

WORKING OUT OF A POLICY OF ATTRACTION OF THE COMMODITY CREDIT

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ABSTRACT

The commodity (commercial) credit is a part of sources of formation of actives of the organization and plays an important role in maintenance of normal production. The commodity loan gains the increasing distribution as has a number of advantages in comparison with other sources of forming of borrowed capital for the enterprise involving it in modern financial and commercial practice. The purpose of attraction of borrowed capital in the form of a commodity loan is the maximum satisfaction of requirement for financing of formed manufacturing inventories of raw and materials and decrease in a total cost of attraction of borrowed capital.

UDC CODE & KEYWORDS

■ UDC: 65.011.12 ■ The Commercial Credit ■ The Commodity Credit ■ Forms of the Commodity Credit ■ Cost of the Commodity Credit.

INTRODUCTION

Commercial (the commodity credit) is granted to the enterprises in the form of delays of payment for put by it raw materials, materials or the goods. In modern economic practice use kinds of the commodity credit:

1. The commodity credit with a payment delay on contract conditions. Makes a reservation conditions of the contract and doesn't demand special documentary registration;
2. The commodity credit under the open account is used in economic relations with constant suppliers by repeated deliveries. Repayment debts in the caused terms (usually once a month);
3. The commodity credit with registration of debts by the bill. The bill turn is served simple and drafts. The given form of the commodity credit is used in cases when the seller wants that the buyer recognized the debt formally [3].
4. The commodity credit in the form of a consignment - a kind of the external economic commission operation. The supplier ships the goods on a warehouse of trade enterprise with the commission to realize them. Calculations are carried out after sale of goods. Is the most safe financially a kind of the commercial credit.

Main text

Conditions of the commodity credit are completely defined by a firm production cycle. In a certain measure they depend on firm decisions: the firm can use or not use discounts for early payments. For decision-making it is necessary to estimate the missed benefit of the buyer owing to refusal of a discount:

$$C = \frac{P}{100\% - P} * 100 * \frac{360 \text{ days}}{D - L}; \quad (1)$$

Where:

- C – the price of refusal of a discount;
 P – discount percent;
 D – contractual term of payment;
 L – preferential term of payment during which the discount [7] is given.

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If the result exceeds the rate of bank percent to the buyer will more favorably address in bank for the credit and to pay the goods during a grace period.

The commodity credit has advantages:

- Is the most maneuverable form of financing of the least liquid part of actives - industrial stocks commodity-material assets;
- Allows to smooth automatically seasonal requirement for other forms of attraction of extra means;
- This kind of crediting doesn't consider put raw materials, materials and the goods as property pledge of the enterprise;
- In it is interested not only the borrower, but also the supplier;
- Cost of the commercial credit, as a rule, it is considerable below cost of the involved financial credit;
- He allows to keep the general period of a financial cycle of the enterprise. The requirement for financial assets for formation of turnaround actives thereby decreases.
- It is characterized by the most simple mechanism of registration in comparison with other categories of credit.

However the commercial credit has also certain lacks:

- A narrow special-purpose character - he allows to satisfy requirement of the enterprise for the extra capital only for financing of industrial stocks as a part of turnaround actives;
- Has the limited character in time, as a rule, it is limited to several months [5].;
- Bears in itself the raised credit risk as, as a matter of fact, is a poor category of credit;
- For the involving enterprise bears in itself additional threat of bankruptcy at deterioration of market condition of realization of production [3].

Added, but not paid costs (obligations) also are spontaneous financing. The enterprise incurs these costs or accumulates them, but till the certain moment doesn't pay. The added obligations are an interest-free source of financing. However the firm can't use it as it would like that, as payment of a salary, taxes, percent and dividends is made in the stipulated terms [4].

The choice of corresponding sources of financing of turnaround actives finally defines a parity between level of efficiency of use of the capital and a risk level of financial stability and solvency of the organization. Taking into account these factors the policy of management of financing of turnaround actives also is under construction [1, 2].

