iBusiness, 2023, 15, 26-37
https://www.scirp.org/journal/ib
ISSN Online: 2150-4083
ISSN Print: 2150-4075

Asset Financing Analysis of Business Enterprises

Lombodorj Naranchimeg[1], B. Khurelbaatar[1], Lamgombo Baasandor[2]

[1]Accounting Department, Business School, National University of Mongolia, Ulaanbaatar, Mongolia
[2]Accounting Department, "Erdenet Institute of Technology", Division of Erdenet Corporation SEO, School of Mongolian University of Science and Technology, Erdenet, Mongolia
Email: lnaraa9191@gmail.com

How to cite this paper: Naranchimeg, L., Khurelbaatar, B., & Baasandor, L. (2023). Asset Financing Analysis of Business Enterprises. *iBusiness, 15,* 26-37.
https://doi.org/10.4236/ib.2023.151002

Received: December 4, 2022
Accepted: March 6, 2023
Published: March 9, 2023

Abstract

From one point, at micro level, the financial sustainability of business enterprises can be interpreted from the measurement values that display the balance of assets and sources. The paper aims to examine the 5 main strategies of asset financing, which is considered as one of the pivot indicators to determine financial sustainability. Moreover, the specifics of each model are thoroughly studied. The company, which has been taken as the research object, has been executing the "appropriate" strategy of asset financing for the last 5 years, and the conclusion has been made as the utilization of long-term loans and liabilities is regarded as appropriate according to the current asset financing strategy. In the first part of this work, I wrote about the features of 5 models of property financing as one of the features of financial stability companies. In the second part of this work, the results of the research, which model was chosen in the company "XXX" of the food industry. Data from 2017-2021 period were selected for the study from one of the largest joint-stock enterprises in Mongolia.

Keywords

Financial Sustainability, Approaches of Asset Financing, Appropriate Totals of Assets and Resources, Working Capital, Current Assets, Balance Sheet Indicators

1. Introduction

The Sustainable Development Goals (SDGs) were initiated at the United Nations Conference on Sustainable Development, held in Rio de Janeiro, Brazil, 2012. The purpose was to create a set of global goals, related to the environmental, political and economic challenges that we face as humanity. In 2015, 195 nations agreed with the United Nations that they can change the world for the better at the 70th United Nations Conference by approving the 17 Sustainable Development Goals (SDGs). Thus, Sustainable Development-2030 has been implemented officially worldwide since 2016. This will be accomplished by bringing together their respective governments, businesses, media, institutions of higher education, and local NGOs to improve the lives of the people in their country by the year 2030 (Sustainable Development Goals-2030, 2021).

Mongolia, along with other UN Member States, adopted the SDGs Agenda-2030 in 2015, announcing its commitment to sustainable development. This was followed by Mongolia's long-term Sustainable Development Vision 2030 (SDV), developed and adopted by the Parliament in February 2016, which uses the Agenda-2030 as a basis.

In the market economy, the guarantee of survival of any business entity truly depends not only on operational, but also on financial stability. Financial sustainability is regarded as the basis for Sustainable Development policy applications. Furthermore, it is considered the skills to generate stable business operations and strengthen financial conditions by surviving in the market regardless of external negative and unstable impacts and by utilizing scarce resources effectively.

From social development perspectives, the concept of Sustainability in the fields of contemporary economics is divided into 2 subdivisions: Macro sustainability and Micro sustainability, or the financial sustainability of business entities. The latter is frequently comprehended as balanced states of assets and liabilities. Moreover, the financial sustainability of business entities can be represented not only as the management object, the balanced states of assets and liabilities, the complexity of resource elements and the goals of enterprises, but also as the core determinant of the internal environment, the development factors to govern the company perspectives and the parameters of potential states to encounter the financial crisis.

