

Economy Transdisciplinarity Cognition www.ugb.ro/etc	Vol. XIV, Issue 1/2011	452-460
---	---------------------------	---------

Methodological Aspects On Management Of Operational Activity Within Consumer Co-Operative Entreprises From The Republic Of Moldova

CORINA CUȘNIR

Commercial Co-operative University from Moldova

eu1980@mail.ru

Abstract

Financial functioning of enterprises involves, seamlessly, the activity of efficient management of each component of the patrimony. Current assets hold a substantial share within this process being directed towards a cycling usage and are owned by the enterprise for a short period. Constituting the necessary asset items to realize the operating cycle they are the subject, in the majority of cases, to a rapid rotation. Within each cycle, they pass from physical assets in the form of receivables and then of cash availability. That is why, the structure of planification and their optimum volume represents the basis condition of an uninterrupted and efficient activity of enterprises from consumer co-operation's system and maintains the priority place in the management of operational activity.

In order to cover all the financing needs of current assets, the enterprise should inventorize the available means and resources, having at its basis the comparison of forecasting resources. With planned needs, contributes to the determination of the size and nature of current assets to ensure a fruitful and efficient operational activity of enterprises from the system of Consumer Co-operation.

Keywords: planning current assets, planning structure, co-operative enterprises

Introduction

The financial activity of a company directly involves planning of each component of its assets. Current assets are a significant part of company's assets, being intended for cyclical use and are held for a short period. They are economic elements necessary to achieve operating cycle, and usually are objects of a rapid rotation. In each cycle they pass physical assets form to receivables and after to cash. This is why planning optimal structure and amount of current assets is the basic requirement for a continuous and efficient economical activity of a company.

To cover all needs of financing current assets, the company needs an inventory of already available means and resources that could be collected. A sound planning process, based on comparing forecast resources with planned needs, helps to establish value and types of current assets to ensure a fruitful activity of a cooperative enterprise.

1. General considerations regarding planning process

At present, the planning allows the study of trends in financial policy's ongoing, taking into account the internal and external influence and basing on analyses, to determine the prospects for financial planning that would ensure a stable financial situation. Basing on analysis of current activity of an enterprise, taking into account the strategies, goals and tasks, is performed the planning of future indicators.

We think that the position of planning current assets, relating to a cooperative enterprise, in planning at generally is determined by its state in the process of administration. For these reasons, planning current assets is an important part of the whole system of planning assets, which in turn is part of the entity's financial planning.

Obviously that the aim of financial planning is to ensure the production process with cash that corresponds to its structure and capacity. One of most important stage in financial planning , to achieve proposed aim, is the planning of profit volume. The profit planning represent a process of creating a system of measures, to ensure the profit forming in a volume that is needed and to use efficiently in correspondence with tasks related to enterprise development in next periods.

2. Cost-Volume-Profit (CVP) Model

The administration mechanism in forming profit is based on its dependence from amount of sold products, revenue and costs of production. The model that shows this dependence is named “Cost-Volume-Profit-relationships” (CVP) and allows seeing the role of influence factors apart in profit forming and to ensure an efficient manage of this process at a cooperative enterprise.

Profit planning can be made using different methods, like:

1. direct calculation method
2. normative method
3. special planning method etc.

Making calculation with high precision and realize the interdependence between profit, revenue and expenses allows us to show correlation between gross profit and indicators of its gain. This correlation is made basing on following formula:

$$V_{co} = \frac{GP + FC + VC * V}{(1 - VAT) * CM}$$

$V_{com. op}$ – commercial operations volume

GP – gross profit obtained in planned period

FC – fixed costs in current period

VC – variable costs in current period

VAT – value added tax rate

CM – average commercial mark-up for planned period

It should be mentioned, that this formula can be corrected using planned actions, so in this case fixed and variable costs of current period have to be replaced with fixed and variable costs for planned period.

After a series of simple mathematical transformations, excluding planned size of commercial operations volume, the formula can be modified and takes following form:

$$V_{co} = \frac{GP + FC}{(1 - VAT) * CM - VC}$$

Planned size of profit and commercial operations volume is the pillar on which is making planning for other parts of cooperative enterprise activity, but also for current assets. The complexity of current assets administration and its role was many times mentioned in financial literature, the same can be said about planning current assets.

The main objective in planning current assets is to ensure a necessary current assets volume for a continuous circulation, in correspond with volume and structure of funding sources.

