



**Financial and Banking Services Market**

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**SOURCE  
OF WORKING CAPITAL**

**Abstract**

The article deals with the analysis of the main sources of raising additional funds, the risks and liabilities associated with them to meet the requirements of current legislation of Ukraine. There has been made the conclusion about the expediency of different funding sources.

**Key words:**

Debtors, creditors, debt, funding.

**JEL:** M2, M29.

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## Introduction

In the process of activity a large number of enterprises are faced with the problem of debtors not paying off their obligations. As a result, the companies have insufficient amount of working capital for normal business operations and are forced to seek additional methods to attract it.

The problems of the theory and practice of analysis and management of the working capital were investigated in the works of many economists. A significant contribution to the solution of these problems was made by such researchers: F. Butynets, S. Golov, V. Orlova, S. Ryleyev, O. Surnyna, V. Sheludko and others.

The purpose of the research is to justify the sources of working capital and to develop practical recommendations for choosing the best of them, for the further improvement of the funds management that will cause the financial condition of the company improvement.

## The main material

Analyzing the sources of financing it should be mentioned that all the borrowed capital is chargeable. Despite the fact that own funding sources are considered to be free, it's not always the case. The contributions of the founders accompanied by the payment of dividends, the amount of which sometimes exceed the rate of interest on the loans offered by the banks.

Consider the main funding sources types from Form 1 «Balance Sheet (Statement of Financial Position)» (Ministry of Finance of Ukraine, 1999).

Ensuring payments to personnel and other types of ensuring. Each company establishes an allowance for future expenses and payments to employees to reduce the outflow of funds from the main account at the time of the relevant supply, but in the absence of situations that are created for this supply, the company can use the funds for other purposes. These tools are free of charge sources of funding, as they belong to the company directly.

Target funding. Capital earmarked funding and trust income can come as subsidies, allocation of budget and off-budget funds, earmarked contributions of individuals and entities and others. These revenues are usually irregular. However, it is targeted, so that the company will use the relevant needs of these

funds and the funds on the main account can be used for the repayment of other liabilities.

Long and short-term bank loans. Credit is usually given to business loans of all the types of property for temporary use under the conditions stipulated by the loan agreement. The most important of these conditions are: supply, return, timeframes, serviceability and target orientation. Total lending practice defines the mandatory payment for funds received through the accrual of interest as compensation to the creditor.

Other long-term liabilities. Obligations of borrowing (excluding bank loans) is intended to account for the payments to other persons on issued and paid bonds maturing more than twelve months from the balance sheet date

Other long-term liabilities. These typically include payments to landlords for non-working capital transferred under long-term leases, as well as working capital, cash and securities received under the integral property complex lease settlements with other creditors and other transactions, taxes and duties (mandatory payments) arrears often deferred in accordance with the laws, financial aid on reverse basis and others. Such obligations are provided for a fee. Lease obligations are paid regularly at a constant amount in accordance with the terms of the contract. Enterprise Manager shall analyze and consider all the economic gains and losses due to decision to take property for rent. The amount of lease payments for the whole period may significantly exceed the cost of the asset, so purchasing the asset is economically more reasonable. If the lease stipulates income, cash value of the lease payments should be compared with the future value of money received under the loan from financial institutions.

With regard to deferred taxes, fees, financial aid reciprocally, these amounts are paid to the budget once in a constant amount. These funds are returned at no additional premiums, so it is reasonable for the company to attract them. However, the procedure for deferral of taxes shall be done in accordance with the Procedure of the taxpayers' financial liabilities (tax debt) deferral. It requires a lot of effort, so it is not always appropriate (State Tax Administration of Ukraine, 2010).

Notes payable. Issuing bills for wealth, works and services received and other transactions are a good way for a time delay payment of liabilities to suppliers in order to keep the amount of cash in a current account for a certain period. Bill is inherently fee. Interest bill guarantees payment of interest on certain deferred payment, the cost of interest-free promissory note is usually higher than the original cost of debt.

Payables for goods, works or services are most appropriate source of funding. Paying for a normal term (1 year, unless the contract states it otherwise) the buyer has no additional financial obligations. However, the failure of the accounts of creditors leads to an increase in accounts receivable and outflow of the

lender's funds. If there is the regular failure on a few buyers, supplying enterprises is threatened with insolvency.