The financial sustainability of business entities is determined by the financial resource structure, the components of the entities and by the ratios of own capitals and external capitals (liabilities). The growth of external resource engagement weakens the company's authority and increases the borrowers' risks; however, for companies with stable operations and prompt asset circulation, the mobilization of external capitals is taken into account as the signs of active financial operations and the ways to develop business activities (Vladimirovich, 2016).

Current assets are financed from short-term loans, liabilities and current capitals (Sainjargal, 2020). The continuous sources of current capitals comprise of revenues and depreciation payments.

Current capital means the part of the assets utilized in the sources of current capitals.

The calculation methods:

For current capitals: Working capital = Current assets − Short-term liabilities.

For sources: Current capital = Permanent assets − Non-current assets.

The sums of current capital are eligible to be calculated in case the sums of current assets exceed short-term liabilities. However, not only theoretically, but also practically current assets can be calculated as less than short-term liabilities; thus, the states are regarded as financial non-stability (**Figure 1**).

Long-term liabilities and loans are frequently taken to finance substantially vital actions such as, extension of production lines and renovation of techniques and technology. Moreover, the recovery periods of the loans are usually extended (Savitskaya, 2006). Thus, to estimate the engagements of long-term liabilities and loans, the totals of the balance, and the permanent capital, the unit weight in the sums of the external capital, the designation of the loans and payments, the return on the application, the level of the interests and the annual amounts of recovery are taken into accounts respectively.

The paper aims to analyze 5 main approaches to asset financing in relation to the selected ones (Phaidushenko, 2013). Needless to indicate that asset financing is regarded as one of the core indicators of the financial sustainability of business entities.

1) "Moderate" approach to asset financing.
2) "Risky" approach to asset financing.
3) "Absolute, decent" approach to asset financing.
4) "Aggressive" approach to asset financing.
5) "Conservative" approach to asset financing.

In order to specify the descriptions of each of 5 models and the financing structure the following symbols have been used.

Indicators	Symbols	Formula
Property, plant and equipment	(PA)	
Current assets	(CA)	
Working capital	(WC)	
Variable part of current assets	(VPCA)	$CA - StL$
Stockholders' equity	(SE)	
Long-term liabilities	(Lt L)	
Short-term liabilities	(St L)	
Long-term financing	(Lt F)	$SE + LtL$
Own working capital	(O w C)	$LtF - PA$

2. "Moderate" Approach of Asset Financing

Under this approach, non-current assets are wholly financed from own and long-term liabilities, or permanent capitals. The sources are intended to expose non-current assets and are substantial to reimburse them.

In this case, current assets are solely financed from short-term liabilities and loans.

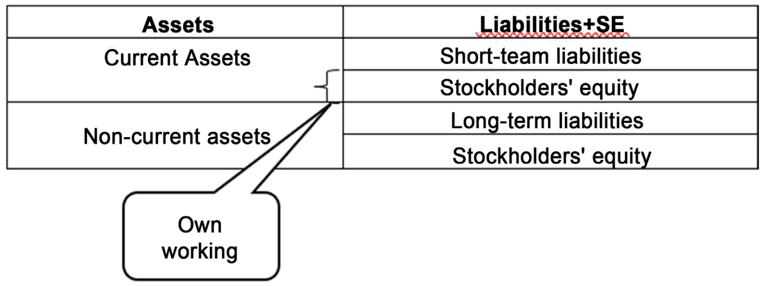

Figure 1. Asset financing. Data sources: Phaidushenko (2013) Financial Analysis: Theory and Practice.

The graph representation of the model of current asset management is shown in the following matrix (**Figure 2**).

$$LtF = SE + LtL,$$

$$CA = StL \text{ or } OwC = 0$$

The core account of this approach expresses the insufficiency of own current assets and the instability of financial states. Furthermore, these financial states force the company to sell its fixed assets to repay the loans in case suppliers urge that the debts must be paid as shortest period as possible. Thus, this situation forces the company to cut production amounts and, in the end, the cutting off the sales targets is inevitable.

