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THE ROLE OF FINANCING SOURCES IN ENSURING THE STABILITY OF THE ENTERPRISE

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Abstract: Almost any business at a certain stage of its life cycle needs to attract additional sources of financing for its development, exceeding the amount of cash flow generated from current activities.This need can also be associated with the current crisis situation in the country, industry or enterprise and with the desire to overcome it.Therefore, one of the current problems among modern companies is the problem of financing their activities and the influence of the capital structure on their interaction with counterparties.Ensuring a sufficient and sustainable financing of the company's activities is one of the main tasks of the financial management of the company. The purpose of the research is to investigate and determine recommendations for improving the structure of funding sources for the evaluated enterprise. The research methods used are: observation, comparison, analysis and synthesis, grouping, as well as other methods and tools of scientific knowledge.

Key words: financing, sources of financing, own sources, working capital, return on capital

1. INTRODUCTION

Every business at a certain stage of its life cycle needs to attract additional financial sources for its development, exceeding the amount of cash flow generated from current activities. This need can also be associated with the current crisis situation in the country, industry or enterprise, which must be overcome. Therefore, one of the current problems among modern companies is the problem of financing their activities and the influence of the capital structure on their interaction with counterparties. Ensuring a sufficient and sustainable financing of the company's activities is one of the main tasks of the financial management of any company.

There are different approaches to the concept of "financing" in the specializedliterature. This is primarily due to the spread of the views of different business schools, which have distinct ideas and approaches for defining this concept. Therefore, in order to understand the essence of this concept from different points of view, it would be correct to consider the main ideas of the researchers who were most interested in this issue. Currently, the most general approach to the definition of "financing"is reflected in the Modern Economic Dictionary, according to which financing is understood as "providing the necessary financial resources for the entire economy of the country, regions, enterprises, entrepreneurs, citizens, as well as various economic programs and types of economic activities" [9]. However, starting from the specifics of this topic, we will consider the financing from the point of view of the enterprise, as an economic entity, and of all the persons related to its activities.

2. THE DESCRIPTION OF THE PROBLEM AND CRITICAL STATE-OF-THE-ART

The main approaches to funding from the point of view of several science schools are presented in Table 1.

However, despite the existing variety of approaches to understanding the concept of "financing" and the sources of its formation, it is worth to remark that everyone agrees that it involves certain activities in the enterprise associated with the process of preparing the financial resources needed to implement some purposes. The financing covers all aspects related to the formation of financial resources, the evaluation of the costs of attracting own capital and borrowed capital. It also includes a comparative evaluation of the efficiency of using internal and external financing sources, as well as the organization and technique of fundraising from various sources.

As mentioned above, the financing process is always correlated to the investment process. Through investments, the company solves a wide range of problems: from expanding production and increasing profits to solving the environmental or social problems of its employees. Financing problems, in turn, are associated with determining the size of the need for capital and its distribution over time, choosing an appropriate source of financing and creating an optimal financing structure to maximize the company's profit and value.

Table 1. Conceptual approach to the notion of financing

Scientific school	Author	Defining
European Scientific School (German)	Schirenbek H.	Financing is a process that covers all the measures to insure a capital company, first for investment purposes and only then for the implementation of a normal financial process at the enterprise [11].
London Business School	Brailey R.	See funding where and how to make money for investment decisions [3].
American School of Science	Pike R., Neil V.	The element of financial management, which is associated with understanding the financial market and financial management of resources within the company.The financing problem consists in determining the size and the best proportion of capital necessary for the development of the company's operations [8].
The local approach	Băncilă N.	Financing is the process of providing funds, necessary for the development of activities of an enterprise, institution or NGO.All aspects of financing are of crucial importance for the development of a business [2].

Funding can be viewed both broadly and narrowly. In the broad sense, it represents the process of capital formation and transition from monetary form to other forms (commodity, production), after which the capital is created or redistributed, and the obtained income in the production process is used to begin a new cycle of production. In the narrow sense, financing is the process of finance movement: identifying sources of financing, providing and spending financial resources by implementing both current and long-term expenditures.

Certainly, if the company doesn't have problems with attracting borrowed financial resources or uses only its own financial resources in the financing process, then the main content of the financing *will be the use* of financial resources. In many cases, companies often face difficulties in gaining the amount of sufficient financial resources, therefore the content of the financing is wider and should include both the attraction and lending of financial resources and their distribution.

When a company has decided on the necessity and feasibility of implementing an investment project and there are not enough own financial resources, the main problem of financing will be to find and provide it with sufficient financial resources. Funding usually includes three steps, as shown in Figure 1.

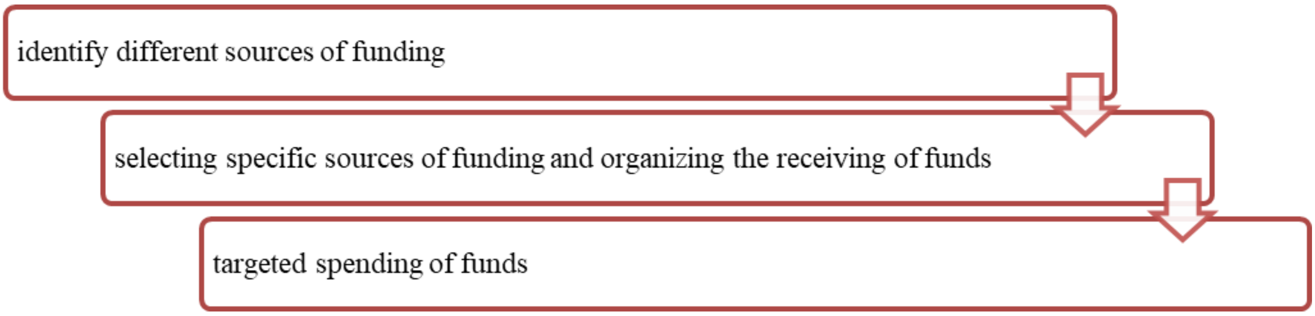

Fig. 1. Stages of the financing process
Source: elaborate by the author

The duration of the first stage depends on the type of used funds: own or borrowed funds. If own financial resources are sufficient, then the duration of the first stage will actually be zero. Under market conditions, an enterprise uses not one, but several sources to finance its activities, which is explained by several reasons:

