IMPLICATIONS OF STOCK MANAGEMENT ON THE RESULTS OF ECONOMIC ENTITIES

Maria -Andreia Iliescu (Ristea) PhD Student
University of Craiova Faculty of Economics and Business Administration Craiova, Romania
Marioara Avram Professor Phd.
University of Craiova Faculty of Economics and Business Administration Craiova, Romania
Nensi Xhani Phd. Student
University of Craiova Faculty of Economics and Business Administration Craiova, Romania

Abstract: The activity of stock management plays an important role in the management of economic entities due to the implications it has on the financial results recorded by them.
The financial difficulties that economic entities are faced with may be caused by lack of inventory control, the low rate of return on invested capital being just a negative example of a result recorded on account of bad management.
The optimization of stock management is a double-role action, the results of this action being reflected by the recording of an upward trend of both profitability and liquidity from one period to another. The most important objectives of stock management are: increasing the stocks speed of rotation, reducing the storage period and achieving a balance between the stocks level and the customers demand. Inventory management manages supply, financial and sales policies that sometimes generate conflicts between the financial compartment, whose main purpose is to minimize the total level of stocks, and the supply, sales and/ or marketing compartments, which aim to avoid as much as possible the stockouts.

JEL classification: M40, M41

Key words: management; inventory management; economic entities; profitability; liquidity

1. INTRODUCTION

In this article we shall present the implications of stock management on the results of economic entities, for which it is necessary, an analysis of both the importance stocks have in the assets of entities and the effects an effective management implementation has within the entity.

Stock theory had appeared due to the need expressed by economic entities to ensure a rhythmic supply of raw materials and materials for the production process with a minimum of storage costs, as well as the storage of finished products during their sales activities. The existence of stocks within entities is justified by ensuring the efficient conduct of activity, efficiency that implies accelerating the speed of rotation of material resources, eliminating material losses during the storage of material resources, reducing storage costs and transport optimization.

2. IMPORTANCE OF STOCKS IN THE PATRIMONY OF ENTITIES

In the specialized literature, stocks are treated in a general sense, representing the amount of material and financial assets that exist at one point in an economic entity.

Stocks are important in market economy due to the economic-financial implications they have in the management of entities. Stock has the role of raw materials and materials' regulator because it compensates the interval between inputs and outputs, i.e. a low level of stock leads to the entity's need for supply, while the existence of finished products' stock ensures the sales activity in the entity.

The existence of stocks is motivated by the fulfillment of the goal that each entity targets, that is: to make a finished product; the accomplishment of a work or the provision of a service, but these goals should be achieved with minimum costs and maximum profit, which means efficient management and administration.

Inventories are defined from an accounting point of view as a set of raw materials and materials intended for production, namely semi-finished goods, finished products, goods for sale (Bugan, 2007, p. 64).

In our opinion the importance of stocks is apparent from their definition because stocks represent an important part of current assets which is reflected by the amount of materials accumulated in the entities' warehouses and deposits in order to ensure the continuous conduct of business, their existence in the patrimony of entity involving costs; therefore, if they are too high their level must be reduced. They are also important because they give us real information about the entity's activity.

The diversity of products and services on the market compels us to undergo a continuous process of development and modernization of products and services offered to customers; in order to keep up with their requirements, the stocks of finished products must be varied so as to satisfy the most diverse requirements, i.e. for the same desire should exist a variety of possibilities of satisfaction. In this way, the existence of stocks helps us to maintain our customers and to grow in the market.

The purpose of setting up stocks is different, depending on the specific of activity; the economic agents set up their stocks for the continuous supply of customers with goods and services of quality in order to satisfy their requests and maintain the relations with them. The state, by means of the institutions through which it operates, sets up its stocks in order to be able to intervene in extreme situations: floods, pollution, earthquakes.

Regardless of the specificity of any activity carried out, the main purpose of setting up stocks by the entities is to carry out their activity in optimal conditions. Developing their activity under normal conditions implies the continuous supply of raw materials and materials necessary to achieve the entity proposed objectives. Ensuring this really means a supply plan providing the necessary materials for a certain period during a financial year.

The existence of stocks within entities offers them certain advantages, among which we mention: reducing deliveries, which means lower costs with placing and delivering orders; improving the operational relationship between the commercial activity and the production one; financial benefits resulting from supplies discounts or rebates from suppliers for large quantities supplied, but financial benefits can also be obtained when future price increases are foreseen.

The following motivations justify stocks existence: large discounts received on purchases of large quantities; savings achieved by reducing transport costs; avoiding stockouts; seasonal demand is covered; ensuring the job security of the entity's employees.

However, the existence of stocks also implies certain risks which are given by factors such as: the costs of storage, immobilization of a significant part of resources in stocks, degradation of goods, moral wear and tear of the goods; therefore the entities must pay close attention to the stock level. We can say that, from a certain level, the stock can negatively influence the activity of economic entity.

