in such important indicators as solvency, financial stability, profitability and business activity.

So, in 2017, the share of accounts receivable for goods, works, services in the total structure of current assets of the company significantly increased (from 22.32% to 73.10%).

The current situation is caused, first of all, by the crisis phenomena in the Ukrainian economy, the general increase in non-payments and the bankruptcy of a number of buyers of the company's products.

At the same time, to nowadays, the company has not taken any measures of the organizational and financial plan to reduce the level of accounts receivable.

In addition, the LLC «Trade Company VNIS» does not have a clear accounts receivable management system, namely:

- there is no control over the state of settlements with customers, especially for overdue debts;
- there is no assessment of the creditworthiness of customers;
- there are not made calculations of cost increases due to an increase in the amount of accounts receivable, including overdue ones.

Thus, according to the results of the analysis of the activities of the LLC «Trade Company VNIS», one structural element of current assets was identified, the rational optimization of which will contribute to improving the financial performance of the enterprise and its financial stability.

In order to optimize the structural elements of current assets, it is proposed to implement the following measures, presented in table 3.3.

Table 3.3

**Measures to improve current asset management of the LLC «Trade Company VNIS»**

| Main problems  | Recommended solutions   |
|--|---|
| Accounts receivable and accounts payable   |   |
| <ul style="list-style-type: none"> <li>- significant amount of accounts receivable,</li> <li>- lack of a system for monitoring the flow and repayment of accounts receivable</li> </ul>  | Development of a payment control system: automation of accounting for accounts receivable and accounts payable, formation of appropriate mechanisms for maintaining operational management reporting  |
| Organizational aspects   |   |
| <ul style="list-style-type: none"> <li>- the lack of a clear distribution of responsibilities and responsibilities within the organization's current assets management system</li> </ul> | Implementation of end-to-end current assets management mechanisms: <ul style="list-style-type: none"> <li>- development of a management reporting system, monitoring and control of the effectiveness of inventory management and accounts receivable;</li> <li>- determination of the most significant performance indicators and development of measures to increase the motivation of employees in the framework of the task of managing current assets</li> </ul> |

The most effective solution for optimizing accounts receivable management can be development and implementation of a comprehensive system of:

- motivation,
- monitoring and
- control over the movement and repayment of accounts receivable.

The proposed sequence of implementation of the main functions and steps of managing accounts receivable is presented in figure 3.7.



