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# APPROACHES TO ASSESSING THE IMPACT OF TURNOVER ON THE FINANCIAL POSITION OF THE ORGANIZATION

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**Abstract:** Analysis of business activity is one of the most important areas of comprehensive analysis of a company's activities. In the economic literature, the category of turnover is often identified with the business activity of an organization. However, in our opinion, business activity is a broader concept, and turnover is the most important component of an organization's business activity. The article examines the economic content of the categories "business activity" and "turnover," as well as approaches to assessing the impact of turnover on the financial position of an organization.

**Keywords:** business activity, turnover of current assets and liabilities, expenditure stage, credit stage, net stage, individual bases for calculating the duration of cycles

**JEL code:** M40

**Research aims:** to identify approaches for assessing the interaction between business activity and financial stability of organizations.

**Research novelty:** a new methodology of the influence of characteristics of business activity on the financial position of organizations was proposed.

## Introduction

In the majority of economic encyclopedias and dictionaries, the definition of the term "Business activity" is either not given at all, or this economic category is interpreted incompletely. In the literature, вe can find very different interpretations of this economic term. In a broad sense, business activity is the totality of efforts aimed at promoting the organization in product, labor, and capital markets (Kovalev V.V., Kovalev Vit. V., 2009). Opinion also appears, that from a financial point of view, business activity reflects first of all on the speed of circulation of funds (Dontsova L.V., Nikiforova N.A., 2004). The purpose of the Business Activity is to study and evaluate the levels of various coefficients characterizing turnover and their dynamics. In the definitions of some authors (Litovchenko V.P., 2018), on the contrary, the concept of business activity includes only the final result of the use of capital, which in our opinion is highly generalized.

Through the assessment of business activity, the results of the current production activity of the organization are analyzed, which directly affects the financial condition of the organization (Turmanidze T.U., 2017). Another interpretation of business activity is that "the organization's ability to take a stable position in the competitive market during its activity, among other factors, is determined by its business activity (Litvinenko, E.V., 2020).

The analysis of the business activity of the organization ultimately leads to the assessment of the level of efficiency of the capital at the disposal of the organization (Pyastolov S.M., 2004). There is also an opinion, that from a financial point of view, the business activity of the enterprise is first of all reflected by the speed of its funds' turnover (Sheremet A.D., Saifulin R.S., Negashev. E.V., 2001). In this regard, with new approaches the evaluation and analysis of the financial position of organizations and business activity interactions is important.

## Research results

There are two main issues that usually arise in the analysis of turnover. One of these problems is related to the unrealistic interpretation of turnover results. This means that the effect of turnover on the financial position of the organization is misinterpreted, because the nature of the effect of current assets on each of the indicators of the size of net current assets, solvency, profitability and financial stability is different. The second problem is related to the preparation of information for decision making. The problem here lies in the correct choice of calculation formulas for estimating the duration of the cycle of current assets and current liabilities.

In turnover analysis, turnover ratios and cycle time indicators are used. The turnover ratio is determined by relating the proceeds from the sale or the selected appropriate basis of calculation to the corresponding average value of the asset or liability. It shows how many turnovers that asset or liability performs during the reporting period.

The analysis of the dynamics of turnover ratios (number of turnovers) makes it possible to evaluate the efficiency of the organization's activities. However, the absolute values of these coefficients are difficult to interpret. Thus, if, for example, the turnover ratio of non-current assets increased from 1 to 2, it is definitely a positive change, but it is difficult to say whether a ratio equal to 2 is an optimal, critical or permissible level for the organization. From the point of view of economic interpretation, the most informative are the indicators characterizing the cycle duration, which are calculated in days.

Total asset turnover in days is determined by multiplying the average value of assets by the number of days in the reporting period and relating it to net sales.