- insufficient own financing for the implementation, for example, of a large-scale project. These difficulties may also arise due to the unstable financial situation of the company;
- the provision of borrowed funds may be limited by the period of time, especially in the current unstable stage of economic development, when lending institutions, in order to reduce risks, try to reduce the conditions for granting funds;
- as a limiting factor may be the price for the use of borrowed funds, the value of which sometimes exceeds the rate of return;

- the business conditions initially predetermine the need to use the funds received from various sources in the company's turnover. This is often dictated by the needs of the manufacturing process.

The last stage of financing includes the costs associated with the purchase of raw materials, supplies and other working capital, the creation of fixed assets, the remuneration of workers, the sale of products and others. This is the period of capital investment until the return of the invested funds. The duration of this financing stage and the amount of costs depend on many factors such as:

- market conditions,
- improvement of the material support system,
- the form of payment for the supplied products,
- the presence or absence of standardization,
- the duration of the production cycle.

So, when establishing the concept of financing, we proceed from the following statements:

- This is a phenomenon and process that develops in time and space;
- this is a broader concept than loans and investments;
- as a process, it includes the stages of identifying sources of financing, providing companies with financial resources and spending them;
- provides a set of economic relations between different business entities.

Thus, the financing of enterprises is a phenomenon and process of searching, selecting and providing financial resources, as well as their additional use to ensure the costs associated with the activities of the enterprise, representing an organized system of types, forms and methods of providing and using the financial resources (capital) of the companies, their structuring and the way in which this insurance and use is performed.As an economic category, "enterprise financing" is a set of economic relations regarding the formation and use of financial resources by an economic entity, which are formed in the process of individual reproduction.

An important point in the correct organization of business financing is the classification of funding sources, which can be done according to various criteria, as shown in Figure 2.

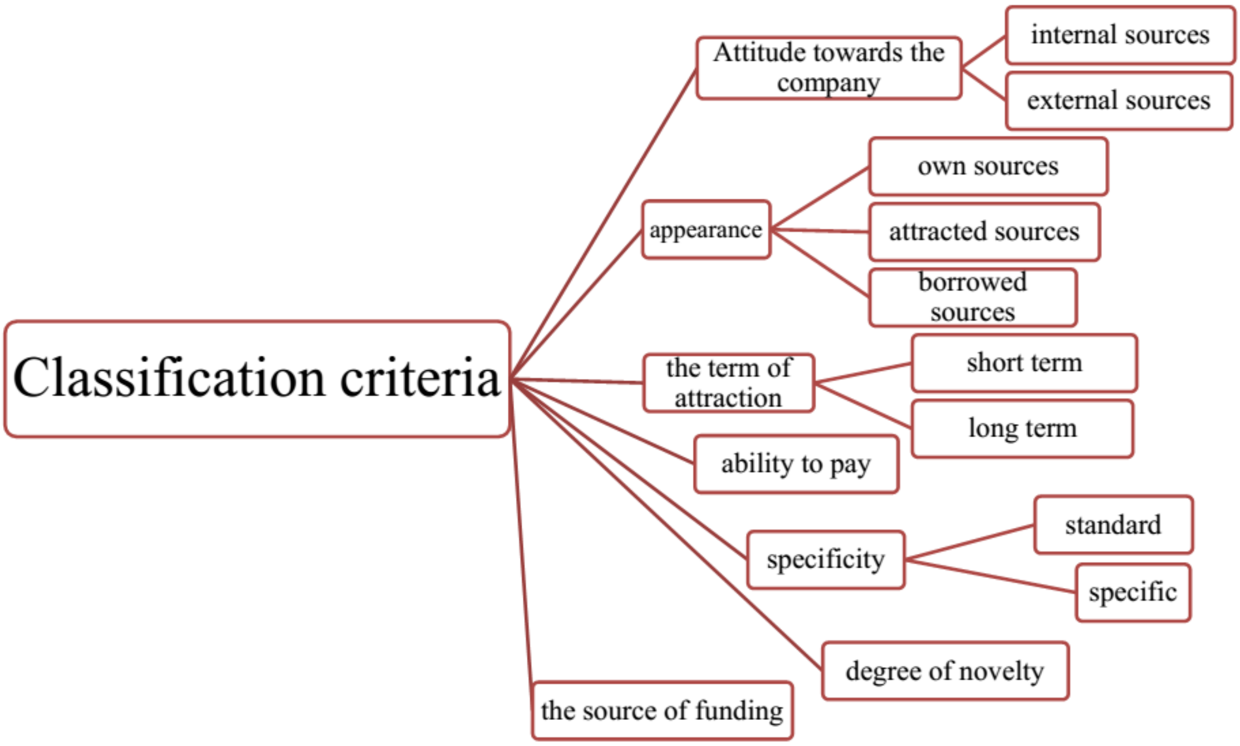

Fig. 2. Criteria for classifying the sources of financing of an enterprise

The role of financing in the activities of an enterprise is most often manifested by providing it with financial resources. Enterprise financing is a relatively independent sphere of the state financing system, which covers a wide range of monetary relations associated with the formation and use of capital, income, monetary funds in the process of circulating the organization's funds, expressed in various cash flows. In this area of financing, is formed the most of the income, which is subsequently redistributed through various channels in national economic policy and serves as the main source of economic growth and social development of society. The role of finance in the economic activity of an enterprise is manifested by the fact that with their help it is achieved:

1. Service of the individual circulation of funds. Thus, there is a change in the forms of value: the monetary form is transformed into a form of goods, and then the goods return to the monetary form of value (after the completion of production processes and sale of finished products);

2. Distribution of proceeds from the sale of goods (after payment of indirect taxes) to the fund for reimbursement of material costs, including depreciation deductions, salary fund and net income acting in the form of profit;

3. Redistribution of net profit for payments to the budget (profit tax) and profit left at the disposal of the enterprise for industrial and social development;

4. Use of the profit left at the disposal of the organization (net profit) for consumption funds, savings and other purposes provided in its financial plan;

5. Control of the correlation between the circulation of material and monetary resources in the process of individual circulation of funds, ie the state of liquidity, solvency and financial independence of the organization from external sources of funding.

