

Cash Flow Analysis on the Example Cormans Ltd. Galati

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Abstract

Finding appropriate ways to use cash flows to achieve financial diagnosis is one of the hardest tasks for financial analysts. Literature stressed the advantages for financial diagnosis users, when using flow information, without offering as many practical ways to achieve it. In a market economy, the enterprise should be regarded as a system that runs through its relations with third parties (investors, creditors, budgeting, suppliers, etc...) relationships which materialize through estate flows. According as these flows take liquidity shape are interested both third parties (for reclaiming of amounts invested and gaining benefits or claiming of some claims), as well as the management unit, for only thus can the system work.

Keywords: cash-flow, IAS 7, functional balance

1. Financial balance analysis in terms of cash. Abridged balance sheets of the company considered on 2 years are as follows:

Table 1.

(RON)

Indicators	31.12.2008	31.12.2009
A. Fixed assets, whereby:	369.850	630.461
I. Intangible assets :	0	0
II. Tangible assets:	369.747	624.274
III. Financial investments:	103	6.187
B. Current assets, whereby:	79.158	110.553
I. Stocks:	19.750	86.508
II. Claims:	48.707	18.135
III. Short term investments :	0	0
IV. Counter and bank accounts :	10.701	5.910
C. In advance expenses	0	0
D. Debts < 1 year	138.779	329.008
E. Debts > 1 year	154.528	234.009
F. Equity capital	155.701	177.997
Total Assets/ Liabilities	449.008	741.014

It is noted that in 2009 fixed assets grew by 70.46% compared to 2008, current assets have evolved also with 39.66%. Less than one year debts increased by 137.07% higher than a year debt rose by 51.43% and equity capital increased by 14.31% in 2006.

2. Functional balance

Functional balance provides a full image over the enterprise functioning from the economic point of view, emphasizing both the use and sources of each cycle, also investments, operation, financing and cash.⁵⁶ For Coremans Ltd. Company, functional balances on those 2 analyzed are presented above in tables 1.2. and 1.3.

Table 1.2. (RON)

Functional Asset	2008	Functional Passive	2008
Constant means	392.023	Constant resources	379.487
Tangible assets	391.920	Capital stock	161.000
Financial investments	103	Provisions	201
		Reported provisions	-31.381
		Tax year returns	25.881
		Losses	22.173
		Company debts	47.085
		Long term debts	154.528
Practice Asset	36.256	Practice Passive	59.493
Stocks	19.750	Suppliers	64.562
Claimed VAT	16.506	Debtors suppliers	-32.200
		Investments suppliers	17.187
		Short term credit	0
		Other debts	9.944
Beside practice asset	0	Beside practice passive	0
Availabilities	10.701	Cash resources	0
Counter and bank accounts	10.701		
Total Asset	438.980	Total Passive	438.980

Table 1.3. (RON)

Functional Asset	2009	Functional Passive	2009
Constant means	677.547	Constant resources	531.977
Tangible assets	671.360	Capital stock	161.000
Financial investments	6.187	Provisions	201
		Reported provisions	-5.501
		Profitul exercițiului	22.297
		Losses	47.086
		Company debts	72.885
		Long term debts	234.009
Practice Asset	97.857	Practice Passive	249.337
Stocks	86.508	Suppliers	137.775
Claimed VAT	9.897	Debtors suppliers	-6.784
Other claims	1.452	Investments suppliers	54.854
		Short term credit	43.550
		Other debts	19.942
Beside practice asset	0	Beside practice passive	0
Availabilities	5.910	Cash resources	0
Counter and bank accounts	5.910		
Total Asset	781.314	Total Passive	781.314

⁵⁶ Petrescu S., Rentabilitate și risc prin metoda fluxurilor, în volumul de comunicări științifice "Normalizare și armonizare în contabilitatea românească", Editura Sedcom Libris, Iași, 2004, p. 85

- net gross circulating asset (NGCA) is calculated as the difference between sustainable resources (SR) and constant means (CM), as follows:

$$NGCA = SR - CM$$

In 2008 : $NGCA = 379.487 - 392.023 = -12.536$

In 2009 : $NGCA = 531.977 - 677.547 = -145.570$

It appears that in those 2 years, 2008 and 2009, FRNG had negative values and therefore will require hiring new loans to finance operating needs because liquidity does not cover the entire liability and for the balance difficulties here short-term financial.

- circulating asset requirements (CAR) is determined as the sum between practice circulating asset requirements (PCAR) and beside practice circulating asset (BPCA).

$CAR = PCAR + BPCA$, where:

In 2008 : $BPCA = 36.256 - 59.493 = -23.237$

$CAR = -23.237$

In 2009 : $PCAR = 97.857 - 249.337 = -151.480$

$CAR = -151.480$

In this case, it appears that CAR has registered negative values in both years, highlighting the issue either a temporary surplus resources as a result of apparent speed of rotation of the current assets, or a temporary interruption of supply.⁵⁷

- net treasury or cash flow (NT) can be determined in two ways:

(1) the difference between cash assets (CA) and cash liabilities (CL), as follows:

$$NT = CA - CL$$

(2) difference between circulating asset (CA) and the need for circulating asset (NCA), as follows:

$$NT = Ca - NCA$$

In 2008: (1) $NT = 10.701 - 0 = +10.701$

In 2009: (1) $NT = 5.910 - 0 = +5.910$

From calculations, it appears that net cash fell with 44.78% in relative size, respectively 4.791 RON in absolute size. However, positive net cash ($CA > NCA$) indicates that the NCA is large enough to ensure not only stable financing operating cycle, but in the same time a positive cash to allow the holding of cash or make money investments.