The duration of the cycle of current assets implies that, in addition to the costs of product release, which are reflected in the indicator of the cost of the realized products, the organization also bears costs aimed at ensuring the continuity of the production process. The general formula for calculating the duration of cycles of individual components of current assets and current liabilities is determined taking into account the length of the analyzed period in days (month-30 days, quarter-90 days, year-365 days).

The problem lies in which version of the calculation to choose, which version gives a more accurate idea of the duration of the cycle. Is the calculation based on sales revenue or on an individual basis? The answer here is unequivocal. both options are correct, there is no "good" or "bad", right or wrong option. Simply, two versions of calculations give answers to two different questions and the choice of one or another version depends on the nature of the problem.

Let's try to justify what has been said on the basis of the reporting data of the conventional organization. An organization wants to analyze inventory turnover in March with data from the financial position and income statements.

For example, the calculation of the duration of the cycle of material stocks according to the indicator of sales revenue shows how many days of financing of material stocks can be carried out at the expense of sales revenue.

In our example, the result of the calculation is equal to 26.4, which means that the available material stocks can be financed with 26.4 days of sales. In other words, the duration of the cycle calculated according to the indicator of sales revenue reflects the existing level of assets of the organization.

Cycle time calculated on an individual basis (for example, cost of goods sold) indicates whether the level of assets formed is optimal for a given organization. The duration of the cycle of material stocks, calculated on the basis of the index of the cost of the realized products, is 44 days. it means that the inventory on hand covers 44 days of product release costs. If we take into account that the costs of production include the costs of wages, depreciation, electricity, services received, then it can be argued that the existing material reserves cover the organization's demand for them for more than 44 days.

***Table 1. Calculation of material inventory turnover by sales revenue and by individual basis***

| Indicator | Dates | |
|---|---|---|
| | 01.03.2024 | 01.04.2024 |
| **Report on financial results /thousand AMD/** | | |
| Sales | 125 000 | 225 000 |
| Cost of goods sold | 80 000 | 140 000 |
| Revenue for the period | | 100 000 |
| Cost for the period | | 60 000 |
| **Financial position report /thousand AMD/** | | |
| Stocks of raw materials | 76 000 | 100 000 |
| **Cycle time /day/** | | |
| According to sales revenue | [(76000+100000)/2)*30օր]/100000 = 26,4 | |
| According to individual base | [(76000+100000)/2)*30օր]/60000 = 44,0 | |

Thus, if the task is to assess the organization's financial capabilities for maintaining the current level of stocks, then the calculation of cycle times should be made based on the indicator of sales revenue. To assess the efficiency of current asset management, cycle times should be calculated on an individual basis.

Three indicators are particularly important when calculating the cycle time according to the sales revenue indicator: cycle duration of current assets (cash is not included), cycle duration of current liabilities (loans and borrowings are not included) and the difference between these indicators. The duration of circulation of individual components of current assets shows the period (in days) during which money is invested in a given component of the asset.

Money passes through successive stages in the process of their circulation. First, cash is converted into advances to suppliers, which are then converted into inventories, work-in-progress, finished goods, accounts receivable, and finally a new amount of cash. Moreover, some of the mentioned stages may be missing in different organizations. Cycle duration indicators give the time characteristic of each of the specified phases. Thus, it can be said that every day of raw materials and materials in storage and work-in-process, every day of finished goods in storage, and every day of delay in payments by buyers cost the organization some money.

The duration of the cycle of current assets without cash is called "expenditure phase". The longer the duration of this phase, the longer the funds are in current non-monetary assets, that is, the "Money-Goods-Money" circulation process takes longer. The growth of the "expenditure stage" indicates the deterioration of current asset management conditions, that is, the decrease in the efficiency of current asset use.

