POSSIBILITIES OF FINANCING THE CYCLE OF EXPLOITATION THROUGH OWN SOURCES

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ABSTRACT: *By elaborating the work, the authors highlight the possibilities of financing the circular assets through their own sources, provided that for the substantiation of the financing decision it is based on the general principle that the current assets are financed from short-term sources, and the fixed assets from sources on long-term. The financing sources are generally presented, these being classified from two points of view: according to the sources of origin and according to their destination. They can ensure the financing of some needs of the operating cycle. Also, relevant conclusions regarding the results of the case study are presented.*

KEY WORDS: *sources of financing equity, attracted sources, borrowed sources, internal contributions, external contributions, working capital.*

JEL CLASSIFICATIONS: *M21; O22.*

1. INTRODUCTION

Financing decisions influence the financial structure of the company and the average cost of capital. The objective is to achieve the lowest cost of purchasing capital under the conditions of a reasonable and controllable degree of debt. Thus, the financing decision must be made by correlating the costs of capital with the profitability of the projects. The financial structure of the company represents the whole of various sources of financing to cover the financing needs.

In order to substantiate the financing decision, it is based on the principle that current assets are financed from short-term sources and fixed assets from long-term sources. This principle cannot be strictly applied because a trading company is sometimes required to provide the financing of fixed assets from short-term sources,

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and some of the sources of financing of the operating cycle can be provided by the surplus of long-term financing sources. with permissive allocations.

The sources of financing for a trading company can be grouped from several points of view.

Thus, according to their origin, they are grouped as follows:

- equity;
- sources attracted;
- sources borrowed.

The sources borrowed mainly include the following:

- loans from credit institutions;
- loans from bonds;
- the leasing loan;
- grant funds.

Depending on the destination of the funding sources, they are grouped as follows:

- sources of short-term financing for operating cycle needs;
- medium and long-term financing sources for financing investments [2].

2. EQUITY

Equity includes the share capital, capital bonuses, reservations, the current result, the result reported.

Equity is made up of external sources or contributions and internal sources or contributions.

The external contributions include the contribution of the shareholders or the associates and the internal ones derive, mainly, from the capacity of self-financing of the company, by distributing the profit, partially or totally, for development.

2.1 External contributions to equity formation

The companies, at the beginning, must constitute a social capital, being the first element of the own capital.

According to the legal regulations in force (Law no. 441 of 2006 for amending and supplementing Law no. 31 of 1990 on commercial companies, republished), the share capital of the joint stock company or the limited partnership company cannot be lower than 90,000 lei, and the Government will be able to change, at most every 2 years, the minimum value of the share capital, taking into account the exchange rate, so that this amount represents the equivalent in lei of the amount of 25,000 euros.

The minimum share capital of a limited liability company is 200 lei.

In the case of companies with limited liability, their share capital remained at the same minimum level provided by Law 31/1990 on commercial companies, divided into social parts that cannot be less than 10 lei. In the case of joint stock companies or joint stock limited companies, the nominal value of an action may not be less than 0,1 lei.

During the course of the activity the companies can increase the share capital, the main modalities being the following:

- new contributions in cash or in kind;
- incorporation of other elements of equity (reserves, issue premiums, non distributed profits).

Of the mentioned modalities, only the contributions in money form are sources of direct financing and in-kind contributions of indirect financing.

The incorporation of other elements of equity does not generate new sources of financing, resulting in the modification of the financial structure.

The share capital is equal to the nominal value of the shares or shares representing the value of the capital contribution, of the bonuses and reserves incorporated or of other operations leading to its modification.

Thus, each shareholder, in exchange for his contribution will receive a number of shares that represent his right of ownership over the company.

The share represents a share title that gives the holder the capacity of associate or shareholder, giving him the right to a proportionate share of the profits distributed by the company.

The owner of one or more shares of a company is entitled to dividends granted from its profit, has the right to participate in the decision making, through the General Meeting of Shareholders, and is entitled to a share of the amounts resulting from a possible liquidation of company, in proportion to the number of shares held.

The shareholder can receive dividends, after the profits have been made for the payment of the tax on profit and the establishment of legal reserves.

The shares are divided into two categories: ordinary and common shares and preference shares. The two categories of shares differ mainly in the way in which the dividends are granted.

