

STATEMENT OF CASH FLOWS - A MEASURE OF OPERATIONAL PERFORMANCE ON AN ACCRUAL BASIS

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Abstract

Statement of cash flows presents useful information about changing the company's financial position, allowing to assess the enterprise's ability to generate future cash flows and cash equivalents in the operating, investing and financing activities and their appropriate use. Treasury of an economic entity can be considered its strong point. The manner in which they manage money and financial flows, the final outcome will depend on the respective entity. Treasury is also an essential and main restriction of the financial management of the enterprise. Treasury embodies the results of operations and how to achieve financial balance of compliance. Not always an entity that ends year with benefits, has a positive cash (cash at bank and in availability). And this, because the gap between the recording and accounting of revenue and expenditure receipts and payments as they fall due, that gap can be decisive for the fate of the enterprise. This is a major requirement of the accrual. Therefore, an efficient management of the economic entity comprises both the asset management flows (revenues / expenses) and cash management, i.e. the flows of receipts and payments. The statistical evidence shows that most of the failures are due to weaknesses in treasury management.

Keywords: treasury, cash flows, accrual, IAS/IFRS.

Introduction

The variety and complexity of the issues of good treasury management entity creates a wide field of analysis and debate, because most of the users of accounting information are interested in the work flow of an entity and in particular its ability to secure a rotational adequate liquidity. In this way, it is necessary to exploit the accounting information, to know that cash flows, with immediate impact on liquidity. In the literature of our country, the concept refers to all cash means of financing in the form of cash and short-term loans available to a trader to cope with its payments. Other authors define the treasury like the image of cash and short-term money investments at a business level, arising from changes in current receipts and payments, or from investment of the excess.

Cash flow situation has become mandatory in the late 1980s in the United States and immediately afterwards in Britain, with an approach that largely reflect American standard, although there is a refinement of classification. The American model is more flexible, leading eventually to a national and international consensus regarding the need for a picture of cash flows is a financial situation. The benefits of presenting a statement of cash flows together with a statement of financial position (balance sheet) and a statement of the entity's performance (profit and loss) were outlined by IAS 7 as:

6. providing an image on the company's financial structure (including liquidity and solvency) and the ability to influence the amount and timing of cash flows appearance,
7. providing additional information to users of financial statements to evaluate changes in the assets, liabilities and equity of an entity,
8. increasing reporting comparability of operating results between different entities, because they eliminate the effects of using different accounting treatments for the same transactions and events.

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A Treasury trader can be regarded as its strong point. The manner in which they manage money and financial flows, the final outcome will depend on the trader.

More intense concerns treasury management are motivated by some economic instability phenomena both micro and macro: rising inflation, interest rates and lower rates of return and degree of self-financing.

Both positive and negative treasury leads management costs (of opportunity by omission the surplus cash; and financing costs of the cash deficit through new loans). The main objective of treasury management is to avoid a negative structural treasures (avoidance of what is usual names in the Romanian economy "financial blockage", a situation characterized by the inability of the company to meet payments). Through careful cash management, and payment instruments and financing, the secondary objective is achieved profitability, which minimizes, on the one hand, cost and financing volumes and optimize the placement of surplus cash on short time.

Other objectives of cash management include:

- avoid losses at the bank receipts and payments of the enterprise, in the days of settlement
- increasing the efficiency collection company claims, without affecting the policy to customers,
- balanced and relaxed staggering maturity of the liabilities of companies.

1. Financial Risk Management

A not at all negligible size of treasury management is the management of financial risks, which involves the use of instruments of speculation and when financial markets are very volatile, in other words, where exchange rates and interest rates fluctuate greatly in short intervals time. Financial risk management problem becomes even more important today, when Romanian companies are under pressure of high interest rates because of the persistence of high rates of inflation and an economic slowdown, not to mention that in some sectors activity in our country is facing a "negative growth".

One of the most popular treasury management policies throughout the world, is "Treasury zero". It is to maintain as close to zero balances in order to reduce the treasury management costs (includes avoiding financing costs and opportunity through actions such as: preserving the least possible spare cash, using forms of credit at least costly, in amounts as small and as short a period, etc.). Management of "zero treasury" faces a number of difficulties, especially for companies with numerous financial flows adjusted by checks, because the date of presentation to the bank can not be accurately represented.

