



## THEORETICAL ASPECTS OF EFFECTIVE ORGANIZATION OF CORPORATE FINANCE

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### Annotation

This article describes the cooperative form of finance, what it is, how it works, as well as the activities of the cooperative. In this article, the theoretical foundations of corporate finance, interrelated sciences in researching the field, the history of its development, the opinions of foreign and domestic scientists on corporate finance, the relevance of introducing corporate finance as a science, the functions, goals and tasks of this science are reflected.

**Keywords:** corporate finance, economic theory, accounting and auditing, economic analysis, financial management, VAT, GNI, money, capital flows, financial markets, financial assets, financial institutions.

### 1. Introduction

Cooperative financing is a relatively independent branch of the financial system, covering a wide range of monetary relations associated with the formation and use of funds in the process of capital, income and circulation of funds of organizations, and is expressed in the form of various monetary funds. flows It is in this area that the main part of the financial resources of economic entities is formed, they serve as the main source of economic growth and social development of society.

Corporate finance is also an independent scientific area that was formed relatively recently, in the early 1950s. "Corporate Finance" is a synthetic science based on the achievements of scientific and academic disciplines such as "Economic Theory", "Accounting and Audit", "Economic Analysis" and others, financial solutions in various business areas. If the general course "Finance" traditionally deals with the most general theoretical issues related to the field of finance of business entities, then a more detailed study of their practical aspects is defined in the courses of special disciplines "Corporate Finance" and "Financial Management".

### 2. Analysis and Discussion of Results

Having studied part I of this textbook, you already know the general definition of finance and their functions, signs that these relationships can be classified as finance. Here we will focus on the specifics of corporate finance as a relatively independent financial sector [1].

The content of an enterprise's finances can be understood, first of all, taking into account the formation and use of the entire complex of income and cash in the process of distribution and



redistribution of GDP. In the process of reproduction, all incomes of subjects of economic relations are divided into primary and secondary, received after the redistribution of primary incomes [2].

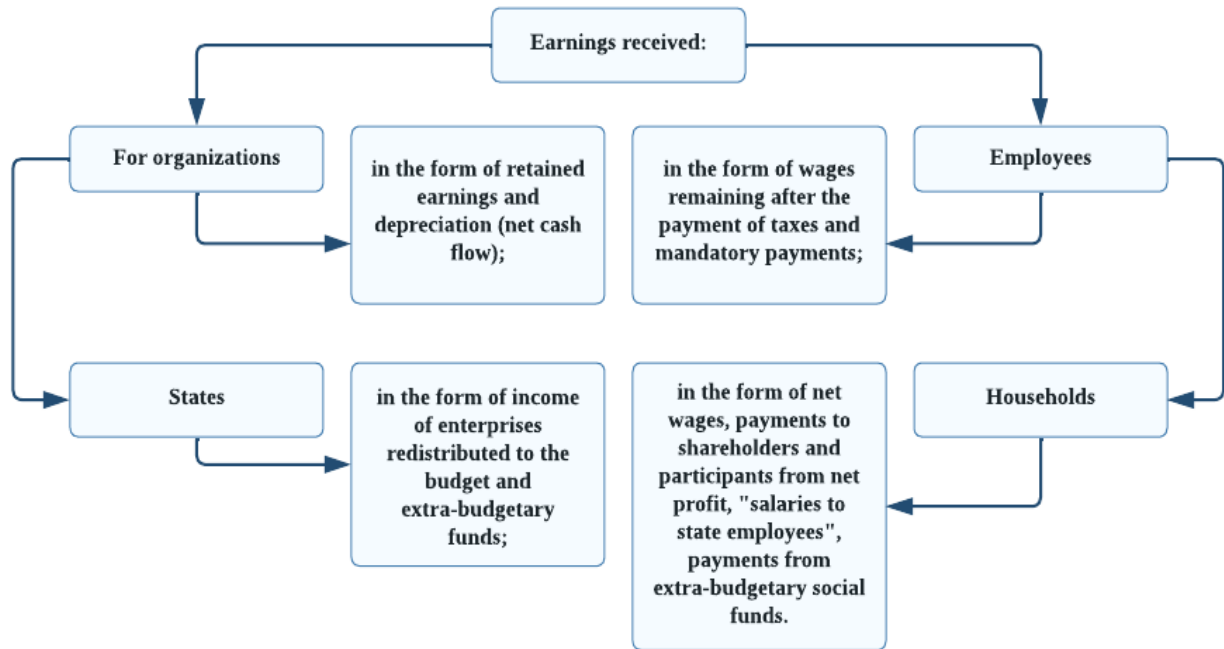


Figure 1. Components of corporate finance [3]

