

Barbara JANCZEWSKA

**Changes in Functioning of Movable Property in the Process
of Transformation of Economy**

Zmiany w funkcjonowaniu majątku obrotowego w procesie transformacji
gospodarki

THE ESSENCE OF MOVABLE PROPERTY

Up till now, movable property was treated by productive enterprises as property playing insignificant role in their economies. Functioning of movable property was not related to long-term activity of a firm resulting from the rule of accepted development strategy.

At present, current financial decisions which contribute to managing of movable property are attributed to by not lesser meaning than to investments. In practice, the movable property begins to play an increasing role in functioning of every enterprise. The dignity of movable property increased in a special way in Poland due to started process of making market economy.

The transformation of material sphere, particularly industry, into market economy is that number of various and independent — according to a form — as well as competition economy subjects arise. A rational activity of enterprises during immediate period requires to work out the final model of economy mechanism functioning. Nonetheless, it is important to estimate the ways, stages and time (even approximate) of approaching to accepted model.

The process of initiating of market mechanism in Poland is characterized by slower than former governments thought, changes in property, organization and branch structure of economy, especially in state-owned productive subjects. Similarly, low results were achieved in a field of managing effectiveness improvement, economy animation, slightly higher, inflation control.

In an economic process made in every productive firm, the suitable property, regarding the sort, level and structure, must be committed. The enterprise's property divides into durable and movable. The difference between these kinds of property results from their economic application, not from their material attributes. Only in movable property functioning, such significant changes appeared that they were admitted to be introduced.

The characteristics of movable property — in opposition to durable — are the following: a repeated change of material shape during production process, a single taking part in production cycle, a full participation in prime costs and necessity of revival after each economic process.

The economic process consisting of productive and circulation sphere can be divided into phases. A phase of supplying the circulation sphere consists of buying of material movable means that are necessary labour things. A phase of selling the circulation sphere is characterized by selling processes of finally made stuffs having purpose as an instrumental or consumption capital.

In each phase and operation of production sphere there is also movable property as non-finished production on different level of transformation and readiness to sale. Productive and circulation spheres are, essentially, continuous and cyclical. Having movable property committed in both spheres is a condition of preservation of production uniformity.

STREAMS AND SOURCES OF MOVABLE PROPERTY

Real (thing) processes connected with movable property taking part in economic processes of productive enterprises characterize streams and movable property¹. Thing streams occur inside the enterprise and between them and consist in supporting and passing through the machine as well as utilizing of resources, materials and semi-manufactured articles. Moreover, there occurs the outlet stream of finish products and semi-manufactured articles for sale as well as wastes from productive machinery.

Movable property resources, mainly of raw materials, are gathered considering the non-fitting of intensity and time of support and outlet streams. There is the lack of synchronizing of support and utilization of labour things in productive firms in comparison with support and sale of materials in trade enterprises.

The real processes are described by horizontal flow of material streams and holding resources of them in production centers taking part in this flow. The active shaping of resources of the particular type may be based

¹ Material Economics Encyclopedia. PWE, Warszawa 1989, s. 129.

only on knowledge of the support and outlet streams character, that is size, intensity, stability and continuity level of these streams².

Irregularity in functioning of movable property may cause breaks in material flow or contribute to its getting slow. In both cases it has a bad influence on effectiveness of the productive enterprise. Every stopping of material streams caused by lack of output synchronization of machines causes the necessity of gathering production resources, materials, additional transport and storing of production and forming the resources of non-finished production. These elements have significant effect on lengthening of productive cycle, increase of costs of manufacture and thus the decrease of benefit.

The different character has information-decision stream whose flow is both horizontal — it is reflection of thing processes, and vertical — according to structure of economic management.

On the way of information-decision stream flow in economic process there should be placed instruments regulating the velocity of the flow. These instruments can be alternative possibilities of buying materials, productive incapacibilities of machines or predicated sale of products. In present supply (creating the "normal" material market) and productive situation (reduction of thing supply in accordance to lack of demand) — the only regulator is the sale of products.

The sale level is strictly connected with financial situation and firm position on the market, so it is consistent with market treatment as instrument supporting necessary information in making sovereign economic decisions by self-financing economic subjects.