In planning the current assets are solved the following problems:

- planning structure and volume of current assets
- planning financial sources for forecasted volume of current assets

Estimation current assets volume represents a primary stage in planning current assets at a company with any type of property. The result of planning is the size of current assets in planned period or the modification of their size in planned period comparing it with current period:

$$\Delta CA_{pl} = CA_{pl} - CA_c$$

Planning volume of current assets at cooperative enterprise can be made using two ways: the first – assume that overall need of current assets for planned period is estimated as sum of its components for planned period:

$$CA_{pl} = SMM_{pl} + Cl_{pl} + Cs_{pl} + OCA_{pl}$$

CA_{pl} – planned size of current assets

SMM_{pl} – planned size of stocks of merchandise and materials

Cl_{pl} – planned size of receivables

Cs_{pl} – amount of cash required in planned period

OCA_{pl} – size of other current assets required in planned period

Planning current assets components is made with different methods that will be analyzed by the way. The second way consists in planning the total volume of current assets but not the value of elements.

Both forms of planning have advantages, but also difficulties: first method requires a longer period of time and an ample flux of information to plan components of current assets more really. Also this method requires a higher level of precision in developing, because at this stage become known current assets structure in forecasted period, based on their usage.

The second method has a lower degree of precision and does not need so much information. Taking into account their positive and negative parts, being in instable condition, these two methods could be combined.

From what was said above, results that methods of current assets planning, taking into account their structure, propose planning elements apart, and the total of current assets volume is equal with their sum. Current assets consist, in essential, from stocks of merchandise and materials, receivables, cash and short term investments.

It is well-known that stocks are an important part in support of operations in an exploitation cycle, planning stocks of merchandise and materials volume is a very difficult procedure. Planning stocks of merchandise and materials can be made using following methods:

- economic-statistics
- specific growth
- techno-economical discounts
- economic-mathematical using stocks administration theory

The essence of planning stocks of merchandise and materials in a cooperative enterprise involves the setting of a norm which can be expressed in time or money. Necessary of stocks of merchandise and materials (SMM_{pl}) is determined as product between rotation period by one day of stocks, in prices of buying – currency units/day (CR_d) and their norm in days (N_{smm}):

$$SMM_{pl} = CR_d * N_{smm}$$

The very important role of stocks of merchandise and materials norm estimating was highlighted in research works about current assets managing problems within a centralized economy and also in contemporary economical literature. The basic principle of estimating norms consists in determining

current assets volume in correspondence with modifications in economical activity conditions and development of business relations.

Mentioned methods related to stocks of merchandise and materials planning allow to cooperative enterprise to establish for itself the necessary of stocks for planned period. Choosing level of precision and complexity of a method to be used remains for enterprise managers, they should take in account revenue, the possibilities of administration, type of activity, etc.

The specific of cash planning consists in determining the minimal amount necessary for planned period. Planning cash is based on forecasted cash flow for developing current activity, with other words on money volume spent in current period. Minimal necessary of cash for current activity is determined by the following formula:

$$Cspl = \Sigma Dpl / RScs$$

Cspl – necessary of cash in current activity for future

ΣDpl – planned volume of current activity settlements

RScs – rotation speed of cash in an analogical period to reporting period

By another method necessary of cash for current period can be estimated by formula:

$$Cspl = Bcs + ((NVcs - NVd) / RVcs)$$

Bcs – cash balance at the end of reporting period

NVd – notional volume of current operations settlements in reporting period

In western practice have become widely used some models of cash administrations, that allows to establish the minimum necessary of cash. The most common are models of Boumol and Miller-Orr. Using this models in conditions of our country is difficult because of slow securities market development, inflation and high risk of non-payment. Receivables are money short term rights, potentially, of a company related to its relations with various individuals or entities, and as a part of current assets can be presented in different forms:

- receivables for merchandise and services supplied on credit
- receivables for merchandise and services not paid on time
- receivables for merchandise for which payment was made in advance
- receivables for budget settlements
- receivables for staff settlements
- other receivables

Economic development trends show that in practice in some firms is used more often realization of merchandise in credit, this is why to this category of receivables belongs planning and determination of optimal limits. Planning receivables for merchandise and services realized on credit is linked to ensuring debt collection and volume optimization, and also choosing possibilities to buy raw materials in advance.

Planning receivables for merchandise and services which payment term did not reach the maturity involves comparison between the profit gained from goods sold on credit with expenses and loss from merchandise and services conditions of selling. The effect in resources attraction using this category of receivables (Erc) can be estimate by following formula:

$$Erc = EP - CE - FL$$

EP – extra profit gained by increasing volume of sales on credit

CE – current expenses for selling merchandise on credit

FL – direct financial loss for non-received debts of buyers

Basing on this effect can be estimated the efficiency indicator (EIrc) placements of funds in receivables for merchandise and services sold in advance:

$$EIrc = Erc/RC$$

RC is the average value of receivables.

