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The link between effective working capital management and company profitability

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Abstract

This study focused on the impact of working capital management on the company's profitability. The purpose of this study is to test the impact of working capital management in the form of money conversion cycles on the company's profitability. The results of this study showed that there is no statistically significant relationship between the measurements of the cash conversion cycle and the profitability of firms measured as a Return on Asset. Moreover, managers should use other tools and strategies to increase the profitability of their firm, rather than effectively managing working capital.

Many studies have shown that profitability can increase due to effective working capital management. Correct allocation of cash flows to where and when it is needed increases liquidity and simultaneously increases profitability. The purpose of this study is to develop a study of the relationship between working capital management and profitability by examining how it is influenced by different characteristics of the company.

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1. INTRODUCTION

The current stage of the country's economic development is characterized by a significant level of growth of negative economic phenomena both at the level of the state and individual economic entities. There is a violation of the existing economic and economic ties, a general decline in production, the development of inflationary processes, a solvency crisis on the part of enterprises of all forms of ownership.

Working capital forms a significant part of all assets of the enterprise and is designed to ensure the continuity of economic activities of a commercial organization.

Therefore, the composition and structure of current assets, the sources of their formation and the effectiveness of use largely determine the financial stability of the enterprise, plays an essential role in normalizing and increasing the efficiency of its activities.

Thus, the policy of working capital management, including maintaining the optimality of its structure and volume, as well as the rationality of its use, is one of the most effective and flexible means to preserve the financial stability of an enterprise, especially in conditions of dynamically changing external economic factors.

The aim of the study to analysis of the state of management of working capital at "INDIGO" and development of recommendations on increasing the efficiency of their use.

To achieve this aim, the following tasks are set:

- study the theoretical foundations of working capital management at the enterprise;
- to conduct an analysis of the financial and economic activities of a particular enterprise;

- to carry out an analysis of the structure, dynamics and economic efficiency of the use of working capital in the enterprise;
- identify opportunities to increase the efficiency of using current assets;
- develop practical recommendations in the sphere of working capital management at the enterprise;
- to calculate the economic efficiency from the implementation of the proposed measures.

As a research object we select polygraphy enterprise "INDIGO".

1.1. LITERATURE REVIEW

1.1.1. Working capital management concept

In recent decades, there have been many scientific articles and articles devoted to the study of the importance of working capital management with respect to its impact on the profitability of companies. According to Almeida and Jr (2014), with effective working capital management, firms could reduce reliance on external financing and use the funds issued for additional investment and to increase the company's financial flexibility. A significant number of researchers have conducted research in several parts of the world in different markets and in sectors on the importance of effective working capital management in order to maximize the profitability of the firm and, ultimately, improve the firm's productivity.

Currently, working capital management of the enterprise is a priority direction of growth of its competitive advantages in the market due to reduction of the realized expenses in the production process and reduction of financing needs.

Construction and implementation of effective working capital management is impossible without understanding its essence. Economic science contains a significant amount of research on the concept of "working capital". The issues of determining the essence of working capital in the modern economy are actualized today based on the political and economic situation in the world markets and for the practical implementation of the effective working capital management mechanism.

The concept of working capital includes two fundamental components - capital and negotiable. The study of the points of view of different researchers allows us to conclude that capital is one of the most

important components of enterprise management, has a complex structure and composition, while its state directly affects the results of economic activity. Within the framework of capital management, a wide range of tasks are being solved, among which priority are the choice of sources of its formation, maintaining the required level of liquidity and solvency, ensuring the production and financial cycles of the enterprise.

Capital management is carried out by using certain methods, affecting its magnitude and structure as a whole, as well as by individual elements (components). (Miguel D., 2014)

1.1.2. Working capital as the structure of the assets of the enterprise

The term "capital" in the economic literature is often used also to characterize the structure of the assets of the enterprise, while for investment objects it is classified into primary and circulating.

The division of the capital advanced into production into parts that differ in the duration of turnover was first introduced and substantiated in the writings of the physiocrats. According to the works of F. Quesnay, the difference between fixed and working capital is the "difference between the initial advances and annual", but this only extended to agricultural capital. Theoretical approach to the definition of the concept of "working capital" was formed in the late XVIII - early XIX centuries. after the appearance of A. Smith's work "A Study on the Nature and Wealth of Peoples" (1776), a significant part of which is devoted to the division of capital into primary and circulating capital, extending these categories to all branches of the economy.

Working capital, according to the teachings of A. Smith, consisted of four parts: from money (through which the other three parts are turned

and distributed); from food stocks; from raw materials and semi-finished products; from finished products and work in progress. Followers of the teachings of A. Smith D. Ricardo, J. Barton, J. St. Mill, J. Ramsay, J.S. Sismondi, A.E. Sherbulye, A.K. Storch attempted to "smooth" the boundary between fixed and working capital by moving to a general circulation and the process of advancing capital. According to D.Ricardo, a dividing line can not be drawn between fixed and circulating capital, and the difference is insignificant and consists only in the rate at which capital is wiped out and how often it requires reproduction. According to the works of J. St. Mill revolving capital can be identified with capital, which is necessary for referral to wages. According to J. Ramsey, fixed capital appears in a form that facilitates the production of goods in processing, but not the maintenance of workers. His definition of the concept of "fixed capital" is close to the notion of "constant capital" in K. Marx, which included working capital advanced in tangible current assets. In his works K. Marx emphasized that the basic and circulating capital are the forms of movement of individual parts of capital.

The further evolution of the concept of "working capital" is based on the subsequent development of the views of A. Smith and K. Marx. By the end of XX century the term "working capital" has become widely used in English-speaking countries. (Skorokchkin A.A., 2014) At the same time, the ambiguous interpretation of the works of foreign scientists contributed to the emergence of a large number of definitions of the economic essence of the concept.

The study of the essence of the concept "working capital" paid attention in the works of Russian scientists. Balabanova, I.A. Blank, V.V. Kovaleva, N.V. Kolchina, S.G. Savitskaya, E.S. Stoyanova, A.D. Sheremeta et al. In economic theory, a number of concepts related to

"working capital" are also currently used: "working capital", "current assets", "net working capital", which often act as synonyms for each other.

The definition of working capital in Azerbaijan is also implemented in regulatory acts on accounting, where "cash, easy-to-sell securities, inventories, unrealized finished goods, short-term debts of other enterprises to a given enterprise" are referred to working capital" (Alekseeva O.A., 2014). To "working capital" include property acquired through the placement of working capital, i.e. this is the material-material form of working capital, in the composition of which it is possible to allocate working capitals and accounting current assets.

One of the most common and often used concepts - "working capital", a number of researchers consider synonymous with the concept of "working capital". V.V. Kovalev under "working capital" understands "the assets of the enterprise, renewed with a certain regularity to ensure current activities, investments in which at least once turn into a year or one production cycle", i.e. they perform production and payment-settlement functions.

N.V. Kolchina under "working capital" means "the money advanced by the organization for servicing current economic activities and participating simultaneously in the production and sale of products". (Kostin V.I., 2011) Working capitals are advanced to circulating production assets, ensuring the continuity of the production process and the transfer of value to the produced product, after which they pass into the sphere of circulation in the form of circulation funds, completing the circuit. Working capital can also be represented as a balance asset, which discloses the subject composition of the enterprise's assets (in the form of current or current assets, as material current assets, receivables, free cash, etc.), while working capital appears in role of the liability balance,

i.e. shows what amount of funds (or capital) is invested in the economic activity of the enterprise in the form of own and borrowed capital.

"Net working capital" ("working capital"), in traditional terminology, called "own working capital", by economic content is a different category. So, in "own working capital" includes all components of working capital, and the net working capital does not include cash and short-term capital investments in current assets. According to J.K. Van Horn, between the terms "working capital" and "net working capital" equals, denoting them as "the difference between current assets and current liabilities, showing the firm's ability to solve the problem of its liquidity". (Gavrilov V.M., 2012) The analysis of the opinions of scientists on the nature of working capital allows us to formulate that the working capital of an enterprise is financial and credit funds advanced to productive activities and material and material current assets whose volumes and source structure should be sufficient to ensure the normal functioning of the enterprise.

2. THEORETICAL ANALYSIS

2.1. THEORETICAL FOUNDATIONS OF THE MANAGEMENT OF THE WORKING CAPITAL OF ENTERPRISES

2.1.1. The concept of the working capital, its structure and essence in the modern economy

Working capital is financial resources invested in facilities that are used by the firm either within a single production cycle or within a relatively short calendar period of time (usually one year).

Unlike fixed capital, working capital within one production cycle completely transfers its value to the newly created product, it is reimbursed after each circulation in the monetary form, and then in the natural-material. Part of the working capital changes its natural-material form (raw materials, materials), the part disappears without a trace as waste energy, gas.

Revolving funds are part of working capital, along with circulation funds.

Funds of circulation do not participate directly in the production process, but are necessary to ensure the unity of production and circulation. According to the nature of the circuit and the method of transferring value, circulating funds and circulation funds are combined into a general concept of "working capital" or "working capitals of an economic entity".

The amount of current assets in the composition of current production assets is determined by the organizational and technical level

of production, the scope of activity, the scale of production and the duration of the production cycle of the products manufactured.

The amount of working capitals that are part of circulation funds is determined by the organization of marketing research and marketing of products, the conditions for the sale of products, the system of commodity circulation, and the methods of calculation for products.

Working capital ranks second in size after the fixed capital in the total volume of resources that determine the economy of the economic entity.

Since working capital is a significant amount, its rational use is an important requirement for a successful economy.

In financial activity, working capital plays an important role, since it directly affects the solvency, the degree of "necrosis" of capital, the volume of accounts receivable, and, consequently, accounts payable.

The revolving funds of the economic entity are consistently transferred to circulation funds and vice versa.

Monetary funds advanced to circulating production assets and circulation funds characterize working capital. The essence of working capital is determined by their economic role, the need to ensure a reproductive process, which includes both production and the process of circulation.

Working capital in composition consists of circulating funds and circulation funds. Working capital funds are engaged in production. The circulation funds are engaged in the sphere of exchange (circulation). Revolving funds and circulation funds are divided into various elements that make up the material and material structure of working capital.

The analysis of the opinions of scientists on the nature of working capital allows us to formulate that the working capital of an enterprise is financial and credit funds advanced to productive activities and material

and material current assets whose volumes and source structure should be sufficient to ensure the normal functioning of the enterprise.

A detailed consideration of the concept of "working capital" made it possible to systematize its characteristics, (Asgarova , 2007) which are essential for the organization of management under conditions of diversification, involving an expansion of production and an increase in the range of products, according to the features presented in Figure 1.

