Debts Management Analysis from the Operation Activity

Melania Elena Miculeac[1], Mirela Monea[2]

Abstract— Any company has a limited level of resources which it is obliged to manage in such a way as to ensure the fulfillment of its objectives: full and on time accomplishment of activity object, realization of top quality products and services, competitiveness increase, superior capitalization of resources potential. In this paper we proposed a model to analyze the efficiency of resources allotted in client-debts, through this model emphasizing the influence of clients change in the company's business, noticing too the period of time in which it pays its invoices.

Keywords—rotation speed, exploitation debts, factors of influence, clients management ratio, stakeholders.

I. INTRODUCTION

The operation of current activity is ensured by the economic processes (through which it is ensured the transformation of raw materials and materials into new values of use) and financial processes (through which it is realized the mobilization and allotment of financial sources to develop the activity).

The efficient management is generally realized when results as good as possible are obtained with resources as little as possible. Consequently, the increase of efficiency level in resources management is equivalent to:

- Getting the same result with a volume of resources as little as possible (minimizing principle)
- Getting, with a given volume of resources, results as good as possible (maximizing principle)

The synthetic representation of the way in which resources are managed is realized through their rotation speed which measures the duration necessary to go over all the phases of the exploitation and commercialization cycle.

Financial ratios, usually, show financial relationship by dividing one financial item by another, and are an important tool for management, permitting a space comparison to place the company in her environment. [14].

Ratios are a management tools which allow managers to assess performances, express business trends, monitor entities activity, and helps for making strategic and operating decisions.

Management ratios tell us how well a company is managing its assets, and help financial statement users to evaluate levels of output generated by assets. The assessment of activity ratios helps us to understand the overall level of efficiency at which a business is performing. [15].

Speed and time are important aspects of utilization ratios, and also, it is recommended that after their calculation to compare those ratios with a standard. [15].

Management ratios, known also as rotation ratios, measure the efficiency degree with which the company uses its resources. All these ratios imply comparisons between the turnover and different elements of assets and liabilities, their construction starting from the idea that there must be a rational equilibrium between the company's turnover and assets and liabilities elements.

II. ANALYSIS OF GENERAL MANAGEMENT RATIOS

Rotation speed (vr) or management ratios measure the transformation duration from assets into liquidity and the renewal duration of debts. The rotation speed is expressed synthetically with the help of 2 indicators: number of rotations, respectively duration in days of a rotation.

The number of rotations (nrot) shows how many times the analyzed balance sheet element of assets (Ea) or liabilities (Ep) rotates through turnover in a management period.

$$nrot = \frac{CA}{Ea;Ep} \quad nrot = \frac{1}{dz} \times T \tag{1}$$

The duration in days of a rotation (dz) shows the average duration in which the analyzed assets or liabilities element goes over all the economic cycle and comes back to the initial, monetary form.

$$dz = \frac{Ea;Ep}{CA} \times T \quad dz = \frac{1}{nrot} \times T \tag{2}$$

The analysis of the rotation speed implies the pursuit of the following objectives:
- to identify the calculation elements;
- to interprete the meaning of the change in the rotation speed;

[1] Melania Elena Miculeac is PhD. Lecturer at Dragan European University in Lugoj, Faculty of Economic Science, Lugoj, 2, Ion Huniade Street, Timi☐ County, 305500, Romania, (e-mail: miculeacmelly@yahoo.com).

[2] Mirela Monea is PhD Lecturer at the University of Petrosani, Department of Economic Sciences, Petrosani, 20, University Street, Hunedoara County, 332006, Romania (e-mail: moneamirela@gmail.com).

- to identify the factors of influence and their interpretation;
- to quantify and explain the effects of the change in the rotation speed.

A. Identification of the calculation elements

The fact that it is important to take into account the **turnover** when analyzing the efficiency of the financial management is given by the fact that it incorporates through the price the value components necessary to:

- Cover the production expenses (material expenses, service expenses, wages expenses, depreciation expenses, tax and duties expenses, expenses with tax on profit);
- Reimburse the financial debts and pay them;
- Remunerate shareholders / associates;
- Create at the company's level the sources needed for self-financing.

