Treasury Flow Analysis

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Abstract

Treasury flow analysis is useful for: Linking profit (loss) with cash; the separation of activities involving cash from non-cash activities; assessing the ability of an enterprise to meet its cash payment obligations; cash flow assessment for future cash-flow activities.

The usefulness of the financial flow analysis is given by the fact that the global change in the treasury is evidenced by the treasury balance resulting from the management of the real assets (from the operating activity) and the result from the capital operations related to the investments and the financing. Thus, to ensure enterprise performance and anticipate future business activities it is essential to analyze treasury flows and treasury budget forecast, defined and detailed in this paper.

The sensitive nature of our results in regards to security features supports as a whole a segmentary or flawed substitution within the Treasury market at this time.

Key words: treasury flow, cash flow, financial statement, payments
J.E.L. classification: A10, F40

1. Introduction

The Treasury highlights the outcome of the entire business of the enterprise and its compliance the financial balance. This is an essential element and, at the same time, the main restriction of the financial management of the enterprise. Not always an enterprise that completes the profit exercise has a positive treasury (bank and house available). This is due to the gap between the accounting of income and expenditure and their maturity as receipts and payments. The statistical records show that the largest part of bankruptcies is due to weaknesses in treasury management.

The general framework for preparing and presenting the financial statements of which the "cash flow statement" is also stated is that their objective "is to provide information on the financial position, performance and changes in the financial position of the enterprise that are useful to a wide range of users in making economic decisions".

Financial statement users include prospective and potential investors, hired employees, lenders, suppliers and other commercial creditors, customers, government and its institutions as well as the public.

Regarding the "cash flow statement", IAS 7 considers that it provides useful information for assessing the entity's ability to generate cash, as well as the enterprise's needs to use cash flows, ie the timing and safety of their generation.

International Accounting Standard 7 defines cash flows (also referred to as cash or cash flows in some papers) as cash inflows or cash outflows, and is designed to make available to users of financial statements the basis for assessing the entity's ability to generate cash and cash equivalents, as well as its needs to capitalize those cash flows.

The primary objective of cash flows is to highlight the history of cash movements and cash equivalents of a firm through cash-flow. On this basis, a firm's ability to generate cash-flow and the timing and certainty of generating these cash flows are assessed. The aim of Standard 7 (IAS-7) covers both productive firms and financial institutions and, in general, any revenue generating and generating activity.

2. Literature review

The balance sheet presents the cash and cash equivalents of a patrimonial unit at the end of a reporting period and allows its increases or decreases to be measured against the level at the beginning of the period without providing information on the structure and the factors of those changes. The profit and loss account present information about the revenues, expenses, and results generated by the unit, which provides to some extent the sources and uses of cash and cash equivalents but does not explain why those items have decreased or increased.

Globally, this document is presented under the generic "flow sheet" and refers to all the drawings in which the flux concept has a determining role. (Farcaş, 2000, p. 33)

The cash flow table presents these flows, known as collections and payments, while showing the sources and uses of cash and cash equivalents, as well as the causes of its variation. (Pop and Pop, 2010, p. 407)

The Fourth Directive of the European Economic Community provides only three components of the annual accounts, namely: the balance sheet, the profit and loss account and the explanatory notes, leaving the Member States in the structure of the annual accounts and other situations.

Starting with January 1, 2010, Romanian Enterprise Accounting is based on O.M.F.P. no. 3055/2009, which brings about a series of changes in the accounting reports, does not contain any special provisions regarding the elaboration of this situation, which allows the application of the norms existing in the international practice.

Cash flow is a term of Anglo-Saxon origin, which is not found in the balance sheet of Romanian companies. It has its origins in investment project theory and practice, being ranked as a privileged notion in the US, where accounting is more responsive to investor requirements than to those of tax authorities. Here are some of these views.