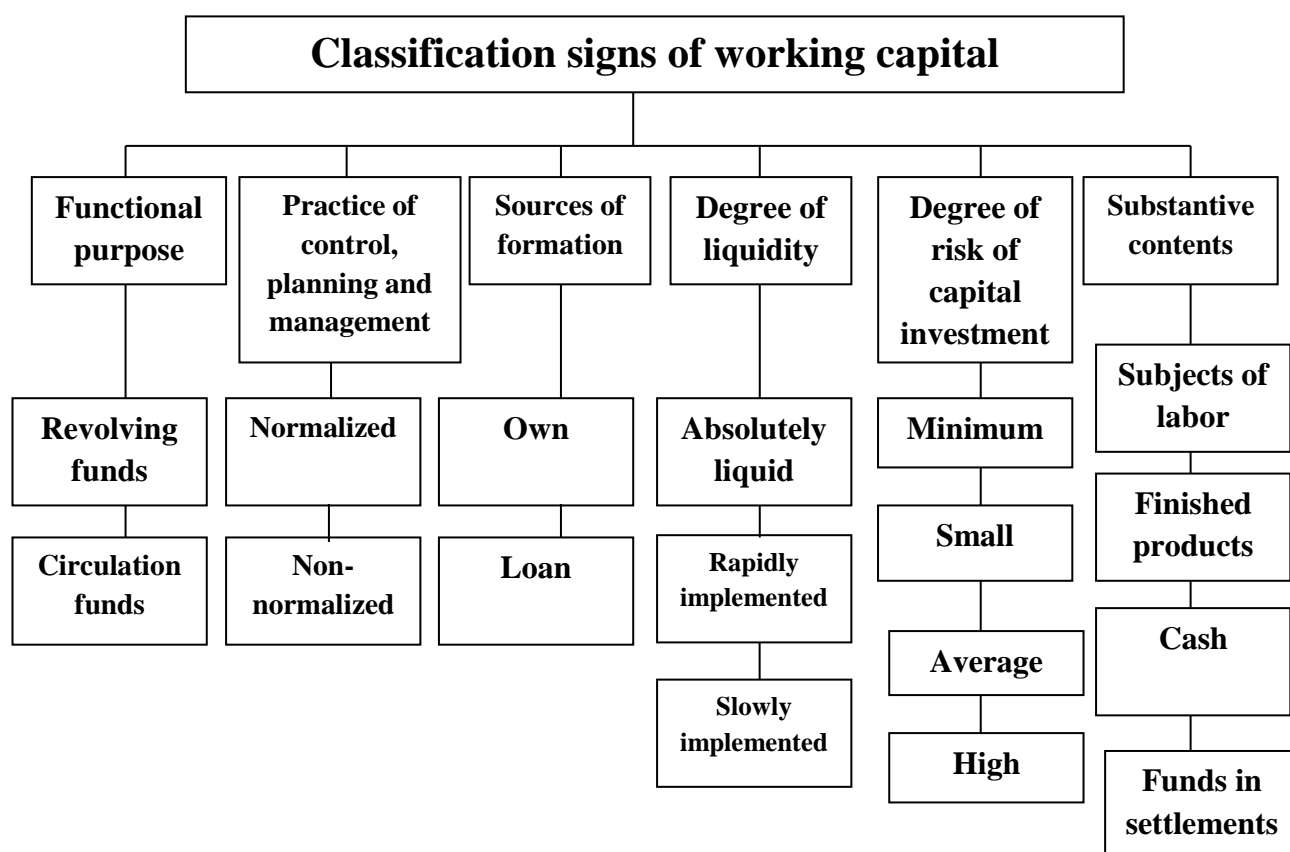


Figure 1. Signs that form the term "working capital".

The characteristic functional features of working capital are:

- change of form from cash to commodity and from commodity to cash within one turnover - during the passage of three stages: purchase, consumption and sale;
- full consumption during one production cycle and complete transfer of its value to newly created products;

- being in constant turnover. (Magadova S.O., 2012)

On economic elements all working capitals of the enterprise are divided into certain groups:

- stocks and costs: raw materials; costs in work in progress; finished goods and goods for resale; Future expenses; other stocks and costs;

- accounts receivable, payments on which are expected more than 12 months after the reporting date: buyers and customers; bills of exchange receivable; debts of subsidiaries and affiliates; advances issued, other debtors;

- accounts receivable, payments on which are expected within 12 months after the reporting date: buyers and customers; bills of exchange receivable; debts of subsidiaries and affiliates; advances issued, other debtors;

- cash: cash; settlement accounts; currency accounts, other cash;

- short-term financial investments;

- other current assets.

Inventories are commodity-material assets intended either for use in the production process or for further resale.

Accounts receivable are obligations of physical and legal persons to the given enterprise, expressed in monetary form. Accounts receivable most often arise from the sale of products, goods, works, services on credit, as well as during other business operations, such as issuing amounts to employees for a report, overpayment of taxes to the budget, loans to staff, etc. Debtors - legal entities and individuals who are indebted to a specific organization. Accounts receivable can be short-term (the maturity of the debt is less than a year) and long-term (maturity more than a year). Cash means cash held in the cash department of an enterprise, either in a bank or in the form of cash documents.

Short-term financial investments - investments in securities and other assets, the maturity of which is less than 1 year.

Classification of working capital by a functional role in the production process assumes their division into working capital funds and circulation funds.

Revolving production assets consist of inventories, work in progress and future expenses. Funds circulation - finished products, accounts receivable, cash.

Elements of working capital continuously pass from the sphere of production to the sphere of circulation and again return to production. A part of the working capital is constantly in the sphere of production (stocks, work in process, finished goods in the warehouse), and the other part in the sphere of circulation (shipped products, accounts receivable, cash). (Sinitskaya E.S., 2010) It is obvious that the size and structure of current assets is determined not only by the needs of production, but also by the needs of circulation.

For the purposes of planning and control, current assets are divided into normalized and non-normalizable. The normalized working capitals include cash advanced to goods, other assets, cash on hand, future expenses. Non-standardizable current assets include cash on the settlement account, goods shipped, stored in custody, accounts receivable.

According to the degree of liquidity - the rate of conversion into cash, working capitals are divided into:

- Absolutely liquid funds - cash on hand, on settlement and currency accounts, other funds;
- quickly implemented working capital - short-term financial investments;
- slowly realized working capital - stocks and accounts receivable.

In terms of investment risk, working capital is divided into groups:

- working capital with minimal risk of investments (cash, short-term financial investments);
- working capital with low investment risk: accounts receivable (net of doubtful); production reserves (less stale); remnants of finished products and goods (less not in demand);
- working capital with an average investment risk: work in process, future expenses;
- working capital with a high risk of investment: doubtful accounts receivable, stale industrial stocks, finished products and goods not in demand.

According to the sources of formation, current assets are divided into those formed at the expense of their own working capital and at the expense of borrowed funds. (Yurganova M.Y., 2010)

Investigation of the interrelations of the elements of working capital and show that the financial and economic indicators of the performance of the enterprise are most sensitive to changes in the volumes and structure of sources of working capital formation-own and borrowed funds.

Understanding the essence of working capital in the modern economy is inextricably linked with the sources of its formation, among which are:

- own capital means the assets of the enterprise that belong to it on the basis of ownership rights and are channeled into the formation of a given part of its assets;
- borrowed capital, on the contrary, includes the money that is attracted to finance the development of the enterprise on a return basis, or other property values. Formation of the structure of sources of

working capital is associated with the need to take into account the characteristics of each of its components.

Own capital differs in the simplicity of attracting, a higher "ability" to make a profit, a sufficient number of it ensures the financial stability of the enterprise. However, it has a higher value, is characterized by a limited amount of attraction and, in case of using it as a main source of financing, often reduces the growth rate of the enterprise. At the same time, own sources remain in circulation constantly, but their volume is limited. At the same time, borrowed capital, on the contrary, has ample opportunities for attracting, contributing to the growth of the company's financial potential and production volumes, increasing profitability and, at the same time, causing financial risks, including those associated with market conditions, lower profits, . Own sources of working capital at the enterprise are formed at the expense of profit, authorized and (or) reserve capital, accumulation funds and targeted financing. In the process of production activities of enterprises, other sources can also be formed, which are also referred to as their own: a wage arrears for employees, deductions for social insurance, forthcoming payments to suppliers of material resources, deductions from profits, etc.

Enterprise borrowings are used to finance the costs of acquiring basic and current assets, covering seasonal needs, including the need for temporary increases in inventories and receivables, and payment of tax payments. They can be represented by banking (the most common source), investment (long-term) credit. Sources of borrowed funds can also be commercial loans, which are issued by other enterprises and organizations and can be issued in the form of loans, bills, commodity loans and down payment. At the stage of development of production,

enterprises widely use the issue of debt securities or bonds, but the attraction of such sources is associated with a loss of profit in the future.

The structure of sources of financing at the enterprise is determined by a combination of factors of the internal and external environment. The structure of working capital sources in modern literature is proposed to be implemented using three basic approaches to financing. (Kalinnikov A.G., 2010)

- conservative (minimization of short-term obligations and maximization of net working capital);
- aggressive (minimizing net working capital and covering current assets with current liabilities);
- moderate (combination of risk and return, which is aimed at maximizing the market value of the enterprise).

These approaches determine the size of working capital, based on the ratio of efficiency of use and the risk of loss of liquidity. They are also aimed at ensuring a compromise between the magnitude of the risk of liquidity loss and the effectiveness of the company's activities, taking into account the timing and costs of attracting a particular source, and they allow solve the following tasks: ensuring solvency and the required volume, structure and profitability of assets.

As a result of the analysis it was revealed that currently in the economic literature in most cases, indicators characterizing the financial and economic activity of an enterprise (including profit, profitability, solvency, liquidity, etc.) are recommended to estimate working capital.

Thus, the working capital of an enterprise is the most important economic category, the essence of which in the realities of modern economy is that the working capital of an enterprise is financial and credit funds advanced to productive activity and material and material current assets whose volumes and source structure should be sufficient to

ensure the normal operation of the enterprise. Components of working capital are classified in several directions, and for management purposes at each enterprise it is necessary to classify the objects based on the specifics of the activity, financing conditions.

For management, the concept and identification of parts of working capital is important, as is the full understanding of its economic nature, since it allows us to detail the working capital management system based on the needs, features of activity, economic position of the individual company.

2.1.2. Sources of forming the working capital of enterprises

Economic entities in the process of carrying out industrial and commercial activities attract and use various sources of working capital. The results of the policy of forming working capital are:

- the existing financial position of modern companies, largely dependent on the economic viability of the working capital sources used;
- the received efficiency of current assets; excess working capital indicates its unprofitable use, and the shortage slows down production processes and the speed of economic turnover.

In addition, in the realities of the modern economy - volatile market conditions and the need for working capital, it is practically impossible to meet the needs only at the expense of own sources, and borrowed sources are attracted on terms of pay and repayment, in relation to the application, which is important for any company to ensure their economic efficiency use.

Thus, achieving effective use of working capital is impossible without rational use of sources of its formation.

In the course of economic activities, legal entities and individual entrepreneurs form working capital at the expense of: (Galai A.G., Dudakov V.I., 2013)

- own funds;
- funds equated to own;
- borrowed money;
- attracted funds.

The essence of sources in domestic and foreign studies on finance, management, analysis is interpreted as follows.

Own capital of the companies includes authorized capital, reserve capital, additional capital, retained earnings, other funds, special-purpose financing.

The authorized capital is the sum of the nominal value of shares (shares) owned by the founders (shareholders) of the enterprise and is fixed in the charter.

Reserve capital (fund), most often defined as part of the company's equity, formed from annual deductions from profit, representing a cash reserve. The reserve fund serves for social development of the enterprise, covering losses, as well as for paying dividends and replenishing capital in cases of insufficient profit;

The formation of other funds in the organization (accumulation fund, consumption fund and the amount of deductions in them from net profit) is determined by the charter, disclosed in the accounting policy of economic entities.

