

THE IMPORTANCE OF TREASURY FLOW IN THE FINANCIAL ANALYSIS OF A COMPANY

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Abstract: Over time, a simple comparison of balance sheets and result accounts, even over a period of 3-5 successive exercises, can only explain the net result of counter-shifting movements: the acquisition and disposal of fixed assets or the loan and the repayment of debt. Removing this shortcoming has forced the approach of financial analysis into a new vision through the flow method based on the concept of cash flow that allows for the determination of monetary surpluses generated by the enterprise's activity. In this respect, it is known that the business activity is the result of mercurial economic and financial operations that affect the enterprise's heritage and which are expressed through receipts and payments. That is why flows of inputs and outputs into and out of the company's assets occur. The analysis of the financing table and cash flows represents an important step in the examination of the synthesis documents concerning the financial situation of the company, right after the analysis of the profit and loss account, balance sheet and changes in equity.

Keywords: financial analysis, cash flows, cash flow (cash), net result, net treasury

I. Introduction

Information concerning a company's treasury flows is useful in the sense that it provides users of financial statements with a basis for assessing the entity's ability to generate cash and cash equivalents and its needs for the use of those treasury luxuries. Economic decisions taken by users require an assessment of an entity's ability to generate cash and cash equivalents as well as the timing and security of these operations.

A company should "prepare a treasury flow statement in accordance with IAS 7 and present it as an integral part of its financial statements for each period for which the financial statements are presented." [1]

A treasury flow statement, when used together with the rest of the financial statements, provides information that allows users to evaluate changes in an entity's net assets, its financial structure (including its liquidity and solvency) and the entity's ability to influence the value and the timing of treasury flows in order to adapt to changing circumstances and opportunities. "Treasury flow information is useful in determining the ability of a company to generate cash and cash equivalents, and enables users to develop models for assessing and comparing the present value of future treasury flows." [1]

The introduction of the Treasury Flow Statement as a "component of the annual financial statements, mandatory for large companies and optional for Small and Medium-sized companies, allows a dynamic analysis of the financial equilibrium by describing the operations (exploitation, investment, financing) which have led to the transformation of the company's patrimony." [2]

The treasury flow statement provides information to the extent to which the various business activities generate cash flow (cash surpluses or deficits). These flows are structured into three categories:

- 1) Treasury flows originating in operating activities;
- 2) Treasury flows originating in investing activities;
- 3) Treasury flows originating in financing activities.

Treasury flows can be determined through two methods: direct and indirect.

The direct method involves deducting payments from the proceeds of the financial year by type of activity and allows estimation of future cash flows in terms of totals and activities.

According to the direct method, treasury flows originating from a current activity are a key indicator of cash generation for other activities: repayment of loans, maintenance of the company's operating capacity, dividend payment and new investments without external financing.

Treasury flows from investments reflect the extent to which expenditures have generated resources that will generate revenue in the future (buildings, installations).

Treasury flows from financing activities make it possible to estimate the future demand for treasury flows from the company's financiers (credit receipts or repayments, securities receipts, redemption payments, receipts or lease payments).

The indirect method differs with respect to operating cash flows, which are determined by correcting the net result with the effects of non-monetary operations (depreciation, provisions, exchange rate differences), as well as the variation in the net working capital requirement (working capital).

To these flows "the net cash of other activities, resulting in the net total cash value at the beginning and end of the period, the difference being the variation (\pm) of the cash flow" are added. [2]

2. Treasury flows in one company

In our scientific approach we present a treasury flow from a company, TERMOGLOBAL SRL, where the direct method for the treasury flow in the operating activity was used:

Table 1. State of Treasury Flows for TERMOGLOBAL SRL

(lei)

Item name	Financial year	
	2015	2016
A	1	2
Cash flows from operating activities:		
Receipts from customers	286.054,00	188.536,00
Payments to suppliers and employees	240.544,00	150.120,00
Interest paid	0,00	0,00
Corporate tax paid	92.998,00	6.450,00
Receipts from earthquake insurance	0,00	0,00
<i>Net cash from operating activities</i>	<i>-47.488,00</i>	<i>31.966,00</i>
Cash flows from investment activities:		
Payments for the purchase of shares	0,00	0,00
Payments for the purchase of tangible assets	69.690,00	0,00
Proceeds from the sale of tangible assets	0,00	0,00
Interest received	27.029,00	9.396,00
Dividends received	0,00	0,00
<i>Net cash from investing activities</i>	<i>-42.661,00</i>	<i>9.396,00</i>
Cash flows from financing activities:		

Receipts from issue of shares	0,00	0,00
Receipts from loans	2.500,00	3.000,00
Payments on repayment of loans	2.500,00	3.000,00
Dividends paid	102.560,00	349.180,00
<i>Net cash from financing activities</i>	- <i>102.560,00</i>	- <i>349.180,00</i>
Net increase in cash and cash equivalents	- 192.709,00	- 307.818,00
Cash and cash equivalents at the beginning of the financial year	600.562,00	407.853,00
Cash and cash equivalents at the end of the financial year	407.853,00	100.035,00

(Source: Author's processing of the 2015 and 2016 financial statements of TERMOGLOBAL SRL)

Table 1 gives us the following conclusions:

a) The operating activity has generated treasury flows which have increased compared to the previous year, by reducing, in particular, the payments to suppliers and tax income.

b) The investment has generated treasury flows which have increased compared to the previous year by reducing acquisition of fixed assets expenditure.

c) The financing activity has generated treasury flows which have increased compared to the previous year, as a result of the increase in dividend payments.

d) Globally, the total treasury flow decreased compared to the previous year. As a result, cash and cash equivalents at the end of the 2016 periods were lower compared to the beginning of the period.

III. Conclusions

Even though the situation of treasury flows seems rather unimportant for most companies, it is very important for the economic and financial analysis, as it shows first a

company's ability to acquire the necessary liquidity in the future. Second, treasury flows can emphasize the gaps which could occur in a company's activity, gaps which could occur in operations, in investments, as well as in financing.

Separate presentation of treasury flows that represent increases in operating capacity and treasury flows required to maintain operating capacity is useful, giving the user the possibility to determine if the company is properly investing in preserving its operation capacity. A company not investing properly preserving its operation capacity could negatively affect its future profitability, favoring its current liquidity and distributions to its owners.

Moreover, „presenting treasury flows by segments gives the users the possibility of acquiring a better understanding of, on the one side, the relation between the company's overall treasury flows and the flows of its other components and, on the other hand, the degree of availability and variability of treasury flows by segments”. [1]

Bibliographical references

[1] IAS 7 – *Situația fluxurilor de trezorerie: Standardele Internaționale de Raportare Financiară*®, 2011 edition, IFRS Foundation

[2] Petrescu S., (2006), *Analiză și diagnostic financiar-contabil: ghid teoretico-aplicativ*, CECCAR Publishing House