Articles

Impact of portfolio turnover levels on liquidity: A case study of a household appliance company.

Impacto de los niveles de rotación de cartera en la liquidez: Caso de estudio de empresa de electrodomésticos

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ABSTRACT

This article is focused on the analysis of the financial ratios during the years 2018 and 2019 of Marcimex S.A., considered the largest home appliance trader in the country, with the purpose of establishing the variation that exists in the recovery of the portfolio from one year to another, in order to know if the current situation of the company is adequate. The research methodology developed is of inductive - deductive type by means of instruments such as direct observation, of longitudinal type where the results analyze reflect variation between the years 2018 - 2019; it is important to review its financial statements in order to verify the real and current situation of the company, applying the financial indexes: Liquidity, Portfolio Turnover and Leverage. It is possible to distinguish a significant percentage in the collection of accounts receivable in 2018, however, 2019 reflects a year with greater demand and variation of products. New strategies are proposed to provide encouraging results within the credit and collection area of this institution with the purpose of improving the client portfolio without affecting the commercial relationship.

Keywords: Accounts receivable, Portfolio recovery, Liquidity, Leverage, Leverage

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RESUMEN

El presente artículo se encuentra enfocado en el análisis de las razones financieras durante los años 2018 y 2019 de la comercializadora de electrodomésticos considerada las más grande del país Marcimex S.A. Con el propósito de establecer la variación que existe en la recuperación de cartera entre un año a otro, con el fin de conocer si la situación actual de la empresa es la adecuada. La metodología de investigación desarrollada es de tipo inductiva – deductiva por medio de instrumentos como la observación directa, de tipo longitudinal donde los resultados analizar reflejan variación entre los años 2018 – 2019; resulta importante revisar sus estados financieros con el fin de comprobar la situación real y actual de la empresa, aplicando los índices financieros: Liquidez, Rotación de cartera y Apalancamiento. Se logra distinguir un significativo porcentaje en la recaudación de cuentas por cobrar en el año 2018, sin embargo, el 2019 refleja un año con mayor demanda y variación de productos. Se plantea nuevas estrategias que proporcionen resultados alentadores dentro del área de crédito y cobranza de esta institución con el propósito de mejorar la cartera de clientes sin afectar la relación comercial.
Palabras claves Cuentas por cobrar, Recuperación de cartera, Liquidez Apalancamiento

INTRODUCTION

Financial management has long been considered of great importance for the proper management of economic activities within a company, in the words of Velasquez (2016) "administrative and financial management allows the good development of each of the areas of the company and its resources, generating solvency and capacity for growth"; thus, with the passage of time, the financial management has become a key element of the company's financial management. (p. 16)Thus, with the passage of time, financial management has evolved into an essential tool for the development and execution of a financial analysis.

"Financial analysis is mainly based on the calculation of indicators that reflect the liquidity, solvency, operating efficiency, indebtedness, performance and profitability of an entity. A company with liquidity is considered solvent but not always a solvent company obtains liquidity." (Cabrera, Fuentes, & Cerezo, 2017, p. 222)..

The above leads us to consider the execution of a financial analysis within the present study project, taking as main tools the financial ratios, in order to perform a comparative analysis in the collection of portfolio within the commercial sector during the years 2018 - 2019.

Currently every company that seeks to stay in the market chooses credit sales as a strategy, so it is essential to keep proper control of the receivable portfolio and the time it takes to recover it, those who form the organization must establish policies and procedures to ensure careful control of the account avoiding possible risks. (García, Galarza, & Grijalva, 2019, p. 17).

Most Ecuadorian commercial companies, in an attempt to increase sales, opt to offer more credit facilities to their clients, although this strategy represents higher sales and also presents a high risk by omitting important aspects that guarantee timely payment of the debt.