Additional capital is included in the equity of the enterprise and includes:

- the amount of revaluation of non-current assets held in accordance with the established order;

- amounts received in excess of the par value of the outstanding shares (share premium of the joint-stock company);
- other similar amounts.

Retained earnings are part of the net profit received as a result of the reporting period (not directed at paying dividends to owners, founders, shareholders and not used for other purposes). Undistributed profit often serves as a source of formation of fixed capital (non-current assets - fixed assets, intangible assets, long-term financial investments) or replenishment of its working capital in the form of cash in circulation.

Targeted financing means funds received from other organizations and individuals, budget funds intended for the implementation of targeted activities. Targeted financing includes subsidies received from the budget, for example, by enterprises of the agro-industrial sector.

Generalizing characteristics of own sources of working capital formation:

- are fully used at the initial stage of activity of the economic entity. Formation of the minimum size of working capitals occurs at the time of establishment of the organization, when its authorized capital is being formed. The source of formation in this case is the investment funds of the founders and shareholders. In the future activity of the enterprise, own funds (profit, additional and reserve capital, targeted financing) are also used, but to a much lesser extent as compared to the stages of the company's establishment and the beginning of its financial and economic activities;

- are used in the process of the company's activities to form the minimum stable part of current assets. Presence of own working capitals enables modern companies to freely maneuver, to increase the effectiveness and sustainability of their activities;

- used to determine (calculate) the indicator of own working capital.

In the textbooks and articles in periodicals, the category of sources of working capital formation is identified - funds equal to own. (Bobyleva A.Z., 2012) These means are the resources involved in the economic turnover of the company, which can be temporarily used to direct current assets in the amount of their minimum balance, which include:

- wage arrears to the personnel of the organization;
- debt to off-budget funds;
- arrears in taxes and fees;
- reserve of forthcoming expenses;
- outstanding advances to customers.

Equivalents to own funds are formed due to the existence of a gap in time between the accrual (occurrence) of debt and its repayment and are calculated in the following order:

- on wages - the product of the planned wage fund and the number of days from the beginning of the month until the day of payment of wages in the final calculation divided by the number of days in the accounting period;

- on contributions to extra-budgetary funds - the minimum debt is calculated in the manner similar to the one presented above;

- for taxes - the product of the amount of tax in a given period and the periodicity of payment in days divided by the duration of the period in days;

- for the balance of the reserve of future expenses - based on the nature of the reserve. If the organization forms a reserve for the forthcoming payment of employee leave, the minimum debt is calculated

as the smallest balance of the reserve according to the accounting data for the last 12 months preceding the calculation period;

- for advances to customers based on the minimum balance of the reporting data for the year, taking into account the planned increase in the amount of work, services.

Given the influence of sources of working capital formation on the financial position and efficiency of the use of current assets, their valuation is important - an analysis aimed at determining the appropriateness of combining individual sources with respect to the impact on the company's performance on its basis. In the process of analysis, the following stages are performed: the dynamics and structure of sources of working capital formation are estimated, own working capital is calculated, the financial stability of the company is evaluated, efficiency of working capital is investigated, directions for rationalizing sources of working capital financing and ways to increase its efficiency are identified.

In the economic literature, the problem of the ratio of sources of working capital is also controversial and has not been fully resolved. The opinions of theorists and practitioners differ:

- Individual scientists determine that the share of own funds should be so significant that failure to meet the plan for their growth or their diversion from turnover would have a significant impact on the financial condition of the enterprise;

- Others recommend setting differentiated for each enterprise economically justified limits (upper and lower) of the participation of borrowed funds in the formation of working capital. If the amount of borrowed funds exceeds the upper limit, this means that the company is not using its current assets efficiently. If the borrowed funds by the amount do not reach the lower limit, then this indicates the presence of

working capitals in the turnover of borrowed sources in the form of accounts payable, which weakens attention to the rational use of working capital;

- A number of researchers believe that own funds should provide stocks of raw materials and materials, costs in work in process, and the remaining structural elements of current assets can be covered by borrowed funds. (Babich T.N., Babenko I.V., Kuzbozhev E.N., 2010)

The study of the essence of sources of working capital formation shows that economic entities need to carry out an analytical substantiation (analysis of dynamics, structure, calculation of coefficients characterizing financial stability and efficiency of current assets, their control in dynamics), and based on analysis results, taking into account the specifics of activities, market determine the composition and structure of sources of working capital formation

2.1.3. Bases of efficient management of working capital

In today's economy, the use of working capital by business entities qualitatively and quantitatively affects the performance of their activities, financial condition. The role of effective working capital management in ensuring the successful functioning and development of companies is difficult to underestimate, since such indicators of the company's activity as liquidity, profit and profitability, financial stability depend on the rational management of working capitals.

Issues of working capital management for domestic enterprises do not lose their acuteness throughout the entire development of the Azerbaijan economy, but, as Azerbaijan business practice shows, they are especially actualized in the crisis phenomena in the economy that

most often and continuously affect Azerbaijan companies in recent years. At the same time, regardless of the impact of positive or negative socio-economic and political trends, enterprises that efficiently manage working capital function in each sector of the domestic economy and thereby ensure their sustainable development, a normal financial position and an acceptable level of liquidity, a profitable and cost-effective activity. Thus, the need to consider the basics of working capital management is conditioned both by the realities of the economic situation in the country and by the value of working capital for a single company.

The issues of working capital management are paid special attention in domestic practice, but most of the publications and studies are devoted to individual elements of working capital - cash, receivables, inventories. At the same time, world experience has shown and proved that an integrated system approach to managing working capitals is needed. Moreover, the basis for effective working capital management should be a management system for all its elements, including:

- definition of the purpose and tasks of management;
- formation of sources of information necessary for analysis, management, forecasting;
- analysis of working capital and indicators characterizing its efficiency of use;
- definition, assessment of factors affecting working capital;
- use of management methods.(Gukova A.V., Anikina I.D., Bekov R.S., 2010)

The purpose of working capital management is to determine their optimal structure and form the sources of financing in the balance sheet between liquidity and profitability of the enterprise. Maintenance of liquidity is associated with the formation of sufficient capital, ensuring

profitability and raising it requires a reduction in the volume of current assets.

The system approach allows you to build a working capital management process in practice in the form of a sequential implementation of the following stages, each of which solves a specific task in management:

- analysis of working capital of the enterprise in the previous period and comparison of working capital with the results of the company's activities;

- choice of the policy of formation of current assets;

- calculation of working capital requirements and optimization of the volume and structure of capital to ensure liquidity and profitability of the business entity;

- rationalization of sources of formation of current assets. The source of information for building effective governance

working capital is information accounting (financial and management), forecast information (data budgeting, business planning, etc.).

In the process of analysis of working capital, its dynamics and structure are examined, and the following indicators are calculated: (Lysak A.I., 2010)

- Turnover ratio (determined by the number of revolutions) and the duration of turnover (in days):

$$TR = \frac{TT}{AT}$$

where TR - is the turnover ratio;

AT - is the average value of the indicator for which the turnover is calculated;

TT – is turnover time.

- The duration of one revolution in days is defined as:

$$TD = \frac{360}{TR}$$

where TD – is turnover in days

The turnover ratio and the turnover period are investigated both for the total working capital, and for each of its components - stocks, receivables, etc.

- Factor of fixing working capital:

$$CF = \frac{AT}{TT}$$

where CF – is coefficient of fixed working capital.

- Release (attraction) of working capital from turnover:

$$\Delta AT = AT_1 - AT_0 \cdot C_g$$

AT_1, AT_0 - the amount of working capital for the reporting and reference period;

C_g - the coefficient of production growth (in relative units).

- Release (attraction) of working capital as a result of changes in the duration of turnover:

$$\Delta CT = (D_{t1} - D_{t0}) \cdot PR_{one}$$

where D_{t1}, D_{t0} - the duration of one revolution in days for the reporting and basic period;

PR_{one} - one-day of product realization.

- Increase in volume of production due to acceleration of turnover:

$$\Delta PR = (C_{t1} - C_{t0}) \cdot CT_1$$

where ΔPR - increase in volume of production.

- Influence of capital turnover on profit increment:

$$\Delta P = \frac{P_0 \cdot C_{t1}}{C_{t0}} - P_0$$

where ΔP - change in profit;

P_0 - profit in the previous period.

- Profitability of working capital:

$$P_{wo\ CP} = \frac{P_S}{CT} \cdot 100$$

where $P_{wo\ CP}$ - profitability working capital;

P_S - profit from sales.

Own working capitals (SOS) - the difference between long-term liabilities (equity, long-term obligations, deferred income) and non-current assets.

- Coefficient of the enterprise's own working capital:

$$C_{Sec} = \frac{OWC}{CT}$$

where C_{Sec} - the ratio of the company's own working capital.

- Coefficient of stock security with own working capital:

$$C_{Sec.stock} = \frac{OWC}{S}$$

where $C_{Sec.stock}$ - the ratio of the provision of stocks own working capitals;

S - the sum of stocks of the enterprise.

The effectiveness of the use of current assets depends on the factors: (Solntseva D.S., 2011)

- external: general economic situation, peculiarities of tax legislation, conditions for obtaining loans and interest rates on them, the possibility of targeted financing, participation in programs financed from the budget;

- internal: the volume of production and sales, with an increase in the rate of development, and working capital;

- the type and scale of the business (the nature of the enterprise's activities), the duration of the production cycle (in working capital, circulating capital flows at a lower speed compared with industries such as food or light industry), the structure of the enterprise's capital, types and patterns of raw materials consumed, etc.

Given the factors listed above, an enterprise can use internal reserves to rationalize the movement of current assets.

This comprehensive approach allows us to consider individual components of working capital, taking into account their interrelation and their influence on other processes in the value chain. The implementation of an integrated approach is possible when using the following methodological elements: analysis of the movement of cash flows using the indirect method; determination of the balance between the reduction of stocks, the preservation of the rhythm of production processes and the quality of services provided to customers; optimization of credit conditions and collection of payments.

Thus, effective working capital management should be based on a systematic approach, implemented in a complex and integrated into the process of the whole company's functioning. Separate measures to optimize the working capital element will not bring the expected effect, for the sustainable development of the enterprise, it is necessary to implement a full-scale working capital management system based on a clear definition of responsible persons, a unified system of indicators, quality operational information, and a documented management methodology.

Working capital management is important for the financial health of businesses of all sizes. Working capital corresponds to the short-term financial requirements of a business enterprise. This is a trading capital that does not persist in business in a certain form for more than one year.

