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THE WAYS AND MEASURES TO ACCELERATE ENTERPRISES FUNDS TURNOVER

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Abstract

As we all know that money is the important assets for an enterprise, which plays an indispensable role in maintaining the stable growth of an enterprise, and the lack of money is bound to become an obstacle on the road of advance. If an enterprise wants to stand out in the fierce competition, it is necessary to speed up the speed of capital turnover so that the money can meet the business needs of the enterprise and avoid the shortage of funds. Thus, the speed of capital turnover has an important role on the development for an enterprise. There are four major factors to affect the capital turnover, i.e., financial management, supply-demand relationship, receivables, and inventory management. Therefore, we actively explore a variety of effective ways to speed up the turnover of enterprise funds based on the analysis of the above influence factors, whose aims is to meet the demand of enterprises.

Keywords: enterprises, funds turnover, approach, measures.

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1. Introduction

Due to the operation of enterprises needs a lot of funds that exists in the whole process of business operations, therefore, funds play an important role in the operation for enterprises. At present, the competition among enterprises in the market is no longer limited to price and service, but more reflected in the competition of funds turnover. The speed of funds turnover affects the process of enterprises. It is difficult to maintain a long time for an enterprise that has no sufficient funds. Speeding up funds turnover not only makes enterprises keep the trend of steady growth, but also makes enterprises stand out in the fierce competition. Therefore, in the development of enterprises, we should pay attention to the role of funds, and actively explore various appropriate methods to speed up funds turnover.

2. The Concept and Importance of Enterprise Funds Turnover

2.1. The concept of enterprise funds turnover

Funds turnover considers the funds of enterprises as the research object, and funds turnover mainly includes the following processes: namely, from investment to production and operation, product output, funds recovery, and then to funds input [1]. Therefore, funds turnover refers to that enterprises produce products with raw materials that purchased by themselves, and then sell the completed products, after that, they reinvests with the recovered money and purchase raw materials for producing products, and then sell the products. Due to the speed of funds turnover can reflect the quality of production and operation to a certain extent, therefore, we can see that accelerating the speed of funds turnover plays an important role in the operation and development for enterprises.

2.2. The importance of enterprise funds turnover

Accelerating funds turnover plays an important role for enterprises, especially in operation and maintaining stable growth. This can be illustrated from the following three aspects:

Firstly, speeding up funds turnover has a significant impact on reducing the occupation of funds. In order to maintain its own scale of operation, enterprises need to pay a part of funds in advance. If the funds turnover is in good condition, the amount of funds occupied will be reduced by enterprises. In general, enterprises do not need to borrow external loan on a large scale. On the contrary, enterprises needs a lot of funds to maintain the existing business scale. Therefore, the velocity of funds turnover not only affects the amount of funds occupied by enterprises, but also affects the business scale of enterprises indirectly.

Secondly, speeding up funds turnover plays an important role in strengthening the level of financial management. For an enterprise, the speed of funds turnover can reflect some problems that exist in financial management to a certain extent. Only the enterprise is aware of the problems, can it better solve these problems. Also, the operation of an enterprise needs a large amount of funds to support the operation.

Finally, the speed of funds turnover can reflect the competitiveness of enterprises. For an enterprise, if it owns abundant funds, then funds turnover is relatively fast. On the normal circumstances, enterprises can maintain the existing scale without large-scale debt, which thus reducing the expenditure of various expenses because of interests generated by debt.

Based on the above analysis, we can know that accelerating funds turnover can reduce the expenditure and increase the income of enterprises, thus, the market competition ability of enterprises can be enhanced accordingly.

3. The Factors Affecting the Funds Turnover of an Enterprise

There are many factors affecting the funds turnover for an enterprise. In this paper, we make detailed analysis to the following main influence factors, i.e., financial management of enterprises, supply and demand of markets, accounts receivable management and inventory management.

