

Corporate financing by assignment of receivables

Abstract

The diploma thesis deals with the issue of using the assignment of receivables as an instrument of financing a company. The thesis presents a comprehensive legal and economic analysis of this alternative method of corporate financing.

In view of the current extraordinary increase in the demand of companies for securing working capital in this way, the thesis aims to provide the potentially financed company with sufficient information and arguments to make a qualified decision whether or not the assignment of receivables is an optimal choice. To this end, the thesis analyses the various legal and economic aspects of increasing available cash resources through the assignment of receivables.

Since the added value of this thesis lies mainly in the synthesis of multidisciplinary knowledge, its content design is based on the principle from the general to the specific. The thesis first lays a theoretical foundation that puts the issue under study in a relevant context. At the very beginning of the thesis, it defines the concept of enterprise and delineates it from related concepts. It then proceeds to explain corporate financial management by analysing its most important components. Emphasis is placed on the explication of the key principles of corporate financial management. The most space is devoted to the principle of taking risk into account, as this principle is assessed as the most important.

The following parts of the thesis are based on the outlined theoretical background and form the core of the thesis. First, the concept of factoring is defined as a financial service consisting in the assignment of receivables for consideration. After an explanation of its economic essence, a discussion of the various modifications of factoring and an analysis of the factoring contracting process follows.

Significant attention is paid to the assessment of the cost of factoring, as cost analysis is a crucial parameter in the choice of financing method. The procedure for calculating the net annual cost of factoring is explained using a detailed example.

In the context of the analysis of the relevant legislation, the legal definition of a receivable and the related concepts of performance, entitlement and liability are first commented on. Next, the legal facts which give rise to *ex lege* and *ex contractu* assignment of the receivable are described. The focus of the analysis is the interpretation of contractual assignment and its legal limits. In the final part, tax aspects are discussed.

Due to the growing popularity of factoring, the thesis also presents an analysis of the factoring market. By analysing data series provided by the Czech Leasing and Finance Association, the current and historical volumes of transactions realized on the factoring market and markets of related financial products are compared. These values are further compared with neighbouring countries.

The last part of the paper examines factoring in terms of its balance sheet presentation and its impact on financial analysis indicators. A model example is used to illustrate the change in individual balance sheet items and indicators of creditor risk, current liquidity, productive power and return on equity.

Based on the findings of the previous chapters, the thesis concludes with a summary of key insights that should be taken into account by the firm when considering the implementation of factoring financing. The thesis is not based on the conditions of a specific enterprise; however, is designed as a comprehensive analysis of a given financing method, it can be a source of relevant information for a wide range of enterprises.

Key words

factoring; assignment of receivables; corporate financing