

ANALYSIS OF THE STRUCTURE OF THE CAPITAL OF A COMPANY

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Abstract. *A major concern for financial practice and theory, related to the financing decision, was the establishment of the optimal financial structure and the choice of financing sources. Determining the exact structure of a company's capital is often a difficult, if not impossible, task for managers. The main objective of this paper is to analyze the capital of a company. In order to understand the concept of "capital" we have defined all the related notions under which capital falls (share capital, fixed capital, working capital and equity). We performed an empirical analysis of the capital of a company, as well as the qualitative and quantitative factors that are characteristic in its evolution.*

Keywords: *enterprise, capital social, balance sheet assets, balance sheet liabilities*

INTRODUCTION

One of the most frequently used concepts in the literature is the financial structure. The basic idea for defining this concept, according to the works in the field, is the numerous possibilities of combining the sources used by a company to finance its activities [16, 20].

The financing decision, both in financial theory and in practice, can be explained by a multitude of important theories.

According to the "static theory of stakeholders", the main idea is that the financing decision is primarily dependent on the business environment [23].

In Modigliani and Miller's work on the structure of capital, the conclusion is that the value of a company that has been indebted is the same as that of an equivalent non-indebted firm. Thus, the value of the company does not depend on its degree of indebtedness [15].

According to Fama and Miller [6], Jensen and Meckling [11], who approached the agent theory, firm managers, through decision-making behavior, can routinely influence the financial results obtained by firms, but they have a strong impact, especially on their funding policies and strategies.

The theory of hierarchical financing was first supported by Donaldson (1961) in its classical form. This consists of an analysis of the financing decision in a dynamic way.

The notion of structure, from a financial point of view, is found in different forms: capital structure, financing structure or financial structure. There is thus a need to clarify certain issues, such as the existence of equivalence between the stated elements, or on the contrary, the differentiation is obvious. In the vast majority of specialized works, the terms capital structure, financial structure or capital structure are considered to be synonymous. The set of financing sources (from the increase of share capital, own from self-financing, borrowed, derivatives, etc.), their share in relation to the total book values and market values, represent the financial structure of the enterprise or the structure of capitals [1, 5, 16, 21].

We must also keep in mind that the sources of financing, equity and borrowed capital, have some characteristics that can determine the optimal financial structure. The own capital ensures the control of the investors over the company, as its owners. The

borrowed capital generates to the investors some fixed return and in case of liquidation, the right to be able to be compensated first [2, 8, 9]. In some cases it is also beneficial for the company to increase the borrowed capital, because, firstly, interest expenses are deductible, the actual cost of borrowing is reduced, and secondly, creditors who hold bonds receive a fixed rate, so if the business does not have to share the profits of the shareholder [7, 8].

The relationship between own sources of financing, on the one hand, and borrowed sources, on the other hand, regardless of whether the loan is short-term or long-term, the financial structure is given by the ratio between these two sources [3, 4, 12].

The factors that influence the decisions related to the structure of the company's capital are multiple and can be classified into two categories: internal factors and external factors presented in Figure 1 [13, 17, 22].

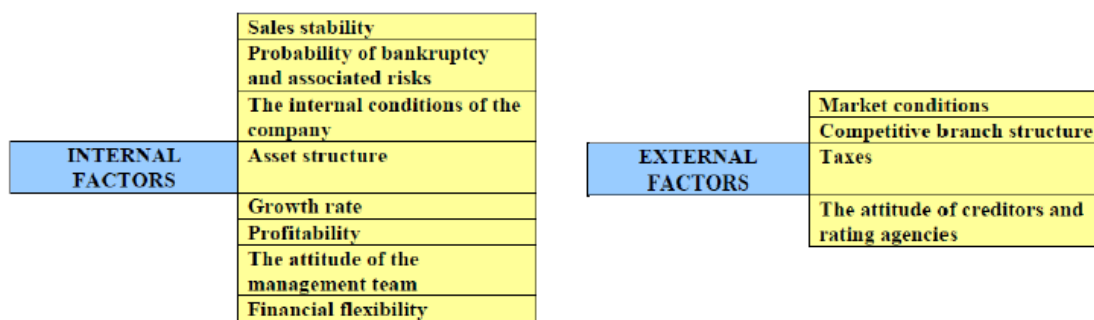


Figure 1. The influencing factors of the capital structure

In the case of any company, the combination of equity and borrowed capital, which has the effect of maximizing the price of its own shares on the market, is the optimal capital structure of that company [2, 5, 10].

MATERIALS AND METHODS

The research methodology is based on a bibliography that includes specialized literature, including books, specialized works, articles. Also, the data collected from the financial statements were analyzed (checking balance, balance sheet and profit and loss account), a series of economic-financial indicators were calculated (current liquidity, solvency, degree of indebtedness, profitability, financial autonomy and financial stability) and conclusions were drawn to provide an overview of the capital structure.