3.1. The impact of improper financial management

Financial management is indispensable in the whole process of the daily operation for enterprises, including the following aspects: i.e., buying raw materials, processing products, and selling commodities. Improper financial management is mainly in the following aspects:

First of all, enterprise leaders themselves lack of professional financial knowledge, so they are unable to accurately grasp the importance of financial management for the development of enterprises, which thus resulting in the confused use of funds;

Secondly, enterprise lacks a set of scientific and complete financial management system [2]. All kinds of adverse conditions for funds turnover will occur without a set of uniform rules and regulations, for instance, use plan of the funds without formation, i.e., funds are not allocated in an optimal structure according to the use of each department. The company's managers did not communicate with the financial personnel before using the funds, which resulting in the following consequences: funds cannot be arranged in a scientific and reasonable way, blind investment in equipment or scale up production. In this way, funds are excessively wasted. In addition, in the process of using funds, relevant personnel did not supervise the flow of funds, so it is impossible to determine whether the funds have been put in place or not, and thus the enterprise's profits and losses cannot be fed back timely.

Finally, in the context of the integration of business and finance, financial managers lack the understanding to the business process of the enterprise. Therefore, the level of the whole financial management work is relatively low.

3.2. The impact of supply and demand

The relationship between supply and demand also plays an irreplaceable role in the speed of capital turnover. Supply and demand affect the price of products, and then affect the profitability and development of enterprises. Supply and demand refers to the supply and demand of products. When the product is in short supply, that is, when the supply cannot meet the customer's demand, there will be a shortage of goods, resulting in rising prices. In order to meet the customer's demand and obtain more profits, enterprises will expand the scale of production, and the speed of capital turnover will also be faster. When the supply of products exceeds the demand, that is, when the supply exceeds the demand of customers, the phenomenon of unsalable will occurs, which leads to a decline in prices and a slowdown in the turnover of funds. In order to reduce losses, enterprises will reduce the production scale more or less. If we cannot correctly understand the relationship between supply and demand, invest blindly and expand production, we will make the allocation of funds unreasonable, resulting in a large amount of funds occupied by enterprises, thus reducing economic benefits. Therefore, it is necessary to understand the relationship between supply and demand accurately to speed up capital turnover.

3.3. The impact of accounts receivable

Accounts receivable is the funds occupied by purchasers, which is a debt arising from the sales behavior of enterprises [3]. For an enterprise, there are two main reasons for the generation of accounts receivable: first of all, enterprises promote sales by increasing their market share, thus, they often sell goods on credit and then collect payment for goods later, but the buyer's credit and solvency will affect the collection of accounts

receivable. Secondly, the time when an enterprise sells products and collects the payment for goods will not be exactly the same, and there will be a certain process in the settlement of the payment for goods, which thus generating accounts receivable. Accounts receivable that cannot be collected in time will affect the normal operation of enterprise funds.

3.4. The impact of inventory management

Generally speaking, enterprises will have a part of inventory in order to prevent the shortage of goods, for example; the material that enterprises buy and finished products. A characteristic of large inventory quantity can reflect the speed of funds turnover. Inventory penetrates into several links of production and operation, which has an important impact on funds turnover, and plays an increasingly important role in revenue. There are a variety of problems in the actual inventory management, for instance, the purchase quantity is not arranged reasonable because of ineffective communication with the financial personnel, which thus leading to the following phenomenon, i.e., some inventory shortage and some inventory excess. When the inventory is insufficient, employees will increase the number of procurement, thus, the cost of procurement will increase subsequently, if this measure still fails to meet the requirements of customers, the profits of enterprises will be affected. When the inventory is excessive, the amount of funds occupied increases, so funds can not be recovered for a long time, after that, the speed of funds turnover is too slow. What's more, the funds chain will be ruptured. As a result, the development of enterprises will be hindered seriously.

4. The Ways and Measures to Accelerate Funds Turnover of Enterprises

In view of the above four factors, in this section, we put forward four countermeasures, i.e., strengthening financial management of enterprises, strengthening budgetary management of funds to better

respond to changes in the relationship between supply and demand, strengthening the management of accounts receivable and inventory management. In the following, we will give explicit introduction about the four countermeasures.