The selection of the approach lessens the financial stability and leads to the decline of liquidity of the entities.

3. "Risky" Approach of Asset Financing

The parts of non-current assets are replaced by own capital and long-term liabilities, and the remaining is replaced by short-term liabilities and loans. In this case, permanent assets ($SE + LtL$) are accounted for as insufficient to compensate the non-current assets ($LtF < PA$). Current assets can be replaced by the remaining sums of short-term liabilities ($StL > CA$).

In case, this model is selected to accumulate current assets, the sources of current asset accumulation become deficient by the sums of non-current asset inadequacy. Moreover, overdue loans and payments are accumulated and as a result the interest debt burden is up surged.

The graph representation of this model of the current asset management is shown in the following matrix (**Figure 3**).

$$LtF < PA$$

$$StL > CA$$

$$OwC < 0$$

$$PA = \frac{1}{3StL} + LtL + SE$$

The main features of the Approach:

Assets	Liabilities+SE
PA	Lt F
CA	St L

Figure 2. "Moderate" approach of Asset financing. Data sources: Phaidushenko (2013) Financial Analysis: Theory and Practice.

Assets	Liabilities+SE
PA	Lt F
	St L
CA	St L

Figure 3. "Risky" approach of asset financing. Data sources: Phaidushenko (2013) Financial Analysis: Theory and Practice.

- Own current asset appears to be deficient; however, the sum is totaled negative, but not 0. This reveals that current asset is wholly financed from short-term liabilities and loans. Moreover, up to 1/3 parts of the short-term liabilities and loans are employed to replace non-current asset. This has led to the substantial decrease of the profitability and financial stability of the company. Moreover, own financing of current asset equals to 0 or appears to be negative, which illustrates the financial recession has become unavoidable.
- The necessity of short-term financing (mobilization) is evident as the obligations of the company before the lenders are risen and the liabilities and loans are accumulated; thus, the sums of overdue liabilities and loans are piled up.
- The above-mentioned reasons result in not only the insufficiency of the company current assets, but also the decline of the production capacity, respectively. As a result, the company faces the decrease of the sales and profitability of the business activity. There is a very high chance of insolvency and bankruptcy since the company keeps up pursuing this strategy.

4. "Absolute, Decent" Approach of Asset Financing

By executing this model, there is a low level of solvency risks; however, there will not be adequate high level of profitability. But the opportunity of keeping up the economic profitability above average is guaranteed.Executing "Absolute, decent" approach of asset financing the company can use the permanent capital to compensate non-current assets completely. Moreover, by replacingpredominant parts of current assets the company is allowed to finance the required production resources by own capitals and long-term liabilities; thus, the remaining of the current assets are reimbursed by short-term liabilities.

The graph representation of this model of the current asset management can be shown in the following matrix (**Figure 4**).

$$LtF = ST + LtL \text{ or } PA + WK, PA < LtF$$

$$OwC = (SE + LtL) - PA$$

$$OwC = CA - StL$$

	Assets	Liabilities+SE
	PA	Lt F
CA	WK	OwC
	VPCA	St L

Figure 4. "Absolute, decent" approach of asset financing. Data sources: Phaidushenko (2013) Financial Analysis: Theory and Practice.

The main characteristics of the Approach:

- Permanent capital, specifically the adequate amounts own capital is used to replace non-current assets and is used to create the chances to finance the production resources, that are the main components of current assets, from own capitals.
- Since there are adequate resources of long-term liabilities and own capitals, the requirements to accumulate the short-term liabilities as the financing sources. Thus, the unit weight of the short-term liabilities appears to be low.
- By increasing the production, sales and the effectiveness the company enjoys the chances to boost own capitals sustainably and the provision of financial stability.

5. "Aggressive" Approach of Asset Financing

Executing this approach is considered as more rational policy since there are more opportunities to provide higher level of the company financial demands, to implement advanced techniques and technology using the sources of own capitals, to resolve more social problems, and to accumulate resources of actual, or "portfolio" investments.