In economic practice, there are two main sources of financing: internal and external, the pros and cons of which are described in Table 2.

Table 2. Classification of the entity's financing sources

Source	Component element	Benefits	Disadvantage
Internal sources	Authorized capital Additional capital Reserve capital Net income Sinking fund Other funds	The decision is made internally Lack of payment No risk of loss of financial stability and solvency Maintaining the company's management structure	Limited volume of attraction according to the size of the company Restricting development due to the impossibility of increasing the volume of assets during periods of favorable market conditions Financial opportunities to increase the return on invested capital are not used
External sources	Issue of shares Bank loans Bond loans claims Derivative financial instruments, etc.	Numerous opportunities to attract Using financial opportunities to increase the return on invested capital Possibility to increase the volume of assets during periods of favorable market conditions	Emergence of risks of loss of financial stability and solvency Decreased rate of return Dependence on the financial market situation Difficulty of attraction (the decision is not made by the company)

Source: elaborate by the author based 7

The sources of funding mentioned in Table 2 are primary. The financial system of almost any enterprise is based on these sources. In modern economic conditions, the list of sources is constantly changing, supplemented and expanded as a result of the company's adaptation to the rapid change of external conditions at the lowest cost.

Today, there are many ways to finance economic activities in a company. The specific choice of each of them depends on various reasons that led to the need to attract additional financial resources. The factors that influence the choice of financing instrument are shown in Figure 3.

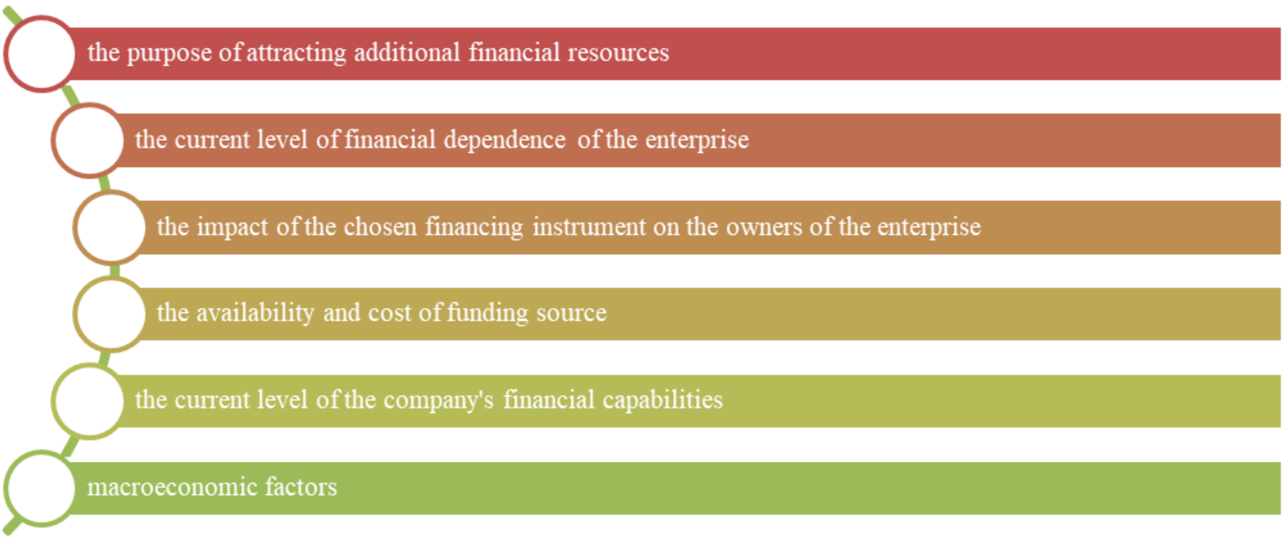

Fig. 3. Factors that influence the choice of financing instrument, Source: elaborate by the author

When deciding on the choice of a financing system in each specific case, it is necessary to take into consideration three main factors:

- the destination of the attracted financial resources;
- the way of forming the enterprise's capital;
- the financial capabilities of the organization to repay funding sources.

However, during the process of making specific financial decisions, arise two fundamental issues:

- in what form it is preferable to attract resources;
- for what period is it preferable to attract financial resources.

The solution to the first problem lies in a qualitative comparison of the advantages and disadvantages of these two main forms of financing: financing through own capital and through loans. The comparison of the main parameters of these forms of financing is presented in Table 3.

Table 3.The comparison of the forms of financing through own capital and through loans

Comparison criteria	Loan financing	Own capital financing
1. Returnability	One of the main legislative requirements for loans	There is no obligation to send funds to redeem shares
2. Pay ability	The payment of interest is provided by law	The payment of dividends is governed by market conditions
3. Expedite	Maturities are predetermined and strictly observed	Indefinite character
4. Impact on ownership and control of existing owners	Does not affect	The possibility of managing existing owners is reduced proportionately
5. Cost	Fixed cost, independent of asset return	Cost increases with increasing profitability, as investors expect high returns on their investments
6. The need for security	It usually requires collateral in the form of a fixed asset or collateral	It is provided with all the properties of the company, but does not require special support
7. Impact on lending capacity	Reduces the company's ability to attract borrowed capital in the future	Increases the company's ability to attract borrowed capital in the future

Source: elaborate by the author

Therefore, the decision to use specific funding schemes should be taken on the basis of a comparative analysis with other forms and funding schemes available in each specific case. Tributes have taken into account the fact that each of the existing financing instruments has its own sphere of efficient operation, depending on the objectives of attracting resources [6, 10, 12]. The methodology for making such decisions is presented in Figure 4.

