Domestic sources of entrepreneurial capital formation

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Abstract. The relevance of the study lies in the formation of the source of capital of economic agents at the level of demand. In practice, it is known that the entrepreneur is not always able to generate sufficient financial resources that belong to him. The reason is that a change in the market conditions, regardless of the economic entity, results in a decrease in the planned profit. As a result, their liquidity is reduced. It is impossible to pay in front of customers. The unfavourable situation is reflected in the relations of economic entities with banks. In conclusion, the study of the internal source of capital of entrepreneurs and internal and external factors is an important problem of the national economy.

1 Introduction

With the country’s transition to a market economy, the structure of capital and the composition of agricultural entrepreneurs are changing. It is important that the size of equity, which reflects the financial sustainability of economic agents, is increasing. The form and sources of capital formation of economic entities: charter capital, undistributed profit, reserve capital, funds for increasing the funds of specialized societies. The study of the importance of each of the funds and the provision of theoretical and practical suggestions and recommendations for their improvement will help to ensure that enterprises will continue to operate in the future without changes.

During the period of transition to the market economy, the composition and structure of sources of capital have changed significantly in the agrarian sphere. Non-traditional sources of capital and working capital have been added to the traditional sources of capital, such as public funds, bond loans, equity flows, foreign capital flows, etc.

The most important economic indicator of the financial sustainability of an organization or an enterprise in entrepreneurship is the size of its own capital. This concept emerged in the literature devoted to economics since the beginning of the transition to market economy. Prior to this element, the traditional sources of the enterprise’s “own funds” category was used, of course, that in the new business environment the term “own capital” is more acceptable, reflecting, in our view, the more complete essence of the modern business situation.

A clearer distinction is drawn between “sources of enterprise financing” and “commercially traded external sources.” Entrepreneurial equity has a variety of forms.

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and sources of formation and it includes: Charter capital; retained earnings; Special purpose funds; Reserve fund; Special purpose funds to increase capital enterprise accumulation funds.

Charter capital is an organizational and legal form of capital, the value of which is determined by a charter or a treaty of establishing an enterprise. We stress that until recently, the main source of capital replenishment was income, and in some cases it came from budget appropriations. At present, with the transition to the market and the establishment of joint-stock companies, the conditions for capital formation have changed dramatically. A significant role in this is played by an innovation in which, under the current legislation, entrepreneurs have been given the right to form part of the authorized capital from an equity fund, i.e. from funds attracted by the placement of shares and contributions of founders in the form of a share in the establishment of a statutory fund.

The statutory fund is a key moment in the creation of any business structure. First of all, the size of the authorized capital is determined, which is the source of the entrepreneurs' own capital and is intended for the formation of fixed and working capital of the enterprise. The size of the authorized fund is not a constant value. During the period of economic activity, it constantly changes up or down. So, for example, the statutory fund may increase when a joint-stock company issues new shares or when the nominal value of previously issued shares increases. A reduction in the size of the authorized fund periodically occurs, for example, when a part of the shares is bought from their shareholders. This is the case when the nominal value of shares falls sharply. However, note the following important fact - if the business activity is of low profitability (loss) then the issue of shares to cover losses is prohibited.

At the end of the year, a decision may be taken on the basis of a resolution of the general meeting of owners to increase the authorized capital. The main source of capital replenishment is retained earnings.

The undistributed profit in the changed economic conditions has emerged a fundamentally new system of distribution of profits of the enterprise. Its distinctive feature is that the net profits of entrepreneurs are distributed at their will. It follows that retained earnings represent those portion of profits that entrepreneurs do not pay as dividends to their shareholders and remain at the disposal of entrepreneurs. Retained earnings are determined by the difference between the total income at the beginning of the year and by the dimension used.

During the year, undistributed profits are part of the entrepreneurs' own capital. These funds are temporary financial sources and are used for the current activities of entrepreneurs. Often, however, this share of profits is a very important source of entrepreneurial capital. For example, the Law on Corporatization of State Enterprises permits the purchase of an enterprise, including the land under the enterprise, from the retained (net) profits of the enterprise. Under the previous planned system of economic management in the balance sheet of the enterprise there was no item 'Retained earnings of past years', As a result of this profit of the accounting year the enterprise distributed in the prescribed order of the top. The remaining spare part was used as a "supplement" to the statutory fund. Today, the size of undistributed profits largely determines the possibility of entrepreneurs self-financing. With the development of market relations, undistributed profits become a stable, long-term functioning part of entrepreneurs' own capital.