Because of this, each element of assets will be renewed in a period of time through the turnover, and each duty will be paid in a certain time through the corresponding value component from the turnover.

Assets and liabilities elements are taken into consideration with their level at the end of the management period or their average level established as it follows:

$$E_a orE_p = \frac{\text{level at the beginning of the period} + \text{level at the end of the period}}{2}$$

(3)

Time refers to the management period for which the analysis is done and it is expressed by the number of calendar days (month, quarter, half-year, year).

B. Interpretation of the meaning of the change in the rotation speeds

The acceleration of the rotation speed, materialized in the increase of the rotations number or the reduction of the duration in days of the rotation, means:

- to reduce the absolute and/or relative necessary of resources to realize a certain level of the turnover;
- to realize a bigger turnover for a given consumption of resources;
- it takes place when the turnover dynamics outruns as rhythm the dynamics of the assets or liabilities element, that is if $I_{CA} > I_{Ea}$ or I_{Ep}, then $I_{dz} < 1$ and $I_{nrot} > 1$.

The slowing down of the rotation speed, materialized in the decrease of the rotation number or the increase of the duration in days of a rotation, means:

- to increase the absolute and/or relative necessary of resources to realize a certain level of the turnover;
- to realize a smaller turnover for a given consumption of resources;
- it takes place when the turnover dynamics outruns as rhythm the dynamics of the assets or liabilities element, that is if $I_{CA} < I_{Ea}$ or $I_{Ep,}$ then $I_{dz} > 1$ and $I_{nrot} < 1$.

C. Interpretation of the factors of influence and their interpretation

The factors of influence are: the turnover and the element of assets and liabilities.

There is a mutual conditioning between the turnover and the level of the resource consumption. The increase of the turnover level for a bigger demand on the market, implies the increase of the resource consumption, but not necessarily in the same proportion. The increase of the turnover at a certain consumption of resources or a bigger turnover at a given consumption of resources means an increase in the efficiency of the resources utilization.

The contribution of each factor to the rotation speed evolution can be estimated quantitatively on the basis of the iterative factor model which separates the influence of the two factors over the change in the rotation speed.

A. Analysis of the rotations number

1. Deviation of the rotations number from the basic period (0) to the current period (t) :

$$\Delta nrot = nrot_t - nrot_0 = \frac{CA_t}{Ea_t\,orEp_t} - \frac{CA_0}{Ea_0\,orEp_0}$$

$$= \Delta nrot_{(\Delta CA)} + \Delta nrot_{(\Delta Ea, \Delta Ep)} \qquad (4)$$

2. The estimation of the factors influence can be done by explaining the indicator change on the basis of:

a) turnover change:

$$\Delta nrot_{(\Delta CA)} = \frac{CA_t}{Ea_0\,orEp_0} - \frac{CA_0}{Ea_0\,orEp_0} \qquad (5)$$

b) change in the average level of the assets or liabilities element:

$$\Delta nrot_{(\Delta Ea, \Delta Ep)} = \frac{CA_t}{Ea_t orEp_t} - \frac{CA_t}{Ea_0 orEp_0} \qquad (6)$$

B. Analysis of the duration in days of a rotation:

1. Deviation of the duration in days of a rotation from the basic period (0) to the current period (t) :

$$\Delta dz = dz_t - dz_0 = \frac{Ea_t orEp_t}{CA_t} \times T - \frac{Ea_0 orEp_0}{CA_0} \times T =$$

$$\Delta dz_{(\Delta CA)} + \Delta dz_{(\Delta Ea\_sau\_\Delta Ep)} \qquad (7)$$

2. The estimation of the factors influence can be done by explaining the indicator change on the basis of:

a) turnover change

$$\Delta dz_{(\Delta CA)} = \frac{Ea_0 \, or Ep_0}{CA_t} \times T - \frac{Ea_0 or Ep_0}{CA_0} \times T \qquad (8)$$

b) change in the average level of the assets or liabilities element:

$$\Delta dz_{(\Delta Ea\_sau\_\Delta Ep)} = \frac{Ea_t or Ep_t}{CA_t} \times T - \frac{Ea_0 or Ep_0}{CA_t} \times T \qquad (9)$$