In the case of executing this model non-current assets, or fixed parts of current assets are financed completely from permanent capitals and the halves of variable parts of current assets are financed from permanent capitals respectively. The sums of own current assets are equal to the fixed parts of current assets and the sums of the halves of variable parts ($OwC = WC + 1/2\,VPCA$). Thus, the financial stability and high level of liquidity is shaped. This condition speeds up the proper circulation of current assets and the regulation of effectiveness of the company.

The graph representation of this model of the current asset management can be shown in the following matrix (**Figure 5**).

$$LtF = PA + WC + VPCA \times 1/2 \text{ or } OwC = WC + 1/2\,VPCA$$

$$VPCA > StL,\ SE > PA$$

6. "Conservative" Approach of Asset Financing

The location model of the financing resources, put into the company assets is advised to be completed and used.The model requires the stability of the company financing and lower levels of liquidity. This model is named "Conservative" approach of asset financing and the graph representation of this model can be shown in the following matrix (**Figure 6**).

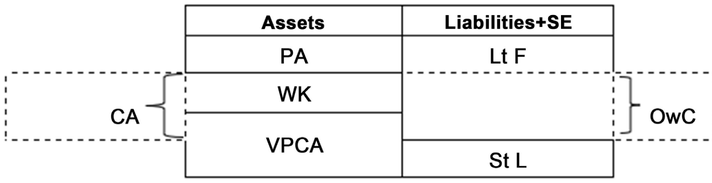

Figure 5. "Aggressive" approach of asset financing. Data sources: Phaidushenko (2013) Financial Analysis: Theory and Practice.

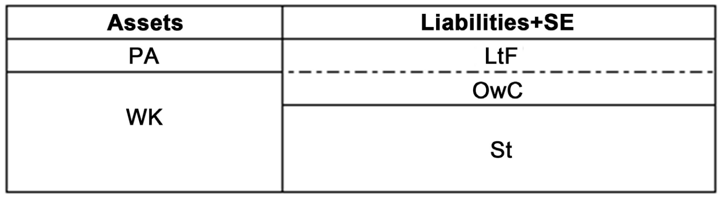

Figure 6. "Conservative" approach of asset financing. Data sources: Phaidushenko (2013) Financial Analysis: Theory and Practice.

$$LtF = PA + 0.1CA$$
$$PA < LtF$$
$$StL < CA$$
$$OwC = 0.1CA$$

Some of the characteristics of the conservative approach are as follows:

- The required amounts of own current capitals make available the minimum value of the financing stability.
- Current assets exceed short-term liabilities 10 times more, in other words, current ratio is required to equal to 1.1. Theoretical level of 2 of current ratio is regarded as balanced. To reach the balanced level, it is vital to increase the amounts of own capitals by growing surplus from ordinary activities and effectiveness. Moreover, the involvement of long-term liabilities must be improved respectively.
- The growth of short-term liabilities is achieved only through bank loans. However, the estimated and liability account growth represents the accumulation of customer and suppliers' obligations, budget and other loans, which might threaten to face the purchasing troubles and piling up the overdue payments and undue losses.
- Too high level of current assets makes its utilization ratio (utilization of current assets) low. As a result, there is likelihood of profitability and effectiveness reduction in comparison to other approaches.

The research part:

Company "XXX" was established in 1924 as the founder of the food industry. This company, which has been functioning for a century, being a leading company of its field, conducts its activities to improve society, environment and stimulate the development of the human development. The company is one of the first enterprises that especially contribute the development of Mongolia. The company invested in modern equipment and technologies and produce 344 types of products that are selling both domestic and foreign markets. The company is a publicly listed company on the Mongolian Stock Exchange. Company "XXX" has over 9000 shareholders. This company is one of the highest market capitalization company of Mongolia.