FUNCTIONS OF MOVABLE PROPERTY

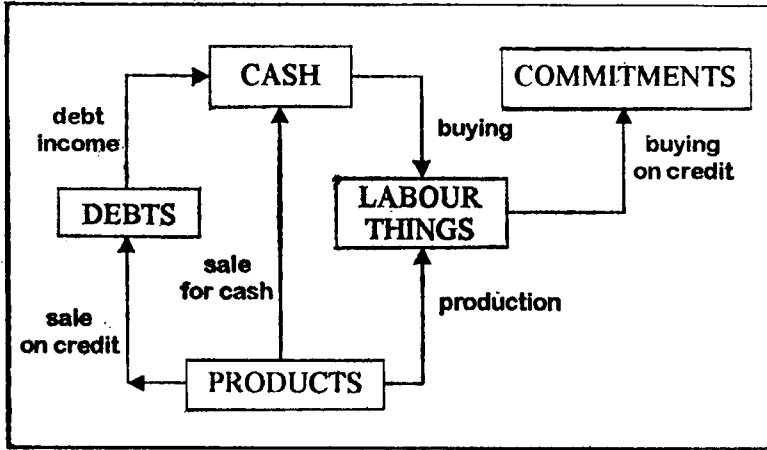
General function of movable property consists in continuous movement while it changes its natural form, taking monetary, then productive, next goods and again monetary form³.

The circularity of movable property (rotation) is abstractive notion; it represents, however, the real economic processes occurring in an enterprise during specified time⁴. The frequency of circularity is an essential element influencing financial economics of the firm because faster means rotation causes decrease of the sum necessary for continuity of production process and realization of products being made. Saved excess

² C. Skowronek: Production Reserves Control Economic Problems. PWE, Warszawa 1977, s. 25.

³ The Enterprise in Market Economics. Management — Marketing — Finances. Pr. zb. pod red. T. Bal. Wyd. II. PNOiK, Rzeszów 1992, s. 108.

⁴ The scheme of circular movement of movable property is in the annex.



Source: V. J o g, G. S u s z y ń s k i: *op. cit.*, p. 11.

Fig. 1. Circulating of movable property
Cyrkulacja majątku obrotowego

of movable property can be intended for development (investment) purposes or reduction of request for bank credit.

Movable property consists of different material and monetary goods that play different roles in economic process. Among them there are the following: production elements, that is whole of labour things and part of labour means, production results being finished products, semi-manufactured articles and current production as well as means mediating in exchange sphere, that is monetary means on various levels of circulation.

Movable property is characterized by high level of financial liquidity. This means that it can be changed into cash very immediately — it is most commonly accepted — in a year. Considering large differences in liquidity between particular forms of movable property, the classification of them according to this criterion is needed.

The most frequently, there are distinguished five (or three)⁵ liquidity classes of essential movable property:

- 1) stores of articles, raw materials, current production,
- 2) debts and claims,
- 3) monetary means,
- 4) short-term bonds,
- 5) inter period settlements⁶.

⁵ The three classes of movable property liquidity: stores, current enterprise's debts and cash with securities easy to get rid of.

⁶ This classification is used in balances made by economic units according to Decree of Finances Minister Referring to Rules of Accountancy Carrying from 15 01 91. Dz. U. nr 10/91, poz. 35.

From movable property classifications noted above there results the variety and multitude of functions fulfilled by its every type.

The right movable property economics is characterized by the following attributes:

a) short period of life-time, usually less than one year; exceptions occur in firms with longer than one year production cycle;

b) fast exchange into another means, for example, cash is assigned for stores supplementing that utilizes during sale and then transforms into debts. The latter become again a cash after commitment regulations by our debtors; constituents of movable property continuously change despite stable level of movable means amount that is held by the enterprise;

c) synchronization among production, sale and debt collection; in practice, there is both lack of full synchronization and suspension element; it arises, of course, the need of precise managing of particular types of enterprise's movable property.

Theoretically, in a case of full integration of production, sale and debt income processes in certain firm, there is no need to intervene by management organs because automatic activities would appreciate. The economic reality together with high suspension and activity risk make businessmen manage with movable property elements.

Effective management with movable property includes the following functions:

- settlement of demanded size and structure of movable property,
- settlement of administrative and organizational managing base for movable capital,

- financing of costs connected with movable property⁷.

Competent movable property management became more important than ever before; it was due to increase of competition among enterprises on domestic market, coming onto international markets, particularly high interest rate resulting from inflation. This causes the tendency that firm managers pay closer attention to movable property and technical improvement of movable property managing thanks to usage of computers.

Boards of modern firms must not minimize the problem of movable property that is, for many enterprises, essential element of financial resources. In a range of movable property managing there are applied methods of financial managing in short-term, operating investigations and economic methods.

⁷ V. Jóg, C. Suszyński: Management of Enterprise's Finances. Manager Information Center, Warszawa 1993, s. 12.