The factors of influence act differently over the rotation speed:

1. The turnover:
- confirms the acceleration of the rotation speed, in all the situations in which it is satisfied the condition that its growth rhythm outruns the growth rhythm of the assets or liabilities elements ($I_{CA} > I_{Ea}$ or I_{Ep});
- certifies the slowing down of the rotation speed when the rhythm of its change is inferior to that of the assets or liabilities elements ($I_{CA} < I_{Ea}$ or I_{Ep});

2. The average level of the assets or liabilities element:
- indicates the acceleration of the rotation speed if the following condition is met I_{Ea} or $I_{Ep} < I_{CA}$;
- certifies the slowing down of the rotation speed if I_{Ea} or $I_{Ep} > I_{CA}$.

The two factors of the rotation speed, although they are mutually conditioned, they also have specific elements which establish their level at a given time, thus:
- for the turnover :
• volume of physical production realized and sold;
• structure of sold production;
• delivery prices.
-for the value level of assets and liabilities elements:
• economic situation;
• the way in which the supply and sale processes are developed;
• duration of operation cycle;
• technological process complexity;
• product life duration;
• particularities of stocked products;
• temporary character of production;
• factors specific to the assets elements which condition their liquidity degree : company's strategy regarding the sale market; clients nature.
• factors specific to the liabilities elements which condition their exigibility degree: interval of time accepted by the suppliers to pay their invoices.

D. Quantification and explanation of the change in the rotation speed effects

The resources rotation speed through the turnover is the decisive element of the level and evolution of economic efficiency, profitability and payoff.

The acceleration or slowing down of rotation speed has as direct effect:

- absolute or relative release (E) or immobilisation (I) of material and financial resources;
- profit increase or reduction;
a) The releases (E) or immobilisations are established by the relation:

$$E(-)orI(+) = (d_{z_1} - d_{z_0}) \times \frac{CA}{T} \qquad (10)$$

Resource releases are equivalent to the reduction of material resources stock and the increase of available financial resources, while resource immobilisations are equivalent to the increase of stocks and the increase of the necessary of financial resources.

b) The consequences over the profit can be estimated starting from the relation:

$$P = CA - Ch_a \qquad (11)$$

where: Ch_a - expenses afferent to the turnover

Because $\quad CA = \overline{Ea} \ or \ \overline{Ep} \times \dfrac{T}{dz}$ — the calculation relation becomes :

$$P = \overline{Ea}\_or\_\overline{Ep} \times \frac{T}{dz} - Ch_a \qquad (12)$$

from where:

$$\Delta P = P_1 - P_0 = (\overline{Ea_1}\_or\_\overline{Ep_1} \times \frac{T}{dz_1} - Ch_{a1}) - (\overline{Ea_0}\_or\_\overline{Ep_0} \times \frac{T}{dz_0} - Ch_{a0}) \quad (13)$$

The factors of influence over the profit will be:
• turnover change expressed in cost;
• change in the average level of the assets or liabilities element;
• change of the rotation speed.

The measures for the acceleration of the resource rotation speed can be classified according to several criteria among which the biggest practical utility is held by the factors classification according to the phase of operation cycle in which it acts.

III. THE EFFICIENCY ANALYSIS OF THE FINANCIAL RESOURCES ALLOCATED IN CREDIT CLIENTS

The debts from exploitation represent the short-term rights of patrimony institutions against third parties as a consequence of the exploitation cycle and which are compensated by exploitation incomes. Sometimes, debts are compensated by accounts which do not influence the result account, but which refer to exploitation accounts.

The management of clients and suppliers is represented by the methods and instruments which use as efficiently as possible the capitals tied up in commercial credits.