Cash-flow state - Belverd E. Needles Jr., Henry R. Anderson and James C. Caldwell sustain - is a financial state that shows the sources and uses of money in a financial exercise. (Belverd et al., 2000, p. 245)

In other words, distinguished teachers equalize the cash flow and the flow of funds, a fact that from a global viewpoint can be accepted.

However, the cash flow approach to cash flow can not be accepted by us because, firstly, the movement of funds does not capture the viability of exploitation, investment and financing activities. On the other hand, in the Anglo-American view, treasury variation is a component of the sources of financing the enterprise's total activity.

University Professors Roman L. Weil, Clyde P. Stickney and Sidney Davidson think that cash-flow means the difference between "cash receipts and payments for goods sold or purchased over a certain period of time". The financial analysis often uses the term "cash-flow" to understand the sum of the following elements: net profit + depreciation "Such an understanding is in my opinion incomplete, since net profit and depreciation are only one part of the exploitation flows. On the other hand, placing the sign of equality between cash-flow and collections and payments only for goods sold or purchased is an incomplete view of flows, since there is no evidence of all components of flows in a global approach, that for example, the flows from the financing activity, and for the operating activity, all payments, being omitted payments such as those with bank interest, part of the taxes (profit tax, dividend tax). (Roman, Stickney and Davidson, 2010, p. 805)

University professors Constantin Stănescu, Aurel Isfănescu and Aurel Băicuşi believe that research of the cash flow is a significant part in the analysis of the financial and patimonial sitution, in practical economics it is deemed that any activity requires the investment of money to result in a surplus of capital compared to the amount invested in the business.

A company can be cost-effective, but not workable, because of the lack of liquidity due to the gap between its earnings and payments within the financial cycle." (Băicuş, Işfănescu, and Stănescu, 2006, p. 108).Hence the conclusion that the cash flow records the money flow in an enterprise.

Just as the cash (net treasury), the cash flow summarises the variations that result from all the operations in regards to management and capital of the enterprise.

3. Research methodology

The financial statement presenting information on cash flows, ie collections and payments made by an enterprise over a year, is the cash flow table. This picture is built from the notions of: cash and cash equivalents and cash-flows.

Enterprise Treasury means the set of liquidity and liquidity equivalents available to the entity.
Cash (cash) refers to cash and sight deposits.
Cash equivalents are short-term (less than 3-month) highly liquid investments that can easily convert into known amounts and whose risk of fluctuation is insignificant.

The liquidity equivalence category includes: term deposits, deposit certificates, treasury bills issued by the government, etc., all of which have a maturity of up to three months. Liquidity equivalents need to be dissociated from other short-term financial investments, although such an operation is quite difficult, as it is practically difficult to dissociate the investment activity of a firm from what is called "Treasury management".

Bank overdraft loans, when they are redeemable at sight, can be considered as part of treasury management; therefore, they can be included as a negative component of liquidity and liquidity equivalence. Under IAS 7 (paragraph 48), if there are significant amounts of liquidity and cash equivalents held by an entity but whose use by the group is restricted, they must be presented separately, together with a management commentary explaining the circumstances of that restrictions.

Liquidity and liquidity equivalence are of the same nature, and transfers from one category to another are not considered to be payments or receipts, as they are considered to be part of treasury management. Thus, transactions such as depositing cash in cash or purchasing postage stamps are movements within the treasury and will not affect the net cash flow (IAS 7, paragraph 9). Also, in this category of transactions that do not affect the cash flow statement are all transactions that do not generate revenue or payments, such as, for example, the purchase of a commercial credit facility; increasing social capital through in-kind contributions, etc. (IAS 7, paragraph 43).

4. Results

Under the same rule, IAS 7, the cash flow statement is intended to explain the change in the cash balance (liquidity and liquidity equivalents) between two consecutive years, by detailing the cash flows classified by the activity that generated them. Namely: operating activities; investment activity; financing activity.