The money invested in it changes the form and content in the course of a normal business transaction. The need to maintain adequate working capital can hardly be questioned. Just as blood circulation is very important in the human body to maintain life, the flow of funds is very necessary to maintain business. If it becomes weak, business can hardly prosper and survive. The starvation of working capital is usually enrolled as the main cause, if not a serious trend of small business failure in many developed and developing countries (Rafuse, 1996). The success of a firm depends, ultimately, on its ability to generate cash receipts that exceed payments. Given these features, effective working capital management, and recently good credit management practices are critical to the health and efficiency of the small-sector firms. (Peel and Wilson, 1996). The conducted research showed that 60% of enterprises suffer from problems with cash flows. From this study, it is necessary that many industries improve their return on their capital employed (ROCE) by focusing on certain important areas such as cost containment, reducing investment in working capital and increasing working capital efficiency. Based on the information obtained as a result of the above conclusions, there is a negative relationship between profitability and the cycle of money conversion, the days of accounts receivable, the days of accounts receivable and the days of receivables that were used as a measure of working capital management efficiency. Therefore, it seems that operational profitability dictates how managers or owners will act in terms of managing the company's working capital. The negative relationship between accounts receivable and firm profitability suggests that less profitable firms will seek to reduce their customers' receivables in an attempt to reduce their cash deficit in the cash conversion cycle. Likewise, the negative relationship between the number of days in inventory and the profits of corporations suggests that in the event of a

sudden drop in sales accompanied by improper inventory management, this will lead to the linkage of excess capital through profitable operations. Therefore, managers can create profit for their companies by correctly managing the cycle of cash conversion and keeping each separate component (receivables, accounts payable, inventory) to the optimum level.

2.2. METHODOLOGY OF ANALYSIS OF THE USE OF THE WORKING CAPITAL IN ENTERPRISE "INDIGO"

2.2.1. Methodology

The theoretical and methodological basis of the work are materials of publications, textbooks and monographs of leading domestic and foreign scientists in the field of theory of finance, financial management and analysis. In the course of the research, analytical, logical-structural approaches were used, graphic, economic-mathematical and statistical methods of processing and presentation of information were used.

The methods of financial analysis are used: horizontal and vertical analysis of financial statements, as well as trend, comparative and analysis of relative indicators.

The scientific novelty of the study is the following:

- Analyzed and systematized the main options for the classification of working capital in terms of financial management;
- Proposals have been made to test the algorithm of more effective working capital management of commercial organizations, developed on the basis of an analysis of the current financial needs of the enterprise, the duration of its production, operational and financial cycles. This, in turn, will facilitate the competent selection of the optimal size of its own working and attracted capital, and in the future optimize production stocks, reduce the attraction of assets into the turnover of the enterprise, that is, in general, ensure the financial stability of the enterprise;
- Specific recommendations for the effective management of working capital in commercial organizations, including the definition of financial needs, the formation of the working capital structure, the

management of production reserves and accounts receivable, are worked out.

2.2.2. Brief description of the enterprise

The company with limited liability "INDIGO" was established in 2005, legally registered and carries out its activities in the city of Baku.

The main activity of the company in accordance with the charter is the production of printing products, first of all, the production of information stickers and labels for imported and manufactured light, food and chemical industries in Azerbaijan.

The average annual financial turnover of the company is 4-4,2 million AZN, the staff is 40 employees, including enterprise management, accounting service of 3 people, supply and sales department of 3 people, design department, chief technologist and directly workers and support staff.

The organization specializes in small-scale wholesale trade of products, annually serves about 90 customers, about 20% of which are regular customers (regularly use the services of the firm for 3-4 years). The average transaction amount is from 3000 to 25000 AZN.

Equipment and machines for production are used on a lease basis, which led to a low level of non-current assets in the structure of the company's balance sheet.

2.2.3. Analysis of the general indicators of efficiency activities of enterprise "INDIGO"

As part of the study of the current assets of the organization as the most mobile part of assets, it is necessary to conduct a general analysis of the financial condition of the enterprise to assess the liquidity,

profitability, financial stability. The aim is to identify possible negative phenomena in the course of carrying out the economic activities of the enterprise, which can lead to its unprofitability and violation of financial stability.

The most important indicator of the overall stability of an enterprise on the market is its financial stability, which characterizes the organization's ability to develop on the basis of profit and capital growth while maintaining its solvency and creditworthiness. (<http://indigo.az>) One of the indicators of financial stability is the ratio of own and borrowed capital, calculated in Table 1.

Table 1

The volume, composition, structure and dynamics of capital in terms of the ratio of own and borrowed capital

Index	2013	2014	2015	2016	2017
The borrowed capital, thousand AZN	970.72 (87,7 %)	780.5 (69,6 %)	962.10 (85 %)	1564.78 (80 %)	1427.60 (83 %)
Own capital, thousand AZN	272.50 (12,3 %)	346.40 (30,4 %)	169.79 (15 %)	388.34 (20 %)	291.33 (17 %)
Total, thousand AZN	1243.22	1126.90	1131.89	1953.12	1718.93

So, for the year 2017 the capital of the enterprise has decreased by 12% due to a decrease in equity by 25% and borrowed capital by 8.8%. At the same time, the outstripping rates of decrease in equity capital relative to the borrowed capital led to a decrease in the share of equity capital by 3%, which indicates a decrease in the degree of financial stability of the enterprise. An important indicator of the financial stability of an organization is also the amount of its own working capital, the calculation of which is presented in Table 2.

Table 2**Analysis of the company's own working capital**

Index	2013	2014	2015	2016	2017
Own capital, thousand AZN	272.50	346.40	169.79	388.34	291.33
Non-current assets, thousand AZN	23.80	15.53	15.55	15.72	9.03
Own working capital, thousand AZN	248.70	330.87	154.23	372.62	282.30

Thus, in 2017 the company's own working capital decreased by 9.03 thousand AZN, which indicates a decrease in the financial stability of the enterprise. At the same time, the indicator is positive, which indicates the preservation of an acceptable level of financial stability. Table 3 presents the calculations of the financial stability of the enterprise in terms of the level of supply of the sources of their formation.

Table 3

**Analysis of the type of financial stability of an enterprise based on
the calculation and evaluation of its absolute indicators**

Index	2013	2014	2015	2016	2017
Surplus or lack of own sources of formation of reserves, thousand AZN	111.01	158.13	- 204.93	75.10	-76.49
Surplus or lack of own and long-term borrowed sources of stock formation, thousand AZN	111.01	158.13	-204.93	75.10	-76.49
Surplus or lack of total value of inventory formation, thousand AZN	327.51	158.13	-204.93	75.10	14.30
Type of financial stability	absolute	absolute	absolute financial instability	absolute	relative financial instability

Thus, in terms of the degree of availability of reserves by sources of their formation, the enterprise in 2017 is characterized by relative financial instability. That is, own funds are not enough to form stocks without attracting short-term borrowed funds.

At the same time, relative financial instability is permissible and, in fact, does not pose a significant threat to the overall financial position of the enterprise, since the amount of short-term borrowed funds involved in the formation of stocks does not exceed the cost of the stocks themselves. (Konischeva M.A., Kurgan O.I., Cherkasova Y.I., 2015) Analysis of the financial activity of the enterprise involves the calculation and analysis of a number of important coefficients, presented in Table 4 and characterizing the financial stability of the organization.

Table 4

Basic coefficients of financial stability

Name	Recommended value	2013	2014	2015	2016	2017
Coefficient of financial independence	> 0.5	<i>0.246</i>	<i>0.309</i>	<i>0.150</i>	<i>0.199</i>	<i>0.169</i>
Concentration factor of borrowed capital	> 0.5	<i>0.877</i>	<i>0.696</i>	<i>0.850</i>	<i>0.801</i>	<i>0.831</i>
Self-sufficiency ratio	> 0.1	<i>0.230</i>	<i>0.299</i>	<i>0.138</i>	<i>0.192</i>	<i>0.165</i>
Share of reserves with own funds	$0.6 - 0.8$	<i>1.806</i>	<i>1.915</i>	<i>0.429</i>	<i>1.252</i>	<i>0.787</i>
Mobility coefficient of own capital	$0.3 - 0.5$	<i>0.913</i>	<i>0.955</i>	<i>0.908</i>	<i>0.960</i>	<i>0.969</i>

Thus, in the enterprise under study, the coefficients of concentration of borrowed capital, provision with own funds, as well as the share of the stock coverage by own funds satisfy the recommended values.

Significantly below the recommended values of the coefficient of financial independence, characterizing the proportion of assets covered by equity. However, due to the low proportion of non-current assets and the low capital intensity of the enterprise's production process, there is no need for a significant increase in equity capital.

In addition, the framework of recommended values significantly exceeds the coefficient of mobility of own capital, which is explained by the lease of the enterprise's fixed assets and, accordingly, low level of non-current assets.

One of the main indicators of the financial state of the enterprise are its liquidity and solvency, the significance of which is presented in Table 5.

Table 5

Basic financial ratios of solvency

Index	Recommended value	2013	2014	2015	2016	2017
Coefficient of total solvency	> 2	1,140	1,436	1,176	1,249	1,204
Coefficient of investment	> 1	11,452	22,309	10,916	24,707	32,254

The coefficient of total solvency characterizes the ability to cover all liabilities of the organization with its assets. For the enterprise under study, the indicator exceeds 1, that is, confirms this possibility, but does not correspond to the recommended value. The investment ratio is estimated positively due to a small proportion of non-current assets in the structure of the company's capital. Table 6 presents the calculations of the company's net current assets, which characterize the degree of its liquidity.

Table 6**Analysis of the value of net current assets**

Index	2013	2014	2015	2016	2017
Current assets, thousand AZN	1083.01	1105.17	1116.33	1938.49	1709.93
Short-term liabilities, thousand AZN	834.28	780.30	962.10	1565.87	1427.60
Net current assets, thousand AZN	248.73	324.86	154.23	372.62	282.32

Thus, the consistently positive value of net current assets indicates a high level of liquidity of the enterprise. The ability of an entity to repay current liabilities is also characterized by the absolute, fast and current liquidity indicators presented in Table 7.

Table 7**Indicators of liquidity of the enterprise**

Index	Recomm ended values	Average indicators for the industry (for 2015)	2013	2014	2015	2016	2017
Absolute liquidity	> 0.2	0.2	0.12	0.18	0.06	0.39	0.04
Rapid liquidity	> 0.8	0.9	0.97	1.19	0.78	1.05	0.95
Current liquidity	> 2	1.7	1.30	1.42	1.16	1.24	1.20

The indicator of current liquidity characterizes the ability to repay current liabilities from current assets. Its value below one indicates a high financial risk associated with the insolvency of the enterprise in a timely manner to pay current accounts.

The indicator of quick liquidity is related to the ability of an enterprise to repay current liabilities in the event of difficulties in selling its products. The most practically significant indicator of the activity of commercial organizations. In the case of the enterprise under study, the value of this indicator decreased slightly compared to 2016, but continues to meet the recommended values, as well as the industry average.

The absolute liquidity ratio reflects the ability of an enterprise to cover current liabilities at the expense of cash and cash equivalents. It is practically not used in Western countries. (Afanasyev A.M., 2012)

Table 8 shows the profitability indicators that characterize the overall economic efficiency, profitability of the enterprise and the use of its resources.

Table 8

Basic coefficients of profitability

Financial Ratio	2013	2014	2015	2016	2017
Profitability of sold products	0.0539	0.0781	0.0139	0.1363	0.1123
Profitability of sales	0.0512	0.0725	0.0137	0.1199	0.1010
The rate of return (net profitability of sales)	0.0300	0.0405	0.0050	0.0479	0.0494

The profitability of the sold products decreased by 0.024, that is, for each AZN of the total cost of sales in the reporting year, the sales profit fell by 2.4 kopecks less than in the previous year, that is, the cost effectiveness of production and sales decreased. The profitability of sales decreased by 0.02, which means that the share of profit from sales in

sales revenue in the reporting year compared to the previous year decreased by 16%, that is, the effectiveness of pricing has decreased. The rate of profit at the same time increased by 0.0015, which means that for each AZN of sold products in the reporting year, there was a 0.15 kopecks net profit is more compared to last year. The main indicators of profitability in the dynamics are presented in Figure 2.