Taking into consideration the terms of payment criterion,

the settlements of accounts with the third parties can be classified in:

- immediate settlement (up-front payment), through cash payment or bank transfer after a minimum number of days for invoice settlement;

- payment at a stated date, after a period of time agreed by the partner (period of commercial credit).

Extending the definition of commercial credit we distinguish:

a) sale credits, which represent the sale of goods, respectively the supply of services on credit, the company having the possibility to find itself in two situations:

- creditor, the client credit representing the sale of goods, the supply of services on credit to the company's clients;

- debtor, the supply credit representing the fact that the company purchases goods, respectively services on supply credit.

b) buying credits, which represent the payment in advance for goods and services, on credit, the company having the possibility to find itself in two situations:

- creditor, representing advance payments granted to suppliers, which mean prepayments for goods, respectively services on credit to the company's suppliers;

- debtor, representing advance payments received form clients, which mean advance receipts for the future sale of goods, respectively supply of services by the company to its clients.

Client credits and prepayments to suppliers represent a capital which is assigned in advance, generating a necessary to be financed in the operating activity. Supplier credits and prepayments received from clients represent a capital which is recovered in advance, generating a financing source in the financial management.

The efficient management of commercial credits points out two important aspects, which sometimes are contradictory, namely:

a) The reduction of the necessary to be financed and the increase of the financing sources, through:

- actions on clients (to reduce the client credit duration, to increase the received prepayments);

- actions on suppliers (to increase the supplier credit duration, to reduce the prepayments given to suppliers).

The actions on clients, if they exceed an allowable limit, may have a side effect, the dissatisfaction of this category of stakeholders, which will cause their leaving and thus the reduction of the turnover. The actions on suppliers, if they exceed an allowable limit, may have a side effect, the dissatisfaction of this category of stakeholders, which will cause their leaving and thus the increase of expenses, especially on the basis of their change [2].

b) The increase of the necessary to be financed and the reduction of the financing sources, through:

- actions on clients (to increase the client credit duration, to reduce the received prepayments);

- actions on suppliers (to reduce the supplier credit duration,

to increase the prepayments given to suppliers).

The actions on clients may have positive effects which will lead to the increase of the turnover, and the actions on suppliers may lead to the reduction of some supply expenses. If they exceed an allowable limit, they may have as an effect the increase of the necessary to be financed above the limit that can be supported by the company.

The management efficiency of the financial resources allocated to clients in debts requires, on the one hand, the analysis of the management ratio levels and, on the other hand, the analysis of the management rate dynamics on the basis of influence factors.

A. The analysis of the management ratio levels

A first method is the *clients' management ratio* (the rotation speed of debts to clients). It is calculated under the form of the rotation speed (more frequently) or under the form of the rotation number (more rarely).

The clients' management ratio shows us which the medium interval is in days between the invoice of the goods and services to clients and the receipt of their value. It represents the medium commercial credit duration actually realized.

It is calculated by the formula:

$$dz_{CL} = \frac{CL_t}{CA_t}T \ \text{ or } \ dz_{CL} = \frac{\overline{CL}}{CA_t}T \qquad (14)$$

where:

$\overline{C}L$ - medium balance of debts to clients

CL_t – debts to clients in moment t

CA_t – turnover of that period

T = the number of days of that period (T = 360 days for a year, 180 days for a semester, 90 days for a quarter, 30 days for a month).

In order to correspond to a company's commercial policy, the average duration of client credit rotation dz_{CL} must be compared to the duration of the client commercial credit *dcf* applied by the company, there being 3 situations:

a) if $dz_{CL} < dcf$, then the company collects its debts more rapidly than it planned to, and it benefits of a positive interval with a positive financial impact, expressed by the reduction of the need to finance;

b) if $dz_{CL} = dcf$, then the company collects its debts from clients exactly within the normal limits of commercial credit it practices;

c) if $dz_{CL} > dcf$, then the company does not collect its debts from clients within the normal limits of commercial credit it practices, there are delayed payments, the company endures an unfavorable interval with a negative financial impact, expressed by the increase of the need to finance.