MOVABLE PROPERTY OF PRODUCTIVE ENTERPRISES

Enterprises assume the attitude towards an issue of movable property in various ways. Most often there are used indicators applied in a range of firm's economic-financial analysis⁸ as well as practical methods defining the most effective ways of allocation of short-term resources. Applying computers and model views of movable property functioning can widen the usage of formalized methods of movable property effectiveness measure. Combining practical and formalized methods leading to effective movable property managing as an aim of financial management in a firm is the most frequent. It consists in supporting of easily applicable rules for making proficient economic-financial decisions as well as creating the base for permanent control and estimation of current enterprises policy.

Important meaning for firm financial situation is estimation of influence of various factor on the level of movable property investment in economic process. Significant and calculable factors influencing movable property are the size of enterprise's activity and movable means rotation. The application of simple analytical methods makes possible to estimate the effect of these factors⁹.

Attainable statistical data make possible only random estimation relating to movable property functioning¹⁰. From such estimation it results that in 1985—1990 the finished products stores (7.4 percentage points) and non-finished production (3.5) increased the most. Among stores there were materials of decreasing tendencies in largest amounts (decrease by 9.4). The backlog due to financing of movable property increased over 25 times in the same period, monetary resources increased 44 times, cash in circulation — 39 times and cash in cash-desk — 33 times.

The movable property of all economics increased by 10.5% in 1992 when compared with last year, with 40 times increasing of stores and settlements. Credits, loans and commitments of firms increased by 19%.

The relation of movable property to capital and own funds in whole economics was 42.2% in 1991, in industry 47.2%. Current financial liquidity factor (a ratio of stores, debts, monetary means and active inter-period settlements to whole sum of credits, loans and commitments) shaped on a level 1.03 in economics in 1991 and 0.96 in 1992, as well as 0.87 in

⁸ In this analysis the following indicators are estimated: effectiveness (circularity), liquidity (short-term worthiness), debt management (long-term worthiness) and productivity.

⁹ Stated estimations are included in M. Adamska's and W. Olszewski's article: *The Analysis of Movable Property in the Firm*. *Material Economics* no 1/92.

¹⁰ *Roczniki Statystyczne GUS za lata 1991—1993*.

industry in 1992¹¹. Estimated factors testify to little increase of movable property financing by own means. For comparison, average factor of current financial liquidity in 1991 was 1.7, in term I of 1992 — 1.1. Short-term factors of financial liquidity measured' as a relation of monetary means with debts to whole commitments plus credits were in 1991 — 0.8 and 0.7 in term I of 1992. Average cycle of debts settlement in 1991 was 69 days, with increase by 17.4% (12 days) in term I of 1992. Cycles of commitment settlements were longer — respectively 95 and 115 days, so they increased by 21%.

Summingup, one should underline the growing role of economic-financial analysis of enterprise and movable property liquidity. The important part of it are: estimation of factors characterizing thing structure of movable property, description of right capital structure of a firm, control of its circularity and exploitation as well as defining of demand for movable capital and current control, together with activities accelerating its circularity.

STRESZCZENIE

Ze względu na proces urynkowania polskiej gospodarki wzrosła rola majątku obrotowego w funkcjonowaniu przedsiębiorstw. Równomierność każdego procesu gospodarczego realizowanego w przedsiębiorstwach warunkuje m.in. zaangażowanie własnego majątku obrotowego — co do poziomu, rodzajów i struktury.

Strumienie rzeczowe środków obrotowych występują wewnątrz przedsiębiorstw i między nimi w postaci przedmiotów pracy oraz wyrobów gotowych, półfabrykatów i odpadów materiałów. Natomiast utrzymywanie zasobów surowców i materiałów wynika z niedostosowania intensywności i czasu strumieni ich dopływów z odpływami. Strumienie informacyjno-decyzyjne środków obrotowych, będące odbiciem strumieni rzeczowych, powinny być wspomagane instrumentami regulującymi szybkość ich przepływów, obecnie funkcję tę pełni rynek, a głównie wielkość sprzedaży wyrobów gotowych.

Środki obrotowe charakteryzują się wysokim stopniem płynności finansowej, szczególnie gotówka i łatwo zbywalne papiery wartościowe oraz bieżące należności przedsiębiorstwa.

Prawidłowa gospodarka majątkiem obrotowym powinna charakteryzować się krótkim cyklem ich życia, szybką zamianą postaci oraz synchronizacją między wytwarzaniem, sprzedażą i wpływem należności. Skuteczne nimi zarządzanie sprowadza się do ustalenia: właściwych podstaw sterowania, pożądanych rozmiarów i struktury oraz zasad finansownia nakładów związanych z majątkiem obrotowym.

¹¹ There are edited some publications on firm's financial liquidity and ways of factors estimation. I specially turn to: M. Sierpińska, T. Jachna: *The Enterprise Judgement. According to World Standards*. PWN, Warszawa 1993, s. 79—89.