An increase in the "expenditure phase" leads to a decrease in the rate of return on capital, and vice versa. An increase in the "expenditure phase" can also lead to a deterioration in liquidity and financial stability indicators, as it contributes to an increase in current liabilities, which are a source of financing for asset growth. Stockpiling and spending require adequate sources of funding. The greater the cost stage, the greater the organization's demand for financing the production process. The demand for financing the production process can be realized at the expense of sources formed as a result of the production process and at the expense of external sources independent of this process. In this case, external sources include the growth of the organization's equity capital, as well as the involvement of loans and borrowings.

Current liabilities are sources of financing formed as a result of the production process. Among those sources are, in particular, accounts payable for purchases, current liabilities for the budget, current liabilities for wages, current advances received. Moreover, due to the fact that certain payment terms and a certain frequency are usually defined for them, the budget and salary payables are often called stable current liabilities. The duration of the cycle of current liabilities (except loans and borrowings) is called "credit phase". The longer the duration of the "credit stage", the more effectively the organization uses the financing opportunities of current activities at the expense of direct participants in the production process.

An increase in the "credit stage" indicates an improvement in the management of current liabilities, which is expressed through an increase in sources of financing during the current production process. Of course, this statement is true only if the individual components of current liabilities grow to an acceptable level for the given organization and overdue or overdue liabilities are not formed.

As a result of comparing the dynamics of the spending and credit phases, it can be said that the growth of the credit phase is mainly a forced, response step. in the event of an increase in the demand for financing current assets, the organization thus tries to compensate for the cash gap.

Consequently, a question arises. Does the increase in accounts payable have a positive or negative effect on the organization's financial position? From the point of view of neutralizing the cash gap, the increase in liabilities to suppliers is considered as a positive factor, as it allows financing the increase in current assets without involving payment means (loans, borrowings). If the increase in payables leads to penalties, fines, then the situational short-term positive result of neutralizing the cash gap will lead to negative consequences after a certain period of time. It can be said that in this situation, the assumption of a decrease in the current liquidity ratio due to the increase in creditor debts and the proposal to reduce these debts will not be correct. In this situation, the reason for the reduction in the level of the current liquidity ratio is not the increase in specific payables, but the increase in current assets, which in turn requires an increase in their financing sources, in this case, the increase in payables. That is, if the payables do not increase, it will be necessary to attract other sources of financing, in particular, an increase in credit funds, which are also current liabilities, and their increase also leads to a reduction in the level of current liquidity.

The difference between the "Expense stage" and the "Credit stage" is called the "Net stage". The net stage characterizes the organization of financing the production process. It is a part of the "Expenditure stage", which is financed not by the direct participants of the production process, but from the point of view of the production process, at the expense of the growth of external sources, in this case, equity capital. The higher the value of the indicator, the more unfavorable the current liabilities management conditions are for the organization. The negative value of the "net stage" implies that the delays in the payments of suppliers by days exceed the sources of financing necessary to ensure the continuity of the production process, and the organization can direct the formed "surplus" to the implementation of other goals, in particular to the financing of non-current assets.

The change in "net stage" reflects the impact of current asset management conditions on the organization's demand for funding. The growth of the index is considered as a negative trend and indicates a change in the current asset management conditions, which leads to an increase in the demand for sources of financing the production process.

Reduction of the "net stage" is considered a positive change and indicates that the change in current asset management conditions has led to a reduction in the organization's demand for sources of financing the production process and has contributed to the relative economy of cash.

It should be noted that the effect of current asset management conditions on financing demand is evidenced by the "net stage" change, not its absolute magnitude. The unchanged size of the "Net stage" indicates that the current asset management conditions did not affect the organization's financing demand in any way during the analyzed period.

The point of not including loans and borrowings in the analysis of the turnover of current liabilities lies in the fact that the purpose of this analysis is to determine the increase or decrease in the demand for credit funds. In other words, loans are a sought-after element in the process of liquidity analysis, rather than an output element.

The main meaning of the turnover analysis from the point of view of the impact on the company's financial condition is the assessment of the dynamics of "spending and credit phases".