The second method in represented by the conversion coefficient (the number of rotations) which shows us how many times the clients rotate on average in the turnover, it

being a measure of the total uncollected invoices.

It is calculated by the formula:

$$nrot = \frac{CA_t}{CL_t} \text{ or } nrot = \frac{CA_t}{\overline{CL}} \qquad (15)$$

The first method is the most used when surveilling the clients management.

An essential element must be taken into consideration. The management rates are obtained by reporting a stock type measure (which measures the level of a phenomenon for a given moment) to a flow type measure (which measures the level of a phenomenon for a given period of time). For this reason, special attention must be paid to the interpretation of the indicator [13].

The factors which influence the level of the client credits are:

a) the company's and the clients' strength is the main factor: if the company is stronger than the clients, the durations will be reduced or they will not exist; if the clients are stronger, the durations will be longer.

b) the relations established with clients, when a longer term will be given to traditional clients which benefit of trust; sometimes to new clients, in order to attract them; to companies which have a strategic importance; to clients to which the company has participation (downstream integration); to foreign or famous clients which allow the company to expand its export activity; to clients that present serious guarantees.

c) the credit policy practiced in that sector of activity: the leaders have their own policy; the small and medium companies tend to allign to the average;

d) the company's position on the market and the stage of the business cycle in which it is situated: companies in start-up stage and in expansion generally tend to give a longer payment term to clients, compared to their competitors in order to stimulate sales; companies in the maturity stage tend to ask payments in advance.

e) the activity specificity: for the perishable goods the interval is shorter; for industrial equipments the interval is longer; for commercial companies the interval is shorter; for the construction companies the interval is longer.

f) the economic situation determines: the allocation of a longer period of time if it is favorable; the allocation of a shorter period of time if it is unfavorable.

g) the interest levels practiced by banks may influence the client credit as it follows: if the interest rates increase, the duration of the client credit will decrease; if the interest rates decrease, the duration of the client credit will increase.

The company's credit policy must pursuit the increase of sales if these sales bring their contribution to the profit increase.

When analyzing the level of the client credit, it is necessary to take into consideration three essential aspects:

a) related to the signification of the rotation speed level:

- a low rotation speed (a long duration in days) means that clients use for a long period of time the company's financial resources, and the company faces a higher necessary to be financed;

- a high rotation speed (a short duration in days) means that clients use for a short period of time the company's financial resources, and the company benefits a lower necessary to be financed;

b) related to the difficulty signals:

- if the rotation duration in days exceeds the normal duration of commercial credit, there are signals that the company faces difficulties in collecting the invoices;

- if the rotation duration in days is situated below the normal duration of commercial credit, there are signals that the company collects without difficulty the invoices.

c) related to the correlation with the supply credit:

- if the duration in days of the client credit is longer than the duration in days of the supply credit, than a deficit of financial resources appears in the company, with an unfavorable impact on the operating treasury;

- if the duration in days of the client credit is shorter than the duration in days of the supply credit, than an excess of financial resources appears in the company, with a favorable impact on the operating treasury.

B. The analysis of the management ratio dynamics on the basis of influence factors

The analysis of dynamics efficiency implies the quantification of influences induced by the constitutive elements, using several methods, but the most used method is **the decomposition methods of indexes variation.**

In its case, the dynamic indicators are calculated:

a) absolute deviation;

b) growth index;

c) relative deviation.

Let's take for example the duration in days of clients' rotation. The dynamics can be measured for example with the deviation from one period to another. As an example too, we will use the method of chain substitutions.

The indicator which measures the phenomenon:

a) duration in days: $dz_{CL} = \dfrac{CL_t}{CA_t} T$ \qquad (16)

b) number of rotations: $nrot = \dfrac{CA_t}{CL_t}$ \qquad (17)

Absolute deviation of indicator (with the basis in chain) from one period to another will be given by:

a) for the duration in days:

$$\Delta dz_{(t,t-1)} = dz_t - dz_{t-1} = \frac{CL_t}{CA_t} xT - \frac{CL_{t-1}}{CA_{t-1}} xT = \Delta dz_{(\Delta CA)} + \Delta dz_{(\Delta CL)} \tag{18}$$

b) for the number of rotations:

$$\Delta nrot_{(t,t-1)} = nrot_t - nrot_{t-1} = \frac{CA_t}{CL_t} - \frac{CA_{t-1}}{CL_{t-1}} = \Delta nrot_{(\Delta CA)} + \Delta nrot_{(\Delta CL)} \tag{19}$$

The influence factors are: turnover and debts to clients.