This indicator can be used in cooperative enterprises to choose directions for investments in planned period.

Currently there are some methods that allows decreasing of possible loss from this type of receivables. These methods propose to initiate a specific control about receivables for merchandise and services sold in advance

- choosing buyers by studying their ability to pay
- introduction an effective system of penalties and fines.

Receivables for merchandise, services, works not paid at maturity cannot be planned so the main task of the enterprise is to decrease them as more as it is possible.

Became more used at enterprise receivables for merchandise and services with payment in advance. The downside of this category of receivables consists in necessity to involve additional funds to ensure this type of goods delivering.

At the same time it should be noted that these receivables appear for long term contracts of delivering, so expenses about attracting additional funds are compensated by establishing merchandise delivering and decreasing insolvability risk.

Value of funds for receivables with payment in advance (RCadv) can be estimated, taking into account that pay is made for a part from whole consignment, using the following formula:

$$Rcadv = VSpl * ARP * n / t$$

VSpl – planned volume of sales with payment in advance

ARP – average rotation period for merchandise with payment in advance

n – merchandise quota which is paid in advance

t – days in planned period

An element of receivables is the bill, the use of which increases in present. Companies use bill not only as a receivables element but also as a mean of payment.

Planning this type of receivables is not so important because their quota in total receivables is low. If it is necessary planned value of other types can be estimated using direct calculation method.

Planning necessity of other goods in planned period can be made with direct calculation method taking into account their variety and price. Alternative methods of current assets planning are those processes that allow us to estimate current assets planned necessity at whole.

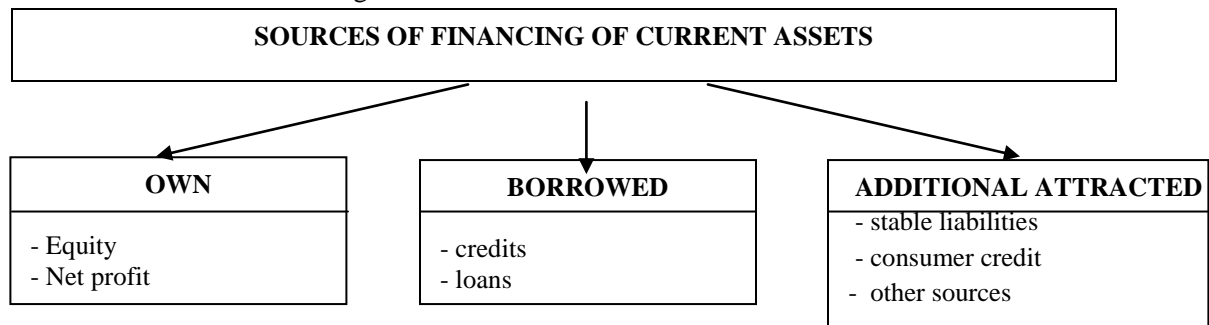
For current assets is specific high quota of stocks of merchandise and materials and interdependence between value of current assets and rotation cycle duration. Taking into account this properties in current assets planning can be used the same methods as for planning stocks of merchandise and materials (for example sliding average method, specific growth method etc.) In addition to these methods for planning the overall current assets volume can be used regressive correlation analysis method, it consists of different mathematical models, representing a link between current assets and indicators of enterprise's activity (return or rotation cycle duration). We propose to calculate the planned value of current assets using the production function.

Current assets planned volume should be covered by funding sources to meet the “golden balance sheet law” – the relationship between assets and liabilities , therefore, no less important is sources of current assets financing planning.

Planning necessity of current assets is very important because it the first step to estimate and buy financing funds. For a smooth running of the business, is not only important to estimate exactly value of these funds but also choose with what they will be covered : equity, attracted sources or additional resources.

In the context of current and operative planning is paid attention for financing current assets with different kinds of funds, because the burden of training them is the founding period or, in other cases, the reorganization. In the stage of planning financing funds for current assets are based financing for this kind of assets.

The main sources of financing of current assets are:



Each group related to the funding of current assets, is characterized by certain specific features, to be taken into account at the planning stage.

Own sources are characterized by the following positive aspects:

1. simply to attract, the decision to increase owner’s equity is made in the company without partner’s agree
2. high rate of return in all spheres of activity, because their use is free
3. financial stability in developing enterprise, solvency for a long period, and as a result reducing the risk of bankruptcy

However own sources have their shortcomings:

1. limiting the amount of attraction and real opportunities to expand the business in good times of market conjunctures
2. high cost compared to alternative sources of training of current assets

The statutory capital as a source of financing of current assets is formed when founding the company and during its activity is subject to minor deviations. Therefore, when planning the funding sources usually is considered $SC_{pl}=SC_c$.