The most common are the ordinary shares, which give the right of the holders to receive dividends within the limit of the net profit obtained. The holding of common shares does not guarantee the obtaining of dividends, these can be distributed at the end of the financial year, according to the decision of the general meeting of shareholders only if profit is made.

The holders of preferential shares have the right to receive dividends, in a certain amount, regardless of whether the company has registered a profit or loss.

Also in the case of liquidation of the company have priority over the rest of the shareholders, if the amounts resulting from the recovery of assets do not fully cover the debts.

The preferential shares and the ordinary shares, according to the law 31/1990 of the companies, can be converted from one category to another, by decision of the general meeting of the shareholders.

Equity companies, with very good financial performance, have the opportunity to list stock exchanges.

Thus, by confronting the demand with the offer, in addition to the nominal value, the shares will also acquire a market value, which is usually higher than the nominal value.

The exchange rate may fluctuate above or below the nominal value, depending on the economic and financial performance of the company.

Among the conditions that must be met for the listing on the stock exchange we mention:

- the probable market value of the shares must be greater than the value required by law;
- the shares must be freely transferable;
- the company must publish the balance sheets and profit and loss accounts for the last five years,
- at least 25% of each class of shares must be owned by the public made up of persons not associated with the directors or majority shareholders,
- as a rule, the shares in a new issue must be offered by the issuing company, especially to the existing shareholders, participants in the share capital,
- the company must inform its shareholders in order to protect their interests.

2.2. Internal contributions to equity formation

If, at the beginning of the company, the equity is equal to the share capital, following the performance of profitable activities, we attend a process of capitalization of the company by sharing the profit or part of the profit for development. We mention that the distribution of the profit for the distribution of dividends does not ensure this capitalization process.

The internal contributions to the formation of the own capital are clear from the own activity ensuring the self-financing with positive effects on the financial autonomy.

For carrying out specific activities, expenses are incurred and revenues are generated structured in three categories: from / from exploitation, financial and extraordinary.

Thus, the revenues and expenditures are structured according to the activity fields that generated them: operating on the sectors; industrial, commercial, service provision etc; financials regarding the investments in the capital of other companies and other investment actions; extraordinary regarding natural calamities or other similar events.

The difference between total income and expenses from which depreciation and provisions are excluded has the following destinations:

- the part due to the state by paying the tax on profit;
- the share due to shareholders or associates by distributing dividends;
- the part due to the employees by distributing a part of the profit for granting bonuses;
- the part due to the company by constituting the depreciation, provisions and reserves.

The right part of the company ensures total or global self-financing, which has two components: maintenance self-financing and net self-financing.

Maintenance self-financing is formed by the constitution of depreciation and provisions and must ensure that the level of assets attained at any given time is maintained.

The net self-financing ensures the capitalization of the company by distributing a portion of the profit for development, increasing the financial autonomy of the company.

2.3 Equity - source of financing for the operating cycle

Equity is a long-term financing source ensuring investment financing. The financing of some needs of the operating cycle from own sources can be realized when a surplus of the permanent sources formed by own capital and the medium and long term debts is compared with the permanent allocations formed by fixed assets, and this surplus bears the name of fund of bearing.

The working capital can be determined on the basis of the balance sheet structured according to the financial criteria, respectively the degree of liquidity for the assets and the degree of demand for the liabilities.

The liquidity of the assets represents their ability to transform into a money form at a given time.

According to this criterion, the assets can be divided into two categories:
permanent and cyclical allocations. Permanent allocations include fixed assets with a low degree of liquidity, the useful life being longer than one year. Cyclical allocations include current assets (stocks, receivables, money availability), being characterized by a high degree of liquidity.

The enforceability of the liabilities is their ability to become due. According to this criterion, the liabilities are also grouped into two categories: permanent sources and cyclical sources.

Permanent sources include equity and medium- and long-term debt, with maturities of more than one year, and cyclical sources include operating debts and short-term bank loans, with maturities of less than one year.

The working capital is determined as follows:

FR = permanent sources - permanent allocations - (equity + medium and long-term debt) - fixed assets.

Depending on the values recorded by the working capital, the following situations are distinguished:

-FR> 0, reflects a state of financial equilibrium, the permanent allocations being fully covered in permanent sources, and at the same time, a surplus can be used that can be used to finance the cyclical allocations;

- FR = 0, is a purely theoretical situation, the permanent allocations being financed entirely from permanent sources, but there is no surplus to finance some needs of the operating cycle;

- FR <0, reflects a state of financial imbalance, the permanent allocations being financed partly from permanent sources, there being the need to resort to cyclical sources, affecting the financing of the operating cycle.