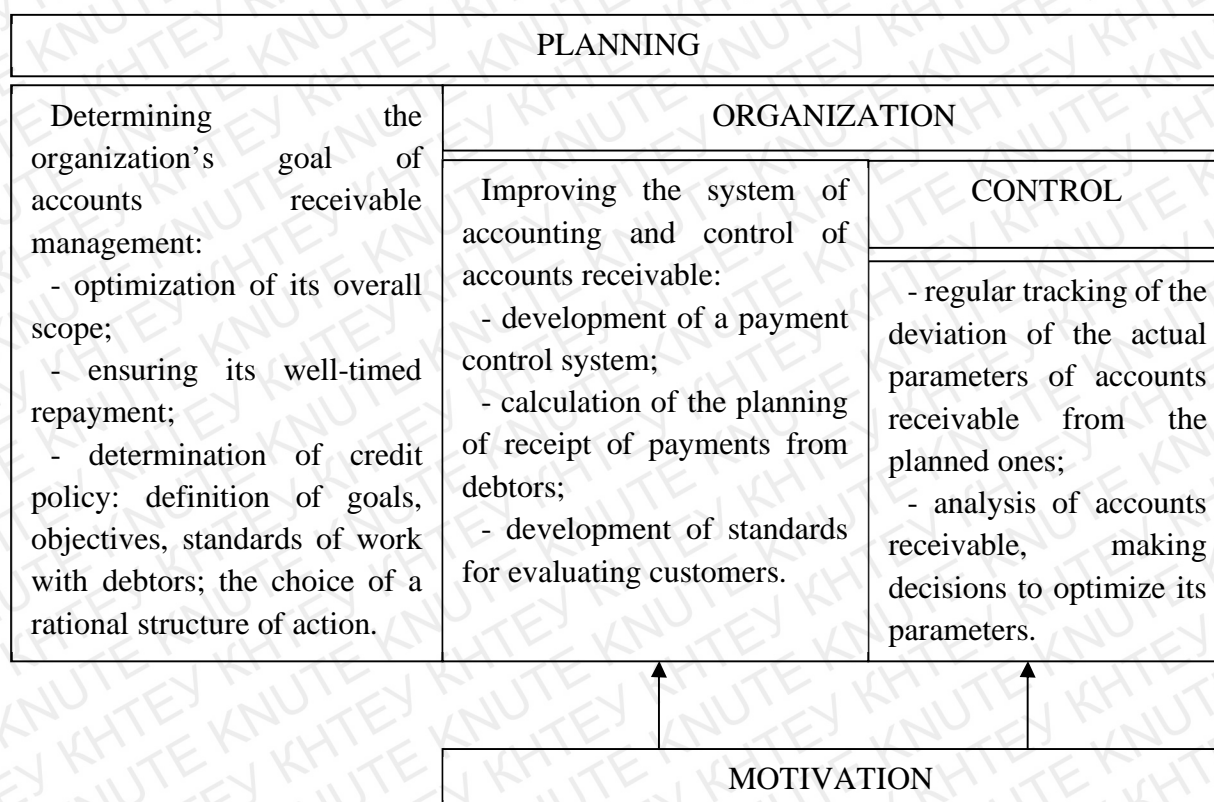


Fig. 3.7. The recommended sequence of implementation of the main functions and steps of accounts receivable management

The results of calculations in the case of the introduction of such a system in the LLC «Trade Company VNIS» are presented in table 3.4.

Table 3.4

**Indicators of efficiency of accounts receivable management with the initiation of a monitoring and control system**

| Indicators, ths UAH                 | 2015   | 2015 revised | 2016    | 2016 revised | 2017    | 2017 revised | 2018   | 2018 revised forecast |
|-------------------------------------|--------|--------------|---------|--------------|---------|--------------|--------|-----------------------|
| Accounts receivable                 | 2630.1 | 2500.5       | 12098.9 | 11050.0      | 13534.3 | 12100.7      | 9292.0 | 8936.0                |
| Accounts receivable turnover ratio  | 1.9    | 2.0          | 2.5     | 2.8          | 1.2     | 1.3          | 3.2    | 3.3                   |
| Accounts receivable turnover period | 192    | 183          | 146     | 130          | 304     | 280          | 114    | 110                   |
| Accounts receivable profitability   | 63.4   | 66.7         | 120.3   | 131.7        | 3.6     | 4.0          | 79.2   | 82.3                  |
| Economic effect                     |        | -41.1        |         | -679.1       |         | -710.9       |        | -1032.5               |

Thus, as a result of the proposals made, we can expect some acceleration in the turnover of accounts receivable and an increase in its profitability. The economic effect in 2018 would be 1032.5 thousand UAH.

Considering the second problem connected with organizational aspects of current assets management and financing of the LLC «Trade Company VNIS», it would be advisable to formulate a financial strategy of the company's current assets.

A financing strategy of current assets of the LLC «Trade Company VNIS» will be a part of an organization's strategic plan. It sets out, how the organization plans to finance its overall operations to meet its objectives now and in the future.

A successful strategy of current assets financing requires some preliminary work before its developing and implementing. Before there can be developed this strategy and before it can be implemented, the LLC «Trade Company VNIS» needs to identify several factors (Fig. 3.8).