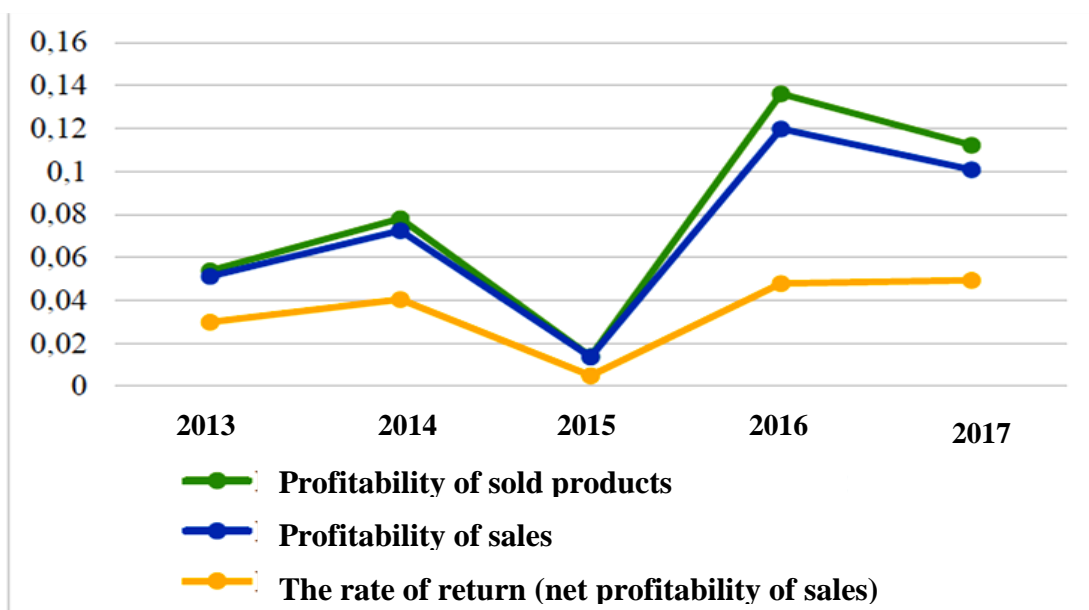


Figure 2. Dynamics of the main coefficients of profitability

The indicators characterizing the profitability of the structural elements of the enterprise's capital are presented in Table 9.

Table 9

Analysis of coefficients of profitability

Financial Ratio	2014	2015	2016	2017
Return On Assets	0.174	0.018	0.155	0.178
Profitability of equity capital	0.627	0.078	0.855	0.964
Profitability of borrowed capital	0.222	0.023	0.189	0.219
Profitability of current assets	0.317	0.049	0.391	0.367
Profitability of non-current assets	9.865	1.289	15.258	26.470

Thus, in 2017 the overall level of profitability of the enterprise and all types of its assets increased, except for a certain decrease (by 6.1%)

of the profitability of current assets. Dynamics of profitability indicators, characterizing the efficiency of the use of enterprise resources, is presented in Figure 3.

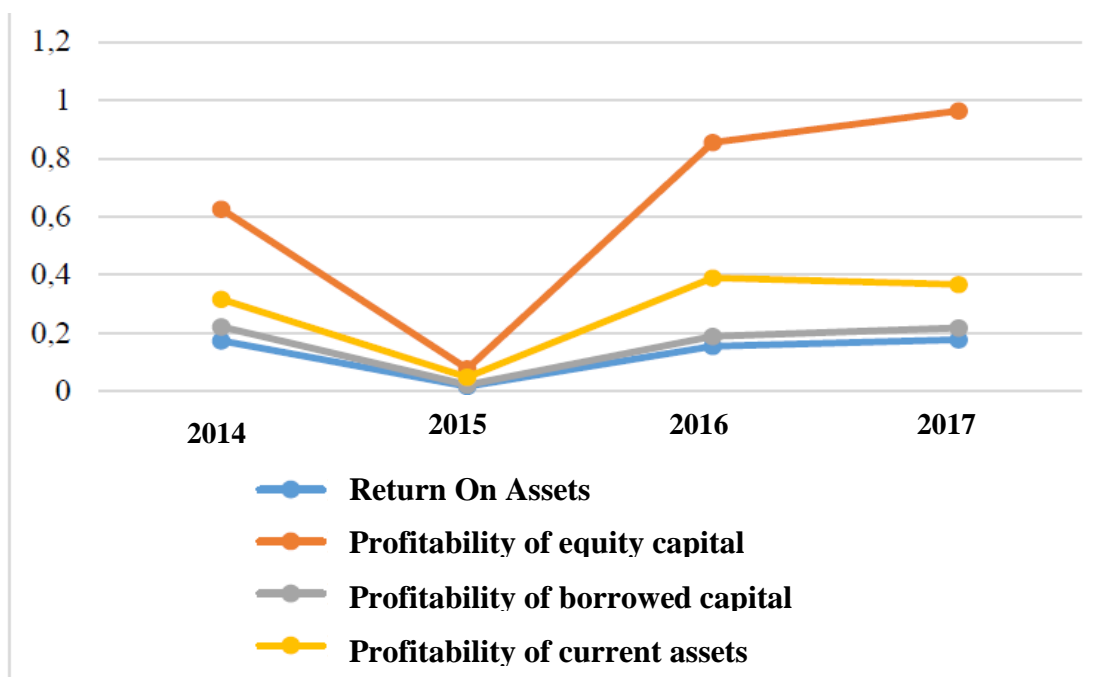


Figure 3. Dynamics of profitability indicators, characterizing the efficiency of the use of enterprise resources

2.2.4. Analysis of efficiency of management of working capital in enterprise "INDIGO"

The main objective of working capital management is the formation and maintenance of the optimal structure and volume of assets of the enterprise, the ratio between its components and sources of their coverage, which allows to ensure the breakeven and efficient operation of the organization. The decision of this task is facilitated by a qualitative regular analysis of the structure and dynamics of current assets.

The analysis of the general indicators of the volume, composition and structure of current assets is presented in Table 10.

Table 10

Indicators of the volume, composition and structure of current assets

Index	2013	2014	2015	2016	2017
Inventories, thousand AZN	137.78 (12,7 %)	172.84 (15,6 %)	359.38 (32,2 %)	297.70 (15,4 %)	359.00 (21 %)
VAT on purchased assets	-	-	-	-	5
Receivables	705.11 (65,1 %)	796.36 (72 %)	701.72 (62,8 %)	1023.56 (52,8 %)	1287.10 (75,2 %)
Short-term financial investments	136.52 (12,6 %)	-	-	-	-
Cash	104.03 (9,6 %)	137.15 (12,4 %)	53.00 (4,7 %)	614.70 (31,7 %)	58.02 (3,4 %)
Other assets	0.22	0.05	2.89	3.69	1.77
Total	1083.65	1106.40	1116.99	1939.64	1710.94

Thus, for 2017 current assets decreased by 11.8%, mainly due to a decrease in cash by 90.5%. In other respects, structural changes in current assets can be assessed as insignificant and, in general, positive. In this case, their significant growth relative to the average values of previous periods is noted. With a view to a more in-depth analysis of the company's financial performance, Table 11 calculates the ratio of the current and non-current assets of the enterprise to the analysis of their impact on the overall financial performance.

Table 11

Structure of the enterprise's assets in terms of current and non-current assets

	2013	2014	2015	2016	2017
Non-current assets, thousand AZN	23.81	15.54	15.56	15.73	9.04
Current assets, thousand AZN	1083.65	1106.40	1116.99	1939.64	1710.94
Value of property, thousand AZN	1107.46	1121.93	1132.56	1955.37	1719.98

In 2017 the value of the property valuation of the enterprise decreased by 235.39 thousand AZN, which in general can be regarded as a negative phenomenon. This was due to the decrease in non-current assets by 6.69 thousand AZN (42.5%), as well as current assets by 228.70 thousand AZN (11.8%). The dynamics of the ratio of current and non-current assets of the enterprise is presented in Figure 4.

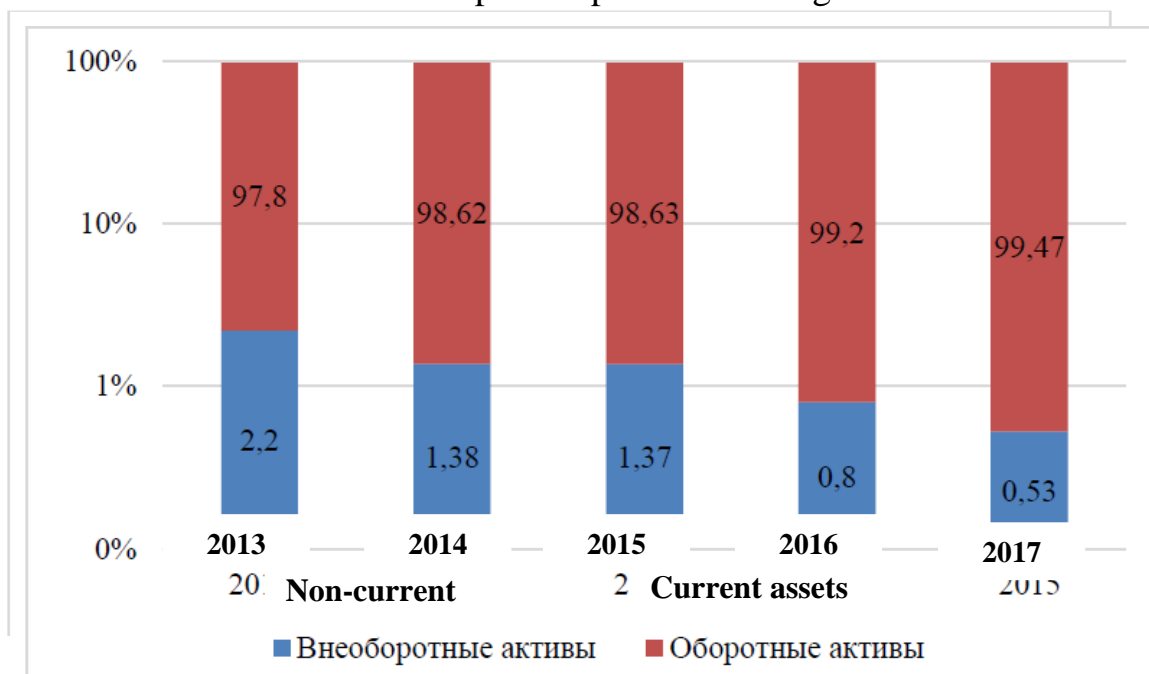


Figure 4. Dynamics of the ratio of non-current and current assets in the property of the enterprise, %

In the structure of property prevailing current assets, while outstripping the growth rate of current assets relative to non-current shows a certain improvement in the structure of the property of the enterprise as a whole. Table 12 shows the indicators of the company's net current assets.

