EVALUATION OF THE EFFECTIVENESS OF FINANCING FOR THE REPRODUCTION OF THE COMPANY’S FIXED ASSETS

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For the Ukrainian companies, the issue of reproduction of fixed assets is extremely important because the majority of companies continue using intensive and obsolete equipment with a low efficiency of its use, low productivity, lack of spare parts, etc. As a result, the productivity is reducing, the capital of productivity is agonizing but, on the contrary, the material and energy costs are growing. These factors have a negative impact on the quality of the finished products reducing its competitiveness in the world market. Currently, the problem of the reproduction of fixed assets of Ukrainian companies remains dominant, in particular, financing of the process for the reproduction of fixed assets.

The process of the reproduction applies in upgrading and replacing the fixed assets of the company. In the process of exploitation, they are liable to physical and moral destruction; as a result, they become useless for using and fulfilment of production targets.

For the reproduction of fixed assets, it is necessary to have an appropriate financial providing, especially choosing of the appropriate funding sources of the process.

It is possible to evaluate the effectiveness of the financing for the reproduction of fixed assets using a specifically identified criterion. In modern scientific literature, a number of criteria for the determination of the effectiveness are defined. These criteria can be used to assess the effectiveness of financing system for the reproduction of fixed assets.

Some authors distinguish different criteria for the effective management of fixed assets and sources of their formation, the most important ones are:

– minimizing current payables. This approach reduces the probability of liquidity loss. However, this strategy requires the use of long-term sources of borrowed capital of financing for the reproduction of the key part of assets;
– minimizing the total costs of financing. In this case, one should count on the equity capital as the main source of the reproduction of fixed assets. This source is the cheapest one and it has a low level risk of non-performed obligations.
– maximizing the total value of the company. This strategy involves the process of management of fixed assets in the overall financial strategy at the company.

It means that any decisions in the management of fixed assets contributing to the growth of the economic value of the company should be recognized as appropriate ones.
Thus, the key criteria of financing for the reproduction of fixed assets are as follows: sufficiency of financial resources, financial stability, minimal cost, profitability, risk, and timeliness.

During the process of making decisions on the financing for the reproduction of fixed assets, the subjective nature of the financial risk prevails over the objective character. Therefore, there is a problem of quantitative estimation of the financial risks with the purpose of its minimizing or avoiding in order to protect a business entity from the losses, which it may suffer because of wrong decisions concerning the financing for the reproduction of fixed assets of the company. It is impossible to eliminate the risk of wrong decisions on financing for the reproduction of fixed assets, but it should be minimized by using insurance mechanisms as well.

Taking the above mentioned into consideration, making decisions on the financing for the reproduction of fixed assets of the company, the following questions should be answered: is there enough one’s own funds; or is such activity relevant taking into account the economic situation in the country and conditions in the field, whether the cost is effective – or whether the future revenues will cover ongoing costs of the present day.

Thus, a compliance with the above criteria will ensure effective implementation of the evaluation of financing for the reproduction of fixed assets.