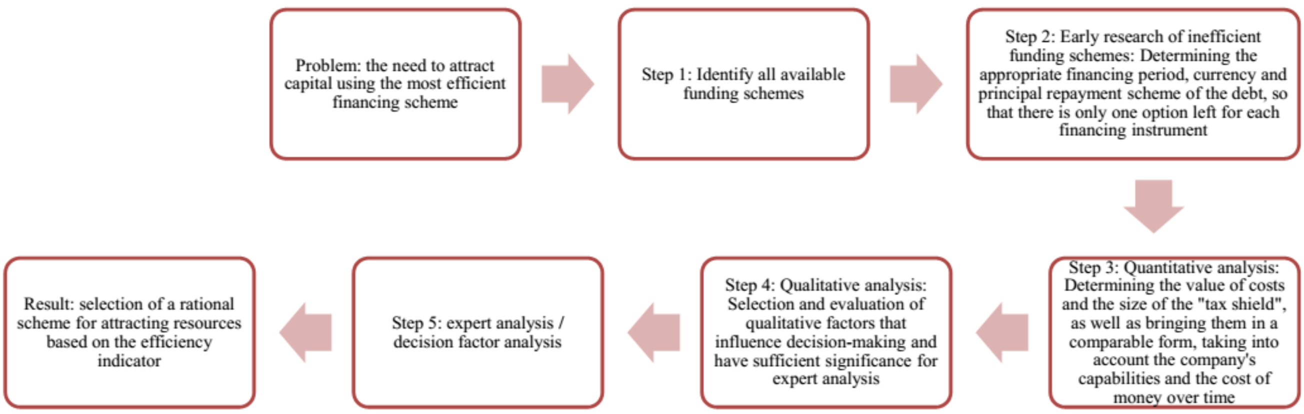

Fig. 4. Methodology of decision making on choosing a financing instrument
Source: elaborate by the author

To ensure financial stability, a company must have a sufficient amount of equity, stable income, profitability, sufficient liquidity and the ability to use borrowed funds. The financial management of an enterprise must be able to adjust the capital structure in a timely manner, ensuring the preservation of the company's solvency and its stable development. If the company's activity is based on the implementation of the revenue and expenditure

budget, the production volume is planned based on consumer demand, the company competently implements the pricing and marketing policy, monitors the implementation of the financial plan. As a result, the company's financial position is improving. Conversely, the lack of planning, the chaotic nature of production, the violation of logistics implies a decrease in revenue and profits, which consequently lead to a deterioration of the financial condition of the enterprise and a decrease of its solvency. Thus, a condition of financial stability is the result of a competent and skillful management of all areas of the company's economic activity. The financial condition of the company as a whole and its financial stability in particular depend on a number of indicators that characterize the assets and liabilities of the company, sources of financing, capital structure and the possibility of its improvement, the ratio of fixed assets and working capital, solvency and profitability. Therefore, firstly it is needed to analyze the structure of the company's funding sources, and then assess the level of its financial stability.
In this context it is analyzed the evolution of specific indicators based on business data of a conventional enterprise.

3. METHODOLOGY AND DATA

The working capital ratio (R_{FR}) reflects the degree of utilization of the working capital of the enterprise and is calculated according to the relation:

$$R_{FR} = \frac{Vv}{FR} \tag{1}$$

where: *FR* – working capital, which is calculated on the basis of data from the aggregate form of the balance sheet as follows:

$$Working\ capital = TAC - TDC \tag{2}$$

where: *TAC* - the total amount of current assets; *TDC* — the total amount of current debts.
As a rule, the higher is the working capital ratio, the higher are appreciated obtained results [4].

Table 4. Analysis of the working capital utilization rate

Indicator	Years			Relative change 2019-2018, %	Relative change 2019-2018, %
	2018	2019	2020		
1. Total current assets, lei	15576724	11581498	7957483	-25.65	-31.31
2. Current debts, lei	7887130	9195988	15006467	+16.58	+63.19
3. Working capital, [rd.1-rd.2] lei	7689594	2385510	-7048984	-68.98	-195.51
4. Income from sales, lei	69827801	55893461	49427428	-20	-11.57
5. Working capital utilization rate (WK), points	9.08	23.43	-7.02	+158.03	-70.03
6. Deviation of the working capital utilization rate	-	+14.35	-30.45	-	-

WKin the assessed period decreased from 7689 thousand MDLin 2018 to 7048 thousand MDL in 2020 due to the reduction of current assetsfrom 15576 thousand MDLto 7957 thousand MDL (by 49%) in the conditions when current debts increased from 7887 thousand MDL to 15006 thousand MDL (by 91%).
The working capital ratio in 2018 is 9.08 points. It increases in 2019 to 23.43 points or 158.03%, due to the reduction of working capital by 5.9 million MDL or 68.98%), but also to the reduction of sales revenue by 13.9 million MDL (or 20%). The period 2019 - 2020 is characterized by a further decrease of the WK ratio from 23.43 p. to - 7.02 p. (70.03%) generated by the negative WK value of -7048 thousand MDL in 2020, due to the advancement of current debts on current assets, (15006467MDL > 7957483MDL).
The negative working capital value indicates that the potential liquidities don't fully cover the potential exigencies, thus “X” LLC have difficulties regarding the financial balance.
The creation of own capital in sufficient size with an adequate structure is very important, but also a rational location for that capital has a special importance for a successful development of the economic-financial activity of the enterprise. In order to assess the location of own capital accepted by the management of the enterprise the following financial coefficient is usually calculated and interpreted in global practice [5]:

$$Equity\ management\ rate = \frac{Net\ working\ capital}{Own\ capital} \qquad (3)$$

This coefficient reflects the share of own capital that is not fixed in long-term assets and it is involved in the economic circuit in a form that allows operating with these resources. In other words, this coefficient assesses the degree of own capital flexibility.

