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Investments in enterprise activity

Kurbanova Sitora Bakhodirovna
assistant teacher Samarkand Institute of Economics and service
e-mail:kurbanovasitora1989@mail.com

Abstract: *"Investment Activity," "Investment Attractiveness." The stages of development of investment policy, the essential components of investment attractiveness, and the factors to be considered in assessing the investment attractiveness of a company are examined.*

Keywords: *investments, investment activity, organization, economy, investment attractiveness.*

INTRODUCTION:

Investment activity is a entrepreneurial activity related to developing businesses and generating long-term profits for a company. It involves acquiring and selling long-term assets and other business investments. For example, when a new machine is added, the company can increase its production of goods. Similarly, acquiring and selling contribute to making the company more efficient or increasing revenue.

In financial reporting, investment activity is one of the three categories of the report concerning cash flow. The remaining two are operational activity and financial activity. Operational activity is related to how companies obtain money by delivering goods and services. Investment activity is about how businesses can develop and earn more money in the future. Investments, whether through the purchase of new machinery or acquisitions, are part of the financial flow in investment activity.

Acquisition and Sale of Primary Assets

Acquiring and selling primary assets exemplify investment activity. Primary assets are various material assets that support operational activity. Examples include buildings and facilities, machinery, equipment, transport vehicles, and computers. They provide economic benefits for more than a year, and thus, companies present them in the section of non-current assets.

The acquisition of primary assets highlights the outflow of funds. For instance, purchasing a machine requires cash payment. However, acquiring assets usually involves significant nominal expenditures. Therefore, companies prefer obtaining them on credit. Payment transactions are recorded, and it appears in the investment activity section.

On the contrary, selling primary assets is the opposite of acquiring them. It indicates the inflow of cash; in some cases, a company may receive cash from the sale.

Long-Term Financial Investments

Investments in highly liquid securities (cash equivalents) are deducted from investment activity. Companies usually buy them for trading purposes. Therefore, highly liquid cash equivalents and securities traded for trading purposes do not fall under investment activity. Instead, they fall into the cash flows from operational activity.

Investment activity plays a crucial role in supporting the future growth of businesses. By investing, companies expect to generate more revenue and increase their profits. Higher profit expectations undoubtedly contribute to the rise in the value of valuable papers for shareholders. For creditors or banks, it reflects a more significant cash flow, so companies have the ability to repay debts.

To develop production, companies need to purchase new machinery or establish new factories. All of these require substantial financial resources. Therefore, the negative cash flow of investment activity is one of the good indicators of investing in capital assets for companies. In the future, observing the growth of their revenues is essential.

The change in the main assets on the balance sheet is the reflection of the investment activity. Collectively, capital funds used for investment are referred to as capital expenditures.

You can find the indicators of capital expenditures in the investment activity cash flow section. Analysts closely monitor these indicators when evaluating stocks. The growth of capital expenditures indicates that the company is investing in its future activities. Although capital spending may represent a cash outflow, analysts often view companies with significant capital expenditures as having growth potential in the future. This ultimately supports the company's ability to generate future income.

Negative cash flow from investment activity is not always bad. As mentioned earlier, companies need to sacrifice funds now to develop their businesses in the future. By spending money, the company must create substantial cash inflows in the future.

The amount of cash obtained from investment activity depends on the type and age of the company. Young companies with high growth potential may have negative cash flows from investment activity. They require significant capital expenditures to develop their businesses and compete in the market. However, if capital expenditures do not lead to increased profits, it may not be effective. Therefore, you need to learn the company's unique investment strategy. For example, you can use the internal rate of return (IRR) to assess whether buying a machine or creating a new object is beneficial.

With new high technologies emerging and being applied in the modern era, there is a growing interest in analyzing the investment attractiveness of enterprises and studying their investment activities. Companies that have high indicators in financial, economic, and trade activities, as well as potential investors, may consider a corporation convenient (geographically and regionally) as an attractive investment. The concept of investment is widely used in the market economy. Many investment projects are being implemented in enterprises, and new technologies are being introduced to improve the quality and quantity of indicators. New companies, organizations, and corporations are being formed.

Of course, to draw conclusions about the appropriateness of investing in a specific investment project, the investor needs to study the financial condition of the enterprise. The financial condition indicates the ability of the enterprise to finance its activities. It includes the availability of financial resources necessary for normal operation, the appropriateness of their placement, efficiency in using them, financial relationships with other legal and natural persons, payment capability, and financial stability.

The issues of evaluating financial stability are among the priorities in the financial management of Russian enterprises. If the enterprise has financial stability and payment capability, it has several advantages over other companies of the same profile. Attracting investments. The higher the stability of the enterprise, the more independent it becomes from unexpected changes in market conditions, and therefore, the risk of bankruptcy becomes lower.

Developing the general investment policy of the enterprise involves the following main stages:

1.Analyzing the enterprise's past investment activities.

2.Studying the external investment environment and researching the investment market situation.

3.Defining the strategic development goals of the enterprise.

4.Considering preferential conditions for investment in capital based on the enterprise's financial stability and payment capability.

5.Shaping the enterprise's investment policy in line with its main directions of investment.

6.Developing the enterprise's investment policy based on strategic development goals.