The policy of attraction of the commodity credit represents a part of the general policy of attraction by the enterprise of extra means. Its purpose – to provide the maximum satisfaction of requirement for financing of formation of industrial stocks and decrease in a total cost of the involved capital.

Working out of a policy of attraction of the commodity credit is carried out on following stages.

1. Formation of principles of attraction of the commodity credit.

The credit carries a special-purpose character, therefore requirement for it is defined taking into account the planned volume of stocks of raw materials and materials. Principles of attraction of the credit are formed taking into account the developed economic practice, periodicity of purchases of raw materials and materials, duration of economic communications with partners.

2. Definition of the average period of use of the commercial credit.

This indicator is predicted on the basis of dynamics of the average period of debts under the commodity credit for a number of the previous periods. Calculation of the average period of debts under the commodity credit is made under the formula:

$$\bar{K} = \frac{CK}{O}; \quad (2)$$

Where:

\bar{K} - the average period of debts under the commodity credit, in days;

CK - average cyma the debts rest under the commodity credit in the considered period;

O - One-day volume of realization of production under the cost price.

The average period of debts to suppliers under the commodity credit is estimated in dynamics and compared with the average period of debts of buyers and customers under the commodity credit. Average duration of the involved credit should exceed average duration of the given.

Let's consider an example of calculation of the average period of debts to suppliers and the average period of debts of buyers and customers under the commodity credit in tables 1 and 2.

Calculations show that the average period of debts to suppliers under the commodity credit increased in the investigated period that, on the one hand, is the blessing for the organization, it uses «free sources» coverings of requirement for circulating assets, on the other hand, negatively influences business reputation of the enterprise. The average period of debts of buyers and customers under the commodity credit has increased with 5,2 till 18,3 days. Thus duration of the involved credit exceeds duration of the given.

3. Optimization of conditions of attraction of the commodity credit.

Actions for expansion of sphere of credit relations with constant partners, in attraction of new partners, in maintenance of increase in the average period of use of the commodity credit are developed.

4. Minimization of cost of attraction of the commodity credit.

Management in cost of the commodity credit is based on a parity of the size of a price discount at realization of cash payments within the established settlement term and the period of granting of this credit.

Cost of the commodity (commercial) credit is estimated depending on forms of its granting: a short-term delay of payment and the long-term delay issued by the bill.

Table 1. Calculation of the average period of debts to suppliers under the commodity credit

Indicators	2006	2007	2008	2009
1. Average outstanding amount on a commodity loan, thousand rbl.	9 874	30 190	44 755	66 713
2. Volume of realization of goods on cost values, thousand rbl.	213 835	736 340	825 613	531 751
3. One-day volume of realization of goods on cost values, thousand rbl.	585,85	2017,37	2261,95	1456,85
4. The average period of an accounts due to vendors on a commodity loan, in days (p. of 1/p. 3)	16,9	15	19,8	45,8

Source: Author

Table 2. Calculation of the average period of debts of buyers under the commodity credit

Indicators	2006	2007	2008	2009
1. Average outstanding amount of buyers and customers on a commodity loan, thousand rbl.	3 291	30 469	43 841	29 045
2. Receipt of goods without the VAT, thousand rbl.	229 294	785 236	897 955	572 567
3. One-day receipt of goods without the VAT, thousand rbl.	636,93	2151,33	2416,15	1586,77
4. The average period of indebtedness of buyers and customers on a commodity loan, in days (p. of 1/p. 3)	5,2	14	17,6	18,3

Source: Author

At a short-term delay of payment cost of the commodity credit outwardly looks as financial service free of charge given by the supplier. The delay of calculations for put production within the caused term (as a rule, about one month) isn't assessed with an additional payment. Actually cost of such credit is estimated by the size of a discount from production price at realization of cash payment for it. Calculation of cost of the commodity credit granted in the form of short-term delays of payment, taking into account the taxation is carried out under the formula [9]:

$$C_{ik} = \frac{C_k}{(100 - C_k)} * \frac{360}{t_{kr}} * (1 - H) \quad (3)$$

Where:

C_{ik} – cost of the commodity (commercial) credit granted on the terms of short-term delays of payment, %;

C_k – the size of a discount in percentage;

t_{kr} – cpok payment delays under the contract;

H – the profit tax rate.