The positive working capital is specific to the companies that carry out profitable activities, and the profit or part of the profit if it is distributed for development, contributes to the increase of the own capital.

The positive values of the working capital mean that there is a surplus of permanent sources compared to the permanent allocations that can be used to finance some needs of the operating cycle (financing of current assets).

3. CASE STUDY

In a commercial company, the permanent sources and allocations have the following structure:

-lei-

No.	Explanations	N 1	N 2	N 3
1	Establishment expenses	14170	14170	14170
2	Other intangible assets	359 910	351 543	349 321
3	Intangible assets (1 + 2)	374 080	379 883	363 491
4	Fields	5 46755	546 755	546 755
5	Buildings	1 458900	1418700	1359680
6	Technical installations and machines	1 623555	1693785	1760891
7	Other installations, machinery and equipment furniture	8 2345	68 543	66 732
8	Property, plant and equipment (4 + 5 + 6 +7)	3711 555	3727783	3734058
9	Participation interests	3 14705	31705	31705
10	Shares held by entities related	2 17500	217 500	217 500
11	Financial assets (9 + 10)	249 205	235 876	247 187
12	Fixed assets (permanent assignments) (3 + 8 11)	4334840	4343542	4344736
13	Paid subscribed capital	3 043 000	3043000	3043000
14	Capital premium	7 19877	719 877	719 877
15	Reserves	447 573	487 573	527 573
16	Profit or loss carried forward	- 46068	- 2 3341	0
17	Current profit or loss	8 2463	8 9779	4 72247
18	Permanent sources (12 + 13 + 14 + 15 + 16))	4246845	4316888	4762697

The working capital for the three financial years is determined:

FR1 = 4246845 lei - 4334840 lei = - 87995 lei
FR2 = 4316888 lei - 4343542 lei = - 26654 lei
FR3 = 4762697 lei - 4344736 lei = 427961 lei

The values recorded by the working capital fund, in the three financial years, reflect the way in which, at the microeconomic level, within the company, the financial balance is achieved and consolidated. In the first financial year, the negative value of the working capital reflects a state of financial imbalance determined by an unprofitable activity generating losses.

The situation will improve in the following year, the financial imbalances being maintained, but there are positive prospects because the activity has become profitable. During the last year of analysis, the working capital register positive values, the financial balance being restored, and if the trend is maintained it will be consolidated, with the necessary bases.

4. CONCLUSIONS

Working capital level and evolution in the three financial years reflect complicated following: a state of financial imbalance in the first two periods of management and financial equilibrium in the last reporting period, analyzed.

Thus, during the N1 period, the working capital has a negative value of -87,995 lei. This level means that the permanent sources of equity are smaller than the permanent allocations comprising the fixed assets. In this situation, the permanent sources ensure the partial financing of the pertinent allocations, being necessary to resort to cyclical sources (in the short term), at the expense of some financing needs of the operating cycle.

The main cause is the registration of losses, with direct effect on the reduction of equity.

During the N2 period the working capital is maintained at negative values, at a level of -23341 lei, but the situation is better because the trading company registers profit, resuming the capitalization process.

In the financial year N3 the working capital records positive values at a level of 427961 lei. This level means that the permanent sources are greater than the permanent allocations. In this situation, the permanent sources ensure the financing, in totality of the permanent allocations and, at the same time, a surplus is released, the positive working fund, which can be used to finance the current assets.

We mention that the positive working capital is specific to the companies that carry out profitable activities, but in order to ensure a capitalization process, the decision to distribute the profit must ensure the allocation of a part of the profit for development.

The financing of the financing cycle from permanent sources is justified by the renewable character of the current assets, and if there are no structural changes there is a minimum level of the current assets to be financed.

Thus, with the renewal of stocks and receivables, there is also the renewal in approximately equal proportions of operating debts.

The renewable character of stocks and receivables, as well as of operating debts, determines that the net need for capital for the operating cycle manifests itself at the level of the difference between the required financing of the operating cycle and the operating debts. This difference is precisely the need for a working capital for which, in order to ensure the achievement of the short-term financial balance, there must be a working capital fund.

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