

## MANAGEMENT OF THE ORGANIZATION'S FINANCES IN CONDITIONS OF UNCERTAINTY

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### **Abstract**

*The market economy of management introduces significant changes in the understanding of the role and responsibility of state institutions and economic entities in the development of socio-economic processes and their effectiveness. Despite the huge role of state institutions, the real sector of the economy is the main contributor to state budget revenues. Its quality depends on the financial condition of economic entities, which, in turn, depends on the quality of financial management, the improvement of which in the conditions of external uncertainty is extremely important.*

**Key words:** market economy, delegation of authority, economic autonomy, financial management, budgeting, cost centers, responsibility centers, material incentive fund, business entities, payment calendar

### **INTRODUCTION**

The market economy is fundamentally changing the approaches to managing the economic activities of organizations. Their essence lies in the fact that there have been made fundamental changes in the delegation of authority to manage economic processes and the responsibility for their results.

Regardless of the form of the economic system, such tasks as ensuring: the economic development of the state; economic employment of the population; price stability; decent standard of living of the population; defenses remain behind the state. Their decision is provided by the state through the use of appropriate economic instruments. In turn, economic entities are given significant powers in the conduct of business. The business independently decides: what to produce, how much, to whom to realize it only without violating the current legislation. Business is also fully responsible for the results of economic activity, which increases the requirement for the quality management of business processes. [1] This is especially important and difficult in the conditions of market environment. That business will be successful that at the initial stage will be able

to make the right choice of the strategic area of management and build an effective management system [2].

### **MATERIALS AND METHODS**

The material used to carry out the study was: research, analysis and interpretation of information from the literature. We used such research methods as: analysis, comparison, deduction, monographic method.

### **RESULTS AND DISCUSSIONS**

In the conditions of economic independence of economic entities, an important point is the participation of the whole team in the management system. This should not be understood as the absolute participation of all members of the staff in management by voting when making decisions. It all depends primarily on the type of the enterprise. So, in the participation in management is accepted only by the shareholders owning ordinary shares, [2] in a cooperative - shares. [3] At the same time, employees also work in the organization, participate in the implementation of decisions made through operational activities. So, this category of

workers should be motivated to improve the effectiveness of the organization as a whole, in achieving its ultimate goal - making a profit. Their motivated participation in the increase of production efficiency can be achieved by improving the intra-economic calculation. [9] Currently, this is being implemented as a budgeting system, the expediency of which, from the point of view of scientific management in conditions of independence and responsibility, the economic entities in the decisions making and their results, is undeniable. Only in this case, the entire management system will function as a whole; otherwise it will not be a system, but a simple set of links not interconnected by the ultimate goal.

Organization and implementation of budgeting should be preceded by a certain organizational work. First of all, the organizational structure should be clearly defined — the cost centers (CFSs) and the responsibility centers (RCs) are defined; the basic production assets and working capital should be fixed for them; a regulatory framework should be developed for the use of all types of production resources; a regulation on internal relations between structural units and provision for additional material incentives should be developed. [10] A prerequisite for budgeting is the organization of the accounting of the results of the work of the divisions and the actual costs of production according to the established list of items.

In the practice of operational asset management, the functional and process approach to budgeting is best known. [8] The functional approach is consistent with the traditional accounting system, is easy to use; does not require significant IT resources. However, management may have difficulty with rapidly changing conditions. Its application is suitable for organizations with a simple structure. In complex organizations, in which a culture of process management is formed, it is advisable to use a process approach in budgeting. During its application the adaptation to the changing environment is facilitated; the motivation of employees in

achievement of the end results business of processes increases.

An important point in the application of the budgeting system is the sequence of working with it. As a rule, the implementation of the budgeting system goes through the following stages:

1. Development of the draft budget,
2. Bringing the draft budget of the CFS,
3. Alignment of control results,
4. Approval and notification of the budget of the CFS,
5. Budget execution control,
6. Budget Performance Report,
7. Evaluation of CFS' activity.

The cost centers develop the draft budget, on the basis of the control figures of the company's business plan for this period, the results of operating activities for the previous budget period (quarter), and also taking into account the changes that have occurred, have not been taken into account in the control indicators of the business plan. The draft budget is submitted to the CFS for review, after which it is returned to the budget commission. In the presence of the similar moments there is their coordination. The agreed budget is approved by the head of the organization and communicated to the CFS for execution.