Table 12

Indicators of analysis of net current assets

	2013	2014	2015	2016	2017
Current assets, thousand AZN	1083.65	1106.40	1116.99	1939.64	1710.94
Short-term liabilities, thousand AZN	834.77	780.77	962.67	1566.80	1428.45
Net current assets, thousand AZN	248.88	325.63	154.32	372.84	282.49

The results of the analysis showed that in 2017 the value of the net current assets of the enterprise decreased by 90.35 thousand AZN or 24.2%, which indicates a slight decrease in the liquidity level of the enterprise. At the same time, the value of net current assets remains positive and is at the level of the average annual indicators of previous years, which indicates an acceptable level of liquidity.

Essential value in the analysis of current assets is given to indicators of their turnover, characterizing the efficiency of using current assets. From turnover depends both the amount of minimum required for economic activity of working capital, as well as the cost of storing stocks, which directly affects the cost of production and, accordingly, the financial performance of the enterprise as a whole.

Among the basic indicators of turnover of working assets in the course of the analysis, the turnover ratio and the duration of one turnover are shown, which are presented in Table 13.

Table 13

General indicators of turnover of working capitals

	2013	2014	2015	2016	2017
Revenues, thousand AZN	4311.71	4794.28	3971.25	4986.67	6639.78
Average daily revenue, thousand AZN	11.98	13.32	11.03	13.85	18.44
Average balances of working assets	-	1095.03	1111.70	1528.32	1825.29
Coefficient of turnover of working assets	-	0.12	0.10	0.09	0.10
Turnover of current assets, days	-	82.38	100.84	110.43	98.9
The economic effect of changes in the turnover of working assets	-	-	203.64	132.84	- 212.10

Thus, in 2017 the turnover rate of current assets increased by 0.01 turnover per year and, accordingly, the average duration of one turnover of current assets decreased by 11.5 days (10.4%), reflecting an increase in the use of current assets.

The economic effect of the change in turnover was 212.10 thousand AZN.

The release or consolidation (attraction) of working capital from all indicators of the effectiveness of their use is most characteristic of the acceleration of turnover. (Miguel D., 2014) Particular indicators of turnover, presented in Table 14, characterize the efficiency of the use of structural elements of working capital.

Table 14

Private indicators of turnover of working assets

	2013	2014	2015	2016	2017
Proceeds	4311.71	4794.28	3971.25	4986.67	6639.78
Cost of sales	3404.99	3655.50	3148.49	3645.18	4995.08
Average balances of cash and short-term financial investments	-	1205.90	95.07	333.85	336.36
Average balances of inventories	-	155.31	266.11	328.54	328.35
Average balances of accounts receivable, thousand AZN	-	750.73	749.04	862.64	1157.79
Average balances of accounts payable, thousand AZN	-	699.47	871.72	1264.74	1452.21
Coefficients of turnover					
Cash and RAD	-	1.09	1.14	0.41	0.54
Inventories	-	0.64	0.32	0.30	0.42
Accounts receivable	-	0.17	0.14	0.16	0.16
Indicators of turnover, days					
Cash and RAD	-	0.25	0.24	0.66	0.50
Inventories	-	0.42	0.83	0.89	0.65
Accounts receivable	-	1.54	1.86	1.70	1.72
Accounts payable	-	1.88	2.72	3.41	2.86
Duration of the operating cycle, days	-	71.73	98.48	94.71	86.50
Duration of the financial cycle, days	-	2.85	-1.19	-30.2	-18.66

Thus, in 2017, the level of intensity of use of cash and reserves increased, which led to a decrease in the duration of the operational cycle. Approximately at the level of 2016, the intensity of use of accounts receivable persisted.

The duration of the financial cycle is a negative value, which means the availability of temporarily free cash from the enterprise in the course of economic activities.

Accounts receivable is one of the most important components of the working capital of commercial enterprises, which largely determines the financial state of the organization.

We consider the accounts receivable in the structure of the total volume of the current assets of INDIGO.

As a rule, the following indicators are calculated in the analysis of receivables:

- coefficient of diversion of current assets into accounts receivable;
- length of turnover of accounts receivable;
- coefficient of turnover of receivables;
- investments in accounts receivable - actually shows the adjusted amount of receivables possible to invest in goods (future acquisitions);
- the ratio of accounts receivable and accounts payable. As a rule, the excess of the value of accounts payable over the receivable testifies to the rational use of funds in the enterprise, since more money is drawn into circulation than is diverted from it;
- profitability of accounts receivable.

Based on the results of the calculation of these indicators, data on the effectiveness of the use of accounts receivable at the INDIGO enterprise, set out in Table 15, were obtained.

Table 15

Indicators of efficiency of management of a debt receivable

	2013	2014	2015	2016	2017
Working assets	1083.65	1105.82	1116.99	1939.64	1710.94
Receivables	705.11	795.81	701.72	1023.56	1292.01
Accounts payable	618.17	780.36	962.67	1566.80	1428.45
Revenues	4311.71	4794.28	3971.25	4986.67	6639.78
Distraction coefficient, %	65.1	72.0	62.8	52.8	75.5

Duration of turnover, days	-	56.4	68.0	62.3	62.8
Coefficient of turnover	-	0.17	0.14	0.16	0.16
Profitability of sales	0.051	0.072	0.014	0.120	0.101
Profitability of accounts receivable	-	45.94%	7.83%	69.36%	57.87%
Investments in receivables	-	606.78	556.34	748.21	971.98

The dynamics of the share of accounts receivable as part of the working assets of the enterprise is shown in Figure 5.

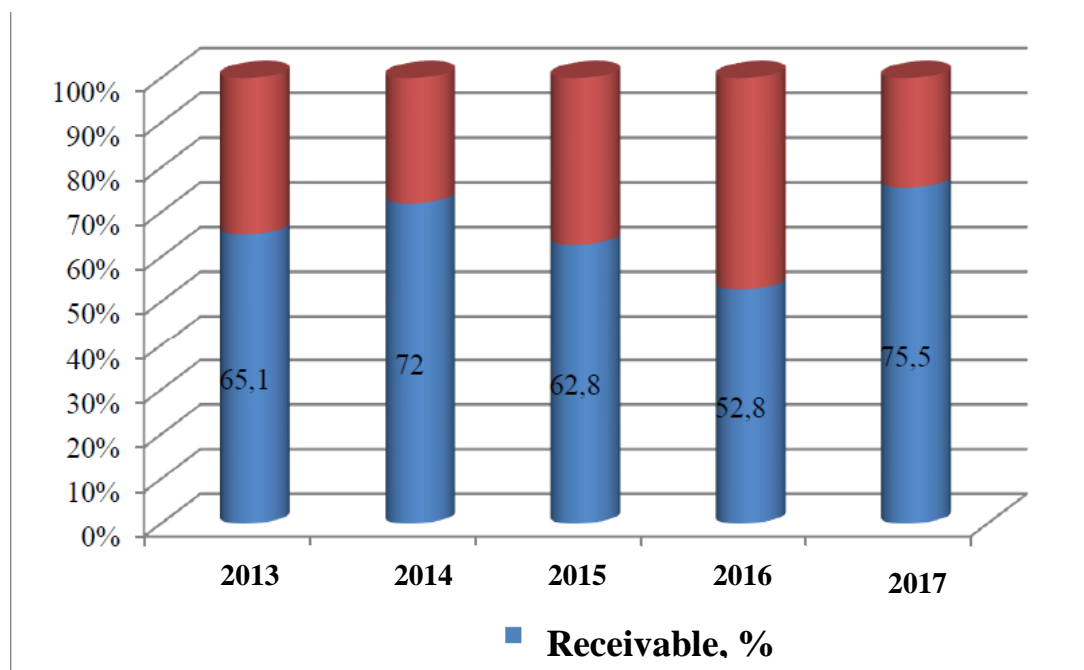


Figure 5. Share of accounts receivable in the structure of working assets of INDIGO, %

Thus, accounts receivable in the structure of current assets of the enterprise is more than half.

At the same time, in 2017, the period of circulation of accounts receivable increased by 0.5 days, and the speed of circulation, respectively, decreased by 0.05 turnover per year. The slowdown in turnover indicates an increase in the period of diversion of the company's funds and a slight decrease in the efficiency of receivables management in INDIGO.

Profitability can also be considered as one of the criteria for the quality of receivables management. Table 14 shows that in 2017, the

profitability of accounts receivable decreased by 11.6%, but its value exceeds the average annual indicators of the enterprise.

In accordance with Figure 6, in the structure of financing the company's current assets, accounts payable predominate, that is, the source of working capital is the borrowed funds. This trend is not negative in the absence of violations of contractual obligations to creditors. (<https://www.stat.gov.az/>)

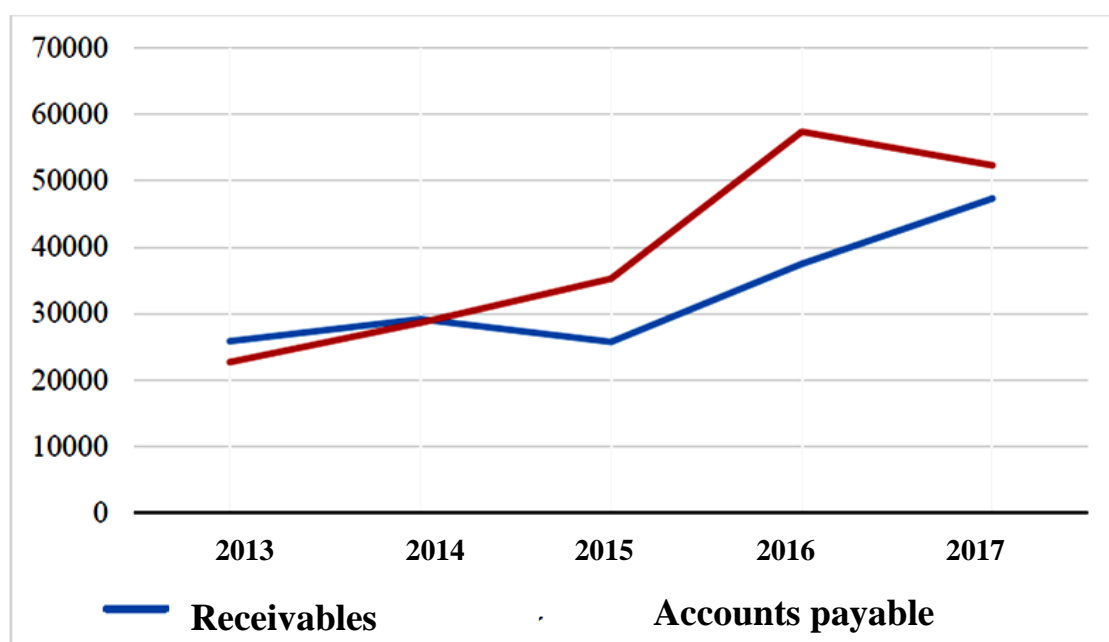


Figure 6. Dynamics of the ratio of accounts receivable and accounts payable to INDIGO, thousand AZN

This type of policy is classified as aggressive and may adversely affect the current solvency and financial stability of the organization. But at the same time it allows to provide economic activity with a minimum need for own capital, and, accordingly, to ensure the maximum level of its profitability. The study of the structure of accounts payable showed that accounts receivable are 100% financed by accounts payable, which is assessed positively and generally does not jeopardize tax settlements, with employees and other creditors.