One of the most important source of financing of current assets, which contribute to increase own capital quota, is the net profit making link between activity quality and financing current assets. Company’s managers decides in every year the part of profit used to increase own funds for current assets. Specific directions and amounts are determined by profit distribution policy approved on enterprise development.

Another source to finance current assets are borrowed funds with following positive aspects:

1. ample opportunities to attract, in special with a high credit rating
2. lower cost compared with owned sources cost, because of tax evasion
3. possibility to grow up the own capital return rate

At the same time, the use of borrowed resources has its downsides:

1. their use lead to risks in enterprise activity: the risk of loss of financial stability, liquidity and solvency risk. The level of these risks categories increases as much as increase the use of borrowed resources
2. current assets consist from borrowed sources give a lower profit because of percentage paid to use sources
3. cost of borrowed sources depends on market conjuncture
4. guarantee needing to attract this kind of sources

Effective financing of the planned volume of current assets can be made using bank loan, as a kind of borrowed resources. This has a wide range of destinations, so it can be used for financing different types of assets. Bank loan represents money offered by bank to its client to satisfy his necessities, for a determined term and for pay (interest and commissions).

Lending bank loans is a part of bank policy to attract resources, by setting conditions to attract, use and ensure. Using bank loan we have to take into account that differentiation economic lever should be lower than zero:

$$DEL = Ra - r$$

DEL – differentiation economic lever

Ra – assets return rate

r – interest rate for bank loan

For enterprise bank loan can improve its assets return rate, also its current assets, or to make it lower.

Additional sources attracted to form current assets have a diversified structure. Some economists divide additional resources in stable liabilities and attracted sources, behind this stable liabilities are an individual form to finance current assets but by planning their sources of financing can be used another classification. So, additional sources of financing current assets used to be formed of stable liabilities, trade credit, and other debts. This classification is made taking into account their specificity and specificity of their planning.

Stable liabilities include elements which are permanently available to the company and their size is relatively stable. A positive aspect of stable liabilities is that their attraction to finance current assets does not require expenses. The downside is that their size is limited, because they depend on revenue. Main elements of stable liabilities are receivables for budget settlements, debts to staff, receivables to pay in extrabudgetary funds. Planning components of stable liabilities is made using following methods.

Wage payment (debts to staff) is calculated:

$$D_{min} = W_d * n$$

D_{min} – the minimum debt to the company personnel

W_d – wage for one day

n – number of days for which was not paid wages

The minimum debt to pay in extrabudgetary funds is determined by their quote in minimum debt to the company personnel.

Receivables for tax payments and other settlements (R_{tp}) are estimate using following formula:

$$R_{tp} = \frac{1}{2} * \frac{\sum T}{t} * (t-1)$$

T – amount of taxes to be paid

t – period of payment

An important element in financing current assets is trade credit, is a way to delay payments for purchased merchandise. It is a part of additional attracted sources.

Trade credit has some positive aspects:

- is adaptable in financing the part of current assets with lower liquidity – stocks of merchandise and materials, it allows to increase volume of commercial operations and to gain an additional income.
- has a lower cost than all kinds of financial loans
- decreases duration of commercial cycle that allows to use fewer funds to finance current assets
- it easy to obtain comparing with categories of credits used by company

The downsides of trade credit are the following:

- it is used only to satisfy necessity in financing stocks of merchandise and materials
- it is limited in time, grand period is reduced to a few months
- has a high risk, because it is not ensured

All positive and negative aspects of trade credit have to be taken into account by company during its activity. Stage of planning trade credit volume is characterized by relationship between planned volume of commercial operations and amount of stocks of merchandise and materials. Volume of trade credit is planned basing on a normative, which minimum period of trade credit rotation in days:

$$TCpl=RCd*N$$

TCpl – planned trade credit volume

RCd – rotation cycle of merchandise purchased on credit

N – trade credit normative in days

Trade credit planned volume can be estimated using another formula, which is based on stocks of merchandise and materials grow in planned period

$$TCpl=TCav*SMMpl/SMMav$$

TCav – average volume of trade credit in current period

SMMpl – necessary in stocks of merchandise and materials in planned period

SMMav – average volume of stocks of merchandise and materials in current period

Using current assets involves many risks, which influence increased with the transition to market economy. Risks associated with using current assets are one of most important in the whole system of risk indicators in the company. Through risk associated to current assets using is meant the probability for adverse financial consequences to appear like income or capital decreasing in difficult situations.