In the process of budget execution, the conditions initially adopted as the basis for its calculation may change. In this case, their justification is made and, if necessary, the budget commission makes the necessary changes to the originally approved version. This procedure for the execution of the budget requires a well-established work of the budget commission. This is especially important in the conditions of significant volatility of external factors affecting the business. At the same time, it is not always advisable and impossible to summon a budget commission for any reason. For the operational solution of arising deviations from the control tasks of the budget, it may be sufficient for the Chairman of the budget commissions, the conclusions of the relevant specialists on the merits of the arisen problem. This method of decision-making does not violate the rhythmic work of production units.

The quality of work on the rationing of the consumption of material, energy, labor resources is of great importance. It is important that the norms were calculated by an analytically calculated method, which allows to identify the ways of saving at all the stages of design and production, as well as to develop organizational and technical measures aimed at saving of all types of resources.

In a number of industries, in particular in agriculture, the rate of consumption of certain types of raw materials, material and energy resources; the duration of the production cycle depends on many factors, the impact of which is difficult to take into account by the usual method. In such situations, it is advisable to apply the methods of mathematical statistics, in particular the method of correlation (6). Methods of calculation of coefficients of correlation are stated in textbooks statistically and special works on the theory of correlation. With its help, it is possible to determine the quantitative relationship between the various factors affecting the value of the norm.

When using this method, it is first necessary to determine the composition of the factors affecting the magnitude of the norm. For example, in agriculture it is the average monthly amount of precipitation; soil moisture reserve; temperature conditions of the norm, norms of fuels and lubricants, etc. Then from the total number of factors are allocated the main factors that will be used in establishing the norm. The main factors should be considered as those for which the full and partial correlation coefficients approach unity. This means that a change in these factors significantly affects the value of the standard.

To obtain reliable data, the application of this method must be preceded by a thorough economic analysis of the nature of the allocated factors, their comparability, uniformity of measurement, etc. Then, for each object under study, the actual costs of normalized production resources are established and the influence of each factor on the cost value is determined in quantitative terms.

The organization of the activities of internal divisions in the budgeting system is one of the components of the financial management of the organization as a whole. At the same time, it is extremely important to understand that the production structural units are only the executors of the tasks brought to them, and are not at all responsible for providing them with the necessary resources for this. These functions belong to the centers of responsibility – logistical, financial, staffing, etc. The dominant share in the functioning of the production process, as such, belongs to financial support. This problem is solved through financial planning – perspective, current and operational. For the budgeting system of operating activities of production units, it is important to organize operational financial management, the main task of which is to ensure the financial support of production needs in all types of material and labor resources. To this end, especially in conditions of complete economic independence, it is necessary for enterprises to develop a payment calendar, cash plan and calculation of the need for a short-term loan. [5]

The payment calendar is formed for a quarter with breakdown on months and smaller periods. It should be linked to the budgets of responsibility centers and cost centers, stock status, receivables. A properly compiled payment calendar allows you to identify financial errors, possible financial problems and to identify specific measures to ensure financial sustainability. In the process of developing the payment calendar, the following problems are solved:

- interim reconciliation of income and expenditure of funds;
- the formation of the information base of inflows and outflows of funds;
- daily recording of changes in the information database;
- analysis of non-payment and organization of specific measures to overcome them;
- calculation of short-term loan requirements and prompt purchase of borrowed funds;
- calculation of temporarily available funds of the enterprise;

The initial data for the development of the payment calendar are budgets of all levels; regulatory deadlines for payments on financial obligations; the contract; schedule of wages payment, etc.

Thus, full interconnection of operational budgets of all levels into a single financial system of the enterprise, their security and operational management of problems arising during the implementation will be ensured.

The most important principle of financial management with the help of the budgeting method is economic incentives for the achieved success. [4] Even the most modern system of intra-corporate management is worth nothing if it is not complemented by an effective system of financial incentives. From this it follows that the effectiveness of the budgeting system will not be ensured if it does not provide the material incentives of the collective for the results achieved. The sources of additional material incentives can be the Fund of material incentives and savings, as a result of reducing the cost of production (work). This material interest should be structured in such a way that a direct link between the contribution of this unit to the overall results of the enterprise and its share in the total amount of this income, savings was a direct link. The size of the share in this case is determined by the contribution of each financial INSTITUTION in improving the efficiency of the entire enterprise. The material incentive fund is self-supporting, therefore its distribution and use must comply with the principles of self-financing. In other words, its distribution should be such that it economically stimulates individual and collective interest in improving production efficiency. The material incentive fund should also be distributed based on the real contribution of each CFS to the overall results of the enterprise. Additional material encouragement should be provided for the implementation and over-fulfillment of key estimated indicators of the budget irrespective of their performance for other CFS and in the enterprise in general. Only in this case there will be a real desire to improve the efficiency and financial stability of the business.

In order to ensure that the CFS of the material incentive fund can be accrued in accordance with the performance indicators, it is advisable to develop fund-forming indicators. For this purpose, one or two fund-forming indicators can be established for each CFS from among those approved in the budget.

