ANALYTICAL INDICATORS & ASSESS THE EFFECTIVENESS USING OF CURRENT ASSETS

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Abstract: This article is focused on the principles of analyzing and optimizing current assets, by using measurements of both turnover ratio and the period of turnover. The main areas were included in the agenda, with three main elements of current assets being considered(financial resources of company, receivables and stock).

Key words: analysis, working capital, negotiable instruments, stock, receivables, financial resources of company, turnover ratio.

The main objectives of this analysis of working capital are to find out:

- coverage of current assets.
- the main sources of fixed assets.
- how to more efficiently use working capital.
-best practice for searching internal resources by analyzing current assets.
- how to better mobilize internal resources.

An analysis of working capital is required so that we can compare results to those of the base period and to internal standards (if they are available) [2].

There are several stages in such an economic analysis. In the first stage we need to determine the proportion of each component of the current assets as a part of working capital. This enables us to realize more opportunities for said capital. Working capital is more easily transferrable than other kinds. Stock is needed for the constant operation of the company, and the amount of stock should be optimized. An excess of stock causes additional expenses, but in order to analyze efficient use of stock, an excess is required to trace dynamics in the past 3-5 years. [1, c. 16].

Another kind of working capital we must consider is receivables. If the proportion of this component is large enough, it is necessary to create a more detailed analysis. Receivables can be divided into 2 areas. The first area is short term receivables, while the second is long term receivables. For analytical purposes, it is necessary to understand which area of receivables grows faster.

The financial resources of a company are one of its most liquid assets. Cash is stored on the accounts needed for usual company operations, but in order to understand cash flows it is necessary to compare revenues and expenses.

The sources of working capital are also divided into 2 types. The first type is share capital and the second type is loan funds, with the first type being required if the company has relatively poor financial stability. Share capital can be calculated in a wide variety of ways. [1, c. 18].

Our main sources of analysis are balance sheets, statements of financial performance, statements of cash flow, explanations in balance sheets and statements of financial performance, data of primary balances, and decryptions of balance sheet items.

A breakdown of current assets is presented in figure 3.

The three key indicators of forming stock are as follows:

1. Own working capital (OWC):

$OWC = CA - CL$ (1)

2. Own and long term borrowed sources of forming stock(OB):

$OB = (OC + LB) - NA = WOC + LB$ (2)

3. Total value of main sources of forming stock and expenses (MS):

$OB = (OC + LB) - NA + SB$ (3)

The next stage of analysis is to evaluate the influence of current assets on indicators of financial viability, business activity, liquidity and profitability.

Relative indicators of financial viability show the dependence of the company on investors and creditors.

General indicators of turnover working capital:

1. Working capital turnover is an indicator that measures how efficiently a company is using its working capital to support a given level of sales.

$WCT = \frac{Sales}{Working\ capital}$ (4)

There are substitute turnover ratios of working capital. These include the turnover ratio of the financial resources of the company, the turnover ratio of stock, and the turnover ratio of receivables. These indicators measure how intensively a company uses these sources.

Table 1. Calculation of turnover ratios

Indicator	Calculation	Definition
Working capital turnover	Proceeds / Average annual cost of working capital	How much money is earned from each unit of company assets.
Stock turnover	Cost of production / Average annual cost of stock	How efficiently a company uses stock
Receivables turnover	Proceeds / Average annual cost of receivables	How efficiently the company interacts with counterparts and how quickly products are converted into money through sales etc.
Short term financial input turnover	Proceeds / Average annual cost of STFI	How much money is earned from short term inputs
Financial resources of company turnover	Proceeds / Average annual cost of financial resources of company	The speed of the circulation of money in the company.

To calculate the period of the working capital turnover ratio we need to use the formulas from table 2.

Table 2. Calculation indicators of the period of turnover ratio for working capital

Indicator	Calculation	Definition
Duration of working capital turnover	360 / Working capital turnover	How many days are required to transform investments in working capital into financial resources again.
Duration of stock turnover	360 / Stock turnover	How many days are required to transform stock to financial resource again.
Duration of receivables turnover	360 / Receivables turnover	How many days are required to transform receivables to financial resources again.
Duration of short term financial input turnover	360 / Short term financial input turnover	How many days are required to transform short term financial inputs to financial resources again.
Duration of company financial resources turnover	360 / Financial resources of company turnover	How many days are required to complete a full turnover cycle of financial resources
Operating cycle	Duration of stock turnover + Duration of receivables turnover	How many days are required to transform stock into finished goods.
Financial cycle	Operating cycle + Duration of receivables turnover - The duration of ‘account payable’ status	How many days are required to complete a full turnover cycle of own working capital.

The overall indicator of capital use effectiveness is the comparison on profitability.

Working capital is a relatively volatile indicator: it reacts quickly to economic stimuli. This indicator is the most important aspect of the financial analysis of the efficiency of a company.

Conclusion.

The features of current assets are defined by logical principles. For instance, the period of circulation is equal to 1 or 2 production cycles. A good example of this in practice would be a production line, where raw materials enter at one end and products are released at the other.

Current assets have different structures in different companies, but they are important to use effectively regardless of how the company works. For example, some companies work only in services and they don’t need stock. In these cases, all financial analyses should be focused on receivables. Good management of this type of resource enables optimization of the financial health of the company.

Analysis of receivables gives us a chance to reveal negative trends and address them in a timely manner.

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