It is a real challenge for appliance marketers to keep up when granting credit to people with a high level of indebtedness because it is very likely that they will not be able to keep up with each and every one of their commercial obligations, directly affecting their cash flow.
The main problematic situation lies in the management of accounts receivable since they are considered a main element in the maximization of its equity, according to García (2017) "An optimal management of working capital provides a margin of safety, at the time when the company has the ability to self-generate cash for the financing of its operations thus generating a reduction in business risk" (p. 34)The current situation makes it possible to have a crisis in the credit area, therefore, during the development of this research, the financial information, liquidity, portfolio turnover and leverage will be analyzed in order to carry out the proper collection strategies, ensuring optimal management of the customer portfolio.
Herrera (2016) states, "In today's business environment organizations have to be profitable, sustainable and competitive, to achieve this, good management must be maintained." (p. 155).
That is why within the financial administration we can find the indicators or ratios that are an instrument to help the administration of the companies to solve problems and examine if there have been improvements from one year to another, adopting the best decisions that will benefit the entity.
In his publication Román (2018) expresses that financial statements show a structured idea of the financial situation of a company within a given time where its purpose is to provide information of the position in which such entity is, the result of its activities and useful sources in the decision-making process. (p. 17)
Currently, "standards established through Financial Reporting Standards (NIFF) are used for the presentation of information in relation to balance sheets in order to provide the details of the current situation of a company for decision making." (Perea M., Castellanos S., & Valderrama B., 2016, p. 115)..
Performing an analysis of the financial statements is extremely important since it could prevent problems and take advantage of opportunities that arise thanks to the accounting information.
According to Caro (2018) "Significance is determined by the potential of the information or the omission of the information to influence the economic decisions made by users of financial statements." (p. 34)
It is a financial document where the Assets, Liabilities and Equity are presented in an orderly and systematic manner at a given time.
According to Gamboa (2017) "the balance sheet is static represents a summary of everything the company has, what it is owed, what it owes, and what actually belongs to its owner or shareholders on a given date." (p. 781).
Quoting Rondi (2017) "the income statement indicates about the result attributable to a period and the causes that generated it." (p. 105).

From a financial point of view, there is a fundamental importance in determining the correspondence of revenues, costs and expenses in different periods.
From Catacora's point of view (2012) "the income statement shows the profit or loss obtained in a given period from ordinary and extraordinary activities, since a profit or loss is obtained from activities of different nature carried out over time".
According to Elizalde (2019) the cash flow statement reports the movements and changes in cash and cash equivalents during a period, this information is favorable because it provides the necessary basis for evaluating the company's ability to generate cash and its liquidity needs, for optimal economic decision making.
As Romero & Montoya point out (2018) "financial knowledge can be defined as the domain that an entrepreneur must have in order to understand the information related to personal finances and business".
"It is important the financial analysis for the adequate administration in the decision making of a company, detecting the future difficulties and thus predicting the economic and financial situation applying adequate corrective measures to solve them." (González, 2018).
According to von Feigenblatt, (2011), (Cristobal, 2018) "horizontal analysis is performed to compare accounting statement items over set periods of time and observe the trend of values, i.e. how they increase or decrease".
"This analysis is performed integrally since each of the figures of the indicators do not represent a faithful result of the object of study, achieving the objective of contributing to improve decision making". (Saldaña Maldonado & Guamán, 2019).
Castro & Hernandez (2019) "argue that the application of the analysis based on financial ratios corroborates and quantifies the effects detected in the horizontal and vertical analysis, with the opportunity to determine relationships in different financial issues and punctuate the real performance of the company."
Financial tools are the key to business success by carrying out a decision-making process because they are a direct part of the economic stability of each company; also the efficient management of the tools helps to establish an accurate scenario where the current situation of micro, small and medium enterprises is analyzed, these financial strategies are used in order to increase the capacity of profits and income and obtain financial stability in the organization. (Armijos, 2020)
According to Puerta (2018) "these ratios reflect the capacity of a company to pay its liabilities in the short term; analyzing the degree of availability of the asset elements and the degree of exigibility of the liability elements performing relation one to the other".
As Fontalvo points out (2012) "these indicators also called turnover , try to measure the efficiency with which a company manages its assets according to the agility in the recovery of these values".
According to Chicano, cited by Casamayu (2019) indicates that " leveraging has innumerable advantages for the company, however, it is necessary to know how to use it and apply the appropriate level of leverage, taking into account that it is a recommended option where there is a certain risk of insolvency".

However, in order to perform leverage, the debt ratios should be used, according to Bonilla (2018) "these determine the proportion in which a company bases its financing with the help of third parties".
From the point of view of Salazar & Bajaña. (2017) "the increase of debt in a company's financing structure or financial leverage has consequences on profitability that depends on the financial cost of this debt" (p. 3).