This company pays 300 trillion MNT to the budget in the form of tax every year. By increasing exports and introducing foreign exchange into the country, the enterprise contributes to the economy of Mongolia. The study used data from the last 5 years (2017-2021 years) of the company (**Table 1**).

On the 5 years average, 34.8 percent of the total assets the company accounts for the current assets, and 65.2 percent accounts for the non-current assets. 16.5 percent of asset resources accounts for the liabilities, 83.5 percent accounts for the stockholders' own capitals, respectively.

The scope of operations of any business entity and the growth direction is determined by the number of the produced goods, the amounts and types of goods and service, and the unit weight of the goods and service to the sales revenue. Moreover, the dynamic analysis of growth of the main economic indicators should be done following the specific sequence, which is regarded as appropriate for the methodology. The researchers have determined the structure and components of assets and resources, their growth rapidity, or the growth normative ratio of the main indicators should follow the sequence "Stockholders' equity (5) > Non-current assets (4) > Total assets (3) > Current assets (2) > Total liabilities (1)" as appropriate (Naranchimeg, 2020). The normative of growth ratiois the correlation, that is considered from the issue of financial stability; however, this ratio can be revealed differently from the utilization and returns on the invested assets. Contrasting the growth ratio the broad picture can be available in case the estimation of the 3 - 5 years average should be taken instead of only the accounting period.

Table 1. The balance indicators of "XXX" Co., Ltd.

Assets sources	2017		2018		2019		2020		2021		5 years average	
	Totals	Unit weight	Totals	Unit weight	Totals	Unit weight	Totals	Unit weight	Totals	Unit weight	Totals	Unit weight
Current assets	172.2	27.2	185.8	35	184.6	34.4	204.8	36.8	252.1	40.8	199.9	34.8
Non-current assets	460.7	72.8	344.6	65	352.1	65.6	351.4	63.2	365.3	59.2	374.82	65.2
Total assets	**632.9**	**100.0**	**530.4**	**100.0**	**536.7**	**100.0**	**556.2**	**100.0**	**617.4**	**100.0**	**574.72**	**100.0**
Short-term liabilities	94.5	14.9	67.5	12.7	27.7	5.2	65.8	11.8	62.1	10.1	63.52	11.1
Long-term liabilities	31.5	5	18.7	3.5	27.7	5.2	28.5	5.1	50.5	8.2	31.38	5.5
Total liabilities	**126**	**19.9**	**86.2**	**16.3**	**55.4**	**10.3**	**94.3**	**17**	**112.6**	**18.2**	94.9	16.5
Stockholders' equity	506.9	80.1	444.2	83.7	481.3	89.7	461.9	83	504.8	81.8	479.82	83.5
Total stockholders' equity	**632.9**	**100**	**530.4**	**100**	**536.7**	**100**	**556.2**	**100**	**617.4**	**100**	**574.72**	**100.0**

Data sources: XXX Company Annual Report (2017-2021), public press material, https://www.mse.mn/.

In case of "XXX" company (**Figure 7**, **Table 2**), in the last 5 years, and in 2021 the growth of current assets and total liabilities exceeds the growth of other indicators; however, the growth of own capitals and non-current assets appears to be less, which indicates the contrast to the normative growth.

Let us look into the 2017-2021 years data and the asset financing strategies, which were executed by the company each year and let us attempt to evaluate.

Table 3 demonstrates that the "XXX" Co., Ltd. in the periods of 2017-2021 executed the proper approaches, as a result the company was capable to finance the current assets from short-term liabilities and legible parts of own capitals. **Figure 8** shows the asset and liability indicators in 2021 in a comparative form.