Greater attention should be paid to the level of stock when analyzing the advantages and disadvantages of stocks, more to the point at what stock level the entity records the best results.

Inventories/stocks are defined by national accounting regulations as current assets held for trading in the form of goods under production during the normal course of business, for sale in the form of finished products or in the form of raw materials, materials and other consumables to be used in the production process or for provision of services.

IAS 2 "Stocks" is the International Financial Reporting Standard that deals with the principles of stock valuation and classification.

The definition of stocks is similar in the two accounting standards, OMFP 1802/2014 and IAS 2 “Stocks”, the only difference is that OMFP 1802/2014 specifies that stocks are current assets and long-cycle assets intended for sale fall in the category of inventories/stocks.

From the definitions given to the stocks by both accounting regulations mentioned above, it can be seen that stocks bring their contribution to the realization of turnover and to the capital capitalization through the permanent participation in the different phases of production and marketing process, being present in all the activities the entities carry out: supply, production, sales, financial-accounting, human resources indirectly.

3. STOCKS MANAGEMENT

In the specialized literature we find several definitions of the notion of management, as follows: management implies the effective and efficient integration and coordination of resources in order to achieve the desired objectives (Hitt, Middlemist, Mathias, 1989, p. 29).

Management is the process of obtaining and combining human, financial and physical resources so to fulfill the primary objective of any organization, which is to obtain products and perform services for customer satisfaction. (Longeneckers, Pringle, 1981, p. 8).

In the paper entitled “Management” (Sîrbu, 2006, p. 5), the author defines the management as the result of the joint work of several people, in order to obtain superior results both quantitatively and qualitatively.

Management represents the activity of efficient coordination of both human and financial resources, in order to record performances in the activity carried out by the entity. Management determines the entity's objectives and the means by which they can be achieved in the most efficient way.

In the paper entitled “Management”, the author (Sîrbu, 2006, p. 13) specifies that the management activity involves the exercise of the following functions:

• forecasting: it is exercised by planning all the objectives targeted by the entity to be achieved and, at the same time, the means necessary to achieve these objectives;

• organization: it involves establishing all the processes of physical and intellectual work and assigning them to the appropriate staff, in order to achieve the proposed objectives;

• coordination: harmonization of all decisions and actions of the entire staff;

• involvement: implementation of all the means by which the personnel of the entity is motivated and rewarded for the successes of the entity;

• control - evaluation: it involves evaluating the results registered by the entity and comparing them with the proposed objectives to determine the success factors or the causes of the problems and their elimination.

In our opinion, if the management exercises its functions in full, it means that the management operates according to two fundamental premises: efficiency is the ultimate objective of management and management is a determining factor in achieving efficiency. An entity cannot be effective unless it has implemented an efficient management.

The financial difficulties of an entity may also be the cause of lack of stock control; if the entity owns a large stock, it may record decreases in the return on invested capital. The stocks held influence the liquidity of entity, so the period of stock conversion influences the cash conversion cycle; if the stock conversion period is long, then the cash conversion cycle is long, which is not recommended for the entity because lack of financial resources has sour effects on the normal course of business.

Holding stocks in the entity implies certain risks, these being generated by several factors, such as (Constangioară, 2005, p. 722):

• expenditures on stocks;

• immobilization of a significant part of the capital in stocks;

• depreciation of goods;

• moral wear of goods.

We consider that control of stocks has appeared to avoid these risks as much as possible. Inventory control is an important activity for any entity, because owning the asset involves additional costs for the entity, thus the need for stock management emerged.

Stocks management involves increasing the speed of rotation of stocks, holding them as little as possible in warehouses, but at the same time achieving a balance between the level of stocks and the demand of customers. The importance of stock management is given by its role within the entity, namely: it continuously ensures the production process with raw materials and materials, thus avoiding stock breaks; customer confidence is maintained due to compliance with the delivery times of the products; through the sales recorded by the entity, the payment capacity of the entity is maintained; by this the performance of the entity from one exercise to another is ensured.

In our opinion, stock management is important for the successful operation of any entity due to the value of financial investments in stocks. Efficient production planning cannot be achieved without a correct decision taken at the right time. A wrong decision has repercussions on cash flow, employees and other resources. A common problem in production is the inability entities to produce all parts or components of a product, whose completion is impossible by the deadline negotiated contract. The solution of this problem implies that the management will resort to subcontracting, in this way the continuity of the production process is maintained.

We consider that performances recorded by entity in terms of growth rate of stocks turnover, the existence in the entity's management of negligible quantities of morally used or damaged stocks, the absence of stock depletion situations, which could lead to stopping the production and sale process, or over-stocking are the results of efficient stock management. When the entity has such results it means that the profit margin registers maximum values against the background of the increase of assets' turnover rate, which will lead to the increase of the investment's return rate.

Efficient stock management is the strategic activity of coordinating the human and material resources through which it is possible to obtain maximum results from holding and selling stocks, in the shortest possible time, with a minimum of expenses related to the holding of stocks.