4.1. Strengthen financial management and improve the speed of funds turnover

In order to speed up capital turnover, enterprises need to have a set of complete and sound financial management system, which needs to improve the awareness of financial management from the top down, bring in financial management personnel and pay attention to the cultivation to them. A sound management system can better realize the supervision to enterprises, especially funds, thus prevent the abuse and waste to funds. The correct financial management mode plays an essential role in the optimal allocation of funds, which can properly determine the demand and use of funds and thus accelerate the pace of funds turnover. Therefore, enterprises should strive to enhance their own financial management level and the supervision to the fund usage. Only in this way, enterprises can fully grasp the flow of funds in order to make reasonable and effective arrangements for the funds usage. Based on the above analysis, we know that a sound management method can collect more accurate information and reflect the key indicators of cash flow timely. In addition, it can also achieve the optimal allocation of funds, strengthen the transmission and transparency of information, and then funds turnover is accelerated.

4.2. Strengthen funds budgeting management and improve the speed of funds turnovers

Promoting funds budgeting management plays an irreplaceable role in fund turnover of enterprises [4]. For some enterprises, they cannot make a standard and scientific budget for funds, so they cannot guarantee the accuracy of the data with supply and demand, which greatly reduces the velocity of funds turnover. Therefore, enterprises

should have a certain grasp of the current market supply and demand, whose aim is to ensure the accuracy of collected data and strengthen budget management constantly. Which requires enterprises to do the following two aspects: first of all, before budgeting, enterprises should not only take the revenue and expenditure of each department into account, but also estimate the demand of funds appropriately according to the relationship between market supply and demand, and finally determine the budgeting of funds to ensure the speed of funds turnover. Among them, a correct understanding of the relationship between supply and demand is very important to speeding up funds turnover, which can avoid enterprises to make blind investment or expand production, thus ensuring the rationality of funds allocation and reducing the occupation of funds, finally the economic benefits is improved. Secondly, In the process of funds turnover, enterprises should attach importance to the powerful role played by the budget. Therefore, it is necessary to work out a sound budget preparation system with financial personnel and use the correct method to budget the large amount of collected reliable data, whose aim is to ensure the circulation of funds.

4.3. Strengthen accounts receivable management to improve the speed of funds turnover

Before selling goods on credit, enterprises should conduct a comprehensive investigation to the objects of credit sales, including credit situation, debt paying ability and operating status, whose purpose is to ensure collection of receivables timely. For an enterprise, it should be study the credit sales enterprise carefully, and then determine a reasonable credit period. If the credit sales enterprises pay during the credit period, we can give a certain proportion of preferential treatment, which can promote the recovery of accounts receivable. In the sales link, we should strengthen the internal's control, carry out the collection integration system of sales and accounts receivable. Whoever sells the goods will be responsible for collecting the payment from the credit

selling enterprises. In this process, the person in charge should be strictly defined to prevent bad debts, and the finally aim is to accelerate the recovery of accounts receivable, improve the turnover rate of accounts receivable and reduce the occupation of funds by accounts receivable. For an enterprise, the turnover rate of accounts receivable can measure their speed of funds turnover and the management efficiency of accounts receivable. The calculation formula is as follows [5]:

$$ARTR = \frac{NSC}{ABAR}, \tag{1}$$

$$ABAR = \frac{ARBP}{2} + \frac{AREP}{2}, \tag{2}$$

where ARTR denotes 'accounts receivable turnover ratio'; NSC denotes 'nets scales on credit'; ABAR denotes 'average balance of accounts receivable'; ARBP denotes 'accounts receivable at the beginning of the period'; and AREP denotes 'accounts receivable at the end of the period'. We use annual net value to calculate the average balance of accounts receivable, but, this calculation method cannot truly reflect the turnover speed and the management efficiency of accounts receivable for seasonal enterprises. Therefore, in order to solve this problem, we correct the balance of accounts receivable [6]. Due to the financial statements of enterprise are divided into monthly, quarterly, semi-annual, and annual reports, therefore, we can exploit monthly or quarterly data to calculate the average balance of accounts receivable.