Table 5. Equity analysis by the management rate method

Indicators	Analyzed period		
	2018	2019	2020
1. Equity, lei	19227407	21323547	23044733
2. Total current assets, lei	15576724	11581498	7957483
3. Current debts, lei	7887130	9195988	15006467
4. Net working capital, lei [rd.2-rd.3]	7689594	2385510	-7048984
5. Equity management rate [rd.4:rd.1]	0.39	0.11	-0.3
6. Deviation of the equity management rate	-	-0.28	-0.41

The working capital of the company, from the data presented in Table 5, decreased in the analyzed period from the positive value of 7887 thousand MDL in 2018 to -7048 thousand MDL in 2020. A negative working capital value is an alarm signal because the entity doesn't have sufficient current assets to pay current debts. The causes of a negative working capital can be:

- the increase of fixed assets value as an effect of investments;
- the decrease of the permanent capital;
- the decrease of the own capital, with negative effect on the possibility to contract new loans [7].

In 2018 - 2019 period there is a decrease in the capital management rate from 0.39 units to 0.11 units due to the decrease of working capital from 7689594 MDL to 2385510 MDL, although the own capital indicated an increase of 10.9%. In 2020, we see the same trend, the reduction being even more imposing: of -0.42 p. in the conditions of a negative working capital of -7048 thousand MDL, but of the increase of the own capital by 8.07%.

The structure of financing sources of an economic entity can be determined based on several financial indicators:

1. The correlation coefficient between borrowed and own sources (gross borrowing rate) reflects the sum of the attracted funds which corresponds to 1 MDL of own capital and is determined according to the following formula:

$$The\ correlation\ coefficien\ t\ between\ borrowed\ and\ own\ sources = \frac{Long\ term\ debits + Current\ debts}{Own\ capital} \qquad (4)$$

The higher is the value of this ratio, the riskier is the financial position of the company. The critical point in assessing the correlation coefficient is 1 [5].

2. The coefficient of the structure of long-term financing sources (K_{dtc}) indicates the share of long-term debt in the company's total sources of financing. It is determined by the following formula:

$$K_{dtc} = \frac{Long-term\ debts}{Own\ capital\ +\ Long-term\ debts} \qquad (5)$$

3. The coefficient of the structure of the attracted resources (K_{its}) reflects the level of own sources in attracted sources:

$$K_{dts} = \frac{Own\ capital}{Long-term\ debts + Current\ debts} \qquad (6)$$

4. The self-financing rate of the permanent capital is calculated based on the following formula:

$$Permanent\ capital\ self\text{-}financing\ rate = \frac{Own\ capital}{Permanent\ capital} \qquad (7)$$

This coefficient expresses the structure of permanent capital that ensures the long-term financing of the company's activity. In world practice, the lower limit of 60 % of this rate is indicated.
We obtain the general coverage ratio of own capital by replacing the borrowed funds with the value of own capital:

$$\textit{Overall equity coverage rate} = \frac{\textit{Total liabilities}}{\textit{Own capital}} \quad (8)$$

The financing stability rate is a global indicator of the financing stability and reflects the share of sources that the company has for a period of more than one year, in the total coverage sources of economic resources [1].

$$\textit{Funding stability rate} = \frac{\textit{Permanent capital}}{\textit{Own capital}} \quad (9)$$

Next, we aim to analyze these indicators. This data is included in the Table 6.

Table 6. Analysis of the coefficients of asset financing sources in the period 2018 - 2020

Indicators	Years				
	2018	2019	2020	Absolute deviation 2019-2018, (+, -)	Absolute deviation 2020-2019, (+, -)
Long- and short-term debts, lei	48569604	40484366	33838428	-8085238	-6645942
Own capital, lei	19227407	21323547	23044733	+2096140	+1721186
Permanent capital, lei	59909881	52611925	41876691	-7297954	-10735234
Total liabilities, lei	67797011	61807913	56883157	-5989098	-4924756
Coefficient of correlation between borrowed and own sources	2.53	1.89	1.47	-0.64	-0.42
Coefficient of the structure of long-term financing sources	0.39	0.53	0.45	+0.14	-0.08
The coefficient of the structure of the attracted means	0.68	0.59	0.68	-0.09	+0.09
Overall equity coverage rate	3.53	2.89	2.47	-0.64	-0.42
Permanent capital self-financing rate, %	32.09	40.53	55.03	+8.44	+14.53
The critical point	60%	60%	60%	-	-
Funding stability rate	3.11	2.47	1.82	-0.64	-0.65