MATERIALS AND METHODS
The materials necessary for the development of this proposal is the information obtained from the company, among the most important could be mentioned the Statement of Financial Position from which data is collected from accounts of assets, liabilities, equity; the Income Statement where we find values of Sales, Cost of Sales; Cash Flows where the changes that cash has undergone during the periods 2018 and 2019 are evidenced providing the necessary foundation to evaluate its potential to generate cash; all these to be used for the calculation, comparison, analysis and interpretation of each of the financial ratios to be used.
The research methods used in this document are a non-experimental design, where the events and the context in which they develop in a natural way, i.e. the existing situations, are observed; each of the activities, collection policies, processes to provide credit to customers, current economic situation, longitudinal type that get information in different places of time, credit sales, portfolio recovery, inventory turnover and the collection cycle in the periods 2018 - 2019 were analyzed; the benefit of this method is that it allows the study and comparison of two causes, periods or situations.
The information examined for the analysis is based on the financial statements of the commercial company that, through inductive-deductive research, where the observed environment is analyzed and verified, the control environment, information and communication, monitoring and follow-up of each of the credit sales granted, as well as the evaluation of possible risks and its response to them, it was possible to understand its current economic situation, the impact of portfolio recovery in relation to its liquidity, activity, leverage and its possible deficits in the follow-up of portfolio recovery.
In order to make known the reasonableness of the company's economy and to be able to determine coherent collection policies in view of the situation framing the sustainability of the company, as well as to give viable answers on the possible risk situations that may arise throughout its economic activity and thus maintain strong and sustainable business relationships with our customers and suppliers.

RESULTS
With the results presented in the table above we can see that the company has a very significant solvency, which has helped it to remain in the market for many years, however, it should take the necessary corrective measures to put to work the money left over after covering all its debts.

With the above we can conclude that the company records as a result of acid test 0.79 and 0.81 in years 1 and 2 respectively, which means that for each dollar of debt assumed in the current liabilities it has $0.79 and $0.81 for its cancellation without the need to resort to inventories.
This indicator shows us the number of times the inventory rotates within a period, therefore, in 2018 the inventories rotated 6.24 times in the year and in 2019 they rotated 6.69 times. The company's portfolio recovery has decreased from one year to another, however, it could be concluded that the result is acceptable since the expected indicator is 1, to be within acceptable parameters in the time it takes to recover the portfolio.
Taking into account the company's policies for granting loans to its customers, which range from 30 days to 24 months, the average period it takes the company to collect its debts is acceptable, considering the aforementioned. For every dollar that the company has in assets, it owes $0.63 in 2018 and $0.69 cents in 2019, i.e. transforming them into a percentage (63% - 69%) it could be interpreted as the creditors' share of the company's assets.
From the point of view of the company's indebtedness, these results are good as long as the company achieves a positive result on profits, that is to say that the assets financed with debt generate a profitability for the company that exceeds the cost paid for the liabilities. It can be deduced that the indicators applied during this study are important keys to determine the resources that the company has and to face its short term obligations, due to the fact that it is a company where its main source of income is credit sales, its liquidity index generated makes it position itself in a situation where at a certain moment it is optimal, but it should be taken into account that this would be viable in its totality depending on the agility with which its inventories and portfolio are converted into cash.
From Ollague's perspective. (2017) "Financial indicators demand a process for the evaluation and issuance of a supported criterion, the realization of a comparison of historical values, to distinguish the evolution of the indicator, ideally two or more periods" (p. 24)The results of the financial indicators were interpreted based on the use of the entity's resources; a comparison of the evolution, development and changes of the indicators during the chosen periods is also made.
Similarly, our analysis, from a simple viewpoint, is coupled to most of the criteria issued by different authors, focusing on some comparisons and readings of basic results that offer a better interpretation, helping managers and directors to assess the appropriate management that has been done with the company's assets, to take appropriate measures and improve future management.

CONCLUSIONS

Although the company has not shown complications in its collection of accounts receivable, the study of the financial ratios indicates that there is a slight delay in the payments made by its customers, it could be deduced that the defaults are due to the

current economic situation, this study becomes an effective tool for making the necessary decisions.
It is also proposed to take the necessary actions before defaults advance to risky levels, so it is suggested a process on loans and collections that performs a more effective analysis of each client in order to reduce the risk in portfolio recovery.
Finally, it can be concluded that the impact of the portfolio rotation on the company's liquidity is basically an important complement due to the effectiveness with which it converts accounts receivable into cash and the opportunity to evaluate the credit policies offered by this entity.

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