Formula (3) gives out the expression of average balance of accounts receivable by using monthly data as follows [6]:

$$ABAR = \sum_{i=1}^{12} \frac{\frac{i_{Bm} + i_{Em}}{2}}{12} = \sum_{i=1}^{12} \frac{\frac{1_{Bm} + 1_{Em}}{2} + \ldots + \frac{12_{Bm} + 12_{Em}}{2}}{12}, \tag{3}$$

where i_{Bm} and i_{Em} denote the accounts receivable at the beginning of the month and the accounts receivable at the end of the month. The

following formula shows the average balance of accounts receivable with quarterly data [6]:

$$ABAR = \sum_{i=1}^{4} \frac{\frac{i_{Bq} + i_{Eq}}{2}}{4} = \sum_{i=1}^{4} \frac{\frac{1_{Bq} + 1_{Eq}}{2} + \ldots + \frac{4_{Bq} + 4_{Eq}}{2}}{4}, \tag{4}$$

where i_{Bq} and i_{Eq} denote the accounts receivable at the beginning of the quarter and the accounts receivable at the end of the quarter. The following examples illustrate the effects of different data on the calculation results.

Example: In terms of HS Company in 2018, its business income is 50 million, and the operating cost is 35 million. The balance of accounts receivable at the beginning of January is 1.75 million. From January to the end of December, the balance of accounts receivable is 1.8 million, 2.3 million, 2.8 million, 3.8 million, 4.2 million, 5.5 million, 7.6 million, 8 million, 4.5 million, 3.4 million, and 2.6 million. The above data shows that the income of HS enterprise changes seasonally. From Table 1, we can see that the calculation results of average balance and turnover rate of accounts receivable are affected by using different calculation data, also, compared with the calculation results of using quarterly data and monthly data, the calculation value with annual data has relative big differences. Therefore, it is usually to use monthly data to calculate the turnover rate of accounts receivable for seasonal enterprises so that they can correctly reflect the turnover rate of and the management efficiency of accounts receivable.

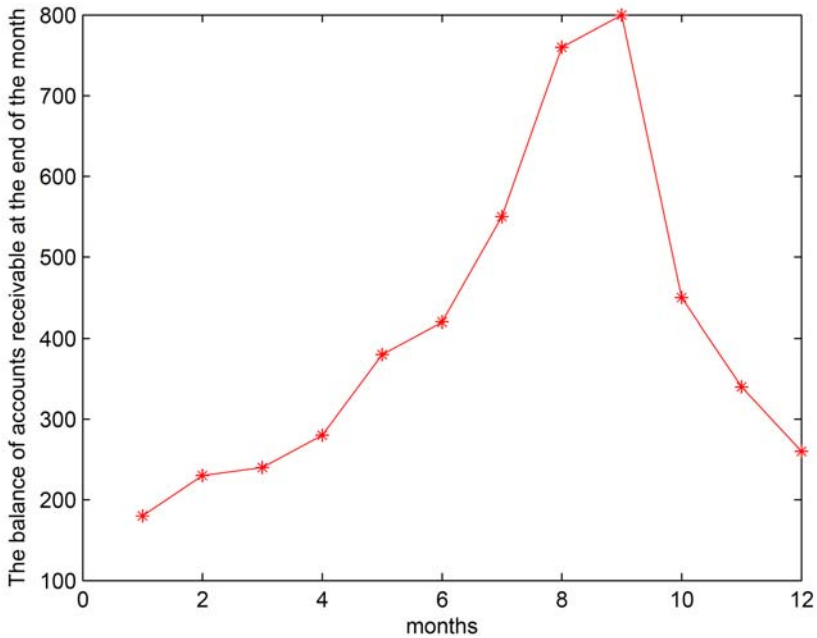

Figure 1. The trend of accounts receivable balance of HS Company in the year 2018 (Unit: 10,000 Yuan).

