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FINANCIAL PROVISION OF INVESTMENT ACTIVITY IN MATERIAL PRODUCTION OF UKRAINE

The paper reveals the specific features of enterprises' investment activity in material production, as well as the system of its financial provision. An analysis of investment activity trends for industrial, agricultural, building and trade enterprises, their fixed assets and financing sources has been carried out. The generated financial assets as to complying with the golden rule of financing, golden rule of balance sheet and the vertical capital structure rule have been estimated.

Keywords: investing activity; fixed assets; financial investments; financing policy; material production.

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ФІНАНСОВЕ ЗАБЕЗПЕЧЕННЯ ІНВЕСТИЦІЙНОЇ ДІЯЛЬНОСТІ ПІДПРИЄМСТВ СФЕРИ МАТЕРІАЛЬНОГО ВИРОБНИЦТВА УКРАЇНИ

У статті виявлено особливості інвестиційної діяльності підприємств сфери матеріального виробництва та системи її фінансового забезпечення. Проаналізовано напрямки інвестиційної діяльності промислових, сільськогосподарських, будівельних та торговельних підприємств, стан їх необоротних активів та джерел їх фінансування. Оцінено сформовані фінансові ресурси щодо виконання золотого правила фінансування, золотого правила балансу та правила вертикальної структури капіталу.

Ключові слова: інвестиційна діяльність; необоротні активи; фінансові інвестиції; політика фінансування; матеріальне виробництво.

Табл. 2. Літ. 11.

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ФИНАНСОВОЕ ОБЕСПЕЧЕНИЕ ИНВЕСТИЦИОННОЙ ДЕЯТЕЛЬНОСТИ ПРЕДПРИЯТИЙ СФЕРЫ МАТЕРИАЛЬНОГО ПРОИЗВОДСТВА УКРАИНЫ

В статье определены особенности инвестиционной деятельности предприятий сферы материального производства и системы ее финансового обеспечения. Проанализированы направления инвестиционной деятельности промышленных, сельскохозяйственных, строительных и торговых предприятий, состояние их необоротных активов и источников их финансирования. Произведена оценка сформированных финансовых ресурсов касательно выполнения золотого правила финансирования, золотого правила баланса и правила вертикальной структуры капитала.

Ключевые слова: инвестиционная деятельность; необоротные активы; финансовые инвестиции; политика финансирования; материальное производство.

Problem setting. Economic sector determines the property structure of any company, and the system of its financing. Being dependent on capital intensity of production process, required investments for business foundation, entry into operation and further development any company needs different volume, types and structure of financial resources.

Considering the sectoral specifics of crediting process for companies there is a need to improve the effectiveness of their activity and economy in general.

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Latest research and publications analysis. Characteristics of operations, including the financial activity of enterprises in different industries are the research subjects of such scientists as: S.S. Aptekar et al. (2007), V. Y. Bozhanova (2013), O.E. Gudz (2007), I.V. Nagorna (2010), U.S. Prymush (2013) and others.

Scientists investigate functions and tasks, factors of influence on business entities in trade, industry, construction and agriculture, the procedure of their property and financial resources formation.

However, the existing studies are not able to take into account changes that constantly occur in material production sectors. Monitoring and analysis of statistical data can help timely correct the policy of financing on the micro- and macrolevels for increasing enterprises efficiency.

In this context, **the object of this research** is the identification of features of investing activity of enterprises in the material production sector and the system of its financing.

Key research findings. Development of material production sector is crucial for any national economy. Besides the fact that these enterprises create, restore or find material goods (products, energy, natural resources) and continue production in turnover (sales) by moving, storage, sorting, packing products (Economic Code of Ukraine, 2003), they make a significant contribution to the quantity of business entities, employment, sales, GDP (Konieva, 2015).

According to the domestic classification of economic activities this article offers a research on the following branches of material production sector: agriculture, forestry and fishing (A); mining and quarrying (B) and manufacturing (C); construction (F); wholesale and retail trade; repair of motor vehicles and motorcycles [G] (State Statistics Committee of Ukraine, 2011).

The main characteristics of the mechanism of economic sector influence on the entity's activity are: the specifics of technological process, seasonality, investment in its establishment, capital intensity, duration of an operating cycle, the order of financial results formation. All these peculiarities contribute to the amount, term, source and structure of financial resources, which involves the company in its own operating and investing activities.

Let us concentrate on the investing activity of material production sector representatives. Investing activity (purchase and sale of those fixed assets and financial investments which are not part of cash equivalent (National Accounting Standard, 2013) provides the foundation and further development of any enterprise.

Fixed assets are those which are not intended for sale or consumption during the operating cycle or within 12 months from the balance sheet date. Fixed assets include: tangible assets (property, equipment, buildings, vehicles), intangible assets (software, trademark, copyright, patents, goodwill), long-term biological assets (productive working adult cattle, gardens, vineyards), investment property and long-term financial investments (shares, bonds of other enterprises, deposits) for the term more than one year (Guidelines for filling of the financial statements forms, Ministry of Finance of Ukraine, 2013).

