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# ANALYSIS OF THE INFLUENCE OF ACCOUNTS PAYABLE ON THE ENTERPRISE'S FINANCIAL STATE

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**Summary.** *Indebtedness is an economic phenomenon, the appearance of which is due to objective reasons during the financial and economic activity of the enterprise and its relations with counterparties. The state of accounts payable is important for enterprises of all industries and forms of ownership. On the one hand, indebtedness stimulates the growth of business activity, as it allows buyers to obtain resources with deferred payment, and sellers - to accelerate sales. On the other hand, indebtedness causes a temporary withdrawal of assets, and this can worsen his financial condition. Therefore, payables have an ambiguous influence on the company's activities, so the analysis of their influence on the enterprise's financial state is of high relevance.*

**Keywords:** *accounts payable, liquidity, solvency, financial stability, profitability.*

The financial condition of the enterprise is characterized by various groups of indicators, in particular, indicators of liquidity and solvency, absolute and relative financial stability, as well as turnover or business activity, and, last but not least, indicators of profitability, which characterize the level of achievement of the ultimate goal of activity - making a profit. Since the payables belong to the obligations of the enterprise, accordingly, it is a source of formation and current financing of its assets and property, therefore it has a significant influence on the indicators and results of the enterprise's activity and its financial and property status. These are the indicators mentioned above, primarily of financial stability, solvency, business activity, etc.

According to the definition of Luchko M.R., Zhukevich S.M., & Farion A.I.: "the financial stability of an enterprise is the ability of a business entity to function and develop, to maintain the balance of its liabilities and assets in the internal and external environments, which are constantly changing, which guarantees its solvency and investment attractiveness" [1].

The financial stability of the enterprise is under the influence of a considerable number of both external and internal factors, and one of the internal factors that has a significant impact on financial stability is the amount and structure of the company's raised capital. Accounts payable is an important component of loan capital, so its influence on the formation and preservation of the stability of the enterprise, which indicates the independence of the enterprise from external sources of financing, is significant. According to the "Methodical recommendations

for detecting signs of insolvency of the enterprise and signs of actions to conceal bankruptcy, fictitious bankruptcy or bringing it to bankruptcy" [2] the limit value of the debt-capital concentration ratio is 0.5.

Exceeding the threshold value indicates an increasing threat of bankruptcy. Based on this normative document, in the vast majority of works on financial analysis of domestic scientists, it is noted that companies whose equity capital exceeds the amount of debt are financially independent from external sources. However, debt capital is widely used in the Western world.

Accordingly, the amount of payables, which constitutes a significant share of loan capital, significantly affects the financial independence and level of financial stability of the enterprise: the higher the concentration of payables in the liabilities of the enterprise, the higher the level of its dependence on creditors, and therefore the higher the risk of bankruptcy in the event of simultaneous submitting all claims for repayment.

The concept of "solvency of the enterprise" is interpreted as its "ability to pay on time and in full for its obligations arising from trade, credit or other monetary transactions" [3]. Since accounts payable is one of the types of obligations of the enterprise, it is clear that accounts payable definitely affects the solvency of the enterprise. However, unlike its impact on financial stability, in this case, it is not the size of the debt that is decisive, but its relationship with the size and composition of the relevant groups of assets that can be used to repay such debt.

Accordingly, the assessment of the effect of payables on the company's solvency involves grouping debts according to the urgency of their repayment and comparing them with the corresponding groups of current assets grouped according to the degree of liquidity. For example: "at the same time, accounts payable for goods (works, services), for payments to employees, for taxes, from social insurance, which belongs to the most urgent liabilities, are compared with the most liquid assets – cash, current financial investments, promissory notes (the momentary solvency – the ability of the enterprise to immediately settle its most urgent obligations), and long-term payables as part of long-term liabilities – with assets that are slowly realized – stocks, other current assets, etc. according to their obligations)" [4].

Thus, through the analysis of payables in the context of assessing the company's solvency, an assessment of its impact on the resource sustainability of the company is carried out, which reflects the level of cooperation between the company and its material and technical supply counterparties. In case of violation, payment discipline for settlements with suppliers and the appearance of overdue payables on the balance sheet may disrupt the supply of raw materials and materials, which in turn will cause the production process to stop. Here it is worth noting that according to the classification of monetary and commodity payables, the latter does not have a direct impact on the company's solvency, since such debts must be repaid at the expense of the supply of certain commodity values, works or services.

Accounts payable do not directly affect the profitability of the enterprise, except for overdue debt, for which the statute of limitations has expired, and which can be written off from the enterprise's balance sheet to recognize other operating income, which will cause an increase in the financial result of its activity, that is, an

increase in profit. However, the indirect effect on profitability can be significant. For example, the occurrence of overdue debts, in particular, for taxes or social insurance contributions, may result in the accrual of financial penalties.