Between the turnover and the level of resource consumption there is a mutual conditioning. Because of that, there is no clear delimitation in establishing the qualitative factor. The increase of the turnover at a given consumption of resources or a higher turnover at a given consumption of resources means the increase of the efficiency with which the resources are used. In opposite situations, there takes place an efficiency reduction. Clients represent frozen financial resources. Although the two factors of rotation speed are mutually conditionated, they have their own factors which determine their evolution [11].

From a quantitative point of view, the contribution of the turnover and of the clients' balance can be estimated on the basis of the chain substitution method which separates the participation of the two factors in changing the rotation speed:

I. Duration in days:

$$dz_{Cl} = \frac{CL_t}{CA_t} T \tag{20}$$

1. Absolute deviation of indicator (with the basis in chain) from one period to another will be for the duration in days:

$$\Delta dz_{(t,t-1)} = dz_t - dz_{t-1} = \frac{CL_t}{CA_t} xT - \frac{CL_{t-1}}{CA_{t-1}} xT =$$

$$= \Delta dz_{(\Delta CA)} + \Delta dz_{(\Delta CL)} \tag{21}$$

2. The modification of the duration is made:
a) On the modification of the turnover:

$$\Delta dz_{(\Delta Ca)} = \frac{CL_t - 1}{CA_t} xT - \frac{CL_{t-1}}{CA_{t-1}} xT \tag{22}$$

b) On the modification of the balance from clients:

$$\Delta dz_{(\Delta CL)} = \frac{CL_t}{CA_t} xT - \frac{CL_{t-1}}{CA_t} xT = \frac{\Delta CL}{CA_t} xT \tag{23}$$

II. Number of rotations:

$$nrot = \frac{CA_t}{CL_t} \tag{24}$$

1. Absolute deviation of indicator (with the basis in chain) from one period to another will be for the number of rotations:

$$\Delta nrot_{(t,t-1)} = nrot_t - nrot_{t-1} = \frac{CA_t}{CL_t} - \frac{CA_{t-1}}{CL_{t-1}} = \tag{25}$$

$$= \Delta nrot_{(\Delta CA)} + \Delta nrot_{(\Delta CL)}$$

2. The modification of the number of rotations is made:
a) On the modification of the turnover:

$$\Delta nrot_{(\Delta Ca)} = \frac{CA_t}{CL_{t-1}} - \frac{CA_{t-1}}{CL_{t-1}} = \frac{\Delta CA}{CL_{t-1}} \tag{26}$$

b) On the modification of the balance from clients:

$$\Delta nrot_{(\Delta CL)} = \frac{CA_t}{CL_t} - \frac{CA_t}{CL_{t-1}} \tag{27}$$

IV. PROPOSAL OF AN INTEGRATED AND CORRELATED APPROACH TO ANALYSE THE CLIENT CREDITS

We propose an individual and correlated approach, not an individual one, of the efficiency analysis allocated to clients as debts.

a) The analysis of speed duration in days depending on the turnover structure on clients and the individual rotation duration for each client:

$$dz_{CL} = \frac{CL_t}{CA_t} T = \sum_{i=1}^{n} g_{si}^{CA} xdz_i \tag{28}$$

Factors of influence:
- turnover structure on clients (g_{si}^{CA})
- individual rotation duration for each client (dz_i)

The model has the advantage of pointing out the influence of client modification in the company business, pointing out too the term in which they pay their invoices.