Table 1. Result comparison of accounts receivable balances under different calculation methods (Unit: 10,000 Yuan)

Computational methods	Average balance of accounts receivable	Receivables turnover ratio
Annual data	220	22.73
Quarterly data	397.5	12.58
Monthly data	403.96	12.37

4.4. Strengthen inventory management and improve the speed of funds turnover

Inventory is an important asset for an enterprise, but excessive inventory is bound to become a burden for the enterprise, for example, too much inventory will only increase the occupation of funds, and cause a waste of funds. Therefore, enterprises should strengthen the

management to inventory, i.e., that is to say, enterprises should have appropriate inventory so that the number of the inventory should meet company's development requirements. So enterprises can work hard in the following six aspects to rationalize inventory:

Firstly, effective circulation channels should be established to ensure the smooth flow of inventory to achieve the purpose of reducing the circulation time.

Secondly, from the perspective of inventory investment, we need to determine the production according to the recent sales volume, and then decide to buy the quantity of raw materials, and finally determine the amount of funds according to the number of raw materials. Only in this way we can avoid buying too many materials, which thus reducing the waste of funds.

Thirdly, for an enterprise, it is necessary to constantly check the quantity of inventory and dispose of the damaged and excess inventory timely, the main aim is to reduce the occupation of funds.

Fourthly, procurement personnel must pay attention to the situation about inventory procurement, and consider the cost performance of materials fully, whose purpose is to acquire the greatest benefits by using limited funds.

Fifthly, the management personnel should strengthen the inventory management level, reduce its storage cost and reduce the investment in inventory storage.

For enterprises, inventory turnover rate is an important index to measure the inventory turnover speed and the inventory management efficiency. Formulas (5) and (6) give the calculation method [5]:

$$ITR = \frac{COS}{ABI}, \tag{5}$$

$$ABI = \frac{IBBP}{2} + \frac{IBEP}{2}, \tag{6}$$

where ITR denotes 'inventory turnover ratio'; COS denotes 'cost of sales'; ABI denotes 'average balance of inventory'; IBBP denotes 'inventory balance at the beginning of the period'; and IBEP denotes 'inventory balance at the end of the period'. The average balance of inventory in the above formulas is calculated by annual net value, but for seasonal enterprises, this calculation method cannot really reflect the turnover speed and management efficiency of inventory. Therefore, we use monthly data to calculate the average balance of inventory by analogous to accounts receivable, formula as follows [6]:

$$ABI = \sum_{i=1}^{12} \frac{\frac{i_{Bm} + i_{Em}}{2}}{12} = \sum_{i=1}^{12} \frac{\frac{1_{Bm} + 1_{Em}}{2} + \ldots + \frac{12_{Bm} + 12_{Em}}{2}}{12}, \tag{7}$$

where i_{Bm} and i_{Em} denote the inventory balance at the beginning of the month and the inventory balance at the end of the month.

Due to inventory accounts for a large proportion of assets and based on the above analysis, we can get the following conclusion: only the management work can be done well so that we avoid the excessive waste of funds, and then the funds turnover can be accelerated.

5. Conclusion

The competition among enterprises is no longer limited to price and service, but more is reflected in the contest of funds turnover. For an enterprise, its normal operation needs a certain amount of funds as support. Otherwise, it is difficult to continue to operate. If an enterprise wants to maintain stable growth, the speed of funds turnover plays an irreplaceable role. Therefore, we should actively explore various factors affecting the speed of funds turnover of enterprises. We mainly speed up funds turnover from the following aspects: i.e., financial management, funds budget, inventory management and accounts receivable, whose goal is to make enterprises have enough funds to meet the daily production and operation activities. Throughout the full text, we know

that enterprises should actively explore ways and measures to accelerate and ensure funds turnover. Only in this way enterprises can occupy a stronger advantage in competition.

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