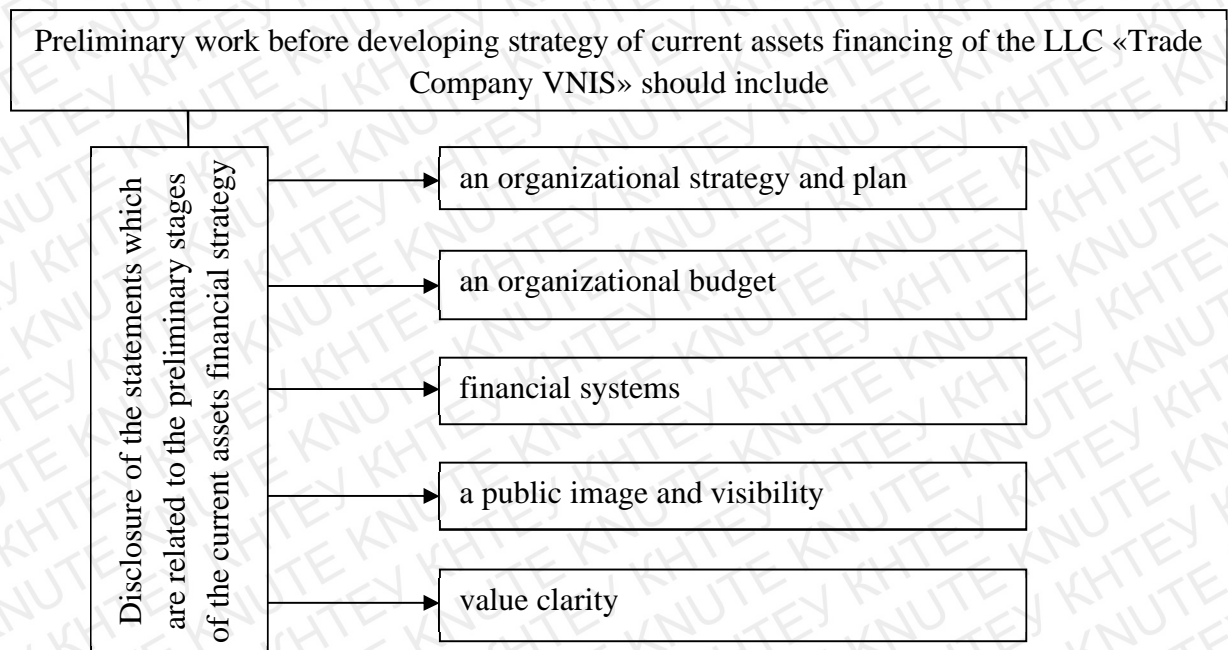


Fig. 3.8. Preliminary stages of developing of current assets financial strategy

The key tools for integrating financial management into the overall work of organization are the financing strategy and the budget. So, it means that organization cannot have a strategy of current assets financing if it does not have a budget. The budget gives the organization a minimum target and a maximum target.

Under the value clarity we should mean a clear understanding of the values of the organization, values which cannot be compromised by the financial strategy [6].

After the analysis of the previous concepts of organizational strategy and plan, financial systems of the company and creating a budget there arises the question for a successful strategy of current assets financing to look at which strategic options for financing are realistic for the LLC «Trade Company VNIS» (see fig. 3.9).