Thus, long-term financial investments are part of fixed assets. Short-term financial investments (excluding financial investments of up to 3 months) are part of current assets, but also indicate the investing activity of the company.

Purchase of new equipment, capacity expansion, software upgrade help avoid physical and moral deterioration, save materials and decrease their spoilage, provide competitiveness. Placing money in financial investments can reduce the risk of free funds depreciation against inflation, help receive additional income, provide horizontal or vertical integration of business and its diversification.

In theory, the overwhelming share of expensive fixed assets (buildings, equipment etc.) must be typical for industrial enterprises with complex and long production cycle, unlike, for example, trade enterprises.

Statistical data of domestic enterprises in material production sphere confirm this and indicate the different role of investing activity in their operations (Table 1). For example, the share of fixed assets and short-term financial investments in industrial enterprises' property reaches 56%, in trade enterprises property – 26%. The same index for construction and agriculture is respectively 42% and 38%.

Table 1. Fixed assets state of enterprises in the material production sector, 2013, calculated by the author on the basis of statistical data (Enterprises in material production sector, State Statistics Committee of Ukraine, 2013)

Index	Industry	Trade	Agriculture	Construction
The share of fixed assets and short-term financial investments in enterprise property, %	55.87	26.36	38.09	42.38
The share of fixed assets in enterprise property, %	55.2	18.9	37.7	36.2
The share of long-term and short-term financial investments in enterprise property, %	3.24	14.37	5.24	12.38
The share of tangible and intangible assets (by balance value) in enterprise property, %	44.04	7.64	26.81	14.41
The average volume of fixed assets per 1 enterprise, mln UAH	21.02	1.97	2.37	2.93
The average volume of tangible and intangible assets (by original value) per 1 enterprise, mln UAH	38.88	1.24	2.73	2.22
The average volume of capital investments per 1 enterprise, mln UAH	2.15	0.2	0.38	1.28
Coefficient of deterioration	0.57	0.36	0.38	0.47
Coefficient of capital intensity	0.58	0.05	0.51	0.29
Coefficient of capital productivity	1.72	18.89	1.94	3.47

If to accumulate separately, on the one hand, tangible and intangible assets, and on the other – long- and short-term financial investments, calculate their shares in the property of investigated enterprises, it is possible to obtain the following data. The most capital-intensive in terms of investment in tangible and intangible assets is industry, where their share in the property is 44% with the 3% share of long- and short-term financial investments. The same gap exists in agriculture. Tangible and intangible assets reach about 27% of the total agricultural enterprises assets. However, their financial investments are only 5%.

Interesting relationship between these indices exists in construction and trade. Construction enterprises are characterized by almost the same proportion of tangible and intangible assets and financial investments in property, 14.4% and 12.4% accordingly. The share of financial investments in trade representatives property (14.4%) is almost twice bigger than the share of tangible and intangible assets (7.6%).

The degree of capital intensity of the economic sector can also be discovered by calculating: the average volume of fixed assets per 1 enterprise, the average volume of tangible and intangible assets per 1 enterprise, the average volume of capital investments per 1 enterprise.

Thus, the average volume of fixed assets per 1 industrial enterprise is 21 mln UAH. The same index for other branches is much lower: in construction – 2.9 mln UAH, in agriculture – 2.37 mln UAH, in trade – 1.97 mln UAH.

The average volume of tangible and intangible assets (by original value) per 1 enterprise is: 38.9 mln UAH (industry); 2.7 mln UAH (agriculture); 2.2 mln UAH (construction); 1.2 mln UAH (trade).

Comparing the average volume of capital investments per 1 enterprise in different sectors in 2013, the leading position belongs to the industry – 2.15 mln UAH; then goes construction – 1.28 mln UAH, then agriculture – 0.38 mln UAH, trade – 0.2 mln UAH.

The observed differences can be explained. Industrial enterprises are stationary, their activities are related to large volumes of immovable (workshops, various proprietary systems) and movable property. Regularities of industry distribution are focusing on raw materials, fuel and energy sources, on infrastructure objects, research centers, places of labor resources concentration and finished product consumption (Aptekar et al., 2007).

The degree of mobility of such companies is much lower than in the rest of economic sectors. The industry is characterized by complex, long operational cycles, which do not provide opportunities to receive cash inflows rhythmically and generate free resources for significant financial investments.

To avoid inflation risk (change of construction materials value), credit and interest rate risk (Bozhanova, 2013) during downtime because of adverse weather conditions, lengthy procedures for obtaining permits and licenses accumulated by construction company resources are usually allocated to financial investments.

In turn, the popularity of trade enterprises by the number of business entities in Ukraine (51.7% of all business entities, including 58.7% of all individual entrepreneurs) (Enterprises in material production sector, State Statistics Committee of Ukraine, 2013) is caused by small amount of capital investments to start such business. The trade sector is characterized by insignificant share of tangible assets in property. Basically, they are immovable assets and trade equipment, often leased or provided directly by suppliers (Nagorna, 2010). The absence of production processes, the scale of activity (in case of small shop) and privilege taxation promote the business activity of such enterprises.