Table no.1 - Framework structure for the main treasury bills

The flow type	**Types of paintings (legislative framework)**		
	FASB	**IAS 7**	**OMFP 1802/2014**
1.Determination of the net flow	⇒ **Direct method:** Customer receipts +Interests and earnings +Provider and employee's payments -Payment of taxes and fees -Payment of interest.	⇒ **Direct method:** Customer receipts -Provider and employees payments -Interests and dividends paid -The tax on profits -Other related payments for exploitation activity ±Extraordinary elements.	⇒ **Direct method** Customer receipts -Payments to suppliers and staff -Interest paid -Income tax paid -Insurance receipts against earthquakes.
	⇒ **Indirect method:** Net income ±Depreciation and amortization of provisions ±The result of failure property ±Variation of stocks and receivables ±Debt change of exploitation +Expenses with Interest.	⇒ **Indirect method** Net result before tax and items extraordinary ±Depreciation and amortization provisions ±The result of failure property ±Variation of stocks and claims ±Debt Variation exploitation +Interest Expenses -Interests and dividends paid -the tax on profit ±Extraordinary elements.	⇒ **Indirect method** Gross profit ± Expenditure on depreciation and provisions +Revenues from provisions and adjustments for depreciation or loss of value -Financial expenses +Financial income -Expenditure on assets ceded +Income from the sale assets -Variance of receivables +Debt change ±Variation of stocks ±Cash generated from exploitation activity -Interest paid -Income tax paid.
2.Determining the net flow from the investment activity	**Positive feeds of liquidity:** +Receipts from the assignment Of corporate and financial assets; **Negative Liquidity Flows:** -Acquisitions of tangible and financial assets.	**Receipts from:** Assignment of Assets tangible and financial +Interest and dividends collected -Acquisition of tangible and financial assets - Equity payable for the share of the capital, for financial leasing acquisitions.	**Receipts from:** The transfer of tangible assets +Cash receipts of interest and dividends -Pay for acquisition of tangible assets - Payments for the purchase of shares.
3.Determining the net cash flow from financing activity	**Receipts through contracting** new loans on long term +Receipts from share issue -Reimbursement of the due fractions of long-term loans -Redemption of shares -The fee corresponding to the share of the capital, for the financial leasing acquisitions -Payment of dividends.	**Receipts through contracting** new loans on long term +Receipts from share issue -Reimbursement of the due fractions of long-term loans -Redemption of shares -Interest and dividends paid.	**Receipts through contracting** new loans on long term +Receipts from share issue -Dividends paid -Payment of royalties for financial leasing.

Source: Own processing

From the table presented above, we can say that the differences between these models are not representative, even observing that the cash flow table recently introduced in Romania and planned to be part of the amended annual accounts since 2009 has been aligned with international standards.

5. Treasury budget

Given that both the positive and the negative treasury lead to management costs, the treasury function is one of the most responsible for the fate of the enterprise. More often than not, this position is accomplished by the Deputy Chief Financial Officer, the Financial Director or the

Treasury Manager. Regardless of who that person is, it must have the entire enterprise management contest to actively and efficiently develop effective treasury management as a prerequisite for the enterprise's prosperity.

The Treasury Budget has as a function the forecast of receipts and payments, starting from revenue planning, excluding non-current assets (ie stored output, credit sales, etc.) and expenditure planning, excluding non-refundable items (such as depreciation and provisioning). Treasury budgeting is the final stage of the company's budgeting process, and the treasury will naturally be the result of forecasts in other budgets: sales, supply, staffing, investment, administration, etc.

The preparation of the treasury budget implies the existence of three records and records forecast: the opening balance sheet of the management period (ie the balance sheet of the year ended), the forecast profit and loss account, the investment and financing plan, and the forecast balance sheet.

In the drafting of the Treasury budget, two are the more important phases:

1.The forecasts of receipts and payments involve the following operations:

• Determining the cash balances and the minimum permanent balance of cash prior to coverage;

• Covering, through credits, the cash deficit or placing on the financial market of the surplus of treasury;

• Defining the final treasury budget.