Note: Because it is possible that not all the clients benefit of commercial credit, for the clients that pay in advance or pay immediately we will place the 0 value in the model.

b) The analysis of rotation number depending on the structure of client debts and on the individual rotations of each client:

$$nrot_{CI} = \frac{CA}{CL} T = \sum_{i=1}^{n} g_{si}^{CL} \, x nrot_i = \sum_{i=1}^{n} g_{si}^{CL} \, x \frac{1}{dz_i} \quad (29)$$

Factors of influence:
- debt structure on clients (g_{si}^{CL})
- individual rotation number for each client ($nrot_i$)

Note: Because we want to correlate the structure of turnover on clients with the structure of debts on clients, it is essential to take into consideration all the clients, and those that do not benefit of commercial credit will be mentioned with 0 value.

c) Establishing the correspondence between the two models: from:

$$dz_{CL} = \frac{T}{nrot_{CL}} \Leftrightarrow \sum_{i=1}^{n} g_{si}^{CA} \, x dz_i = \frac{1}{\sum_{i=1}^{n} g_{si}^{CL} \, x \frac{1}{dz_i}} \quad (30)$$

The relations between the two structures can be emphasized using Gini-Lorenz concentration curve.

The model has the advantage of pointing out the influence of debt modification on clients in the company business, catching indirectly the term in which they pay their invoices.

The financial management is interested in identifying the clients:
- that have a low value in the turnover but a high value in debts;
- that have a medium value in the turnover but a medium value in debts;
- that have a high value in the turnover but a low value in debts.

Depending on this information, corrective measures can be taken.

Another advantage is represented by the identification of the individual rotation duration positioning of clients, and the position compared to the medium rotation duration. Thus, if the importance of those with individual durations higher than the average will increase, we will face the increase of the global rotation duration, while if the importance of those with individual durations lower than the average will increase, we will benefit of a reduction of global rotation duration.

When analyzing the dynamic of client credit, the following aspects must be taken into consideration:

a) Related to the unfavorable tendency of rotation speed:
- if the tendency of rotation speed (duration in days) is to grow when the turnover is maintained or increased, in the absence of a change in the commercial policy, the analysis of bad payer clients is required;
- if there is noticed an increase of the client credit, in the absence of a sales growth, it can be a sign that the company's situation is getting worse, and it has to change its credit policy in order to maintain its clients. To maintain the situation means to lose the position on the market as well as difficulties to pay the beneficiaries as a consequence of the unfavorable situation

b) Related to the favorable tendency of rotation speed
- if the client credit reduces when the turnover increases, it means that the management of client credit improves when it grows on the market, or as a consequence of the change in the credit policy, or of the transfer towards specialised financial institutions which mobilize them.
- if the client credit reduces when the turnover reduces, it means that there takes place a masked improvement of the client credit management, when it reduces on the market, as a consequence of the change in the credit policy.

c) Related to significant changes
Sometimes significant changes may take place because companies may apply different credit policies for different products, depending on the market situation, the product life cycle. If these elements have as an immediate impact a negative effect, the long term effects must not be neglected [8].

V. CONCLUSIONS

The position of stakeholders' financial interests is very important compared to the rate level and the management rate dynamics:

a) on one hand, the shareholders are the ones who want a rate as small as possible because the company's money is used and they are the owners;

b) clients need quality goods and services, at reduced prices and at advantageous payment terms. If they do not like the company's goods or services they will go to competitors, the company will lose them, reducing its turnover.

To reduce the price means to reduce the profit, fact which must be compensated and exceeded with an increase in sales. The commercial credit given by the company to its clients must be efficient, that is it must increase more the sales and not the negative effects it has on the tying up of financial resources.

c) financial institutions may have two positions:

c1) if they are financial institutions which take the debts through transfer from the economic agent and discount them, they win from these operations;

c2) if they are direct creditors (they lend), they may have two positions:
- if they lend money on long term they are interested to increase the business volume of the company;
- if they give credit on short term, they are interested in liquidity, thus rates as small as possible;

d) the state owned companies or the ones which benefit of government subsidies, are the worse bad payers.

e) the management must optimize all these interests apparently in contradiction, because at the end everyone is interested in the company's good development.