Note: Permanent capital = Own capital + Long-term debts

The correlation coefficient between the borrowed and own sources shows that the borrowed sources prevail the own sources of the company. It indicates declining values from 2.53 points in 2018 to 1.47 points in 2020 due to the reduction of long-term and short-term debt in the conditions when own capital is increasing.
The coefficient of the structure of long-term financing sources increases from 0.39 points in 2018 to 0.53 points in 2019 due to the increase of the own capital which is included in the permanent capital. In 2020, the value of this coefficient decreased by 0.08 points and was 0.45 points accompanied by the change of the value of long-term debt and the increase of own capital.
The coefficient of the structure of the attracted funds for LLC "X" indicates that the level of own sources in attracted sources is decreasing from 0.68 points to 0.59 points in the 2018 - 2019 period due to the increase of the own capital by 2096 thousand MDL, while the total debts were reduced by 8085 thousand MDL. In 2020 it is noticed an increase of the analyzed indicator by 0.09 points - at the value of 0.68 points (the same as in 2018). The change was produced under the influence of total debts decrease by 6645 thousand MDL and increase of own capital by 1721 thousand MDL.
The general coverage ratio of own capital (which is higher than 100%) increases at the with the increase of total liabilities. Respectively, when total liabilities decrease in 2018-2020, the indicator decreases from 353% to 247%. This decrease shows that 100% of the assets of LLC "X" are financed from own sources, and the others are provided by attracting borrowed funds, as evidenced by the existence of long-term and short-term loans and borrowings.
The rate of self-financing of the permanent capital is increasing during the analyzed period from 32.09% to 55.03%, under the influence of the upward evolution of own capital from the composition of constant capital. The value of this rate is increasing, but anyway it takes values lower than the minimum limit of 60%.

The funding stability rate indicates declining values from 3.11 points in 2018 to 1.82 points in 2020. This indicates that the share of sources for a period longer than one year in the *total sources of economic resources coverage* decreases under the impact of diminishing of the value of the sources that the company has for a period longer than one year.

Dependency ratio shows the amount of borrowed funds, which corresponds to 1 MDL of own capital. This coefficient is also called the general gross borrowing rate. The higher is the value of this ratio, the riskier is the financial position of the company. The optimal value is from 0.3 to 1. It is determined according to the following formula:

$$Kd = \text{Borrowed capital / Own capital} \tag{10}$$

In order to calculate the level of indebtedness we will use the coefficient of attracting borrowed sources. It is also called the borrowing capital concentration ratio. The formula for this coefficient is:

$$Ksi = \text{Borrowed capital / Totalliabilities} \tag{11}$$

This indicator characterizes the structure of asset financing sources from the point of view of the share of borrowed sources. The optimal level should range from 0 to 0.5 [5].

Table 7. Calculation and analysis of the coefficient of dependence and attraction of borrowed sources

Indicators	Analyzed period				
	2018	2019	2020	Absolute deviation 2019-2018, (+, -)	Absolute deviation 2020-2019, (+, -)
Borrowed capital, lei	40682474	31288378	18831958	-9394096	-12456420
Own capital, lei	19227407	21323547	23044733	+2096140	+1721186
Dependency coefficient (Leverage)	2.11	1.47	0.82	-0.64	-0.65
The optimal value	0.3 – 1	0.3 - 1	0.3 - 1	-	-
Total liabilities, lei	67797011	61807913	56883157	-5989098	-4924756
Coefficient of attracting borrowed sources	0.6	0.5	0.33	-0.1	-0.17
The optimal value	0 – 0.5	0 – 0.5	0 – 0.5	-	-

In the 2018 - 2020 period the coefficient of dependence between the borrowed capital and the own capital decreased from 2.11 points to 0.92 points because of the decrease of the borrowed capital from 40682 thousand MDL to 18831 thousand MDL in the conditions when the own capital increased from 19227 thousand MDL to 23044 thousand MDL (Table 7). Compared to the optimal values, we state with certainty that LLC "X" in the years 2018 - 2019 does not fall in the range of 0.3 - 1, exceedingly even with maximum value and only in 2020 the result presented is in the range recommended by specialists.

The coefficient of attracting borrowed sources has a tendency to decrease from 0.6 units in 2018 to 0.33 units in the year, being observed the values indicated in the optimal range only in 2019-2020.

Borrowing capacity expresses the possibility for the company to receive loans that are guaranteed and whose repayment does not create unbearable problems. In order to assess the situation of a credit applicant, certain indicators with borrowing capacity are used the formula from Table 8.

Table 8. Indicators of the situation of a credit applicant [1]

The ratio	The formula
Global indebtedness ratio ($C_{ÎG}$)	$C_{ÎG}$ = Total Debts / Total Capital ≤ 2/3 or $C_{ÎG}$ = Total debts / Own capital ≤ 2
Term indebtedness ratio ($C_{ÎT}$)	$C_{ÎT}$ = Term debts / Permanent capital ≤ ½ or $C_{ÎT}$ = Term debts / Own capital ≤ 1
The maximum borrowing capacity and the actual borrowing capacity in order to be able to plan the volume of financing sources attracted from outside	Maximum borrowing capacity = 2 x Equity Actual borrowing capacity = 2 x Equity - Total liabilities
The measure of the efficiency of the process of constitution and use of capital is given by the return on capital, which explains the level of economic and financial fructification of the capital	Return on capital $= \frac{\text{Income}}{\text{Capital}}$ x 100%
The increase of the market value of the enterprise depends to a large extent on the sources of financing that the company uses, and for the evaluation of the influence of	Indebtedness effect = (R_e – R_d) x (Total debt/Own capital) where: R_e – economic profitability; R_d – interest rate.

indebtedness on the financial profitability, the indebtedness effect is used	

Next, we aim to analyze these indicators. This data is included in the Table 9.

Table 9. Analysis of the degree of indebtedness in the period 2018 - 2020

Indicators	Years				
	2018	2019	2020	Absolute deviation 2019-2018, (+, -)	Absolute deviation 2020-2019, (+, -)
Long- and short-term debts, lei	48569604	40484366	33838428	-8085238	-6645942
Long-term debts, lei	40682474	31288378	18831958	-9394096	-12456420
Own capital, lei	19227407	21323547	23044733	+2096140	+1721186
Permanent capital, lei	59909881	52611925	41876691	-7297954	-10735234
Total liabilities, lei	67797011	61807913	56883157	-5989098	-4924756
Income	69827801	55893461	49427428	-13934340	-6466033
Global indebtedness ratio	0.72	0.65	0.59	-0.07	-0.06
Term indebtedness ratio	0.68	0.59	0.45	-0.09	-0.14
Maximum borrowing capacity	38454814	42647094	46089466	+4192280	+3442372
Effective borrowing capacity	-10114790	2162728	12251038	+12277518	+10088310
Return on capital	1.16	1.06	1.18	-0.1	+0.12
The effect of indebtedness	0.1	0.004	-0.02	-0.096	-0.024

The global indebtedness coefficient of LLC "X" shows a downward trend from 0.72 units to 0.59 units because the calculation elements of the indicator were reduced throughout the analyzed period. Compared to the recommended value, we find that for 2018 the requirement to be less than 2/3 is not met, and in 2019-2020 it is met, the values being lower than the recommended one.

