

SECTION 2: ENTERPRISE FINANCE

Topic 8: Financial and credit policy

1. Financial policy of the enterprise.
2. Credit policy and forms of the credits.
3. Financial and credit risks.
4. Dividend policy.

Didactic purposes:


- • *Definition of essence of financial policy.*
- • *Understanding of financial tactics.*
- • *Description of principles of crediting.*
- • *Credit classification.*
- • *Classification of financial risks.*
- • *Definition of level of dividend payments on one common stock.*
- • *Comparison of forms of granting credits.*
- • *Analysis of dividend policy of the enterprise.*
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- **Keywords:** *financial policy, financial tactics, credit policy, loan, financial risk, commercial risk, production risk, dividend, dividend policy.*

1. Financial policy of the enterprise.

- At a microeconomic level the financial policy is a process of adoption of the administrative decisions which have been closely interconnected with strategic objectives of the enterprise, under the influence of environment and every possible risks.
- The financial policy as is expressed by set of actions with a view of research and use of financial resources for implementation of the main functions and tasks.

The financial policy of the enterprises includes: strategic and tactical aspects.

- Financial strategy is developed according to global problems of economic strategy of the enterprise and is directed, first of all, on development of target programs, for which realisation time and big financial resources is required.

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- Financial tactics is concrete methods and receptions of achievement of a goal.
 - Problem of financial policy is the choice of the most optimum decision in this economic situation.

2. Credit policy and forms of the credits.

- The credit policy of the enterprise is a decision on attraction of debt funds.
- The credit is a granting on credit financial means to those managing subjects who have a temporary need for current assets.

Crediting is carried out at observance of a number of principles:

- 1. Recoverability.
- 2. Urgency.
- 3. Density.
- 4. Material security.
- 5. Target use.

Crediting has two forms:

- 1. In the form of *direct delivery of money* - the financial credit.
- 2. In the form of *calculations with payment payment by instalments* - factoring (an overdraft - a credit bank card).

The financial credit is in turn subdivided on

- the bank credit (the credit - bank),
- the commercial loan (the creditor - the enterprise).

Loans depending on providing happen:

- 1) Blank - without material security.
- 2) The loans having providing:
 - a) bill,
 - б) commercial,
 - в) the share - on the security of securities,
 - г) the mortgage - on the security real estate.

For receiving the credit the borrower submits to bank:

- • A copy of the constituent documents certified by the notary.
- • The demand in which the purpose of receiving the credit, the sum and a maturity date is specified.
- • Financial statements for the last reporting date.
- • The reference from tax inspection.
- • A card with samples of signatures and the seals, assured by the notary.
- • Guarantees of repayment of the loan (pledge, letter of guarantee, contract of the guarantor etc.).

Important condition for issuance of credit is its providing which main types are:

- • Pledge.
- • Guarantee.
- • A guarantee - the letter of guarantee (as well as the guarantee, a difference only in registration).
- • Insurance of responsibility for a credit default - as farmers in the USA.

Forms of granting credit:

- 1. The urgent loan - the usual credit, into the account.
- 2. The Kontokorrentny credit - at this crediting to the enterprise opens the special loan account (КОНТОКОРРЕНТ), the current account is thus closed. So, КОНТОКОРРЕНТ is a uniform active and passive account on which all operations of bank with the client are considered, that is, on the one hand, loans of bank and all payments from the account and on the instructions of the client, and with another - the means arriving in bank from the client in the form of revenue, deposits and return of loans. Receipts in favour of the enterprise are reflected on the debit of the kontokorrentny account, and write-off - on the credit. Periodically on the account the rest is deduced. If it debit in favour of the enterprise, percent are charged to the enterprise if outclearing, percent are charged in favour of bank.

- 3. The call credit - the short-term loan repaid on the first requirement of creditor bank. That is the bank opens to the borrower the special loan account under pledge and pays all accounts within providing. Repayment of the credit is made according to the first requirement of bank or pledge realisation (with the prevention from 2 to 7 days) is carried out.

3. Financial and credit risks.

- The financial risk is a probability of emergence of losses and short-reception of the income in comparison with predicted option in the course of financial and economic activity of the enterprise.

Main types of risk in activity of the enterprise are:

- 1. Production risk.
- 2. Commercial risk - process of sale of goods, risk of loss of the goods, rise in prices, appearance of competitors.
- 3. The financial risk is a probability of emergence of adverse financial effects in the form of income or capital loss.
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Financial risks are subdivided into two look:

- *3.1 The risks connected with purchasing power of money:*
- inflationary risk (it is risk of possible depreciation of real cost of the capital, and also the expected income, from implementation of financial operations in the conditions of inflation);
- deflationary risk;
- currency risk (enterprise of external economic activity).

3.2 *The risks connected with capital investments (investment risks) include:*

- The risk of the missed benefit is a risk of approach of an indirect financial damage as a result of failure of any action (insurance, investment).
- The percentage risk is a danger of losses by banks as a result of excess of the interest rates paid by them on involved means over rates on the provided credits. Here changes of an interest rate in the financial market in connection with change of an environment of the financial market also belong.
- The credit risk is a danger of failure to pay by the borrower of a principal debt and the percent which are due to the creditor.
- The depositary risk is a danger of a non-return of depositary deposits (an unsuccessful choice of bank).
- The risk of bankruptcy is a danger as a result of the wrong choice of the capital investments, complete loss by businessmen of own capital and its inability to pay off according to the assumed obligations.

On level of financial losses risks are subdivided into the following groups:

- 1. The admissible financial risk is a threat of complete loss of profit.
- 2. The critical risk is not only profit loss, but also short-reception of that part of profit which compensates expenses.
- 3. Catastrophic risk - bankruptcy of the enterprise, loss of investments and enterprise property.