REFERENCES

[1] Andrews, G.S., Butler, F., *Criteria for major investment decisions*. The Investment Analysts Journal, nr.27, pp.31–37, 1986
[2] Berstein L., Wild J.J., Subramanyam K.R, *Financial Statement Analysis*, 7TH Edition, McGraw – Hill Irwin, 2001.

[3] Bragg, S.M., *Business Ratios and Formulas. A Comprehensive Guide*, John Wiley & Sons Inc, USA, 2007, pp 81-88

[4] Brezeanu, P., *Managementul situaȚiilor financiare*, Editura Cavallioti, Bucureşti, 2007, pp. 96-99

[5] Buse L., Siminica M., Simion D., Carciumaru D., Economic and Financial Analysis, Ed. Sitech, Craiova, 2010

[6] Caruntu Constantin, Lapadusi Mihaela Loredana, The analysis of the inflation's influence over the profit corresponding to turnover and profitability ratios, International Journal of Mathematical Models and Methods in Applied Sciences, Issue 2, Volume 5, 2011, pp 351-361

[7] Dima B., Moldovan N., Lobon O., Financial Aseets Valuation and Issuers' Financial Ratios, 5th WSEAS International Conference on Economy and Management Transformation (EMT'10), Timioara, Published by WSEAS Press, 2010, pp 768-774

[8] Gibson C.H., *Financial Statement Analysis*, South-Western College Publishing, 1998.

[9] Graham,J.R., Harvey, C.R*., The theory and practice of corporate finance: Evidence from the field*. Journal of Financial Economics, no.60, pp.187–243, 2001.

[10] Griffin, M.P., *MBA Fundamentals. Accounting and Finance*, Kaplan Publishing, New York, 2009, pp. 169 – 171

[11] Hawkins D.F., *Corporate Financial Reporting and Analysis*, McGraw – Hill, 1998

[12] Kyerboach-Coleman A, *The impact of capital structure on the performance of microfinance institutions*. Journal Risk Financial, 8(1), pp.56-71, 2007

[13] Miculeac M. E., *Analiză economico – financiară. Concepte teoretice, aplicaȚii si teste grilă*, Editura Mirton, Timisoara, 2007.

[14] Monea M**,** *Financial Ratios – Reveal How a Business is Doing?*, Annals of the University of Petroşani, Economics, Vol IX, Part II, Universitas Publishing House, Petroşani, 2009, pp.137-144

[15] Monea M., Monea A., Orboi D.M., *Activity Ratios Analysis*, Lucrările Simpozionului ştiinţific internaţional „Managementul Dezvoltării Rurale Durabile" Seria I, Vol XII (3), Facultatea de Management Agricol Timişoara, 2010, pp 209-215

[16] Patrascu L., Paraschivescu A.O., Radu F. *Methods of Analysis Results*, 5th WSEAS International Conference on Economy and Management Transformation (EMT'10), Timioara, Published by WSEAS Press, 2010,pp. 323-328

[17] Popa-Lala I., Anis C.N., *The Assesmenet of the Company Financial Performances*, 5th WSEAS International Conference on Economy and Management Transformation (EMT'10), Timioara, Published by WSEAS Press, 2010, pp 756-762

[18] Popescu D.D., *Enterprise Analysis*, Editura ASE, Bucureşti, 2009, pp 157-159, pp.170-171

[19] Pratt S.P., *Cost of Capital: Estimation and Application*, Ney York, John Wiley&Sons, Inc., 2002

[20] Simion D., *Economic and Financial Analysis,* Ed. Universitaria, Craiova, 2009

[21] Simion D., Ispas R., Tobă D., The implications of the work capital management on the profitability of the company, P*roceeding 18th International Economic Conference – IECS,* Sibiu, 2011,

[22] Stanciu M., *Microeconomics*, Ed. Sitech, Craiova, 2008

[23] Stanley, M.T., Block, S.B., A survey of multinational capital budgeting, *Financial Review*, Spring, pp.36–54, 1984