7.Shaping the Corporation's Investment Policy by Sectors.

8.Forming the Corporation's Investment Policy on a Regional Basis.

9.Interconnection of the Core Directions of the Company's Investment Policy.

Investments are long-term allocations of funds for the purpose of establishing new enterprises, modernizing existing ones, incorporating the latest technologies and equipment, and increasing production volumes. Investment activity refers to the activity of investing funds (making investments) and implementing specific practical actions to achieve profitable results or other beneficial outcomes. It should be emphasized that this activity finds its expression in the operations of many corporations and organizations.

If a company receives several proposals for a specific investment, the task is to choose the optimal investment solution. The decision to invest is made by company managers based on considerations such as the cost of the investment project, the type of investment, available financial resources, the number of existing projects, decision-making ability, and others. To determine the maximum efficiency of the investment decision, it is necessary to understand concepts like the investment attractiveness of the company. When referring to the investment attractiveness of the company, one understands its ability to wisely allocate temporarily free funds for investment purposes.

Therefore, the investment attractiveness of the company is crucial for assessing the suitability of specific investments and identifying the efficiency of choosing alternative options and allocating available resources.

To assess the investment attractiveness of the company, it is necessary to analyze its financial-economic and technical indicators, as well as study its geographical and regional location.

Assessing the investment attractiveness of the company is based on several factors, the most important of which include trustworthiness, the financial condition of the company, dividend policy, information about the company's activities, and the efficiency of production development.

The factors affecting the investment attractiveness of the company are divided into external and internal factors. From these factors, a system of external and internal risk for a specific investment project is formed. This system is crucial in making decisions about a particular investment issue. The investment attractiveness of the company is influenced by specific internal and external factors. This system helps shape the external and internal risks of an investment project. This system is critical in deciding on a specific investment issue.

The following are key factors for evaluating the investment attractiveness of a company:

1.Industry Affiliation: The competitiveness of a particular product is primarily determined by the development of the relevant industry. Thus, the value of the industry is reflected in both the internal and external markets. If the company operates successfully in the market and the industry is flourishing both in the country and globally (if it is a large company), it indicates competitiveness. This market position is essential for a company's product to be in demand in the market. If the company belongs to a not-so-profitable part of the industry, it may indicate that the products will not be in demand in the market, and the company itself may go bankrupt quickly.

2.Ownership of the Company: Evaluating the work and personal qualities of a company manager is essential for an investor. Owning a controlling stake is a significant characteristic of the owner. Ownership of the company and its top manager is an essential feature of both the current activities of the company and its potential development, growth, and prosperity. The owner's authority is considered a crucial characteristic for potential investors. Moreover, the owner's image is taken into account both within the company and in the market as a whole. Any negative information can seriously harm the successful implementation of the investment project, while positive information helps make the investment project faster.

3.Production Capacity: The state of the company's production capacity significantly affects its investment attractiveness. Investors and creditors need to take this into account. The company's capital and its management efficiency, as well as the overall financial state of the organization, are checked. Another important fact to emphasize is that production begins when the capital has passed through the production structure. In this case, capital enters the composition of working capital, material assets, and basic assets. Of course, capital can also be used in cash form. However, the non-monetary part of the capital is also present. The non-monetary part consists of the formation of labor, the personnel structural part, and the degree of organization of production.

4.Location: This factor is often crucial in the investment attractiveness of the company, especially in our country. It should be noted that in each region of Russia, there are corporations that, for example, want to establish a city but do not have convenient regional locations. If it is difficult for these corporations to compete and attract investments, it will not be possible to consolidate the investments made in them. Of course, such a "dead zone" situation is not attractive for a potential investor.

5.Management of the Company: In the analysis of management, it is necessary to study the macro level of managing the organization. Here, it is essential to take into account documents related to strategic management. In this area, strategic management is directly related to the features of the organization's work.

Additionally, it is crucial to study the company's tax planning system and assess how comprehensive it is.

6.Investment Program: The investment project must have a clear, thought-out investment plan, indicating the investment objects and their characteristics, the amount of financing, as well as specifying the deadlines for implementing the investment project. Certainly, the investor needs to familiarize themselves with this plan, understanding the number of measures, their implementation deadlines, and the amount of financing. Analyzing the investment program is a delicate process. It must be implemented, taking into account the interests of all parties involved, as well as evaluating real market conditions. Moreover, seizing opportunities is crucial.

7.Relations with Government Authorities: In the initial stage of the relationship between the manager and the potential investor, it is essential to determine how the company manager and local government representatives will interact. This should be done before implementing the investment project.

8.If the company owner has good relations with local government authorities, their representatives will allocate funds from their budget to support the implementation of the investment project. In such cases, the local authorities and their representatives benefit from advancing the project and gaining positive final results. In the case of a selected company having tense relations with government authorities, both sides may suffer losses due to the installation of obstacles to the project implementation. Therefore, relations with authorities play a crucial role in influencing the investment attractiveness of the company.

This is considered in the first stage of the relationship between the company leader and the potential investor. In this way, the investment activity of the company is a significant condition for its long-term development. We have highlighted the important aspect of the organization's investment attractiveness - the company's investment attractiveness.

The key components of investment attractiveness, which should be considered in assessing the investment attractiveness of the company, were studied.

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