Coefficient of deterioration, coefficient of capital intensity and productivity, profitability can determine the efficiency of enterprise material base use. Industry in Ukraine has the highest level of deterioration (about 57%). It means that their tangible assets are suitable to use only by 43%. Material fixed assets of the construction, agricultural and trade sectors were worn out by the end of 2013 accordingly to 47%; 38% and 36%.

According to the formula of capital intensity coefficient for each 1 UAH of sold product in industry, agriculture, construction and trade falls respectively 0.58; 0.51; 0.29; 0.05 UAH of tangible assets balance value. Coefficient of capital productivity

means that each 1 UAH of tangible assets in industry, agriculture, construction and trade brings respectively 1.7; 1.9; 3.5; 18.9 UAH of net revenue.

At the same time among the investigated economic sectors, only agriculture in 2013 was profitable. Thus, the amount of net profit in the agricultural sector was 14984.5 mln UAH, the biggest loss was received by business entities in trade in the amount of 13248.5 mln UAH (Enterprises in material production sector, State Statistics Committee of Ukraine, 2013).

Investing activity requires financing through long-term sources of equity or debt capital, because the payback period of fixed assets or financial investments period are long. Type of company financing is commonly evaluated by the so-called "golden rule of financing" and "golden rule of balance".

The calculation results of key financing indices for the investigated economic sectors are presented in Table 2. Indices 1 and 2 relate to the golden rule of financing. Index 1 – the relationship between fixed assets and long-term capital (equity and long-term liabilities) should be less than 1. Index 2 – the relationship between current assets and current liabilities, should be more than 1.

Table 2. Type of enterprise financing policy, calculated by the author on the basis of statistical data (Enterprises in material production sector, State Statistics Committee of Ukraine, 2013)

Economic sector	Indices					
	1	2	3	4	5	6
Agriculture	0.59	1.72	1.69	1.33	0.5	81909.3
Industry	0.95	1.07	1.05	0.7	0.38	55246.6
Construction	0.9	1.07	1.11	0.3	0.11	12145.8
Trade	0.82	1.05	1.22	0.45	0.08	47978.3

The golden rule of balance is represented in Table 2 by index 3, which must be greater than 1, and certifies the relationship between equity, long-term loans and fixed assets.

In general, the golden rules of financing and balance correspond to standards in the field of material production. Fixed assets of such business entities are financed by equity and long-term external financial resources. In addition, the excess of current assets over short-term liabilities (index 2) forms the working capital. Its value (index 6) varies depending on the sector. Agriculture generates the largest volume of working capital – 81909.3 mln UAH, then goes industry – 55246.6 mln UAH, trade – 47978.3 mln UAH, construction – 12145.8 mln UAH.

But if to identify the role of equity in investing activity (index 4 – the relationship between equity and fixed assets), it appears that in agriculture it completely finances fixed assets and part of current assets. This index in industry is 70% of fixed assets, in trade and construction less than half – 45% and 30% accordingly.

The analysis of enterprises according to the rule of capital vertical structure showed insignificant part of net assets in the total amount of financial resources (index 5). According to this rule and the norm of autonomy coefficient, the share of equity in business equities property must be bigger than 50%. Only agriculture in Ukraine corresponds to this norm. The part of equity in the total amount of enterprises financial resources in industry, construction, trade is respectively 38.5%; 11%;

8.5%. This means that these entities depend on borrowed capital on 61.5%; 89%; 91.5%.

There is an objective need to solve the problem of enterprises debts in material production of Ukraine. It can be explained by seasonality and long operating cycle, for example, in agriculture, where the immediate need for financing occurs during harvest or livestock. Lack of financial resources can lead to quality decrease and loss of finished products (Gudz, 2007).

A distinctive feature of construction companies is the small share of equity in property (Prymush, 2013), when complex manufacturing process is provided mainly by loan capital.

Analysis of statistics shows a fairly aggressive financing policy, implemented by industrial, construction and trade enterprises. Truly effective enterprises usually have short operating cycles, regular and timely cash inflows. Revealed policy of enterprises financing is extremely dangerous, and in some cases could lead to financial instability, increasing the probability of bankruptcy.

Conclusions. Investing activity of material production sectors has certain characteristics. If a complex production process in the industry requires capital in tangible and intangible assets, then the short operating cycle of trade enterprises allows generating resources for financial investments.

At the same time, the industrial sector is characterized by the highest rate of property deterioration and the lowest level of capital productivity. Among the surveyed business entities only agricultural enterprises in 2013 were profitable.

Investing activity financing in material production generally corresponds to the norms and complies with the golden rules of financing and balance. However, domestic enterprises have low shares of equity in their total financial resources, which is risky and increases the probability of their financial stability infringement.

To form the general conclusion about the policy of financing in Ukrainian material production it is perspective to analyze the system of financing of operating activities, which would be the object of further research.

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