- Let's analyze the financial side of distribution at the organizational level. Revenue from the sale of goods and services (sales revenue) represents the profit from the sale of products, which is the main element of gross profit, excluding VAT and excises, excluding variable and fixed costs included in the cost of sales. It is commercial and administrative.
- minus costs, they make a profit on the sale. After adjusting for other income and expenses, profit before tax is formed. We will receive a net profit after paying income tax.
- In a command economy, the distribution of GDP and national income is strictly regulated by the state. This led to a wide range of financial relations of enterprises at the stage of primary distribution of the gross domestic product, which made it possible to implicitly include their finances in the general system of public finances (90% of enterprises belonged to the state) [4].
- In modern conditions in Russia, the activities of organizations are not regulated much. Thus, the state today regulates the creation and distribution of the value of GDP within a given organization:
  - ❖ the composition of deductions that reduce the taxable base;
  - The amount of certain tax credits for calculating taxable income (travel, entertainment expenses, advertising expenses, interest payments on borrowed funds):
    - ❖ rates of contributions to social funds;
    - ❖ methods of applying depreciation charges for the useful life of fixed assets, intangible assets, as well as depreciable fixed assets and intangible assets for the purposes of calculating taxable profit;



- ❖ objects and rates of taxation;
- ❖ conditions and procedure for writing off the obligations of the organization from the balance sheet;
- ❖ the composition of non-operating expenses taken into account when calculating taxable profit.

A corporation is a property complex created to carry out entrepreneurial activities, and its economic goal is to meet social needs, make a profit and ensure financial stability in a market economy. The economic activity of organizations includes the production and sale of products, the performance of work and the provision of services, operations in the stock market. An economic entity may carry out one or more types of activities at the same time. In the process of economic activity, corporations have economic relations with their counterparties: - suppliers and buyers, partners in joint activities, associations and associations, financial and credit systems, etc. relationships arise. the process of production and sale of products, the performance of work and the provision of services, the formation of financial resources and the implementation of investment activities. The entire set of financial relations of corporations with other participants in economic activity, depending on their economic content, can be grouped according to the purpose of these relations and divided into the following groups [5]:

- between the founders when creating an organization on the formation of the authorized (share) capital. Specific ways of its formation depend on the organizational and legal form of the organization. But in all cases, own capital is the initial source of formation of a certain part of current and working capital;
- between corporations formed in the process of production and sale of products in the main line of business. In particular, financial relations between suppliers and buyers of raw materials, materials, finished products, etc., relations with transport organizations, communications enterprises, customs, foreign firms, etc. are included. when transporting goods. These relations are fundamental in the economic activity of any corporation, since the final financial result of its activities largely depends on their effective organization;
- between corporations not related to the main activity, but capable of having a significant impact on the financial condition of economic entities. For example, the sale and lease of property, factors that determine exchange rate differences in foreign exchange transactions, the timing of financial investments, etc.;
- between the corporation and its subdivisions: subsidiaries, branches, workshops, departments, teams for financing expenses, distribution and redistribution of profits, formation of working capital and other funds. This group of relations influences the organization and rhythm of the production process;
- between the corporation and its employees on the distribution and use of income, the issuance and placement of shares and bonds of this corporation, the payment of interest on dividends on bonds and shares, the collection of fines and compensation for material damage;
- withholding taxes from individuals, etc. The financial relations of this group affect the efficiency of the use of labor resources;
- between the corporation and the financial system of the state. These relations arise when paying taxes and other obligatory payments to the budget, forming off-budget funds, providing








tax benefits, applying fines from the state for violating the current legislation, receiving subsidies, subsidies, etc. from the budget

