

Development of effective working capital management algorithms through time

Galina Varpa*

ISMA, Riga, Latvia

**Corresponding author's e-mail: galinavarpa@inbox.lv*

Abstract

The company cash flow are invested in three areas: fixed capital, working capital and new investment programs. Working capital is a movable area in which the circulation of money. Money is converted into materials, labor and overhead for some time, but then takes on its original form. In the course of turnover, all participants in the organization are involved, who need to understand that working capital is an important area of investment. This understanding comes from studying the interrelationships of individual functions and finding areas of delay in turnover. As a result, causes of losses and profit reduction are identified. In such situations, the size of losses is determined, but the sources of their occurrence are not identified. This is due to the diversity of complex financial chains, which make it difficult to identify the real culprit of the violation of the terms of circulation.

Keywords: investments, delay, losses, delusion, exit, uniqueness, advantages

1 Introduction

Traditional financial reporting allows you to determine the amount of profit but does not hide the reasons for the increase or reduction of the cycle of capital turnover. As a result, according to the calculated coefficients, the company is in a stable state. But in case of financial difficulties, crisis situations are revealed. In fact is that the traditional algorithms of the current assessment are set for medium-term periods of time which, moreover cannot be divided with the real turnover cycle. In addition, investments in a specific area of working capital should be comparable to the funds that are created as a result of the investment made.

2 Problem

In the absence of funds for the temporary synchronization of cash investments and generated cash, it is impossible to get an objective pictures of business. As a result, the crisis is revealed too late, and the management of the enterprise which is in the network of financial delusions, declares the growth of the organization entrusted to it.

Object of study: The problem can be solved using the approach of E. Jones focused on the management of working capital through time [1]. Exploring at the level of time intervals, but not money, discrepancies that exist between departments and participants of organizations are revealed.

Purpose of study: Develop a procedure to ensure the

effective management of working capital over time in a forwarding organization focused on true growth. Such a procedure is created by supplementing Jones' approach with the concept of true growth of Reichheld [1, 2].

According to the stated goal the following research objectives were set:

1. Develop business models for the forwarding company;
2. Describe working capital management methodology;
3. Identify the working feature capital management through time [1];
4. To formulate the requirements that are predictable for true growth, taking into account the net profit that brings regular customers [2];
5. To determine the factors of harmful profits created in the forwarding company [2].
6. Develop a procedure for managing changes in working capital through time in the face of genuine growth;
7. Test the procedure using the example of the company under investigation;
8. Think over the improvement of the procedure taking into account the mechanism of credit management according to the discount scheme [3].

3 Results

The results of this research will be useful to those owners who are interested in improving the effectiveness of strategic management of the company.

References

- [1] Джонс Э 1998 *Деловые финансы* Москва: ЗАО «Олимп-Бизнес» 416 с
[2] Reichheld F 2006 *The Ultimate Question. Driving Good Profits and true Growth* Yrward Business School Press, Boston, Massachusetts

- [3] Ли Ч Ф, Финнерти Д И 2000 *Финансы корпораций: теория, методы и практика* /Пер. с англ. Москва: ИНФРА-М 686 с