Stocks management is directly responsible for ensuring specially designed storage spaces so that the properties of raw materials and materials are not affected or degraded. Therefore the preservation of raw materials, materials and products plays an important role in maintaining the quality characteristics and even in improving them. Even if the entity incurs additional costs with the insurance of these spaces, the management must be aware that the losses recorded from the degradation of materials can far exceed the costs of storage. Therefore we can say that the entity's results depend on the decisions made by the manager, thus the decision plays an important role in the managerial process. An unfavorable decision made before a strict analysis of the ordering requirement, i.e. the purchase of an excessively large quantity of stocks, leads to the recording of increased storage costs that will negatively affect the profit, or the acquisition of a reduced quantity of stocks can interrupt the production process which will affect and influence the volume of sales and implicitly the company's profit.

A key factor in reducing working capital and costs is represented by increasing the efficiency of stock management. The action of optimizing the stocks management has not only positive effects on the profitability of the entity, but also on its liquidities, such as: the administration costs are reduced on account of reduction of the storage expenses and the insurance of stocks; revenues and gross margin increase due to computerized optimization systems of implemented stocks, which can increase the volume of sales by reducing stock depletion; reducing operating costs due to reduced storage, handling and loading costs; better use of assets by reducing stocks frees up financial resources and thus reduces financial expenses.

5. CONCLUSIONS

The approach of this topic is very interesting because the stocks, a significant part of the entity's assets, have a great influence on the results of the activities carried out by economic entities, but also on the value of balance sheet assets, thus they participate in the continuous development of entity's activity.

We consider that the economic entities constitute their stocks because the supply made at short intervals is very expensive and the additional stocks can be used in the conversion process. The existence of stocks is also due to the fact that supply and consumption are activities which are very difficult to synchronize; they have the role of ensuring the entity's activity with raw materials and materials between two supplies. Based on stocks' information, entities can determine very important economic and financial indicators such as: stock turnover speed, immediate liquidity, need for working capital etc., and these indicators are used in the economic-financial analysis of entities.

Stocks management must monitor the level of service, the rotation of stocks, the share of losses, the share of returns in order to be able to make decisions regarding the supplying of stocks, prioritizing clients, identifying investments in stocks that lead to the maximizing of revenues, but also decisions related to reducing stocks that are hard to sell, without transport.

REFERENCES

1.	Adam, E.E.Jr., Eberet, R.J.	Managementul producției și al operațiunilor, Editura Teora, București, 2001
2.	Antonescu, L.	The competences and the impact of evaluation categories on the fidelity of accounting information, Revista Finances–Accounting, Facultatea de Economie si Administrarea Afacerilor, Universitatea din Craiova, p. 917-922, 2009
3.	Avram, M.	Management contabil, Editura Universitaria, Craiova, 2010
4.	Bugan, C.	Importanța stocurilor și sarcina evidenței contabile, Revista Economică, nr. 3, p. 64-66, 2007
5.	Cauș, L., Popovici, A.	Considerații privind contabilitatea stocurilor în organizațiile necomerciale, Studia Universitatis Moldaviae, nr. 2, p.188-194, 2016
6.	Cocindău (Ivașcu), G.R.	Impactul Metodei de Evaluare a Stocurilor asupra Rezultatului Financiar, DANUBIUS WORKING PAPERS, Vol. 1, nr. 1, p. 77-89, 2019
7.	Costangioară, A.	Managementul stocurilor,Universitatea din Oradea, Facultatea de Științe Economice, Catedra de Management&Marketing, p. 722-728, 2005
8.	Drăgan, I., Stoian (Drăgan), S.R.	Aspecte contabile și fiscale privind gestiunea stocurilor în cadrul entităților economice, Revista de cercetare și studiu Economică,Universitatea de Vest “Vasile Goldiș”,Vol. I, ISSUE 2, p. 41-46, 2016
9.	Duncan, W.J.	Management, Random House, New York, 1983
10.	Hitt, A.M., Middlemist, R.L. Mathis	Management, West Publishing Company, New York, 1989
11.	Gheorghe, C., Păun, O.	The Strategic Role of the Material Resources Ensuring Management in a Crisis Context, Review of International Comparative Management, Volume 14, Issue 5, p. 713-723, 2013
13.	Ignat, V.	Analiza utilizării eficiente a stocurilor de materiale, Revista Meridian Ingineresc, nr. 1, p. 59-64, 2016
14.	Longeneckers, J., Pringle, Ch.	Management, Charles Merril Publishing Company, Toronto, London, Sydney, 1981
16.	Sîrbu, M.	Management, Editura AIUS PrintEd, Craiova, 2006
12.	***	IAS 2 “STOCURI”
15.	***	OMFP 1802/2014 pentru aprobarea Reglementărilor contabile privind situaţiile financiare anuale individuale și situaţiile financiare anuale consolidate, publicat în Monitorul Oficial nr. 963/30.12.2014, cu modificările și completările ulterioare.