The term indebtedness coefficient is reduced from 0.68 units to 0.45 units under the impact of the decrease of long-term debts contracted by the company from 40682 thousand lei to 18831 thousand lei and compared to the value recommended by specialists is higher in the period 2018-2019 and only for 2020 the entity complied with the recommended limit of 1/2.

The maximum indebtedness capacity is on the rise for the years 2018-2020 from 38454 thousand MDL to 46089 thousand MDL, exceeding in 2019 and 2020 the total debts that the company has accumulated. At the same time, the increase is explained by the increase of the own capital from 19227 thousand MDLto 23044 thousand MDL.

The effective indebtedness capacity is negative in 2018 because the total debts of the company are clearly higher than the maximum indebtedness capacity by 10114 thousand MDL. For the next period, the situation improves with the presence of positive values at the effective borrowing capacity of 2162 thousand MDL in 2019 and 12251 thousand MDLin 2020 due to the reduction of the total debts of the enterprise from 40484 thousand MDLto 33838 thousand MDL.

The return on capital indicates that for every MDL of invested capital, 1.16 coins were obtained in 2018, in 2019 with 0.1 coins less, i.e. only 1.06 coins and for 2020 now 1.18 coins from sales income.

According to the data in Table 9, the debt effect is positive only in 2018 and 2019, although it decreases from 0.1 p. To 0.004 due to the decrease in the difference between the return on assets and the interest rate. For 2020, the situation is different under the impact of the interest rate advance on economic profitability, which also caused a negative debt effect, with a negative impact on the company's financial condition.

Based on the data in Table 10 we can mention that in 2018 SRL "X" resorted to a loan with an interest rate of 5.96%, the debt ratio being 1.66, i.e. 1.66 money borrowed sources. The level of return on assets during this period was 12.29%, i.e. at one MDL of assets the company obtained 13.29 money profit until taxation and interest payment. Given that the rate of return on assets is higher than the interest rate, the level of return on equity amounted to 28.64%, i.e. shareholders, at one-MDL own sources, earned 28.64 money net profit. In 2019, the level of indebtedness of the company increased from 1.66 to 1.77, as a result of resorting to bank credit. As the interest rate of 4.05% is lower than the return rate of assets of 8.54%, in 2019 the efficiency of using the own capital and the remuneration of the owners decreased considerably from 28.64-coins profit to 12.47-coins profit. Thus, we can conclude that the attraction of the sources borrowed by LLC "X" in 2019 compared to the previous one was rational, but conditioned the reduction of the return on equity by 16.17%.

In 2020 we note that the level of indebtedness of the enterprise decreased by 0.98 units to 0.82 units, in response to the contracting of a lower loan than in previous years and at an average interest rate of 5.87%. From the comparison of the return on assets with the average interest rate, it results that it is higher (7.53> 5.87) and indicates the decrease in the efficiency of the use of own financing sources, which constituted only 7.53 coins per 1 lei net profit.

Table 10. Assessment of the rationality of borrowed sources

Indicators	Years				
	2018	2019	2020	Absolute deviation (+, -)	Absolute deviation (+, -)
1. Own capital, lei	19227407	21323547	23044733	+2096140	+1721186
2. Long-term debts, lei	40682474	31288378	18831958	-9394096	-12456420
3. Profit up to tax, lei	6280426	3039863	2047158	-3240563	-992705
4. The amount of interest expenses, lei	1684953	1457677	1104945	-227276	-352732
5. Profit up to tax and interest expenses, lei	7965379	4497540	3152103	-3467839	-1345437
6. Average interest rate, %	5.96	4.05	5.87	-1.91	+1.82
7. Income tax expenses, lei	773491	379419	325972	-394072	-53447
8. Net income, lei	5506935	2660444	1721186	-2846491	-939258
9. R_a, %	13.29	8.54	7.53	-4.75	-1.01
10. $R_{cpr.}$, %	28.64	12.47	7.47	-16.17	-5.0
11. Debt ratio	1.66	1.77	0.82	+0.11	-0.95

In order to assess the rationality of attracting borrowed sources as a numerator of the formula for calculating the return on assets, the indicator "profit to tax and interest payment" is taken, and as denominator - *the amount between the value of equity and interest-bearing debts* [5].

4. RESULTS

The process of forming the optimal structure of financing sources consists of several stages described in Figure 5. Thus, for efficiency it would be welcome that the first stage in forming the optimal structure of financing sources is planning as an integral part of the strategy implementation process business. The structure of funding sources is an object of the general planning of activities. However, it is necessary to mention its secondary nature: in order to achieve the set objectives, the key performance indicators are determined during the planning period, which are the basis for budgeting the company's revenue and expenditure, and then the cash flow and the necessary amount of funding are predicted. After that, the choice of financial sources takes place and the optimal structure of the financing sources is calculated.

Fig. 5. Stages of the process of forming the optimal structure of funding sources
Source: elaborated by the author

Consequently, in order to determine the optimal structure of funding sources, already planned activity indicators are needed, i.e. for what funding is needed.
When forming the optimal structure of funding sources, the planning stage is essential for the following reasons:

– the main parameters of the optimal structure are determined;
– limits are introduced on attracting certain financial resources;
– based on the data obtained, a policy of attracting debt financing sources is elaborated and a dividend policy is determined.