As of 2021, 65.7 percent (365.3/555.3) of permanent capitals was financed into non-current assets, 34.3 percent (190/555.3) of the permanent capitals was financed to the fixed amounts of current assets (working capital). However, 100 percent (62.1/62.1) of short-term liabilities totally was financed into variable parts of current assets. It is evident from the study analysis that the company has been conducting successful business activities for many years and has achieved sufficient financial stability. Executing Decent approach of Asset financing, the sources of long-term liabilities and own capitals is accumulated sufficiently, thus, it is not required to accumulate short-term liabilities as the sources of financing. As a result, the unit weight of the short-term liabilities (around 10) is not high. With the growth of production and sales the chances are evident to expand own capitals sustainably, which in turn provides the financial stability of the company. However, with the business expansion the external financing engagement is extended, which in turn urges proper placement and utilization, that is regarded one of the requirements of market economy. Thus, the "A" model of current asset financing requiresthat40 percent of non-current assets is financed from long-term liabilities, 60 percent from own capitals, 50 percent of the fixed parts of current assets if financed from long-term liabilities and 50

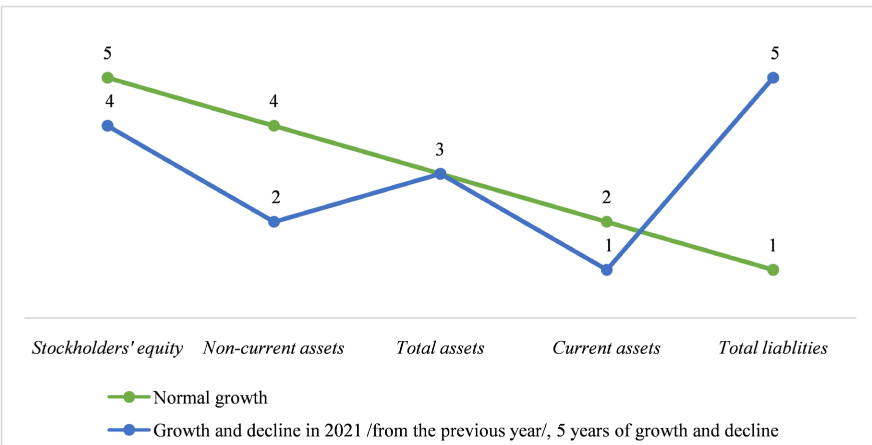

Figure 7. The growth trends of asset and sources XXX Co., Ltd. Data sources: XXX Company Annual Report (2017-2021), analysis of company data (**Table 2**).

Table 2. Increase and decrease of the main indicators.

Indicators	Normal growth	Growth and decline in 2021 (from the previous year)		5 years of growth and decline	
		Growth and decline	Growth rate	Growth and decline	Growth rate
Stockholders' equity	5	123.1	4	109.9	4
Non-current assets	4	103.9	2	94.4	2
Total assets	3	111.0	3	99.4	3
Current assets	2	94.4	1	90.0	1
Total liabilities	1	177.2	5	112.5	5

Data sources. XXX Company Annual Report (2017-2021), analysis of company data.

Table 3. Approaches of Asset financing (on the case of XXX Co., Ltd.).

Indicators	**2017**	**2018**	**2019**	**2020**	**2021**
1) Fixed part of current assets (working capital)	77.7	118.3	156.9	139.0	190.0
2) Variable part of current asset	94.50	67.50	27.70	65.80	62.10
3) Permanent capital	538.4	462.9	509.0	490.4	555.3
4) Own current capital	77.7	118.3	156.9	139.0	190.0
Asset financing Approaches					
1) **Moderate approach**					
CA = Short-term L, Own Current Capital = 0					
2) **Risky approach**					
PC < NCA Short-term L > CA Own current capital < 0 NCA = 1/3 short-term L + long-term L + OC					
3) **Absolute, decent approach**					
NCA < PC	√	√	√	√	√
OCC = CA − short-term L	77.7	118.3	156.9	139.0	190.0
4) **Aggressive approach**					
PC = NCA + WC + VPCA*1/2 OCC = WC + VPCA*1/2 ЭXXX > short-term L					
5) **Conservative approach**					
PC = NCA + 0.1CA Short-term L < CA OCC = 0.1CA					

Data sources: XXX Company Annual Report (2017-2021), analysis of company data.

