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COMMERCIAL CREDITAS AN ELEMENT OF CORPORATE FINANCE

S. V. Startseva (a)*
*Corresponding author

(a) Samara State University of Economics,443090, Soviet Army Str., 141, Samara, Russia, startseva-svetlana1@yandex.ru

Abstract

The following article examines the correlation between corporate finance and commercial credit. Any business entity including a corporation needs financial management to make a profit. Knowledge of corporate finance, its structural elements, their mutual influence on each other is necessary to achieve the goal of the corporation as a commercial organization. Corporate finance, in the narrowest sense of the term, is the money of corporations, from which, with proper management, one can make profit. In a broader sense of the term, corporate finance is a social relationship, both monetary and financial, that develops during the formation of corporate monetary funds, as well as the use and distribution of named corporate funds. On the other hand, corporate finance is understood as financial management. In a broad sense, it is one of the areas in economic science in the field of financial support for business. In a narrow sense, it is a systematized set of diverse ways of managing corporate cash funds. In all considered semantic meanings of the term corporate finance, there is a link to corporate monetary funds. Cash funds of corporations form part of the capital of the corporation, which consists of two parts: own and borrowed. Commercial credit, as part of the capital of the organization has its own peculiarities that distinguished it from other loans. It lies in the fact that corporations can act not only as a borrower under a commercial loan agreement, but also as a lender.

Keywords: Corporate finance, commercial loan, prepayment, deferred payment, installment payment.

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1. Introduction

Corporate finance is one of the important parts of the national financial system. Consequently, good financial management of corporate funds and the status of corporate funds themselves affect the status of the entire financial system of the state. The state and legal regulation of commercial lending in the country can have an active impact on the financial system as a whole. The lack of legal regulation, or its insufficiency, as well as the lack of proper attention in the implementation of financial management in corporations can have a negative impact on the whole system.

2. Problem Statement

The study of corporate finance is relevant for both Russian and foreign science. Most systematic studies of corporate finance are both theoretical and applied. Commercial credit is also investigated by both Russian and foreign authors. It is worth noting that systematic legal studies of such a phenomenon as commercial credit are practically absent. Economic studies predominate and are of a systematic theoretical nature and of an applied nature.

3. Research Questions

In the framework of this study the following questions are highlighted:

3.1. What is the essence of corporate finance?

3.2. What should be understood as a commercial loan and a commercial loan agreement?

3.3. How do corporate finance and commercial credit relate to each other?

4. Purpose of the Study

The objectives of this study are:

- consideration of various approaches to the definition of corporate finance;
- disclosure of the essence of corporate finance;
- analysis of commercial credit and a contract of it;
- determining the place of commercial credit in the structure of corporate finance.

5. Research Methods

In this research general scientific and private scientific methods were used. Among the general scientific methods such methods as generalization, comparison, synthesis, analysis can be outlined. These methods were used to study such phenomena as corporate finance and commercial credit. As for the private scientific methods such methods as formal legal, comparative legal methods were used that allowed to explore a commercial loan agreement.

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6. Findings

As stated above the term corporate finance is nowadays used in two semantic meanings. On the one hand, corporate finance is understood as corporate finance itself. Corporate finance, in the narrowest sense of the word, is the money of corporations from which one can make a profit with proper management. In a broader sense corporate finance is a social relationship, both monetary and financial, that develops during the formation of corporate monetary funds, as well as the use and distribution of named corporate funds.

When considering corporate finance as a special kind of market entities capital engaged in entrepreneurial activity, it is usually distinguished by its function in the financial market, namely, the SM (stock market), the market of corporate merger leading to the enlargement of corporate capital. Corporate finance reflects a special kind of relations in the monetary sphere: all stages of the existence of financial resources of corporations and their commercial associations.

In the economic literature, one can find a distinction between enterprise finance and corporate finance: "Enterprise finance is a broader concept than corporate finance, as it covers enterprises of all forms of ownership and legal forms, and corporate finance only reflects private (mixed, labor collective) forms of ownership and business entities and partnerships "(Chebotar, 2016). One can only partially agree with this position, since no mixed form of ownership or form of ownership of the labor collective exists. Legislatively, in the Civil Code of the Russian Federation (hereinafter referred to as the Civil Code of the Russian Federation), only three forms of ownership are established: state, municipal and private. The law does not establish any other forms of ownership, although for the sake of fairness it should be noted that the list is open. Thus, corporate finance is an integral part of enterprise finance. In legal form, all corporate organizations are subdivided into commercial and non-commercial ones. The first includes all forms of partnerships and societies, peasant (farmer) enterprises and production cooperatives. The second covers funds, institutions, autonomous non-profit organizations and religious organizations. We consider it incorrect to allocate only the capital of companies and partnerships in corporate finance without accounting for other organizational and legal forms of legal entities referred by the legislator as corporations. It seems it should include the capitals of non-profit corporations as they too can participate in market relations in order to profit.