In fact, cash management involves establishing a balance between cost means of financing and cash from investment income. In addition, an effective treasury management requires that the entity to have sufficient capacity to meet the close out at the time wanted. To do so, it is necessary to provide the size and date of chargeability and instant availability resulting from enterprise operation. It therefore needs a firm cash management estimate by budget provided.

All these coordinates are derived from treasury management overall objective of the finance company, the increase of capitalization value.

Before resorting to loans to cover the forecast deficit of the balance, some measures will be required to be taken, arising from the natural logic of treasury management. First is acting for the advancement of revenues (by reducing the volume and / or duration of trade credit to customers or by request in advance of sales receipt) and delay (in legal terms) of payment (extended supplier credits). Secondly, it tries to surrender, for the time, to incurred expenditure (investments, dividends, etc.). Finally, are necessary exceptional revenue (sale of fixed assets or assets available etc.).

Balance deficit, resulting from these measures, should to be covered by new loans and discount treasury, whose selection and dosing belongs to the "art" of the Treasurer of optimizing the size of their actual cost.

They act as shock absorbers between the increased or reduced need for capital assets and reduce or increase their sources of capital assets, and attracted. These oscillations are reflected in the size of the balance of bank loans. Compared to the previous period, the balance of credits may be decreased by cash surplus released within that period or may be increased to cover (through new loans) resulting cash deficit at the end of the previous period.

The growth of bank credit balance can be made up to a certain limit i.e. the ceiling of a bank credit in its relations with the enterprise.

To achieve its objectives, the decision to finance the operating cycle will make an arbitrage between cash loans and discount loans which can be mobilized from banks, to cover the cash deficit. Selection of one or another will be based on the analysis of their actual cost.

2. Cognitive value of cash flow statement. Theoretical and Practical Aspects

Statement of cash flows presents useful information about changing the company's financial position, allowing to assess the enterprises ability to generate future cash flows and cash equivalents in the operating, investing and financing activities.

The cash flows generated by operating activities are primarily the consequence of the main revenue-producing activities of the enterprise. There are following types of cash flows arising from operating activities:

6. Cash receipts from selling goods and services,
7. cash receipts from royalties, fees, commissions and other income,
8. payments to vendors of goods and services
9. payments to behalf of employees
10. payment of taxes and payments
11. tax payments or tax refunds, they can not be specifically identified with financing and investing activities.

The size of those flows expresses the extent to which the business has generated enough cash and cash equivalents to repay loans and finance lease rates, to pay dividends to shareholders, to maintain the operating capability of enterprise and to make new investments without recourse to external funding sources.

The cash flows generated by investment activities are related to the purchase and sale operations of fixed assets (tangible and intangible) or participations in other companies. We list the following categories of cash flows from investing activities:

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| - Cash receipts from sale of tangible and intangible assets, sale of equities or debt of other companies, repayment of advances and loans to other parties, interest and dividends; |
| - Cash payments for: the acquisition of tangible and intangible assets, acquisition of equity instruments or other instruments of companies and cash advances and loans to other parties |

These types of flows provides information about how the organization ensures its development, reflecting the extent to which payments were made for the purchase of assets by means which will generate income and cash flows in future.

Cash flows from financing activities are related to those activities which involve changes in size and structure equity and debt business, such as:

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| - Cash receipts from: the issue of shares or other equity instruments, the issuance of debt securities, loans, unsecured debts, obligations, mortgages and other short-or long-term loans; |
| - cash payment to shareholders for the purchase or redemption of company shares, repayment of amounts borrowed cash, cash dividend payments to shareholders and related obligations of the lessee for the reduction of finance leases. |

Cash flow statement is drawn up according to one of the models set out in IAS 7 "Cash Flow Statements", as exemplified and accounting regulations harmonized with the 4th Directive of the European Economic Community and the International Accounting Standards, in two ways:

a) direct method - which are presenting major classes of gross cash receipts and payments. Information for payments and receipts are taken from records or by adjusting the profit with changes in stocks, receivables and payables during the period.