The detailing of the company's capital structure can be done according to criteria such as: the source of capital, the use of capital in the production process or its technical-economic nature [12, 19].

Own capital belonging to the enterprise is the basis of stability and cannot be demanded by any third party. It consists of the contribution of shareholders, associates or sole proprietor (depending on the situation); possible share issues and public subscription; self-financing [5, 13].

The subscribed and paid-in share capital of the founders of the enterprise may be determined, by size, by the size of their financial and material resources to which is added the intention of the insurance founders or not of a high level of financial autonomy [14, 16, 17, 22].

RESEARCH RESULTS

The analysis of financial statements involves the analysis and interpretation of financial statements. An important objective of the analysis of the financial statements is

that of “understanding the figures” or “deciphering the meaning of the figures”. In other words, the introduction of financial analysis tools is a support for knowing and accepting the reported financial data and then using the power of understanding, in order to better manage a business.

Analytical measures can be taken to highlight important relationships and information in the financial statements. In conclusion, the purpose and purpose of the analysis of financial statements is to make the right informed decisions..

Table 1.**Short balance sheet**

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Date	Balance sheet 2018	Balance sheet 2019	The balance 31.12.2020	The balance 31.12.2021	Data	Balance sheet 2018	Balance sheet 2019	The balance 31.12.2020	The balance 31.12.2021
Fixed assets	465,976	440,529	292,144	306,383	Own capital	252,485	280,728	76,805	141,695
<i>Intangible assets</i>	238	919	519	188	Social capital	200	200	200	200
<i>Tangible fixed assets</i>	465,738	439,610	291,625	306,195	Reserves	40	40	40	40
<i>Land</i>					The current result	134,476	280,488	76,565	64,402
<i>Buildings</i>					Reported result	117,769			77,053
<i>Means of transport</i>					Revaluation differences				
<i>Equipment</i>					Distribution of profit				
Financial assets					Provisions				
Fixed assets in progress									
Current assets	303,261	605,754	647,847	710,530	Passive	516,752	766,522	864,260	876,070
Stocks	19,541	51,003	46,854	54,251	Debts to be paid in less than one year	268,705	582,611	675,493	715,066
Debtor suppliers					Debts to be paid in more than one year	248,047	183,915	188,767	161,004
The house and bank accounts	207,756	431,971	97,356	119,699	Debts to the state budget				
Receivables	75,964	122,780	503,637	536,580	Providers				
Regularization accounts (Expenses in advance)		971	1,074	852	Regularization accounts				
TOTAL ACTIVE	769,237	1,047,254	941,065	1,017,765	TOTAL PASSIVE	769,237	1,047,250	941,065	1,017,765

Source: Data processed by authors from the balance sheets

Users of accounting information, whether we are talking about a potential investor or creditor, an analyst hired by the company under analysis, the finality is to create a basis that will give the opportunity to make rational decisions [12].

Decisions may be related to the supply or liquidation of a stock, for example, the granting or rejection of a loan or the choice between continuing the same method or adopting new procedures on which the results of a valuable financial analysis depend [18].

In 2021 the current assets (table 1) were the value of approximately 710.5 thousand lei composed of:

- Receivables in the amount of approximately 536, 6 thousand lei consisting of: commercial receivables 140.2 thousand lei, receivables related to the state budget (57.54 thousand lei) and other receivables in the amount of 339.7 thousand lei.

- Debtor suppliers and other receivables have no balance.

- The house and bank accounts had a value of 119.7 thousand lei consisting of the balance of account 5311 in the amount of 110.7 thousand lei, ct.5121 in the amount of 868 lei and other current accounts with banks and letters of credit of 8,039 lei.

- The stocks were worth 54,251 thousand lei, increasing by 7,397 lei compared to 2020 (46,854 lei).

- The regularization accounts registered the value of 852 lei, consisting of the expenses in advance.

Table 2.

Asset structure in the period 2018-2021

-%-

	31.12.2018	31.12.2019	31.12.2020	31.12.2021
Fixed assets	60.58	42.06	31.04	30.10
Current assets	0	57.84	68.85	69.81
Settlement accounts Expenses registered in advance	39.42	0.10	0.11	0.09

Source: Data processed by authors from the balance sheets

Table 3.

Passive structure in the period 2018-2021

	31.12.2018	31.12.2019	31.12.2020	31.12.2021
Own capital	32.82	26.87	8.16	13.92
Passive	67.18	73.19	91.84	86.08

Source: Data processed by authors from the balance sheets

Equity increased in 2021 to 141.69 thousand lei, increasing compared to 2020 by approximately 46% (76.8 thousand lei), but lower by 50% compared to 2019 (280.7 thousand lei) consisting of :

- subscribed and paid-in capital - value 200 lei;
- reserves - value 40 lei;
- the carried forward result - the value of 77,053 lei;
- current result - value 64,402 lei.