As cost of attraction of the commodity credit granted in the form of delays of payment, has the latent character, it is

necessary to compare the annual rate under each commodity credit to cost of attraction of the similar bank credit. In many cases it is more favorable to take the bank credit for an immediate reimbursement to suppliers of raw materials and materials and receptions of a corresponding price discount, than to possess the commodity (commercial) credit.

Cost of the commodity (commercial) credit in the form of a delay of payment with bill registration should consider loss of a price discount for cash payment to the supplier for raw materials and materials. Cost of such credit pays off under the formula [9]:

$$C_{rw} = \frac{C_w * (1 - H)}{(1 - C_{ck})} \quad (4)$$

Where:

C_{rw} – cost of the commodity (commercial) credit in the form of a delay of payment with registration by the bill, %;

C_w – the percent rate for the paper credit, %;

C_{ck} – the price discount given by the supplier at realization of cash payment to the supplier of raw materials and materials, expressed in decimal fraction;

H – the rate of the profit tax expressed in decimal fraction.

Cost of internal accounts payable of the organization (the added payment, deductions in social funds, taxes) represent free spontaneous financing of the organization at the expense of this category of credit. As terms of payments of the similar added debts don't depend on the organization, it doesn't concern operated financing from the point of view of credit estimation of cost [8].

Minimization of cost of the commodity credit is defined:

- In the size of a price discount – the more low this size, the accordingly more low (with other things being equal) will be cost of attraction of the commodity credit;
 - The period of granting of a delay of payment – the above this period, the accordingly more low (with other things being equal) will be cost of attraction of the commodity credit.
5. Maintenance of an effective utilization of the commodity credit.

Regulator of level of efficiency is the increase in the average period of use of the commodity credit or reduction of a cycle time of the stocks generated at his expense commodity - material assets.

6. Maintenance of timely calculations under the commodity credit.

Calculations under the commodity credit join in a payment calendar and are supervised in the course of monitoring of current financial activity.

For an estimation of quality of performance of obligations to certain subjects count indicators:

- Factor of debts to suppliers and contractors. It pays off as the relation of the sum of obligations to a monthly average gain from sales and characterizes duration of the period during which the enterprise carried out of the obligations to suppliers. Decrease in duration of calculations positively influences a financial condition of the organization;
- Factor of debts to fiscal system. Pays off as the relation of the sum of obligations to the state off-budget funds and debts against the budget to a monthly average

gain of the organization. Growth of value of an indicator in dynamics testifies to decrease in level of calculations with the budget and the state off-budget funds;

- Factor of an internal debt. Pays off as the relation of the sum of internal obligations (before the organization personnel, before participants (founders on payment of dividends), other short-term obligations to a monthly average gain. Growth of value of an indicator testifies to deterioration of calculations of the organization with the personnel and founders [6].

Correctly developed strategy of control of creditor debts allows in due time and to carry out in full of the arisen obligations to clients that promotes creation of reputation of reliable and responsible firm.

Conclusions

- The commodity loan is a source of financing of requirement for manufacturing inventories of raw and the materials, allowing to lower a total cost of attraction of borrowed capital;
- The commodity loan has a number of advantages and lacks;
- Stage-by-stage forming of a policy of attraction of a commodity loan allows to satisfy as much as possible requirements for financing of forming of manufacturing inventories of raw and materials at decrease in a total cost of attraction of borrowed capital;
- At use of a commodity loan for attraction of necessary borrowed funds by the enterprise its advantages and lacks should be considered;
- One of the major conditions of attraction of a commodity loan is observance of a following ratio: average duration of the involved credit should exceed average duration of the given.

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