*Table nr. 1
Cash-flow statement (direct method)*

Cash flows
<i>Cash flows from operating activities</i>
+cash receipts from the sale of goods and services
+cash receipts from royalties, fees, commissions and other income
-cash payments to suppliers for goods and services
-cash payments by and on behalf of employees
-cash payments by and on behalf of employees, cash payments or tax refunds (if not directly attributable to investment activities and financial)
<i>Cash flows from investing activities</i>
-cash payments for acquisition of land and fixed assets, intangibles and other long-term assets
+cash proceeds from the sale of land, buildings, equipment, intangible assets and other long-term payments
-cash payment for purchase of equity instruments and debt of other companies
+cash proceeds from the sale of equity instruments and debt of other companies
-cash advances and loans made to thirds
+cash proceeds from the repayment of advances in cash and loans made to thirds
<i>Cash flows from financing activities</i>
+cash income from the issue of shares and other equity instruments,
-cash payments to shareholders to purchase or redeem their shares
+ cash income from the issue of bonds, loans, mortgages and other loans
-cash repayments of amounts borrowed cash payments to financial leasing
Total cash flows
Cash at the beginning of the period
Cash at the end of the period

b) indirect method - based on the profit / net loss, adjusted for transactions such as money, the liabilities, income and expense items associated with cash flows from investing or financing. Net flows from operating activities can be determined by showing the revenues and expenses disclosed in the income statement and the changes during the period of inventory, receivables, operating obligations.

*Table nr. 2
Cash-flow statement (indirect method)*

Cash flows
<i>Cash flows generated by operating activities</i>
Profit before income tax and extraordinary items
Adjustments for non-cash items and other non-operating activities.
a. Elimination of income and expenditure without affecting cash:

+Depreciation and provisions -Revenue reserves. b. Remove non-operating income and expenses: +Interest expense -Income from interest and dividends, -income re-investment subsidies
Operating result before changes in working capital requirements
-Changes in working capital requirements -Stocks Change -Change in inventories accounts receivable from customers and other service providers +Change in accounts payables and other operating income +Change in cumulative debt accounts
<i>Receipts and payments on associated with operating</i>
-Interest payments -Profit tax Payments +Net cash from extraordinary activities (difference between receipts and payments from extraordinary activities)
<i>Flows arising from investing activities</i>
+Proceeds from sale of tangible and intangible assets +Proceeds from sale of equity or debt instruments of other companies +Proceeds from repayment of cash advances and loans to other parties +Proceeds from interest and dividends -Cash payments for acquisition of tangible and intangible -Cash payments to acquire equity or debt instruments of other companies -Cash advances and loans to other parties
<i>Flows generated by financing activities</i>
+Cash proceeds from issuing shares or other equity instruments +Cash Proceeds from issuance of debt securities, loans, unsecured debts, obligations, mortgages and other short or long term loans -Cash payments made to business owners to buy back shares -Payments of dividends to shareholders -Cash repayments of amounts borrowed -Cash payments made by the lessee for the reduction obligations under finance leases Effects of changes in currency exchange rates and cash equivalents
Total flows of cash and cash equivalents (increase / decrease in net cash and cash equivalents)
Cash and cash equivalents at beginning of period
Cash and cash equivalents at end of period

Further, for example, we present cash flow analysis prepared for SC Neptun SA Campina, the direct method.

Table nr. 3
Cash-flow statement (SC Neptun SA) - direct method

	2005	2006	2007	2008	2009
I. CASH FLOWS FROM OPERATING ACTIVITIES					
Proceeds from sale of goods and services	96.536.773	122.043.448	137.207.264	132.015.614	164.292.419
Cash receipts from royalties, fees, commissions and other income	20.444	168.676	5.081.669	1.468.242	156.419
Cash payments to suppliers of goods and	(59.596.538)	(72.523.469)	(78.252.582)	(81.471.434)	(84.089.838)