- between the corporation and the banking system. They arise in the process of keeping money in commercial banks, obtaining and repaying loans, paying interest on loans, buying and selling foreign currency, and providing other banking services;
- between the corporation and insurance companies and organizations. These relations arise in connection with compulsory and voluntary insurance of property, certain categories of employees, commercial and economic risks;
- between the corporation and investment institutions created in the process of investment placement, property privatization, etc.;
- between a corporation and a financial and industrial group, holdings, unions and associations, of which the corporation is a member. These relationships arise in the process of formation, distribution and use of trust funds and reserves to provide financial assistance on a repayable basis for financing targeted programs, conducting marketing research, R&D, financing investment projects and replenishing working capital. This group of relations is associated with the redistribution of funds aimed at supporting and developing corporations;
- between the corporation and the public. This group of relations includes financial relations arising in connection with the involvement of temporary workers who are not full-time employees of a particular organization (for the performance of certain types of work), relations associated with corporatization, i.e. sale of securities to the public and payment of interest, dividends, sale of goods, provision of services, etc.




Each of the listed groups of financial relations has its own characteristics and scope. However, they all have a dual character, and their material basis is the movement of financial resources. In addition, the diversity of financial relations is reflected in the sources of their formation in enterprises with different organizational and legal forms and forms of ownership.

**Table 1 Key indicators of the world's largest corporations as of May 2022 [6]**

N.	Biggest Companies	Location state	Major shareholder	Price per share	Stock exchange	Capitalization
1.	 Tesla	USA, California	1. <u>Elon Musk</u> (15%); 2. The Vanguard Group, Inc. (5.98%).	<b>658,80 USD</b>	<i>Nasdaq</i>	<b>\$864.7 billion</b>
2.	 Apple	USA, California	1. The Vanguard Group, Inc. (7.39%), 2. Berkshire Hathaway, Inc. (5.46%)	<b>140,52 USD</b>	<i>Nasdaq</i>	<b>\$2.6 trillion</b>
3.	 Amazon	USA, Washington	1. <u>Jeff Bezos</u> (9.8%); 2. The Vanguard Group, Inc. 6.3%.	<b>2 135,50 USD</b>	<i>Nasdaq</i>	<b>\$1.5 trillion</b>
4.	 Alibaba Group	China, Hangzhou	1. DST Managers Ltd. (0.90%); 2. OppenheimerFunds, Inc. (0.72)%.	<b>81,10 USD</b>	<i>New York Stock Exchange (NYSE)</i>	<b>\$1.7 trillion</b>
5.	 Saudi Arabian Oil	Saudi Arabia, Dhahran	1. Government of Saudi Arabia (94%); 2. Public Investment Fund (Investment Company) (4.00%).	<b>10,82 USD</b>	<i>Tadawul (Saudi Stock Exchange)</i>	<b>\$2.4 trillion</b>





6.	 <b>Microsoft</b>	USA, Redmond	1.Vanguard Group, Inc. (8.31%); 2. Blackrock. (7%); 3. State Street Corporation (4.01%).	<b>262,52 USD</b>	<i>Nasdaq</i>	<b>\$2.1 trillion</b>
7.	 <b>Berkshire Hathaway</b>	USA, Omaha	1. Bill Gates (50,3%); 2. Warren Buffett owned about (18%); 3. The Vanguard Group, Inc. (10.02%).	<b>462 890,00 U SD</b>	<u>New York Stock Exchange (NYSE)</u>	<b>\$723.5 billion</b>
8.	 <b>BMW (Bayerische Motoren Werke)</b>	Germany, Munich	1. Public float (50%); 2. Stefan Quandt (29%).	<b>84,41 USD</b>	<u>Luxembourg Stock Exchange</u>	<b>\$51.71 billion</b>

According to the table above, the company with the highest capitalization is *Apple*, which currently has a total capital of \$ 2.6 trillion. Next in line is *Saudi Arabian Oil*, which has a combined annual capital of \$ 2.4 trillion. Third, the figure is directly attributable to *Microsoft*, which has a combined market capitalization of \$ 1.7 trillion. Turning to other metrics, *Berkshire Hathaway* is now ahead of the company in terms of value per share, with the company's share price in the real market at \$ 462,890.00. In the table above, we can see that most of the large corporations operate in the United States. This is a sign of a huge investment in the American economy.