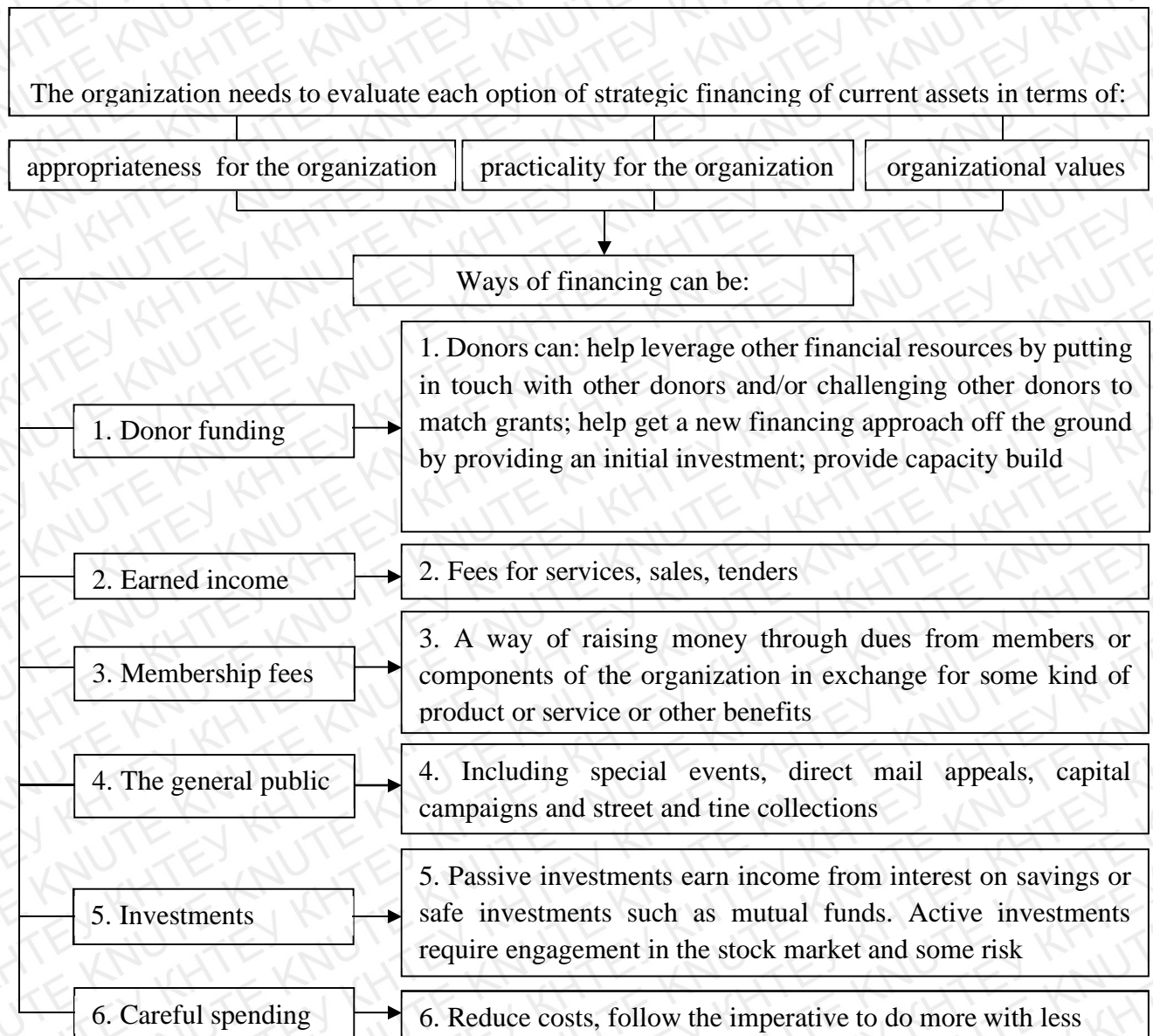


Fig. 3.9. Ways of current assets financing

Each of these ways can be selected to create a successful strategy of current assets financing of the LLC «Trade Company VNIS».



When the ways of financing are selected, we offer to regularize all the information to create The Strategy Document of current assets financing of the LLC «Trade Company VNIS» as the best way (Fig. 3.10).