An increase in the "expenditure stage" (the sum of the periods of turnover of current assets) leads to a decrease in the level of capital profitability (total capital, equity capital), and also contributes to a decrease in indicators of financial stability and general liquidity (due to the need to attract additional sources of financing the growth of assets).

Shortening the duration of current asset turnover is a lever for increasing capital profitability, optimizing financial stability and increasing the company's overall liquidity level. In practice, the reduction of current asset turnover periods means the reduction of the delay period for the payment of customer accounts, the minimization of the volume of finished products in the warehouse and the inventory of raw materials (in particular, the development of the production plan according to the sales plan).

The growth of the "net phase" creates the need for additional financing, its reduction, on the contrary, creates additional sources of financing for current production activities. The reduction of the "net phase" is possible due to the optimization of the turnover of current assets both through the measures listed above, and by increasing the turnover periods of current liabilities (in particular, attracting larger advance payments from buyers, increasing the delay in payment of suppliers' accounts).

## Conclusion

To characterize the principles of current assets management, the cycle times of current assets and liabilities are determined according to individual bases. The individual bases for calculating the duration of cycles of individual components of current assets and current liabilities will be presented in the following format.

***Table 2. Individual bases for calculating the turnover duration of individual components of current assets and current liabilities.***

| Components of Current Assets and Liabilities | Individual Bases for Calculation of Turnover Duration |
|---|---|
| Material resources | Material costs, cost of goods sold |
| Work in process | Cost of goods sold |
| Inventory | The sum of cost of goods sold, selling and administrative expenses |
| Current made advances | The sum of cost of goods sold, selling and administrative expenses |
| Accounts receivable | Proceeds from sale |

| | |
|---|---|
| Accounts Payable | Sum of cost of goods sold, selling and administrative expenses |
| Current Advances Received | Revenue from sales |
| Fixed current liabilities (budgetary, salary, equity shares to founders) | Sum of the cost of products sold, sales and administrative expenses |

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# ԿԱԶՄԱԿԵՐՊՈՒԹՅԱՆ ՖԻՆԱՆՍԱԿԱՆ ՎԻՃԱԿԻ ՎՐԱ ՇՐՋԱՆԱՌԵԼԻՈՒԹՅԱՆ ԱԶԴԵՑՈՒԹՅԱՆ ԳՆԱՀԱՏՄԱՆ ՄՈՏԵՑՈՒՄՆԵՐԸ

**Վահե Միքայելյան**
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**Բանալի բառեր** - գործարար ակտիվություն, ընթացիկ ակտիվների և պարտավորությունների շրջանառելիություն, ծախսային փուլ, վարկային փուլ, զուտ փուլ, շրջապտույտների տևողության հաշվարկի անհատական բազաներ

Գործարար ակտիվության վերլուծությունը ընկերության գործունեության համապարփակ գնահատման առավել կարևոր ոլորտներից մեկն է: Տնտեսագիտական գրականության մեջ հաճախ շրջանառելիություն կատեգորիան նույնացվում է կազմակերպության գործարար ակտիվության հետ: Տնտեսագիտական հանրագիտարանների և բառարանների զգալի մասում «Գործարար ակտիվություն» տերմինի սահմանումը կամ ընդհանրապես չի տրվում, կամ տնտեսագիտական այս կատեգորիան մեկնաբանվում է ոչ ամբողջական: Ավելին, գործարար ակտիվությունը ավելի լայն հասկացություն է, իսկ շրջանառելիությունը հանդիսանում է կազմակերպության գործարար ակտիվության կարևորագույն բաղադրիչ: Այս առումով, կարևորվում է նոր մոտեցումներով կազմակերպությունների ֆինանսական իրավիճակի և գործարար ակտիվության փոխառնչությունների գնահատումն ու վերլուծությունը:

Հոդվածում դիտարկվում են կազմակերպության ֆինանսական դրության վրա  շրջանառելիության ազդեցության գնահատման նոր մոտեցումներ:

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