Special purpose funds. Most of the entrepreneurial equity is accumulated by a special purpose fund. The main purpose of this fund is to finance the cost of the creation of new property of the productive enterprise. In addition, the Special Purpose Fund provides for the development of social infrastructure, as well as for the financing of social development activities and workers' material incentives.
The main source of the formation of special purpose funds is the part of the profit remaining at the disposal of entrepreneurs. An important point is a clear division of these funds into production development funds and funds intended for consumption needs. This is due to the introduction from January 1, 1993 of tax benefits in the formation of these funds. According to the law, if part of the profit is directed to finance capital investments in the production and non-production sphere, then certain tax benefits are provided.

The formed special-purpose funds are divided into two large parts: accumulation funds and consumption funds. Accumulation funds accumulate funds allocated for the construction and acquisition of fixed assets for production and non-production purposes. Consumption funds, formed by entrepreneurs, are intended to finance social spending and material incentives for the enterprise staff.

The reserve fund is an integral feature of the period of transition to the market. It is a significant increase in the degree of business risk. So, there are times when entrepreneurs cannot get the planned profit. In this regard, practical experience has led to the need for entrepreneurs to create reserve (risk) funds as part of internal production funds. The size of the reserve fund is set, as a rule, at the level of at least 15% of the authorized fund. The reserve fund is formed at the expense of annual allocations of part of the profit in the amount of at least 5% of the amount of net profit. Some economists combine reserve funds and retained earnings in one concept—profit. However, in our opinion, a special mechanism for the formation and purpose of reserve funds does not give grounds for such a merger. As noted above, the main source of the reserve fund is profit. In addition, along with deductions from profits, the share premium generated in a joint-stock company when shares are sold at a price exceeding their nominal value can be credited to the reserve fund. Thus, Reserve Funds are a sustainable source of entrepreneurial capital. Funds such as fixed asset replacement reserve, special repair reserve, quality assurance reserve and some others are not subject to taxation. This circumstance stimulates entrepreneurs to create various reserve funds.

Means of target financing from the budget and off-budget funds. These funds in terms of their economic content are external sources that are used to replenish working capital, capital, and other long-term financial investments. Depreciation charges play an important role in the formation of entrepreneurial capital. They are the most stable source of equity capital. As you know, depreciation is charged as (physical and moral) depreciation of fixed assets. Wearing out over time, fixed assets require either replacement or partial restoration through their repair, reconstruction or modernization. The funds necessary for these activities are accumulated through depreciation deductions. Depreciation is included in the cost of production and is reimbursed from the proceeds of the realized goods, works and services. Depreciation is calculated according to the current standard. If the established standards are higher, then the service life of fixed capital is shorter. Depreciation has a dual economic nature. First, it serves the process of compensating for the depreciation of fixed capital; secondly, it serves the process of their expanded reproduction. Thus, the depreciation fund is designed to compensate for the depreciation of fixed capital and is an accumulation fund. Depreciation is charged until the full repayment of the initial cost of the object. It is curious that until recently, during the so-called period of stagnation, depreciation continued after the expiration of the standard service life. This practice led to the “re-depreciation” of fixed capital. The state had a visible, but essentially imaginary, gain, since it had the right...
to withdraw from enterprises the so-called free depreciation to the budget revenue. As a result, the reproduction process was disrupted. In 1992, the procedure for calculating depreciation on fixed assets was changed. Now the excessively accrued amount of depreciation is directed to increase the authorized Fund. Entrepreneurs have been granted the right to make accelerated depreciation of machines, equipment and vehicles by increasing the annual depreciation rates. However, at the same time, the depreciation rate for fixed capital should not be more than doubled. Taking into account high inflation rates, in order to take into account the market value of fixed capital, indexation of depreciation charges was introduced. Accelerated depreciation is a positive factor in supporting entrepreneurial activity. In our opinion, the rapid accumulation of depreciation charges creates favourable opportunities for the accelerated renewal of fixed capital. At the same time, accelerated depreciation helps to increase the own funds of entrepreneurs by avoiding taxation. Economists in advanced market economies have calculated that an increase in the established depreciation rate of at least 1% allows companies to reduce tax payments by $150 million.