For CFS with a complete production cycle and producing finished products, such fund-forming indicators as the implementation of the plan for profit and profitability, the growth in sales of products are most preferable. The most appropriate indicators of cost reduction are suitable for the rest.

Let us consider the example of an appropriate indicator use—reducing the cost of production. To do this, it is necessary to calculate the conditional prices for manufactured products by the CFS. The author recommends to calculate conditional prices on the basis of the cost of production for each CFS and the level of its profitability for the enterprise. Initial data for establishment of conditional prices thus are the cost price of the product of CFS, the operating wholesale price of the enterprise for the product and the level of profitability of the product calculated at the cost price of CFS. The calculation of conditional prices for CFS is presented in Table 1. The current wholesale price of the enterprise to the product is 120 cu.; the cost for CFS: No. 1 – 13 cu.; No. 2 – 60 cu.; No. 3 – 27cu.

Table 1. Calculation of the conditional prices of a product for CFS in proportional to cost of production

CFS	Prime cost of CFS, cu.	Conditional price of CFS, cu.	Profitability, %
№1	13	$(13*120)/100=15.6$	20.0
№2	60	$(60*120)/100=72.0$	20.0
№3	27	$(27*120)/100=32.4$	20.0
Total enterprise	100	$15.6+72.0+32.4=120$	20.0

Source: Own calculation.

As it can be seen from the calculation, the sum of the conditional prices for the product according to the CFS is equal to the wholesale price of the enterprise. As for the profitability, it will be the same only at the time of the approval of the budget assignment, and in the process of its implementation it may vary depending on the performance of each CFS. The advantage of this method of calculating

conditional prices for CFS is that it allows you to analyze the dynamics of profitability of products for CFS and take into account their contribution in the distribution of the fund of material incentives.

The calculated conditional prices for the product according to CFS allow using the corresponding fund-forming indicators for calculating the fund of material incentives. Let us consider the use of fund-forming indicator – reducing the cost of production, as the main source of increase in profits of the enterprise.

Table 2. Budget prices for CFS in the quarter

Product name	Quantity, pieces	Price CFS, cu.	Planned cost, cu.	Output, ths.cu.		The planned fund of material incentives, thousand cu
				Price CFS	At planned cost	
A	2,000	30	25	60.0	50.0	-
B	5,000	40	35	200.0	175.0	-
				260.0	225.0	20.0

Source: Own calculation

The planned cost of manufactured products is 225.0 thousand units, and the planned costs per unit of commodity products of CFS is 225.0 thousand cu.: 260.0 thousand cu. = 86.5 cu. The planned fund of material incentives has been established by the Central Stock Exchange in the amount of 20.0 cu.

Table 3. The actual data on CFS for the quarter

Product name	Quantity, pieces	The actual unit	Output, thousand cu			The cost of CFS on 1 cu	
			Price CFS	At planned cost	At actual cost	According to recalculated plan	Actual
A	2300	26	69.0	57.5	59.8		
B	5500	34	220.0	192.5	187.0		
Total	-	-	289.0	250.0	246.8	86.5	85.4

Source: Own calculation

As it follows from the above data, the actual output at the approved cost-accounting index of the cost of production is 250.0 thousand cu, and the actual cost of production is 246.8 thousand cu, or the savings are 246.8-250.0 = -3.2 thousand cu.

The savings achieved by the CFS should be aimed at additional material incentives for the team and at capitalization in a ratio that takes into account the interests of the staff and the owner as well. If we accept that 50% of the savings will be sent to the fund of material incentives, then in general for the quarter in the Central Federal Reserve Fund it will amount to 21.6 thousand cu (20.0 thousand cu + 1.6 thousand cu)

It is necessary to strive to ensure that the use of one or another method of calculation should ensure the relatively high interest of the whole team in improving production efficiency, as the basis of its competitiveness in a market economy.

Thus, the development and application of a scientifically and economically sound financial management system for business entities will be an effective factor in ensuring their financial sustainability.

## CONCLUSIONS

The size of the fund for material encouragement for CFS can be established differently. [7] The method for determining it in proportion to the planned amount of the wage fund for each CFS is widely known. The method of distributing the material incentive fund is also used, taking into account the importance of the CFS in the formation of the main performance indicators and the real contribution to the overall results of the enterprise.

It is necessary to strive to ensure that the use of one or another method of calculation should ensure the relatively high interest of the whole team in improving production efficiency, as the basis of its competitiveness in a market economy.

Thus, the development and application of a scientifically and economically sound financial management system for business entities will be an effective factor in ensuring their financial sustainability.

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