Multitude of risk analysis apparent throughout the enterprise activity allows highlighting those that are directly related to current assets using. At this time the most common types of risks associated with current assets using are:

1. risk of insolvency or risk of low liquidity rate – appears because of current assets low liquidity rate, when exist divergences between cash receipts and payments. It one of most dangerous risks.
2. inflation risk – actually is a separate category of risk. It is characterized by the possibility of devaluation of real current assets cost and also of expected incomes from current assets using in inflation conditions. Currently, has a permanent character and has to be paid with attention permanently

There are other categories of risks, whose influence are less important and are accompanied by minor financial losses. Among them stand out such as:

- interest rate risk – which is unexpected change in interest rate level in the financial market

- credit risk – which arises from various types of loans granted to manufacturing firms
- tax risk – which is accompanied by changes in tax law and have a negative influence over current assets usage.

Because insolvency risk is one of the most dangerous for current assets usage appears the necessity to estimate it.

Solvency is the company's capacity to pay the debts at time and in all volume using liquid assets and terms of payment.

Current assets rotation can be presented as earnings and material and money sources usage. Because the risk of insolvency is related to insufficient cash register, that it is also related to current assets rotation. The indicator that characterize this rotation and which show the insufficiency of cash in current period can be balance of cash and other assets with high rate of liquidity at the beginning of reporting period (Csb) and net cash flow (NFcs) that represents the difference between earned and spent cash at the end of reporting period. This indicator can have a negative value, so appears insufficiency of cash and assets with high liquidity rate to pay the debts, and it is named an insolvency situation:

$$BCs = Csb + NFcs$$

The value of net cash flow is determined by following formula:

$$NFcs = (MC + CSo + ES) - (Csm + Csw + TP + OP + CSD + D)$$

NFcs – net cash flow in analyzed period

MC – merchandise circulation in analyzed period

Cso – other earnings of cash

Csm – cash spent on materials

Csw – cash spent on wage payments

TP – tax payments in analyzed period

OP – other payments

ES – external sources of own capital, short term credits and loans in analyzed period

CSD – cash spent on pays for short and long term credits in analyzed period

D – dividends paid in analyzed period

To estimate insolvency risk it is necessary to calculate value of cash balance in every day, week and month. The moments when this value goes under zero are moments of insolvency and are dangerous for company's activity.

For cash balance can be calculated average value and average square deviation. These mathematical indicators have a determined economical value which is average value of net profit or loss in period when was calculated cash balance and net cash flow.

There is a modality to determinate the probability of payment crisis or insolvency risk appearing for analyzed period, it is calculated by relation between numbers of insolvency periods and amount of analyzed periods:

$$P = \frac{\sum_{i=0}^n (BCs < 0)}{n}$$

If $P < 0,1$ is considered that risk did not reach a critical value, but if the risk of insolvency appearing is bigger than 0,1 it is necessary initiate measures for its diminuation.

The main measures are decreasing cash balance and sincronizing incomes and outcomes of cash. The efficiency of this measures can be evaluated using coefficient of variation calculated by following formula:

$$V = \frac{\overline{BCs}}{\sigma Cs}$$

The result of cash balance decreasing will be determined by coefficients difference: $V_1 > V_2$. So reducing efficiency and sincronizing income and outcome of cash makes possible to decrease the insolvency moments probability apartition in developing activity of the company.

Another way to decrease the insolvency risk is to insure this risk. It involve to form an insurance fund. After this in moments of insolvency company can use this resource to cover negative effects of insolvency risk.

The volume risk fund can be determined by conditions of risk's decreasing till the value lower than a critically one.

Conclusions

For increasing efficiency of cooperative enterprise activity and for a better financial situation it is welcome to use resources rationally, especially current assets and their optimally planning.

Cooperative system development in Republic of Moldova needs adequate solutions in planning stage taking into account existing forms and methods and a wide use of funds to finance planned volumes of current assets.

SUPPLEMENTARY RECOMMENDED READINGS

1. Gh. Manolescu. Finanțele întreprinderii. – fundation „România de mâine” publisher , București, 2001.
2. Butler D. Planificarea afacerii: ghid de start. BEC ALL, București, 2006.
3. Druker, P. Management Tasks Responsibilities Practices. New York: Harper& Row, Publishers, 1974.
4. Hrișcev Eugeniu. Planificarea strategică – baza restructurării întreprinderilor// Economica, Nr. 3-4, 2002.
5. Hrișcev Irina. Particularitățile planificării în economia tranzitorie // Economica, 2005, nr.4, p.60-63.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.