It is important to note that dividend payments are one of the main tools for adjusting the ratio of own and borrowed financing sources, the value of reported earnings for that period is the main own source recently attracted for many companies. Their increase / decrease can significantly affect the financing structure. As dividend payments are made based on the results of the period (quarter, year), planning should be started in advance to determine the main parameters of the dividend policy.
The next stage in the formation of the structure of financing sources is the implementation and adjustment of the plans developed for the formation of the optimal structure of financing sources. It is necessary to understand

that in a market economy, even a well-planned strategy does not guarantee the achievement of what is expected. Every aspect of the company's activity is influenced by a huge number of factors, both internal and external. The policy of modeling the structure of funding sources is no exception. The planning period for a calendar year is a fairly long period of time in which changes occur within the enterprise itself, its counterparts, in the markets for goods and services, in the financial market and in the banking sector. As a result, adjustments to the cash flow forecast are made in the content of the expenditure and revenue budget, difficulties may arise in the use of borrowed sources or the ability to attract resources on more favorable terms. Also, the initial parameters of the optimal structure of funding sources are changing.

In this sense, it is necessary to constantly monitor the factors that may affect the formation of the structure of funding sources in the current period. Due to this, it is possible to identify possible problems in attracting financial resources and to adapt the financing structure according to the current situation. Periodic changes in the calculations of the formation of the structure of financial resources allow us to determine precisely how optimal the structure of funding sources is, as well as to build a more accurate forecast of attracting the necessary volume of the variable part of funding.

The final stage of forming the optimal structure of funding sources, in our opinion, is to analyze the results. This involves conducting a study of the structure of funding sources formed during the reporting period. The purpose of this study is to evaluate its optimum, to analyze the funding sources used and to identify the main problems in attracting various funding sources.

In order to improve the company's situation with regard to funding sources, it is necessary for the form to plan its activities that it is able to finance both from its own sources and from those attracted.

The main advantage of the enterprise financial planning system is that it is a functional system of operational financial planning, especially in terms of cash flow planning and management, strict control of the level and structure of receivables and payables. Attracting borrowed funds and allocating own resources helps businesses solve the problem of optimizing cash flows. Consequently, organizing operational financial planning for business development involves planning to attract borrowed funds.

Planning to attract external sources of funding is an important step in budgeting an enterprise. If it is necessary to attract borrowed funds, undertakings should draw up a financial forecast, which should reflect the following information:

– availability of debts for the main types of loans, credits;
– maturity dates for the main types of loans, credits;
– the value of expenses with loans and credits included in operating expenses and in the value of investment assets;
– the value of the loan and loan rate.

In the following table (Table 11) we aim to examine the planning of financing sources, including how much to be repaid on loans, what volume of sales revenue will be sufficient to ensure the stable operation of the company in the future. As an adjustment margin we will use the inflation rate calculated by the NBM, which reported that according to the last round of forecast, the average annual inflation rate will be 2.5 percent in 2021 and 4.4 percent in 2022 [13].

Table 11. Assessment of the rationality of borrowed sources

Indicators	Years				
	2020	Growth by 2.5%	2020+1	Growth by 4%	2020+2
1. Own capital, lei	23044733	+576118	23620851	+921789	23966522
2. Permanent capital, lei	41876691	+1046917	4293608	+1675067	43551758
3. The amount of interest expenses, lei	1104945	+27623	1132568	+44197	1149142
4. Revenue from sales, lei	49427428	+1235685	50663113	+1977097	51404525
5. Net income, lei	1721186	+43029	1764215	+68847	1796033
6. Debt ratio	0.82	+0.02	0.84	+0.03	0.85
7. Marginal yield	-3.76	+5.9	+2.14	+6	+2.15

According to the results in Table 11, the adjustment of the results according to the inflation forecast will generate an increase in all indicators in the table and will have a positive impact on the marginal yield that will increase from the negative value of -3.76 p. To the positive value of + 2.15p or + 2.16p. This evolution is explained by the increase of revenues in 2021 by 1235685 MDL or by 1977097 MDL in 2022. The effect of the increase in sales revenue is also observed in the dynamics of net profit which increases by 43029 MDL in 2021 and 68847 MDL in 2022.

Of course, that the increase of the permanent capital by 1046917 MDL in 2021 and by 1675067 MDL in 2022 will be realized also from the contracted debts account, which will generate the increase of the interest expenses with 27623 MDL in 2021 and with 44197 MDL in 2022.
With the increase of the net and the permanent capital, there is an increase of the indebtedness coefficient, but this evolution is a favorable one, because the company keeps under control the degree of indebtedness by increasing the net profit that will be reflected in the company's own capital.

5. CONCLUSIONS

In a market economy, the choice of financing sources and the optimization of the capital structure are of vital importance for the enterprise, as it directly affects the financial stability and competitiveness of the enterprise.
The financing process is an integral part of the company's activities. It includes all the activities of preparing capital to achieve any goals and is very similar to the concept of investment. The prioritization of interests in the choice of financing sources determines the additional financing policy of the company's activities and leads to the identification of the optimal capital structure.
Financial stability is an element of the overall stability of the enterprise and indicates the provision of financial resources. Financial stability is largely determined by the extent to which different types of cash flows are synchronized with each other in volume and time.
The capital of an enterprise is the highest state of financial resources when these resources, which operate in economic activity, bring profit.
Financing the activities of an enterprise is a process that includes identifying alternatives and selecting certain sources, organizing the receipt and spending of resources, depending on the type of funding source.
Planning one's own financial resources is impossible without an efficient management system based on the principles of indicative management, in which each financing decision is made on the basis of an analysis of the coefficients of the financing sources.

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