Current liabilities for payments received on advance are also a very good way to raise additional funds. With the right organization of work with the buyers and arrangements for prepayment in brief manufacturing process, the supplier can use directly the funds of the buyer for the manufacturing process. However, not all the companies agree to pay money long before receiving the goods, but for the supplier guarantees the absence of the overdue debtor liabilities.

Current liabilities to the budget, extra-budgetary payments and insurance settlements are the most negative types of obligations. Any arrears of taxes, duties and other fees are paid, with a time payment amount increases. Late payment of the amounts in the budget accompanied accrual of fines and penalties. Therefore, the main recommendations on management obligations to the budget are the constant monitoring of accrual and terms of payment of the amounts in the budget.

Current liabilities for wages. Company may delay payment of wages to its subsequent deposition if they have other commitments that would require immediate repayment in cash, but sum in the account is limited and there is no additional funding. But we should not forget that the main motive wage workers to perform their professional duties and its failure can cause downtime or even complete cessation of production. Therefore, according to the Law «On labor» wages of employees is done on a priority basis, at least twice a month (Supreme Council of Ukraine, 1995).

Obligations for payments to participants and founders of the company, related to the distribution of equity (dividends, return of shares, etc.) can be viewed from two perspectives. On the one hand, participants must fully pay now for contributions to the share capital. On the other hand – the firm must pay dividends to the participants. The deadline for the payment of dividends by law prescribed only for public companies. The company should pay dividends only in cash. As to other business entities, such as limited liability companies, they can determine the deadline for the payment of dividends in the statute or by a decision by the general meeting. Following the decision by the general meeting accounting pays dividends in the amount of the order and the terms defined by these charges (Magazine «Economist», 2014).

When insolvency societies expedient to raise funds from the founders, believing it to be more profitable than obtaining a bank loan.

The funds can be drawn from the founder in several ways. One of them is receiving money from the founder as repayable financial assistance. According to Article 14, subparagraph 14.1.257 of the Tax Code of Ukraine (CLE) (Supreme Council of Ukraine, 2010) repayable financial assistance – is the amount of funds received by the taxpayer for the use under a contract that does not include the

accrual of interest or provide other types of compensation in the form of fees for the use of such funds, and is a must to return. If the rotary support received from the founder of the company, returned to him not later than 365 days from the date of receipt, the amount of such assistance is not included in income under paragraph 135.5.5 Article 135 of the Tax Code, if the recipient of such aid is liable to income tax or single tax in accordance with paragraph 3 of paragraph 292.11 CLE if the recipient is repayable financial assistance to a person who is subject to a simplified tax system. Real obtain repayable financial aid do not fall within the definition of operations for the supply of goods and services, so the VAT on such transactions is not charged. Thus, this method of raising funds is not accompanied by additional commitments and payments. It is appropriate if the company needs the funds in the short run for the immediate repayment of certain obligations and there is confidence in obtaining funds in the near future from debtors. This debt is accounted for as part of other accounts payable.

If care is not returned within 365 days of the founder, it extends the general procedure of how to help received from the defaulter and the payer of income tax (depending on the status of the founder). Such aid is registered in the company as a long-term loan

From 01.01.2014, the income tax rate for businesses under the regular tax is 18%. This rate is much lower than the rates on loans offered by the financial services market. A possible when the bank that serves the company can provide a loan at a rate lower than the market. Interest paid on the loan may be less than the value of the income tax that would pay for the company. Where the company is not sure in the flow of funds from debtors in the near future and need to raise funds for the long term, it is advisable not to make out a bank loan, because these obligations to repay the company is difficult and time of payment of the founder can be changed.

The funds deposited by the founders may increase the share capital. In this case neither the company, nor the founder has to pay VAT and income tax. It does not matter, whether the founder is a citizen or an organization. Increasing the authorized capital is not so easy. Since the decision must be adopted by all the members of the organization at their general meeting. Hence, the founders must agree that the proportion of those who contribute to grow. The next step is to amend the founding documents and register them in the government. A firm as a corporation will have to register and issue additional shares. All this can be done only after the share capital of the company will be paid in full (Surnyna, 2000).