Regarding the debts, for 2020 the amount of 864, 3 thousand lei was registered, increasing compared to 2019 by 11.31%, and in 2021 they increased reaching 876.1 thousand lei being formed by:

- 273.7 thousand lei, Short-term external loans, contracted with the Bank;
- 159.4 thousand lei, Long-term external loans, contracted with the Bank;
- 215.6 thousand lei, Trade debts advances received from customers and other assimilated accounts;

- The debts related to the social insurance budget and the state budget amounted to 47.7 thousand lei consisting of: debts related to the social insurance budget in the amount of 9.3 thousand lei, fiscal debts related to the state budget in the amount of 22.5 lei; other debts related to the state budget (account 4481) of 15.9 thousand lei;

- other debts - 1.6 thousand lei;
- 51.5 thousand lei, Amounts owed to shareholders / associates (account 455).
- Lending customers and the settlement account have no balance.

Liquidity is the quality of assets that can be made available immediately in order to cover expenses. In other words, the money is completely liquid. The other assets may have varying degrees of liquidity, depending on two criteria. The more liquid the asset, the more it can be turned into money (taking into account time but also transaction costs). The second feature of liquidity is the way in which that asset is affected by the risks due to capital fluctuations [17, 21].

The ability to pay of an economic agent is the possibility of full repayment of payment obligations that become due for suppliers, employees, the state budget, but also for banks and other creditors [13, 20, 21].

Solvency is the ability of a firm to pay its debts to its creditors at maturity. The economic operator is solvent when all the assets invested in fixed assets, current assets, certain receivables, cash resources are higher or at least equal to the total liabilities consisting of obligations to the bank, partners, state budget and employees [4, 13, 20].

Table 4

Economic and financial indicators (%)

Indicators	2018	2019	2020	2021
Current liquidity Cl = 100 * (current assets / debts under one year)	112.86	103.26	95.90	81.10
Solvency S = 100 * (Total Assets / Total Debts)	148.85	136.62	108.88	116.17
Turnover profitability Tp = 100 * (Net Profit / Turnover)	7.88	13.16	3.84	4.94
Level of indebtedness Li = 100 * (Total debts / Equity)	204.66	273.04	1,125.26	618.27
Rate of financial expenses Rfe = 100 * (Financial Report / Turnover)	0.39	0.92	0.70	0.19
Financial autonomy Fa = 100 * (Equity / Permanent capital)	50.44	60.41	28.92	44.31
Financial stability Fs = 100 * (Permanent capital / Total liabilities)	65.06	44.36	28.22	29.74

Source: Data processed by authors from the balance sheets

The economic agent has solvency even if at some point, he does not have the ability to pay.

Low payment capacity and low financial liquidity may exist if the economic operator has a certain solvency.

Economic agents ensure their solvency if they carry out an efficient activity and profit is obtained. In the conditions in which no profit is obtained from the activity, the loss of the patrimony determines the insolvency.

Equity solvency is the indicator that is calculated by relating the share capital to the total assets (including share capital).

Financial autonomy is obtained by relating equity to permanent capital (equity + medium and long-term debt).

Financial stability is calculated by reporting total permanent liabilities. The optimum level for this indicator should be between 30-60% [5, 13, 17].

Table 4 shows the indicators calculated on the basis of the data from the financial statements: "current liquidity, solvency, rate of financial expenses and rates of structure of liabilities, respectively the degree of general indebtedness, financial autonomy and financial stability" [2, 3, 5]. All indicators showed a decreasing trend.

The profitability of the turnover registered an oscillating evolution, during 2019 it increased, as a result of the increase of the net profit, but in 2019 and 2020 it decreased considerably, on the background of the decrease of the net profit.

For the year 2018, the turnover (Table 5) registered the amount of 1,705,192 lei, the result from the exploitation activity was of 146,920 lei, the value of the financial result was 10,633 lei, and the calculated net profit 134,476 lei.

In 2019, the turnover increased by over 20% compared to 2018, in the amount of 2,130.2 thousand, determining the obtaining of an operating result of 316.46 lei, a financial result of - 14,573 thousand and a net profit of 280,488 thousand lei, double compared to 2018.

Table 5.