2. Determination and coverage of treasury bills resulting from the comparison of receipts with payments.

The treasury's forecast horizon is different, depending on the goals pursued by financial management and according to the maturities of the company's receipts and payments. Thus, a treasury budget can be completed:

- one year, if the annual profit of the treasury is pursued or if the enterprise is of a sizesmall and has maturities in receipts and payments, quarterly or over 90 days.

- within a few months (4-6 months), whether to optimize short-term funding or whethermaturities are monthly and longer than 30 days.

- from one day to one month, in which the daily schedule of receipts and payments is monitored, with maturities chenzinals, decadals and semidescads.

A pertinent forecast of the treasury is made annually, with a breakdown of months and a weekly breakdown for the first two or three months of the plan year. The forecast will be permanently reviewed throughout the year and detailed as needed. In concrete terms, the construction of a treasury budget follows successively, in each forecasting period (month, quarter, semester), the phases mentioned above.

Depending on the economic branch, between the time of sales and the corresponding receipts there is a significant gap from 30 to 90 days. The forecast of receipts must keep account being taken of the changes in the sales structure and grade the solvency of the customers of the enterprise, which will influence the gap between deliveries and receipts. The table below shows the phases of the treasury budget:

Table no.2 - Phases for determining the treasury budget

Phases	Symbol	Operations
Forecast of receipts and payments	A	INITIAL BALANCE OF TREASURY (S0)
	B	(+) Receipts from operating activities: • Receipts from core business • Sales from other activities • operating grants • other operating proceeds
	C	(-) Payments for operating activity: • Purchasing raw materials and material • taxes and fees • Staff expenditure other operating expenses
	D	EXTENT EXPLOITATION TREASURE (ETE = B-C)

	E	Other receipts: • financial income (interest, dividends to be cashed) • capital increases • Increase in long-term loans • Investment grants • sales of fixed assets (fixed assets) • other receipts
	F	Other receipts: • financial expenses (interest, commissions to be paid) • Repayment of long-term loans • fixed asset purchases • tax on profits • dividends
	G	BALANCE FROM CAPITAL OPERATIONS AND ACTIVITIES FINANCIAL AND EXCEPTIONAL (G = E-F)
Determination of the treasury balance, before covering	H	SUSPENSION COVERAGE BEFOREBALANCE H = A ± D ± G
Coverage of the treasury balances	I	Banking Contests: • the current account creditor balance • Treasury (new) credits • credit (new) discount
	J	Cost of credits
	K	Treasury assets: • placements • liquidity
Determination of final Treasury balance	L M	Receipts from treasury placements FINAL SOLD (S1) M = A ± D + G - J (+ L)

Source: Own processing

6. Conclusions

The operating cash flow is a complementary information to the result mainly provided by the difference between customer receipts and accrual accounting, being a good indicator of payments to suppliers and employees, and provides investors with the measurement performance of the enterprise. The direct method is desired by investors because it allows setting the value of the enterprise on the basis of liquidity forecasts. The indirect method, in turn, is preferred by managers because it hides external users from the real picture of the company's liquidity and solvability, as well as from accountants, due to the calculation method closer to accounting reporting format.

Unlike the presentation requirements for operating flows, flows from investments and financing must be presented by the direct method without reference to the method indirect. Eliminating the effects of accounting rules and treatments for events and transactions similar, but differing from one enterprise to another, disclosure of cash flows improves the comparability of the operational performance of different businesses. The drafting of the treasury budget validates the entire budgeting process of the enterprise. Ensuring the balance between receipts and payments is mandatory, and for this, necessary adjustments are made in the provisions of other budgets.

In analyzing cash flows, account must be taken of the information that is made available to the users by the management of the enterprise. In this respect, the balance sheet records, in a global manner, the balance of cash and cash equivalents of the enterprise at the beginning and end of the period.

This information has also the effect of strengthening the comparability of operating results reporting between different economical entities by eliminating the effects in the use of different accounting treatments applied to identical transactions and events.

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