As a result of our observations, we have learned that investments in the stock market can yield significant returns, and to manage your investment risks wisely, diversify your investment portfolio.

There are several organizational principles that are interconnected with the main tasks and goals of the business.

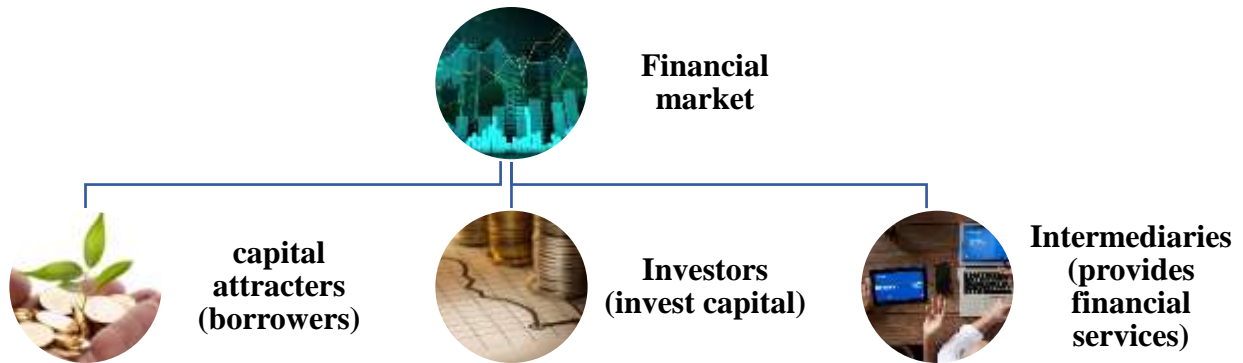


Figure 2. Below are the basic principles of organizing corporate finance [7]

Let's take a closer look at each principle. Let us immediately emphasize that these reserves must be constantly increased. This is necessary, first of all, to ensure the normal operation of the enterprise in cases where market conditions have changed or liability for non-fulfillment of direct obligations to counterparties has increased. The principle of these finances is very



simple. According to him, all funds allocated for the development of the enterprise are covered not only by net profit, but also by depreciation. The main task of these funds is to ensure the minimum normative economic efficiency of the capital owned by the enterprise.



**Figure 3. The three largest segments of financial market participants [8]**

In the picture above we can see the professional participant in the financial market. In it, investors - invest capital in the market and expect it to grow, studied market risk before investing. Capital borrowers can be banks, private enterprises, which develop their business in part due to debt. Financial service providers are institutional investors who benefit from managing your investments.

Just as any market has its own segments, a financial market has its own set of components. The structure of a financial market is usually divided according to the assets in circulation (Figure 4).



**Figure 4. Extended structure of the financial market [9]**



For each market listed in the financial market, we will focus on the following topics separately. According to the period of circulation of instruments, the financial market is divided into money market and capital market. In the money market, cash, short-term means of payment, short-term savings of up to one year are organized. In the capital market, there is a “long money” circulation, in which stocks and bonds are mainly used. The term of treatment is more than a year. The main difference of the capital market from the money market is explained by the use of long-term investments.

### 3. Conclusions and Suggestions

If there is self-sufficiency, then the corporation finances the production process from its own funds and regularly pays taxes to the state budget. To implement this principle, it is necessary that each department of the enterprise work with a profit and cover all debts.

Self-financing, in comparison with the previous principle, implies not only purposeful activity, but also not simple, but expanded production, as well as capital accumulation on a commercial basis, which ensures the benefit of the budget system. Taking into account the principle, the financial responsibility of the enterprise for failure to fulfill previously agreed obligations, as well as the requirements for financial discipline, have been strengthened [10].

Even in the case of paying fines for breach of contract or paying damages to other partner enterprises, the corporation is obliged to fulfill its obligations to sell products (services) without the prior consent of consumers [11].

To implement the principle of self-financing, the following conditions must be met: Classification of sources of working capital formation Sources of working capital formation, as mentioned above, should be divided into credit and own funds. This is due to the peculiarities of the organization and technology of the production process in each specific field of activity [12].

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