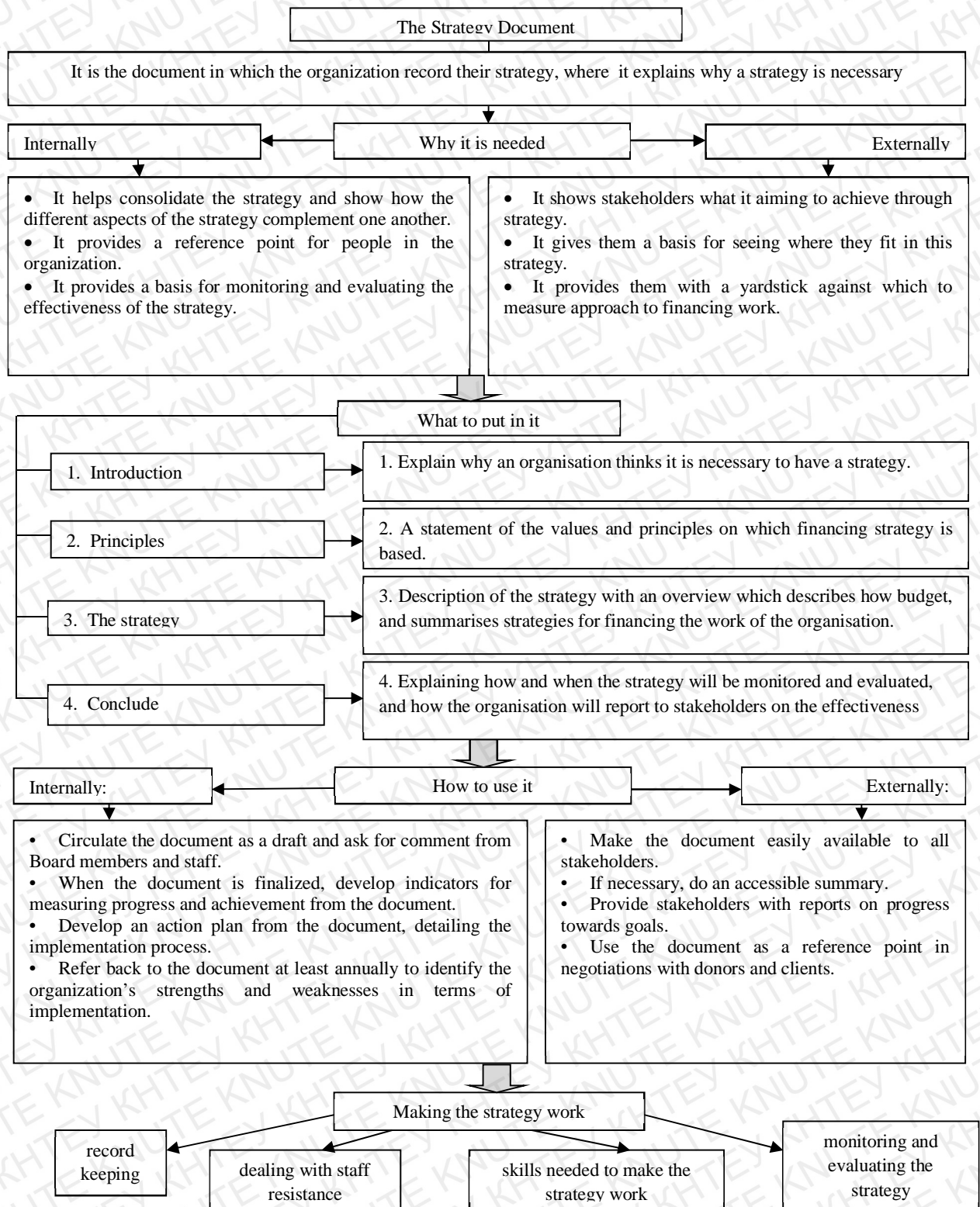


Fig. 3.10. Creating The Strategy Document

So, after all these steps, the strategy of current assets financing is formed and remains to force it to work effectively. The main thing, the company needs to monitor and evaluate the strategy. It helps understand, what works and what does not work, understand, how much each option costs, identify hidden costs and hidden benefits, take corrective action when something is going wrong, prepare monitoring reports for management and Board, evaluate efforts over a year, use tables and graphs to show trends, use the information to arrive at conclusions and make decisions.

For further development and increasing the pace of production in the field of agriculture it is necessary to:

- use of current assets effectively and rationally and a reduce on this basis material consumption of production, which should lead to cheaper products and, ultimately, to increase yields, improve product quality;
- improve quality and reduce the cost of labor items of production;
- safe and use of tangible resources economically;
- improve production technology;
- ensure the optimal structure of current assets;
- improve valuation of current assets;
- deepen specialization and develop concentration of production;
- reduce turnover of current assets.

Consequently, as a conclusion, it can be noted that the volume of current assets should be sufficient to ensure the long-term stable production and financial activities of the enterprise. In addition, it should be optimal in the context of the management of the current activities of the enterprise, that is, to ensure the liquidity and solvency of the business entity at an appropriate level.

## CONCLUSIONS AND PROPOSALS

In the final qualifying paper the analysis of current assets of the enterprise was carried out, the method of their planning and financing was investigated and ways of improving the efficiency of financing of their use were grounded. The analysis was conducted for the period 2015-2017.

