ANALYSIS OF OPERATING CYCLE MANAGEMENT IN BUSINESS ENTITIES

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Abstract. This article examines the role and significance of operating cycle management in ensuring the financial stability and liquidity of business entities. It analyzes the processes of a business entity from the procurement of raw materials through the sale of finished products to the collection of cash proceeds. The interrelationship among inventory turnover, the accounts receivable collection period, and the accounts payable settlement period is investigated using economic and mathematical models. Based on the findings, practical proposals and recommendations are developed to shorten the operating cycle, improve the efficiency of working capital utilization, and optimize the enterprise's cash flows.

Keywords: operating cycle, working capital, accounts receivable, inventory turnover, financial stability, liquidity.

АНАЛИЗ УПРАВЛЕНИЯ ОПЕРАЦИОННЫМ ЦИКЛОМ В ХОЗЯЙСТВУЮЩИХ СУБЪЕКТАХ.

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Аннотация: В статье освещается роль и значение управления операционным циклом в обеспечении финансовой стабильности и ликвидности хозяйствующих субъектов. Анализируются процессы хозяйствующего субъекта от закупки сырья до продажи готовой продукции и возврата денежных средств от неё. С помощью экономико-математических моделей исследуется взаимосвязь между оборачиваемостью запасов, периодом инкассации дебиторской задолженности и сроками погашения кредитных обязательств.

Разработаны практические предложения и рекомендации по сокращению продолжительности операционного цикла, повышению эффективности использования оборотного капитала и оптимизации денежного потока предприятия.

Ключевые слова: операционный цикл, оборотный капитал, дебиторская задолженность, оборачиваемость запасов, финансовая стабильность, ликвидность.

Ensuring the financial stability and liquidity of enterprises directly depends on the effective organization of their operating processes. One of the leading enterprises manufacturing heavy industrial equipment for the chemical, oil and gas, and energy sectors—one of the key drivers of the economy of Uzbekistan—is JSC Uzbekkimyomash. Operating cycle analysis plays a decisive role in managing the financial flows of JSC Uzbekkimyomash, which manufactures industrial cooling equipment, pressure vessels, and other high-capacity apparatus.

The operating cycle of machinery and heavy industrial enterprises has a particularly complex structure. In the case of JSC Uzbekkimyomash, the production of complex technological equipment requires a considerable amount of time. Current assets, including raw material inventories and work in progress, account for a significant share of the company's assets. This indicates a relatively long operating cycle at JSC Uzbekkimyomash, measured from the date raw materials are purchased until finished products are sold and the resulting cash is collected.

M.Yu. Rakhimov, O.T. Astanakulov, and N.N. Kalandarova examined the turnover periods of individual asset and liability items and the normative values of indicators across industries, while also presenting the theoretical foundations for decision-making based on financial analysis.

Sh.A. Tojiboyeva focused primarily on the turnover of current assets and developed management decisions based on the results obtained from their analysis.

A.N. Turaev and B.H. Karimov argue that, under the conditions of the national economy, optimizing the operating cycle constitutes a major internal source for reducing an enterprise's dependence on high-interest bank loans, including short-term loans obtained to replenish working capital. Based on the characteristics of production processes, they demonstrated that shortening the operating cycle can help resolve liquidity problems, including cash-flow gaps.

R.P. Rustagi, in analyzing working capital and the operating cycle, evaluates the economic efficiency of each component separately. In his view, an extension of the operating cycle leads to a decline in shareholder wealth. He incorporates specific financial ratios into his textbook for evaluating the components that constitute the operating cycle.

The financial ratios and analytical materials of Cadence Design Systems Inc. (NASDAQ: CDNS), a major U.S. technology and microchip-design company, provide formulas related to operating cycle management in business entities. In addition, Yahoo Finance's “CDNS Profile & Ratios” and Investing.com's “Cadence Stock Profile” provide analyses of the company's financial statements, operating-cycle ratios, and publicly available valuation multiples.

According to monographic observations, the literature contains different approaches to determining the operating cycle of business entities. Accounts receivable represent amounts owed by customers for goods purchased from a business entity but not yet paid. A business entity sells goods to customers at a selling price that includes a profit margin. Therefore, the total amount of accounts receivable is directly compared with total sales revenue.

Accounts payable represent amounts owed by a business entity to suppliers of raw materials and other inputs. When a business entity purchases raw materials, its profit margin has not yet been added to those inputs; they are acquired at cost or purchase price. Therefore, it is more appropriate to relate accounts payable not to sales revenue but to the cost of goods produced or, alternatively, the volume of purchases during the period.

The use of both a 360-day convention (the commercial and banking method) and a 365-day convention (the exact calendar-day method) for calculating working-capital turnover periods also creates certain inconsistencies.

To shorten the operating cycle, return cash to circulation, and mitigate the risk of bankruptcy, we consider it necessary to implement the following measures:

1. The strategy for collecting accounts receivable should be fundamentally revised in order to maintain the turnover period of quick assets at approximately 60 days. For this purpose:

• products should be sold on credit only after assessing the customer's financial stability and within clearly defined credit limits;

• a system of discounts of up to 2–3% should be introduced for customers who make payments before the contractual due date, for example, within 10 days;

• a portion of existing accounts receivable may be sold to banks under factoring agreements in order to generate immediate cash inflows.

2. It is advisable to maintain the turnover period of slow-moving assets at approximately 120 days by optimizing inventories and strengthening marketing activities. In this regard:

• inventories accumulated in warehouses should be analyzed using ABC/XYZ analysis;

• products with low demand should be sold promptly—even at cost, where necessary—in order to convert inventories into cash;

• production should be planned in accordance with market demand, and the production of excess inventory should be discontinued.

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