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THE CONCEPT OF CURRENT ASSETS IN ECONOMICS AND FINANCE

The concept of current assets is fundamental in both economics and finance, playing a crucial role in the operational efficiency and financial health of an entity. Current assets, which include cash, accounts receivable, and inventory, are essential for the day-to-day operations of a business. The management and financing of these assets are critical for maintaining liquidity and ensuring the smooth functioning of business activities.

Current assets are typically defined as assets that are expected to be converted into cash or used up within one year or within the operating cycle of the business, whichever is longer. This definition underscores the short-term nature of these assets and their role in supporting the operational activities of a business. According to Brigham and Ehrhardt (2017), current assets are crucial for maintaining the liquidity of a business, which is essential for meeting short-term obligations and avoiding financial distress [1].

The classification and management of current assets have been extensively studied in the literature. Gitman and Zutter (2015) emphasize the importance of aligning the financing of current assets with their turnover period to optimize liquidity and reduce financing costs. They argue that effective management of current assets involves balancing the trade-off between profitability and risk, as different financing strategies can impact a company's financial stability and operational efficiency.

Inventory management is another critical aspect of current assets management. Chopra and Meindl (2016) explore the role of inventory management in maintaining the balance between holding costs and stockout costs [2]. They suggest that companies should adopt inventory management techniques such as Just-in-Time (JIT) systems to minimize inventory levels while ensuring timely delivery of goods. This can help

improve liquidity and reduce the cost of financing inventory.

Cash management is also a significant component of current assets management. Van Horne and Wachowicz (2015) emphasize the importance of maintaining sufficient cash balances to meet operational needs while avoiding excessive idle cash [18]. They highlight the role of cash budgeting and cash flow forecasting in ensuring that a company has adequate liquidity to meet its short-term obligations. Accurate cash flow forecasting is essential for optimizing the use of cash resources and avoiding liquidity crises.

The financing of current assets involves strategic decisions about the mix of short-term and long-term financing. Hillier et al. (2016) discuss the trade-offs involved in choosing between different financing options. They note that short-term financing, such as lines of credit and commercial paper, is typically less expensive but comes with higher rollover risk. Long-term financing, on the other hand, provides greater stability but at a higher cost. Companies must carefully evaluate their financing options to strike the right balance between cost and risk.

Advanced financial models and simulations are often used to predict the behavior of current assets under different scenarios. These models help in optimizing asset levels, forecasting cash flows, and making informed financial decisions. Scientific analysis thus plays a key role in enhancing the precision and reliability of financial planning.

Thus, current assets are integral to a company's financial health, influencing liquidity, risk management, operational efficiency, and strategic investment decisions. Proper management of these assets, supported by scientific analysis, is essential for achieving sustainable growth and stability.

References:

1. *Brigham, E. F., & Ehrhardt, M. C.* (2017). *Financial Management: Theory & Practice*. Cengage Learning.
2. *Chopra, S., & Meindl, P.* (2016). *Supply Chain Management: Strategy, Planning, and Operation*. Pearson.

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