In particular, the essence and content of current assets of the enterprise is disclosed, namely, it is determined that current assets are a set of property values of the enterprise serving the current economic process and are fully consumed during one operating (production and commercial) cycle. Approaches to the classification of current assets were also considered, namely, the following: by the nature of participation in the operational process (current assets in the sphere of production and current assets in the sphere of circulation), depending on the planning methods (normalized current assets and non-standard working assets), for the nature of the sources of financing (gross current assets, net current assets and own current assets), by type (stocks, current biological assets, receivables, current financial investments, money and their equivalents, expenses future periods, other types of current assets), by the degree of liquidity (high liquidity, medium liquidity and low liquidity), in the form of functioning (monetary working assets, real current assets).

The system of indicators of efficiency of use of current assets was characterized, among which the turnover factor of turnaround assets, the factor of load of working assets, the duration of one turnover of the current assets of the enterprise and the profitability of the working assets and the amount of the released (additionally attracted) working assets as a result of turnover of the circulating assets was allocated.

In the final qualifying paper, modern policies and strategies for financing current assets are examined. Three types of policies for integrated operational management of current assets were highlighted: - aggressive (provides that variable assets and a part of fixed assets are funded by short-term sources), - conservative (suggests that fixed assets and some of the variables of current assets are funded by



long-term sources), - moderate (provides that the company's obligations must be formed in accordance with the terms of the company's assets).

The peculiarities of using the methods of planning and financing of the current assets of the enterprise are researched on the materials of the LLC "Trade Company VNIS", which is the leader of domestic varieties and hybrids of leading crops, the first private breeding establishment in Ukraine, which is known to many farmers and enters the world market.

To this end, the assets of the LLC "Trade Company VNIS" were analyzed, which resulted in the discovery that during the analysis of current assets dynamics of the volume of the LCC «Trade company VNIS» we can see that in 2017 it amounted to 18515,2 ths UAH which is 9934,2 ths UAH (or by 34,92%) less than in 2016 and 6733,5 ths UAH (or by 57,15%) more than in 2015. Current assets in 2016 amounted to 28449,4 ths UAH which is 16667,7 ths UAH (or by 141,47%) more than in 2015.

The basis of the company's assets are current assets, since their share in the overall structure of the property at the end of 2017 amounted to 99.1% and only 0.9% of the total value of the property accounted for fixed assets, which increased by the end of 2017 by 125.1 thousand UAH (or by 248.7%) compared to 2015.

Analyzing current assets structure of the LLC «Trade Company VNIS», in 2015 the largest share was taken by company's inventories (70,65%), the second place took accounts receivable for goods, works, services (22,32%). And at the third place there were other current accounts receivable (6,77%).

The calculated turnover ratio showed that during the period from 2015 to 2017 the number of revolving current assets increased from 0.42 to 0.88 turns. Accordingly, the ratio of asset turnover in circulation in the course of 3 years decreased from 2.35 to 1.14, that is, by 1.21, which indicates a more efficient use of current assets during the analyzed period.

The duration of one turnover of current assets for 2015-2017 decreased by 448 days, that is, there was an acceleration in the turnover of current assets. This led to:

- 1) an increase in the turnover ratio of current assets by 0.46;

2) a decrease in the rate of asset turnover in circulation by 1.21 UAH.

Using the index of asset turnover in circulation, there can be determined the magnitude of the economic effect. In 2015, for receiving 1 UAH of revenue the LLC "Trade Company VNIS" spent 2.35 UAH. of current assets, and in 2016 – 0.93 UAH, that is less by 1.42 UAH. for every 1 UAH of revenue. In 2017, to receive 1 UAH of revenue there were spent 1.14 UAH, by 0.21 UAH, more than in 2016, but by 1.21 UAH less than in 2015.

There is reduction of the level of efficiency of use of property and resources of the company in 2017 compared to 2015, which in turn indicates a significant deterioration in the financial condition of the enterprise in the studied period. For example, the return on equity of the enterprise in 2017 decreased by 24.1%, the gross profit margin decreased by 40.2%, and the profitability of current assets decreased by 11.56%. This means reducing the company's return on equity and products sold and decreasing in net income of the enterprise.