services					
Cash payments to and on behalf of employees, payments made by the employer in relation to staff	(23.683.787)	(35.578.460)	(38.706.156)	(42.986.957)	(54.253.522)
Value added tax payable	(3.740.534)	(701.971)	(675.658)	(370.546)	(2.583.438)
Other taxes, fees and payments paid	(416.445)	(4.242.496)	(3.830.853)	(3.987.584)	(3.356.599)
Cash generated from operations	9.091.867	9.165.728	20.823.685	4.667.335	20.165.441
Interest received	22.682	108.945	22.404	36.607	26.457
Interest paid	(817.252)	(809.822)	(1.302.652)	(1.785.976)	(2.350.911)
Income tax paid	(289.892)	(5.452.825)	(5.095.243)	(4.611.750)	(5.198.888)
Net cash flows from operating activities	8.035.450	3.012.026	14.448.194	(1.693.784)	12.642.099
II. CASH FLOWS FROM INVESTING ACTIVITIES					
Cash receipts from the sale of land and buildings, plant and equipment, intangibles and other long term assets	310.847	-	-	-	-
Receipts and payments in cash from other investing activities	2.000.000	4.141.920	1.103.844	1.329.840	955.511
Cash payments for purchase of land and fixed assets, intangibles and other long term assets	(8.883.840)	(11.425.430)	(16.966.396)	(10.110.424)	(12.161.519)
Dividends received	146.209	62.100	89.100	-	-
Net cash flows from investing activities	(6.426.782)	(7.221.410)	(15.773.452)	(8.780.584)	(11.206.008)
III. CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from long term borrowings repayments	(851.231)	(1.749.912)	(1.875.537)	(267.096)	(905.691)
Proceeds from short-term borrowings repayments	4.388.055	2.066.648	6.495.982	11.697.833	10.557.381
Payments for finance leases	(180.100)	(380.516)	(717.015)	(664.918)	(1.258.664)
Dividends paid	(331.696)	(1.359.967)	(1.757.399)	(3.372.600)	(10.333.686)
Net cash flows from financing activities	3.025.027	(1.423.748)	5.897.104	7.393.220	(1.940.661)
Effects of changes in currency exchange rates and cash equivalents	(182.478)	2.099.195	(325.937)	306.044	-
Cash flow – TOTAL	4.451.217	(3.533.937)	4.245.909	(2.775.105)	(504.570)
Cash and cash equivalents at beginning of period	273.998	4.725.216	1.191.279	5.437.188	2.662.083
Cash and cash equivalents at end of period	4.725.216	1.191.279	5.437.188	2.662.083	2.157.514

Net cash flow from operating activity is positive throughout the period under review, except for 2008. The company recorded an increase in the cash flow, 8.035.450 lei in 2005, 12.642.099 lei in 2009 as a result of the cost carried.

Taking into account the direct method, it is noted that the biggest positive influence they had cash receipts from the sale of goods and services and the most significant were the payments to suppliers for goods and services, staff and obligation wages paid and income taxes and interest paid. Cash flows from investment operations highlights an increasing need for cash, 6.426.782 lei in 2005, 11.206.008 lei in 2009, generated by investments made by the enterprise for acquisition of land and fixed assets, intangibles and other long term assets.

To boost investor confidence, the company come to us short-term bank loans, and repay a portion of long-term loans, that net flows are negative long-term loans, while net flows of short-term loans remain positive throughout the period analyzed. Simultaneously make payments for finance leases and paid dividends to shareholders.

Following the company's ability to generate cash, it is found to obtain the total net negative cash flows for the years 2006, 2008 and 2009. Between 2005 and 2007 there is a better financial situation that is getting a net positive cash flow 4.451.217 lei in 2005 and 4.245.909 lei in 2007. The results are encouraging in the last year of analysis the situation is improving although it achieved a net negative cash flow, increasing it from the previous year (from -2.775.105 lei in 2008 to -504.570 lei in 2009).

Conclusions

Due to the structure and methodology for drawing up, cash flow enables users of financial statements:

- to assess the enterprise's ability to release cash from operating activities in particular,
- to determine the liquidity needs,
- to provide maturity and risk,
- to provide future earnings,
- to compare results enterprise, eliminating the effects of using different accounting methods.

Limits of cash flows are related to the definition and role of the treasury function, operating content and method of calculation of the associated flows, performance evaluation through cash flow and its failure to assess and predict the evolution of long-term financial position of the entity.

Also, certain complex combinations of events that relate to business combinations, segment reporting activity, acquisitions that will increase the reporting entity's assets during the period, without any connection to its customers, can not be understood without other information and will reach erroneous interpretations in the absence of cash flows presentation. Explanatory notes on the balance may be an important source of information necessary for external users and privileged users who are primarily owners / investors / shareholders. Therefore the complete set of financial statements represent the cornerstone in financial analysis of the economic entity.

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