Profit and loss account

	2018	2019	2020	2021
Turnover	1.705,192	2,130,270	1,990,123	1,302,904
1. Operating income	301,698	377,110	300,799	175,577
2. Income from sold production	1,403,494	1,753,160	1,689,324	1,127,327
Other operating revenues	1,776	4,903	346,365	3,952
Operating subsidy revenue	0	0	0	64,747
Total operating income	1,706,978	2,135,173	2,336,488	1,371,603
1. Expenditures on raw materials and consumables	708,138	810,641	644,152	337,243
Other material expenses	23,229	38,034	187,953	126,242
2. Other external expenses	115,687	154,738	96,337	82,654
3. Expenses with the goods	143,123	139,880	121,801	73,834
Commercial discounts	0	0	3,873	2,240
4. Expenditure on staff	274,855	319,748	473,985	359,361
5. Other operating expenses	113,823	185,331	542,163	224,647
6. Value adjustments on fixed assets	181,193	170,337	167,435	89,898
Total operating expenses	1,560,048	1,818,709	2,229,953	1,291,639
Operating result	146,920	316,464	106,535	79,964
The financial result	10,633	- 14,573	- 9,746	- 2,533
The gross result	157,553	301,891	96,789	77,431
The net result	134,476	280,488	76,565	64,402

Source: Data processed by authors from the balance sheets

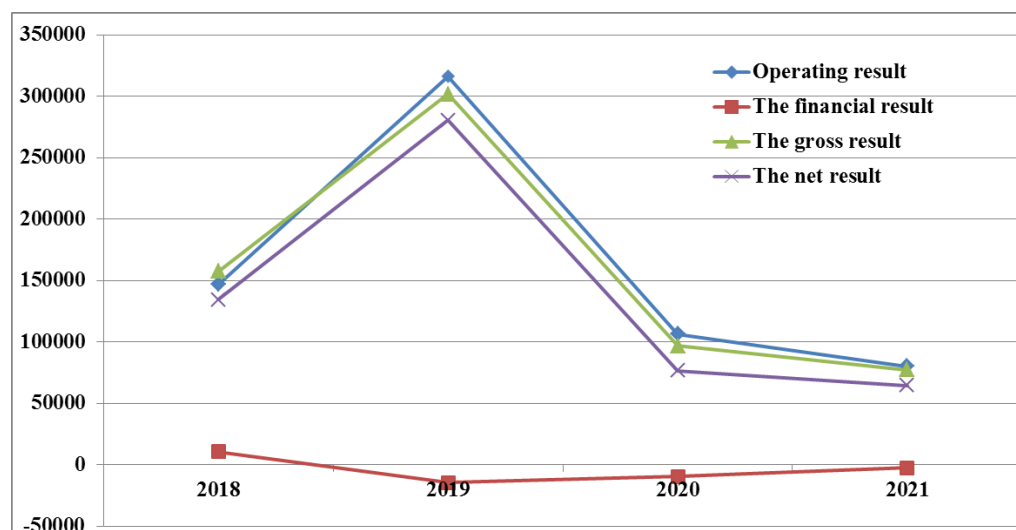


Figure 2. The evolution of the company's results

In 2020, the analyzed company registered a net profit (Table 5 and Figure 2) approximately 3 times lower than in 2019 of only 76,565 lei, the Turnover was 1,990,123 lei, lower than the previous year.

We also noticed a reduction in the company's activity in 2021, due to the Covid 19 pandemic, both revenues decreased to 1,371,603 lei, but also the operating result (Figure 2) to 79,964 lei, and the net profit decreased by 13 , 27% compared to 2020.

CONCLUSIONS

For managers, accurately determining the optimal capital structure of a company is often a difficult, sometimes even impossible, task.

In the case of the financial manager, the decision on lending the company or reinvesting the profit must take into account both the requirements of stability and volatility within the company, without omitting the cost induced by financial stability.

For companies, the way of financing through the use of both debts and equity, induces obligations of different types.

The method of financing through loans, impose on the company the payment of interest to creditors as provided in the credit agreements. In the event that the company obtains earnings in excess of the required debt settlement, the surplus obtained may be distributed to shareholders, or may be directed to investments.

The financing of SMEs by banking or non-banking institutions is currently discouraged by both macroeconomic and regulatory conditions.

In most cases, SMEs no longer have their own capital to carry out their current activity, and even more so for development. The hypothesis of attracting financing sources is often abandoned because they are either very expensive or it takes a long time to access loans. The situation is reflected in the market by high levels of indebtedness for many companies, which inevitably determines the impossibility of obtaining through negotiations a rescheduling of costs or a decrease in them, using diversified financial instruments.

Restricting credit financing imposed by commercial banks in crisis situations has had a negative effect on the way small and medium-sized businesses run their own businesses, reducing their cash flow and net profit.

In conclusion, the radiography of the enterprise through the correct analysis of the economic and financial situation is extremely important, explained by the need to pay interest to financial creditors, regardless of the cash flow of the business. The difficulties related to the development of the operational activity will be affected, directly, by the weight of the payment to the creditors.

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