Thus, for today the financial condition of the LLC "Trade Company VNIS" is accompanied by:

- diversion of equity to cover too expensive material and technical base;
- increase in receivables;
- decrease of current liabilities for calculations, etc.

Consequently, the company needs to continue the positive trend of increasing the liquidity balance, as it affects its financial position. Particular attention should be paid to increasing the number of the most urgent assets and repayment of debts with suppliers and partners for goods, works and services.

In 2015 current ratio of the enterprise was 1.00, next year it increased by 1.03 and was 2.03, and in 2017 increased by 3.14 and was 5.17. Normative value for this ratio is 1.5-2.5. Since enterprise indicators are within the range of the value of the ratio, we can conclude that the company has a sufficient amount of free resources.

Quick ratio of the enterprise in 2015 was 0.29, next year it increased by 0.78 and was 1.07, and in 2017 increased by 2.79 and was 3.86. In 2015, this ratio did not even exceed the lowest of 0.6, which indicates that the company was not able to

repay part of its current liabilities at the expense of the most liquid current assets - cash and cash equivalents, financial investments and receivables. But in 2016 and 2017 the situation improved.

In 2015 cash ratio was 0.003, in 2016 was 0.001 and in 2017 is 0.028 and does not exceed the lowest norm of 0,2, indicating the company's failure to pay short-term liabilities in the nearest future without waiting for payment of receivables and selling other assets.

The reason for the lack of liquid current assets is a shortage of own sources for self-financing, as well as diversion of funds into accounts receivable and a high indicator of payables.

The LLC «Trade Company VNIS» is characterized by moderate current assets financing model. The LLC «Trade Company VNIS» of moderate type is introduced by mixed financing, which involves the formation of capital both at the expense of own and at the expense of borrowed funds, which are involved in different proportions.

This approach implies that at the expense of its own and long-term borrowed capital, non-current assets, a fixed part of current assets and approximately half of the variable of current assets should be financed, while at the expense of short-term borrowed capital, the other half of the variable part of the current assets.

Net working capital will be equal to the sum of the amount of the system part of current assets and half of their variable part.

Consequently, the volume of planned inventory in 2018 amounted to 4605,9 thousand UAH. Which is 94 ths UAH less than in 2017, 8878,5 ths UAH less than in 2016, 3718,4 ths UAH less than in 2015. So, the LLC «Trade Company VNIS» has a steady tendency to decrease inventory for the investigated period. This indicates an effective disposal of inventory, resulting in a significant part of the capital is not frozen for a long time in inventory, accelerating its reversibility.

At this enterprise, firstly, the financing of current assets is carried out at the expense of its own sources, namely, the profit from the activities of the enterprise, therefore, the actual financing of current assets for 2018 is 7358 thousand UAH.



Since the need for current assets exceeds the amount of own sources of funding, there is a need to attract additional financing from borrowed funds.

Therefore, the enterprise will need to attract short-term loans in the amount of UAH 7865,6 thousand (15223,6-7358,0) in 2018.

Consequently, we grounded the sources of financing of current assets in 2018, taking into account the planned need for them.

The main ways for each manager to improve the management of current assets of enterprises are:

- constant calculation of working capital standards.
- development of a policy of management of circulating assets.
- development of a financing plan for the supply of inventory items, which should include:
  - determination of types of material resources that are necessary to ensure the production and economic activity of the enterprise;
  - determination of the amount of tangible resources that will be required to carry out the production program;
  - avoidance of stagnation or lack of inventory;
  - calculation of the required storage space for storage of tangible resources;
  - calculation of the minimum and maximum level of inventories, which should be made in cooperation of the financial, production and sales department of the enterprise.

Consequently, it is determined that the structure of the sources of formation of current assets is not sustainable. They depend on the economic situation of enterprises, the characteristics of the formation of stocks and costs and may change over time. However, an increase in the share of own assets and a decrease in the share of bank loans in the sources of working capital formation increases the efficiency of their use and the level of profitability of the enterprise. Therefore, establishing an economically grounded relationship between own and borrowed

sources of formation of current assets is one of the most important conditions for improving their efficiency and profitability of the enterprise.

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## APPENDICES