Postponing the payment of purchased resources, as a rule, has a positive effect on the revival of its business activity, but only if such debt has high rates of turnover and a short period of turnover. The normal level of the enterprise's business activity is indicated by the balanced state of the amounts of its receivables and payables, as well as their turnover rates, growth rates, and the duration of their repayment periods. But if the amount of debt is significant, there is overdue and bad debt, then this negatively affects the business activity of the enterprise, because it slows down the turnover of its resources.

Disruption of the balance of receivables and payables causes changes in the duration of the financial cycle, which in turn determines either the release of working capital or, on the contrary, their shortage, which will require additional formation of financial resources: in the form of loans or equity capital. Thus, accounts payable have both a negative and a positive effect on the activity of the enterprise and its financial and property status, that is why during the economic activity of the enterprise it is necessary not to avoid its formation because it is impossible, but to bring its volume to the optimal level, which determined by the characteristics of the environment.

In a general sense, "optimization of accounts payable is the search for new approaches, with the help of which a change in accounts payable can have a positive effect on the activity of the enterprise" [5].

Constant operational monitoring of payables and control over payment due dates is an urgent task for every business entity. The list of issues to be monitored includes:

- to whom the enterprise owes;
- the amount of debt in terms of creditors;
- arrival of payment terms, whether there is an overdue debt;
- the dynamics of the amount of debt over time (increasing or decreasing);
- whether the amount of debt will affect the completion of contractual obligations for critical supplies, etc.

Therefore, according to Gordon Donaldson: "a very important role in building the long-term foundations of the successful operation of enterprises is played by the assessment of risks associated with the maintenance of obligations and the establishment of optimal limits of long-term debt burden, as well as current obligations for each period of time" [6].

Accounts payable are serviced at the expense of the company's available funds, the volume of which changes under the influence of cash flows generated during the company's economic activity. In case of a shortage of available funds, they can be replenished by selling certain assets of the enterprise. And, perhaps, it is certainly better to resort to the realization of a share of assets, than in case of late payment of the company's obligations, it will be forced to pay fines, which are established by law or prescribed in contracts with creditors. However, although the service scheme seems simple at first glance, in their practical activities, enterprises face significant difficulties in servicing their payables, and not only due to a banal lack

of funds, but also because they neglect the use of analytical monitoring methods to service their payables. When many heterogeneous obligations accumulate and are imposed over time, and the volatility of incoming and outgoing cash flows causes even greater unpredictability in this situation, then inevitable errors in the management process. For example, Dimitris N. Chorafas in his work "Liabilities, Liquidity, and Cash Management: Balancing Financial Risks" [7] uses examples of well-known global companies, in particular, such as Daewoo, Bank One, and Xerox, demonstrates that, despite the global trend increasing the role and share of obligations in the functioning of enterprises, even such large and powerful international corporations make significant mistakes in the process of planning the service of their obligations.

Insufficient optimality of debt servicing results in significant material losses. It is in the optimization of these processes that there are significant reserves for ensuring the solvency of enterprises, which necessitates the use of effective tools that allow for comprehensive planning and the selection of optimal debt service parameters. In the process of optimizing the service of payables, it is necessary to pay off debts in a timely manner in conditions of limited funds, reducing to a minimum the negative impact on the company's activities and setting tasks in accordance with the specific situation (table 1).

Table 1

**The task of optimizing the service of the company's accounts payable**

№	The nature of the situation in the company's finances	Tasks for optimization
1	the enterprise does not have enough funds to pay off existing liabilities and will face the need to realize assets	minimization of the negative impact of the sale of property on the activity of the enterprise
2	the company has enough funds to meet obligations, but there are problems with their availability at a time when incoming cash flows are not synchronized with the repayment of obligations, because of which late payment leads to penalties	minimization of fines
3	the situation at the enterprise is favourable and there will be no fundamental problems with servicing obligations during the planned period	determine the maximum amount of funds that must be reserved to pay off the debt, and which can be used for other purposes.

formed from [8]

Indebtedness to creditors significantly affects the financial condition of the business entity, in particular, the formation and use of its financial resources, and the dynamics of cash flows, therefore it is a consequence of the settlement relations of the enterprise with its counterparties. The accumulation of accounts payable violates the financial stability of the enterprise, negatively affects its image as a debtor, and lowers its creditworthiness and investment attractiveness. That is why an important aspect of effective servicing of accounts payable is the implementation of constant internal control over the status of settlements with suppliers and contractors. Monitoring of accounts payable helps to protect against the risk of the

company becoming insolvent. It is impossible to allow negative consequences due to the deepening of accounts payable problems, which are associated with the risk of uncontrolled growth of overdue debts, which causes the imposition of fines, the creation of an image of an unreliable partner, and the termination of partnership relations.

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