3. RESULTS OF MEASURES TO IMPROVE THE EFFICIENCY OF MANAGEMENT OF WORKING CAPITAL IN ENTERPRISE "INDIGO"

3.1. Results

To optimize the structure of working capital, it was proposed to implement a number of certain measures to improve the use of working capital and improve the financial stability of the enterprise:

- reduce the turnover of stocks and working capital by reducing insurance reserves without negative consequences for ensuring the continuity of the production process. The application of the recommendations would ensure the release of working capital in the amount of 87.29 thousand AZN;

- introduction of a system of monitoring and control of accounts receivable at the enterprise, which would allow increasing its turnover, profitability and securing the release of funds in the amount of 22.66 thousand AZN in 2017.

Cumulatively, the acceleration of turnover of working capital as a result of the proposed recommendations has allowed to release more than 109217.28 AZN and thus increase production without additional financial resources.

The implementation of these measures will increase the amount of profit, the level of profitability, and, ultimately, lead to an increase in the efficiency of the enterprise as a whole.

3.1.1. Problem moments in the use of the working capital enterprise "INDIGO"

Analysis of the structure and efficiency of the use of working capital of INDIGO showed, in general, the balance of the financial indicators of the enterprise 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 in the total structure of the current assets of the enterprise increased significantly (up to 75.5%), and its profitability decreased by 11.6%.

This is largely due to the sharp increase in the share of overdue accounts receivable in 2016-2017, about 40% of which are bad debts. The growth rates of overdue accounts receivable and bad debts are presented in table 16. (<https://www.stat.gov.az/>)

Table 16

Indicators of overdue accounts receivable and bad debts

Index	2013	2014	2015	2016	2017
Receivables	705.11	796.36	701.72	1023.56	1287.10
Overdue accounts receivable	9.43 (1.33 %)	11.28 (1.42%)	14.74 (2.1%)	47.56 (4.65%)	76.81 (5.97%)
Uncollectible debts	3.40	3.96	5.38	19.45	30.29

Visually, the growth dynamics of overdue receivables and uncollectible debts is shown in Figure 7.

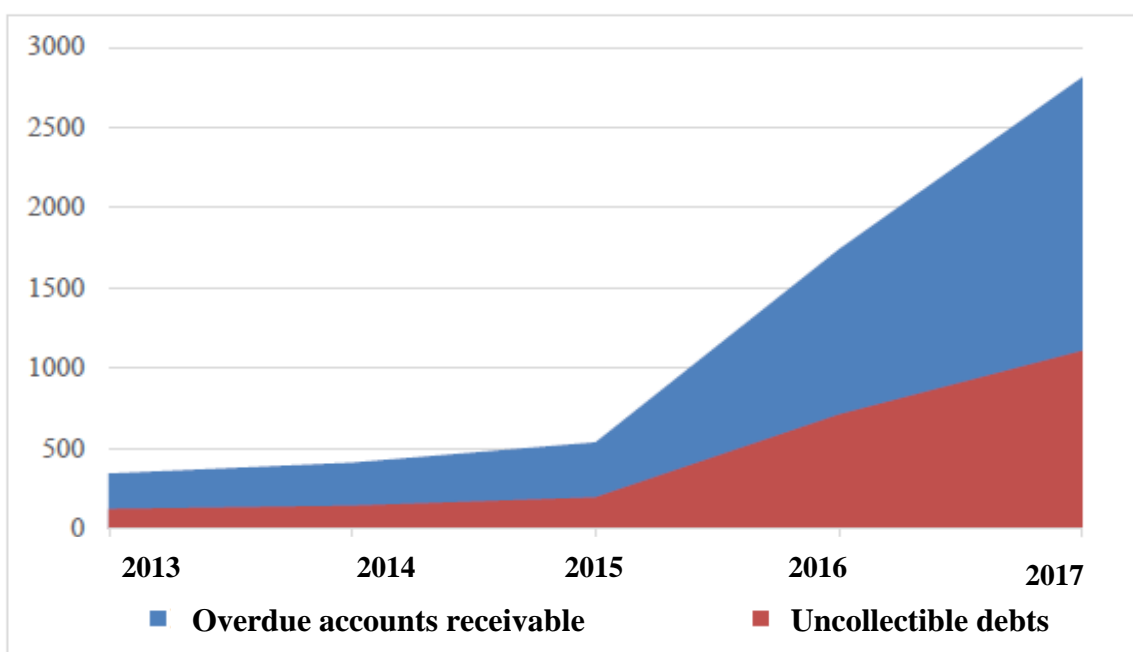


Figure 6. Indicators of overdue loans and bad debts, thousand AZN

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

At the same time, until now the enterprise does not take any measures of organizational and financial plan to reduce the level of overdue receivables.

In addition, the enterprise lacks a clear system for managing accounts receivable, including:

- there is no control over the state of settlements with customers, especially over arrears;
- the creditworthiness of customers is not assessed;
- calculations of the growth of costs are not carried out due to an increase in the amount of accounts receivable, including overdue ones.

In addition, there is a lack of flexible management of the company's reserves. So, despite the virtually total absence of illiquid balances and the introduced practice of stock valuing, the volume of reserves is formed for 30 calendar days of full capacity utilization, which is due to two main factors:

- currently in the Azerbaijan there are only two large suppliers of special self-adhesive paper of foreign production for the production of labels and stickers, and therefore there are interruptions in deliveries related to delays at customs, internal problems of suppliers, or complete purchase of lots of paper by major Baku a company of similar profile activities. This causes delays in the supply of raw materials sometimes up to 15-20 days;

- the company positions itself in the market as a reliable manufacturer of products, as a result of which up to 30% of transactions are due to the inability of competing companies operating "from the wheels" to provide the buyer's required quantities and delivery times. At the same time, the overwhelming majority of such contracts are implemented in a short time and imply the use of not more than 40% of the available insurance reserves.

In addition, with the normalization and calculation of reserves, the seasonal factor is neglected, according to which in the first half of the year, an average of 30% less production is realized compared with the second half of the year.

Thus, based on the results of the analysis of the activities of INDIGO, two structural elements of working capital have been identified, rational optimization of which will help improve the financial performance of the enterprise and its financial stability.

3.1.2. Measures to increase the efficiency of management of working capital

In order to optimize a number of structural elements of working capital it is proposed to implement the following measures, presented in Table 17.

Table 17

Measures to improve the efficiency of working capital management

Main problems	Recommended Activities
Inventory and supply management	
<ul style="list-style-type: none"> - The excessive level of stocks; - Significant storage costs. 	Reducing the volume and rationing of stocks: <ul style="list-style-type: none"> - Identification of illiquid stocks; - Development and implementation of measures to reduce stocks to the optimum level
Accounts receivable and accounts payable	
<ul style="list-style-type: none"> - Significant amount of overdue accounts receivable and uncollectible debts, large amounts of write-offs for debts; - The lack of a system for monitoring the movement and settlement of receivables. 	<ul style="list-style-type: none"> - Development of a payment control system: automation of accounts receivable and accounts payable, the formation of appropriate mechanisms for the management of operational management reports; - Decrease in the volume of overdue accounts receivable due to mechanisms of factoring, cession, forfeiting.
Organizational aspects	
Lack of clear division of responsibilities and responsibilities within the organization's working capital management system.	Implementation of end-to-end working capital management mechanisms: <ul style="list-style-type: none"> - development of a system of management reporting, monitoring and control of the efficiency of inventory management and accounts receivable; - determination of the most significant performance indicators and development of measures to increase the motivation of employees within the working capital management task.

Despite a significant increase in overdue accounts receivable and bad debts at INDIGO, the use of factoring, cession and forfeiting tools at this stage cannot be an effective solution, since these mechanisms do not solve the problem of bad debts. In addition, the enterprise does not experience an acute shortage of current assets, and therefore the use of these mechanisms will not bring significant effect.

A much more effective solution to optimize the management of receivables can be the development and implementation of an integrated system of motivation, monitoring and control of the movement and repayment of receivables.

The proposed sequence of implementation of the basic functions and steps for managing receivables is presented in Figure 7.

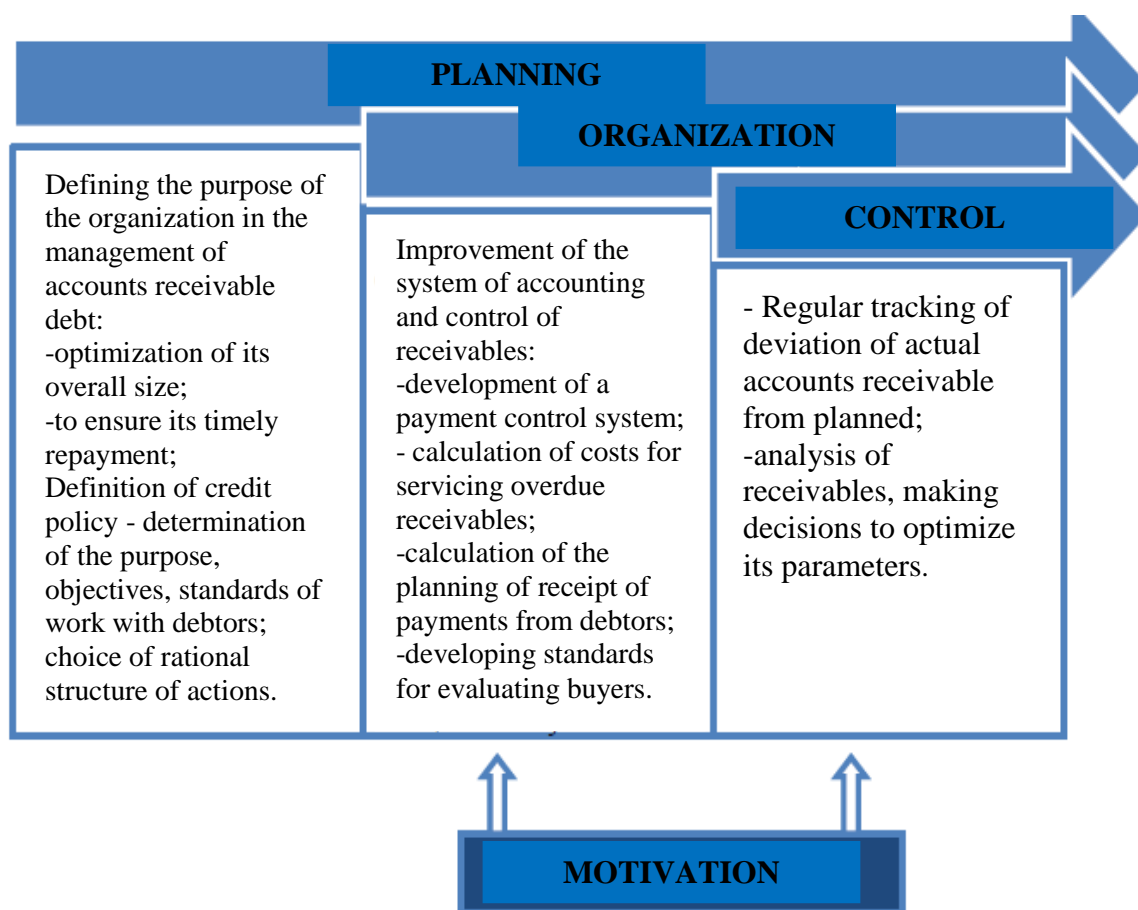


Figure 7. Recommended sequence of basic functions and steps for managing receivables

Preventing, with the help of these methods of withdrawing from circulation, even 30-50% of arrears and bad debts will increase the turnover and profitability of receivables, increase the company's revenue and, in general, strengthen its financial position.