Ordinary and preferred shares. Entrepreneurs resort to the issuance of their own securities - shares and bonds. It issues securities by issuing shares and bonds. A share is a security issued by the issuer without a fixed period, indicating that its owner has invested in the authorized capital and the right to manage, as well as the periodic receipt of remuneration for the vice part of the enterprise’s profit. The share has the following features: firstly, it is a perpetual security; secondly, a significant deviation of its market price from the nominal value is possible. The action, like foam paper, is intended to contribute mainly to solving two problems: firstly, to promote the widespread involvement of temporarily free funds in production turnover, and secondly, to increase the activity of man - the main driving force of grandiose socio-economic transformations. The action provides an opportunity, and, moreover, a unique one, along with a rational investment of money, to activate the employee, increase his responsibility for his area of work, try to find another way to solve the problem of turning a faceless and disenfranchised "co-owner" into a true owner. At the same time, some economists express the opinion that the shares distributed among the staff should primarily perform the function of material incentives, and not attract financial resources, as is done today. Indeed, a share as a security must perform the function of material incentives. At the same time, in our opinion, it should contribute to the solution of two most important tasks: first, to involve temporarily free funds in production; secondly, to activate subjects in the production process, which, as is known, was not the case during the stagnant period.

As we have already noted, in connection with the transition to the market on the basis of low-profitable state farms and livestock farms in the CIS countries, including Uzbekistan, other non-state forms of ownership are being formed. Basically, joint-stock companies of closed and open type predominate. As you know, in closed-type companies, shares are distributed among a limited number of shareholders and do not go on public sale. In an open-type joint-stock company, shares are placed by public subscription, and they can freely circulate on secondary markets. The farms analyzed by us, such as "Ahsi", "Chorvador", "Okbulok", are joint-stock companies and specialize in the production of livestock products. To carry out joint economic activities, these farms have united both legal entities and individuals. In these farms, the authorized capital formed from the contributions of the founders, as well as income received and other legal sources. The contributions made by the founders are certified by certificates, which, however, are not securities and cannot be used as a pledge.
An analysis of the collected practical materials showed that in the Republic of Uzbekistan the existing mechanism for the distribution of shares among shareholders does not contribute to the further development of this type of securities. The main reason for this lies in the high inflation of cash.

As is known, in the former Soviet republics, the investment system was based on inflationary-budgetary redistributive methods, which fundamentally do not meet the conditions of a market economy. This can explain the fact that the CIS countries in the organization of financial markets lagged behind the developed countries by about 80 years.

Thus, in just three quarters of 1991, the ruble stock increased from 989 billion rubles up to 1.7 trillion. rub.; in the future, the situation continued to worsen. That is, the rate of inflation grew and continues to grow to this day. In the CIS countries, there is a depreciation of the money savings of enterprises and the savings of the population, as a result of which the demand for foam paper is falling. Therefore, the amount of dividends paid on shares, as a rule, is lower than the discount bank rate. World practice shows that it is false to beat the ratio in reverse. In this regard, in our opinion, it is advisable to introduce tax and credit benefits for a period of at least five years for newly established or transformed from state-owned enterprises; it would also be reasonable to use household deposits stored in commercial banks to purchase shares. In order to add mobility to securities and increase their attractiveness, the Central Bank should be allowed to use simplified settlements between legal entities and individuals. This refers to the payment of securities with the transfer of funds to personal accounts on savings books in commercial banks, as well as for cash.

Thus, the analysis of internal sources of formation of entrepreneurial capital allows us to conclude that in the structure of equity, the largest share belongs to retained earnings, reserve fund, special purpose fund, field financing, depreciation deductions, as well as ordinary and preferred shares.

Taking into account the specifics of agricultural production and the organizational and legal form of entrepreneurship, its internal sources of capital may be different. Depending on these features, own and borrowed sources of capital are distinguished.

2 Conclusion

Hence, we can conclude from the above considerations and the results obtained as follows: At the first, a share as a security must perform the function of material incentives. At the same time, in our opinion, it should contribute to the solution of two most important tasks: first, to involve temporarily free funds in production; secondly, to activate subjects in the production process, which, as is known, was not the case during the stagnant period. As we have already noted, in connection with the transition to the market on the basis of low-profitable state farms and livestock farms in the CIS countries, including Uzbekistan, other non-state forms of ownership are being formed. Basically, joint-stock companies of closed and open type predominate;
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