Since "Capital of a corporation is the resources invested in the business of the corporation and bringing it effect (income). The capital of any business entity is divided into equity and borrowed capital' (Chebotar, 2016), and commercial credit is traditionally considered an integral part of borrowed capital, which means that commercial credit is also part of corporate capital. The main role in borrowed capital is played by the capital received from banks, but when the conditions of a bank loan for a borrower worsen, it is replaced in corporate finance by a merchant and vice versa (Chen, Ma, & Wu, 2019).

On the other hand, corporate finance is understood as financial management. Financial management is also considered both narrow as corporate monetary funds and in the broad sense. In a broad sense, it is one of the areas in economic science in the field of financial support for business. This is a popular part of world economic schools (Mata, da Costa, & Justino, 2018). Corporate finance is considered even more broadly - as an independent field of knowledge and as the result of scientific research in the science of finance. Scientific developments were carried out throughout the entire period

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of scientific research starting from the second half of the XX century (Khotinskaya, 2010). In a narrow sense, it is a systematized set of diverse ways of managing corporate cash funds.

In all considered semantic meanings of the term corporate finance, there is a link to corporate monetary funds. Cash funds of corporations form part of the capital of the corporation, which, in turn, consists of two parts: own and borrowed. And as we wound up, we found out that a commercial loan is an integral part of the corporation's finances. A study was conducted that established a direct relationship between the stability of the financial position of a corporation and the commercial credit of suppliers (Liu, Mao, & Nini, 2018). Another study concluded that commercial credit plays a significant role in corporate finance in developing countries (Harris, Roark, & Li, 2019). Moreover, in Europe, large enterprises are more likely to use commercial lending as a source of corporate finance than microenterprises (Masiak, Block, Moritz, Lang, & Kraemer-Eis, 2019). In China, commercial loans are actively used by both state and non-state enterprises, thereby increasing their capital (Wang, Wu, Yin, & Zhou, 2019).

Traditionally, in scientific studies on commercial credit, leasing is called one of its forms. According to the prevailing opinion, leasing is of no small importance in corporate finance (Vakutin & Fedulova, 2018).

Relations on a commercial loan, in accordance with applicable civil law, are drawn up by an appropriate agreement. The requirement on the form of the contract is mandatory. Since in this study we are talking about commercial credit as an element of corporate finance we consider exclusively legal entities as parties. Between such entities, contracts are concluded in writing. For recording of relations on a commercial loan, you can use either a separate contract or a mixed contract. The independence of a commercial loan agreement, its accessory legal nature, and such an unconventional form of a commercial loan as a deposit are described in more detail in a previously published article (Startseva & Deltsova, 2018). The parties must reach an agreement that the advance payment, deposit, prepayment, deferral or installment payment provided under the contract are considered as commercial loan. In our opinion, to exclude an incorrect interpretation of the will of the parties when concluding an agreement, it is necessary to indicate interest as a fee for a commercial loan granted and the terms for its repayment in the agreement.

In relations on bank lending, the corporation clearly acts as a borrower. In a commercial loan relationship, a corporation can be both a borrower and a lender. In the case when a commercial loan is provided by a corporation to its counterparty in the form of an advance, deposit, prepayment, the corporation is a creditor and it is impossible to attribute a commercial loan to borrowed funds. Since the corporation's capital is traditionally divided into two parts own funds and borrowed, in this case, commercial credit refers to own funds. Using a commercial loan to make profit can be reached not only be means of interest. It can also be reached by corporation investments using both equity and debt obligations (Macnamara, 2019).

7. Conclusion

In the article different approaches to the concept of corporate finance were studied. Despite the various interpretations of this term and the levels of phenomena indicated by it, everywhere there is a link to the monetary funds of corporations. Consequently, the essential foundation of corporate finance is the financial funds of corporate legal entities. Commercial credit, as part of enterprise capital has its own peculiarity that distinguishes it from other loans. It lies in the fact that corporations under a commercial loan agreement can act not only as a borrower, but also as a lender. Commercial credit is an integral part of corporate finance, and at the same time it occupies a significant place in corporate finance. Relations on a commercial loan arise based on an independent accessory contract for a commercial loan.

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