The second essential element of the company's working capital, subject to optimization, is inventory management. The enterprise carries out the normalization of reserves in order to ensure the continuity of production for a period of 30 days, but for the entire period of the company's operation, the maximum amount of stocks in demand in production corresponded to a level of 22-23 days.

Thus, about 25% of the formed reserves do not carry a payload, freezing working capital and increasing the level of costs for their storage.

In this regard, it seems advisable to reduce the level of reserves at the enterprise to the level of production provision within 25 days instead of 30 without negative consequences for ensuring the continuity and stability of the production process. In addition, taking into account the factor of seasonality, the stock level in the first half of the year should be maintained at an even lower level corresponding to 23 days of trouble-free operation.

These measures will help to reduce the current costs of maintaining stocks, will help release cash, which will lead to increased working capital mobility and improve the level of financial stability of the enterprise.

3.1.3. Economic effect from the proposed measures

According to experts of the audit and consulting firm, the introduction of a clearly functioning system of monitoring and

management of receivables in the enterprise is able to free up 20 to 50 percent of financial resources frozen in overdue debts and bad debts.

The results of calculations in the case of the introduction of such a system at INDIGO and release of 30% of overdue accounts receivable are presented in Table 18.

Table 18

**Indicators of the effectiveness of management of accounts receivable
with the introduction of a monitoring and control system**

Index	2014	2014 forecast	2015	2015 forecast	2016	2016 forecast	2017	2017 forecast
Receivables	795.81	792.43	701.72	697.30	1023.56	1009.28	1292.01	1268.97
Accounts receivable turnover ratio	0.17	0.18	0.14	0.15	0.16	0.16	0.16	0.16
Period of receivables turnover	56.35	56.08	67.88	67.45	62.28	61.43	62.77	61.55
Profitability of accounts receivable	1.25	1.26	0.21	0.22	1.89	1.92	1.58	1.61
Economic effect		-3.64		-4.74		-11.81		-22.67

Thus, as a result of the proposals made, we should expect some acceleration in the turnover of receivables and an increase in its profitability. The economic effect is proportional to the growth of overdue accounts receivable and in 2017 would have amounted to 22.66 thousand rubles. The dynamics of the expected economic effect is shown in Figure 8.

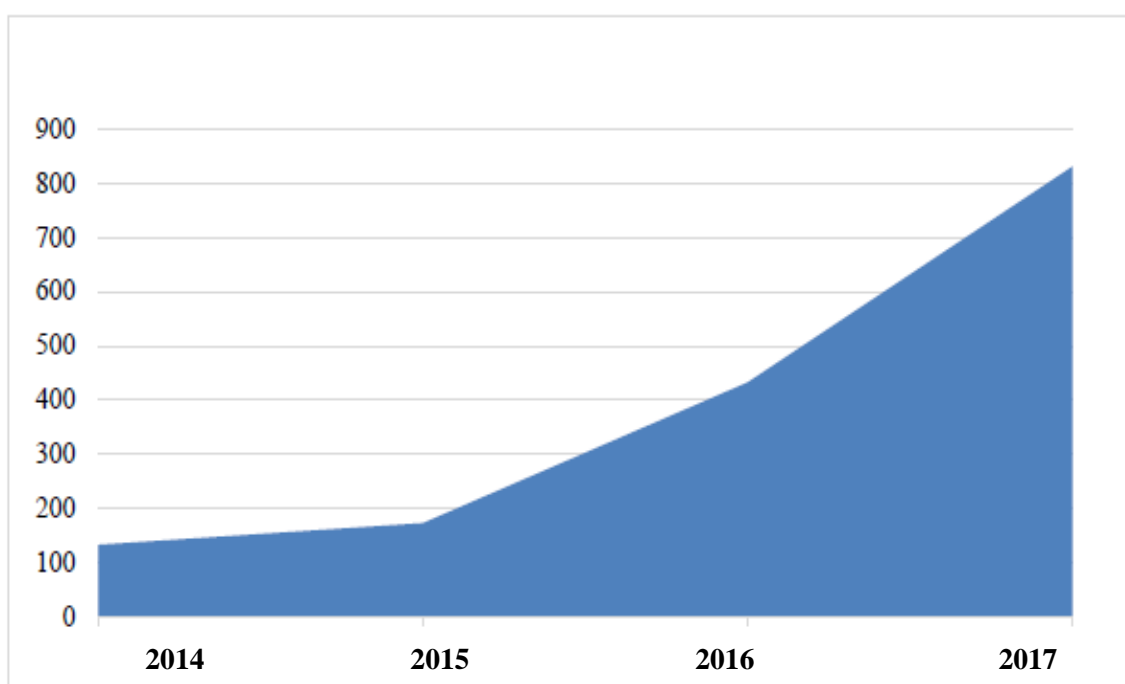


Figure 8. The economic effect of the introduction of a system of management of accounts receivable, thousand AZN

Calculations of indicators of efficiency of inventory management in case of reduction of their insurance component are given in Table 19.

Table 19

Dynamics of changes in inventory management indicators as a result of their optimization

Index	2014	2014 forecast	2015	2015 forecast	2016	2016 forecast	2017	2017 forecast
Inventory	172.84	138.27	359.38	287.50	297.70	238.16	359.0	287.20
Inventory turnover ratio	0.64	0.80	0.32	0.40	0.30	0.38	0.42	0.52
Inventory turnover period	15.29	12.24	30.43	24.34	32.45	25.96	23.66	18.93
Profitability of inventories	20.02	25.03	8.44	10.55	11.15	13.94	13.68	17.10
Economic effect	-	-40.74	-	-67.13	-	-89.89	-	-87.29

Thus, at the enterprise, due to the growth in the inventory turnover ratio in 2017, there would be a release of working capital in the amount of 87.29 thousand AZN. The dynamics of profitability of reserves before and after optimization are shown in Figure 9.

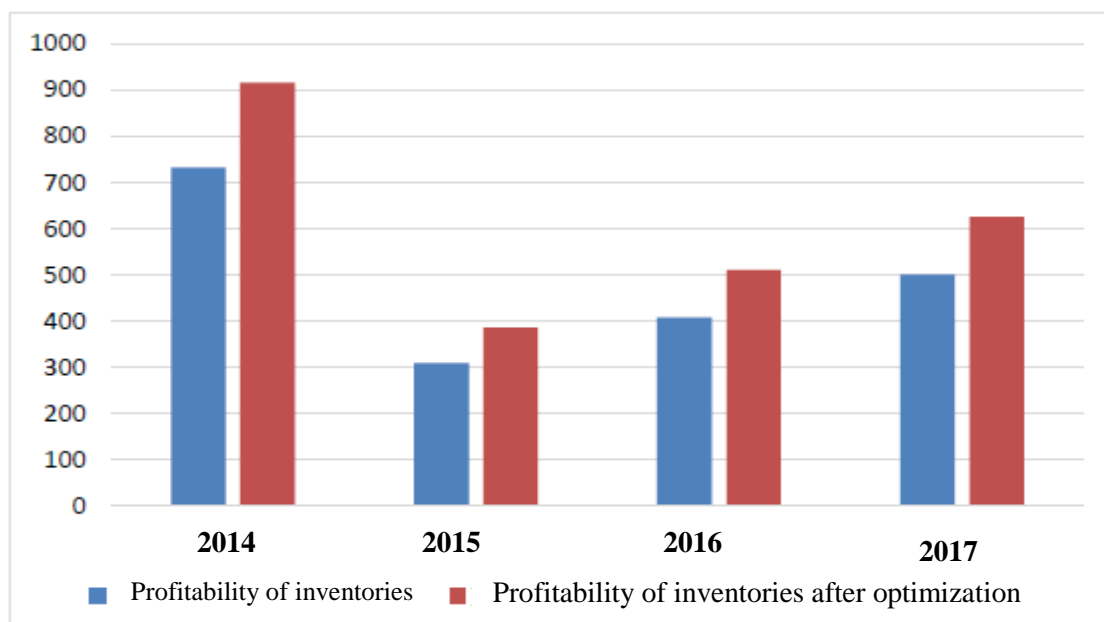


Figure 9. Comparison of profitability of reserves before and after implementation of optimization measures, %

Thus, the profitability of reserves in the event of implementation of the proposed measures would increase in terms of indicators 2013-2017 years on average by 25 percent.

The aggregate economic effect from the introduction of proposals is due to structural changes in the company's balance sheet with a corresponding improvement in profitability, liquidity and financial stability indicators. Calculations of the corresponding changes are presented in Table 20.

Table 20**Changes in the indicators of profitability, liquidity and financial stability of the enterprise, taking into account the proposals made**

Index	2017	2017 taking into account optimization	Change, %
Profitability of working assets	0.367	0.385	4.9
Profitability of all assets	0.178	0.187	5.1
Absolute liquidity	0.04	0.12	300
Rapid liquidity	0.95	1.01	6.3
Current liquidity	1.20	1.13	- 5.8
Coefficient of financial independence	0.169	0.179	5.9

Thus, the introduction of proposals to optimize working capital allowed to increase its profitability, as well as improve the overall financial performance of the enterprise, such as liquidity and financial stability.

CONCLUSION

A key role in the current economic activity of the enterprise is occupied with the problems of sufficiency of working capital, the efficiency of its use, and also the search for the most profitable sources of financing. Working capital management of the enterprise is the most important factor that provides the enterprise with sufficient resources to carry out its activities.

All types of current assets are more or less at risk of losses. Thus, monetary assets are largely exposed to the risk of inflationary losses; short-term financial investments - the risk of losing part of the income due to unfavorable financial market conditions, as well as the risk of losses from inflation; accounts receivable - the risk of non-return or untimely return, as well as the risk of inflationary losses; stocks of goods and other material values - losses from natural loss, etc.

Therefore, the process of management of current assets should be aimed at minimizing the risk of losses, especially in the context of inflationary factors, aggravation of the non-payment crisis and a decline in the market conditions. Since the financial condition of an enterprise largely depends on the state of working capital, working capital management today becomes extremely relevant.

In the course of this work, the financial condition of the INDIGO for the years 2013-2017 was analyzed and measures were developed to improve the use of working capital in the enterprise.

Based on the results of the analysis of liquidity and solvency of the INDIGO for the years 2013-2017, the calculation and evaluation of the analytical ratios showed that the financial condition of the enterprise is satisfactory. The enterprise can be considered solvent, since its available cash and active settlements fully cover its short-term obligations.

At the same time, the analysis of the structure and use of the working capital of INDIGO made it possible to identify a number of topical problems.

So, a financial source of a covering of a debt receivable is accounts payable. This led to a low level of own circulating assets and, accordingly, a relatively low level of liquidity and solvency of the enterprise.

At the same time, accounts receivable of buyers occupy the first place in the structure of current assets. Because of this, a significant part of the advanced working capital is returned to the enterprise with significant delays, or does not return at all.

A large share of accounts receivable significantly slows the overall turnover and, as a result, not only reduces the mobility and efficiency of working capital, but also solvency in general, which worsens the financial position of the enterprise.

In addition, elements of ineffective inventory management of the enterprise have been identified, which adversely affects the economic performance of the organization.

Thus, the situation with the structure and use of working capital creates a problem of financial stability of the enterprise.

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