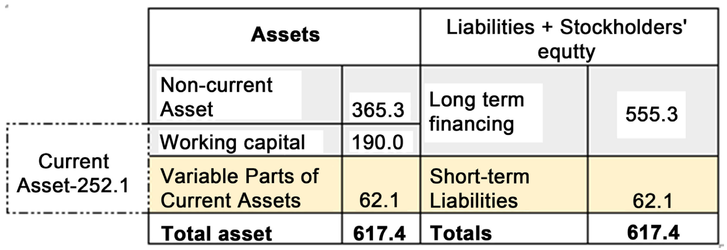

Figure 8. The structure of Asset financing (2021 year). Data sources: XXX Company Annual Report (2017-2021), analysis of company data.

Table 4. The structure of Asset financing/A model/.

Indicators	Short-term liabilities	Long-term liabilities	Own capital
1) Estimated by the average of 2017-2019	11.1	5.5	83.5
2) Estimated by the current/A/model	11	38	51

Data sources: XXX Company Annual Report (2017-2021), analysis of company data.

percent from own capitals, 100 percent of variable parts of current assets is financed from short-term liabilities (**Table 4**).

Although 18 percent of the total financing of the company is replaced by liabilities and loans, to afford the growth of business investments, specifically as a result of insufficient long-term financing, the engagement of short-term liabilities (11 percent) has been in prevalent. Although the company has been executing a decent approach to asset financing, as we have estimated the data using the current A model, we have revealed that there is an opportunity to increase the long-term liabilities engagement.

7. Conclusion

One of the requirements of the market economy is that business entities must reach an effective level, suited to the existing environment by their sales amounts, production capacity, and levels of financial management and the companies must demonstrate consistent and competitive operations. Since the national wealth is produced at the level of business companies and is distributed at the financial scheme, the business enterprises are regarded as the basis of financial sustainability. Financial sustainability is considered as the standard of the stability of the companies, guaranteed by the engagement of their own capital rates within the total financing resources. In other words, financial sustainability can be taken into account as the measurement values, expressed by the balance of the financial assets and resources.

The paper analyzes and classifies 5 main approaches to asset financing, which is one of the indicators of financial stability.

Mongolia's long-term Sustainable Development Vision 2030 (SDV) will be centered on strengthening a whole-of-government and society approach for translating the Agenda-2030 and Mongolia's long-term vision into action. To implement the long-term development policy, the Government of Mongolia encourages and rewards "…the actions that are based on the cooperation of the public and private sectors to utilize dominantly international organizations and foreign soft loans, to introduce the most effective advance technology in all sectors and to put into the market the ranges of innovative products and services".

In the case of "XXX" Co., Ltd., the study reveals that even if the company executes the effective strategy of asset financing, there is more potential for effective utilization of its own capitals in the stock market, and for more engagement of long-term, soft loans and liabilities.

Conflicts of Interest

The authors declare no conflicts of interest regarding the publication of this paper.

References

XXX Company Annual Report (2017-2021). https://www.mse.mn/

Naranchimeg, C. L. (2020). Financial Stability Analysis. *iBusiness, 12,* 140-149. https://doi.org/10.4236/ib.2020.124010

Phaidushenko, V. A. (2013). *Financial Analysis: Theory and Practice* (pp. 1-190). Khabarovsk State Technological University.

Sainjargal, B. (2020). *The Study of Financial Capacity of Business Entity 1996-2000.* Project Report, NUM Press.

Savitskaya, G. B. (2006). *The Methodology of Complex Analysis of Economic Activities* (pp. 1-270). INFRA-M.

Sustainable Development Goals-2030 (2021). http://sdg.1212.mn/

Vladimirovich, K. N. (2016). *Developments of Methodology of Managing Financial Provision of Electro Energetical Companies* (pp. 24-30). Financial University under the Government of the Russian Federation Press.