In this case, the management personnel are required to analyze such fundraising in all material respects. The main points that you need to pay attention to are the amount and the period for which funds are involved and the terms of the credit. Basically, these costs will be involved for the long term, an average of 3–5 years. During this period the rates charged and interest paid may signifi-

cantly exceed the amount of the loan. However, the founder of the funds involved is paid as dividends. Founders' deposits to the statutory capital of the company accompanied by additional costs for convening shareholders' meetings and legal services related to changes in the company's charter and other statutory and regulatory documents, additional shares. Also making a significant amount of money one of the founders may give it a controlling stake – 50% + 1 share. Taking into account that the distribution of income and the payment is subject to the company, which determined based on the amount of income that may never be paid in cash, and remain within current assets in the form of accounts receivable, payment of dividends on these shares can make a significant cash outflow of the company, which was the cause of further involvement, as Art. 30 Law «On Joint Stock Companies» (Supreme Council of Ukraine, 2008) establishes deadlines for the payment of dividends. Just as every company seeks to continue normal production activities, which will be accompanied by fruitful cooperation with contractors and their timely repayment of its obligations in the future will increase the company for cash payment for sold products, goods and services. An obligation to the bank is finish during specified conditions of the loan agreement and will have no further impact on the economic activity of the company. Contributions from the founder accompanied by additional costs when received and will further impact on the economic activity of the company under any circumstances in the future, as the payment of dividends will be up to the release of the shareholders of the person making the contribution or liquidation of the company. Removing particles accompanied by additional costs of funds to changes in statutory and regulatory documents. Returning the shares to the founders may be done only with the consent of the shareholders, but as the owner of a controlling stake will not be interested in reducing their income, removing the funds will be very difficult.

Increase in share capital for the development of the company, which in the future will be accompanied by the payment of large dividends will greatly enhance the image of the company in the market and increase product profitability of the enterprise.

Current liabilities of domestic payments include payments from subsidiaries and associated companies, internal calculations of the production units and households allocated a separate balance sheet, mutually tempering items; selling products and services; transmission costs management activities; payment of wages to employees of these facilities; for other types of payments (Ministry of Finance of Ukraine, 1999). Preparation of cash, equipment, materials and goods for the personal use of the subsidiaries is free of charge by attracting assets.

Other current liabilities include:

- Payroll – amounts the company owes to his employee for the acquisition of his assets, which can be repaid for the availability of funds in

the company. Such amounts are usually small and are not a significant source of funding.

- Tax liability – the amount of value added tax, determined based on the amount of advances received (pre-payment) for finished goods, merchandise, other tangible assets and intangible assets, works and services which are subject to shipping (performance).
- Tax credit – the amount of value added tax, which the company acquired the right to reduce tax liability. When offsetting tax credit debt and tax liability is deducted on account of analytical accounting of VAT. As it has been mentioned above, the amount of tax to be paid on time to avoid any additional charges.
- Payments for accrued interest – accrued interest for the use of money or goods (works, services) received a loan; property derived from the use (rental, leasing, etc.) (Ministry of Finance of Ukraine, 1999). This type of commitment is not the source of funding, and only leads to an outflow of money as a payment for the use of another's property.
- Payments to other creditors – payments to various organizations for non-commercial operations, such as those arising from building houses, sewing clothing brand, create fixed assets for joint activities and more. The value of these obligations depends on the entity type of its operations and general economic factors (Ministry of Finance of Ukraine from, 2000).

Receivables as inventory are an asset that is not profitable. However, the presence of a certain amount of receivables is a necessary result of its economic activity, and optimization of its size – one of the most important tasks that should solve the financial manager in the management of working capital.

If a company operates in a transitional economy, significant and stable amounts of accounts receivable and payable, tend to show a low level of financial discipline in payments between companies. Receivables in this case are a type of immobilized assets, assets that are temporarily withdrawn from circulation and accounts – funds that are temporarily engaged in free of charge. Receivables and payables are worthless in terms of inflation, so it is feasible to reduce accounts receivable and accounts payable increase within certain limits (Sheludko, 2013).

## Conclusions

After analyzing the possible methods of raising working capital for businesses the main recommendation of management personnel is ongoing, continuous, thorough and objective oversight for the development and use of revolv-

ing funds. If you need additional involvement must carefully calculate all the costs and benefits of such decision in the long run because it might have an incorrigible impact on the future of the company.

However, raising funds from the founders or other own sources of funding is always more profitable than attracting outsiders.

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