3. Financial statement

The financial statements of the analyzed company on those 2 years are found in tables 1.6. respectively 1.7:

Table 1.6. (RON)

Asset	2005	Passive	2005
Means > 1 an	369.850	Resources > 1 an	310.229
Intangible assets	0	Equity capital	155.701
Imobilizări corporale	369.747	Debts > 1 an	154.528
Financial investments	103		
Means < 1 an	68.457	Resources < 1 an	138.779
Stock	19.750	Debts < 1 an	138.779
Claims	48.707		
Short term investments	0		
Cash means	10.701		
Counter and bank accounts	10.701		
Total Asset	449.008	Total Passive	449.008

⁵⁷ Tabără N., Horomnea E., Toma C, *Analiza contabil-financiară. Metode și tehnici de valorificare a informației contabil-financiare în procesul decizional*, Editura TipoMoldova, Iași, 2001, p. 95

Table 1.7. (RON)

Asset	2006	Passive	2006
Means > 1 an	630.461	Resources > 1 an	412.006
Intangible assets	0	Equity capital	177.997
Imobilizări corporale	624.274	Debts > 1 an	234.009
Financial investments	6.187		
Means < 1 an	104.643	Resources < 1 an	329.008
Stocks	86.508	Debts < 1 an	329.008
Claims	18.135		
Short term investments	0		
Cash means	5.910		
Counter and bank accounts	5.910		
Total Asset	741.014	Total Passive	741.014

4. Cash flow analysis

To determine the possibility of a settlement of financial debt incurred when the company sought investment credit analysis, cash flow projection was made from resulting this investment:

Table 1.8. (RON)

No.	Specification	Year				
		2010	2011	2012	2013	2014
A	Outputs (total collecting) (1+2)	864.300	1.024.200	1.124.300	1.298.600	1.347.100
1	Project collecting	100.000	120.000	140.000	160.000	180.000
2	Other activities collecting	764.300	904.200	984.300	1.138.600	1.167.100
B	Total production expenses excluded losses	674.100	814.000	837.100	1.006.500	1.012.100
3	Project operating expenses	54.600	89.700	97.800	97.800	97.800
4	Other activities expenses	619.500	724.300	739.300	908.700	914.300
C	Losses (5+6)	30.000	30.000	30.000	30.000	30.000
5	Project losses expenses	3.200	3.200	3.200	3.200	3.200
6	Other losses expenses	26.800	26.800	26.800	26.800	26.800
D	Activity profit (operating) (A-B-C)	160.200	180.200	257.200	262.100	305.000
7	Interests - CTS	0	0	0	0	0
8	Interests - CTM/CTL	51.400	51.400	51.400	51.400	51.400
9	Other financial expenses	0	0	0	0	0
E	Profit before tax (D-7-8-9)	108.800	128.800	205.800	210.700	253.600
10	Profit tax (%*E)	17.408	20.608	32.928	33.712	40.576
F	Net profit (E-10)	91.392	108.192	172.872	176.988	213.024
11	Losses	30.000	30.000	30.000	30.000	30.000
G	Net practice cash flow (F+11)	121.392	138.192	202.872	206.988	243.024
H	Other sources (12+17)	232.539	0	0	0	0
12	Prime sources	32.539	0	0	0	0

13	Short-term loans	0	0	0	0	0
14	Long-term loans	200.000	0	0	0	0
15	Budgetary allocations	0	0	0	0	0
16	Residual value (asset sales)	0	0	0	0	0
17	Other resources (donations, dividends etc)	0	0	0	0	0
I	Total gross cash flow (G+H)	353.931	138.192	202,872	206.988	243.024
J	Outflows (18+21)	224.000	24.000	24.000	24.000	24.000
18	Capital expenditure	200.000	0	0	0	0
19	Working capital expenditure	0	0	0	0	0
20	Drawback of short-term loans	0	0	0	0	0
21	Drawback of long-term loans	24.000	24.000	24.000	24.000	24.000
K	Cash flow (I-J)	129.931	114.192	178.872	182.988	219.024
	Debt Service = (Net income + losses + interest) / (interest CTM / CTL + rates CTM / CTL)	2,3	2,51	3,37	3,43	3,9

In Table 1.8. is easy to see that unity of the first year of operation, financial resources to pay the debt and to participate with a cash surplus in maintaining optimal cash needs of general business.

5. Cash flow throughout the activity

Tab1.9.

(RON)

No.	Specification	Years						
		2010	2011	2012	2013	2014	2015	2016
A	Outputs (total collecting) (1+2)	865.300	1.024.200	1.124.300	1.298.600	1.347.100	1.802.000	2.004.000
1	Project collecting	100.000	120.000	140.000	160.000	180.000	200.000	200.000
2	Other activities collecting	765.300	904.200	984.300	1.138.600	1.167.100	1.602.000	1.804.000
B	Total production expenses excluded losses	674.100	814.000	837.100	1.006.500	1.012.100	1.137.300	1.209.100
3	Project operating expenses	54.600	89.700	97.800	97.800	97.800	100.000	100.000
4	Other activities expenses	619.500	724.300	739.300	908.700	914.300	1.037.300	1.109.100
C	Losses (5+6)	30.000	30.000	30.000	30.000	30.000	33.200	33.200
5	Project losses expenses	3.200	3.200	3.200	3.200	3.200	3.200	3.200
6	Other losses expenses	26.800	26.800	26.800	26.800	26.800	30.000	30.000
D	Activity profit (operating) (A-B-C)	161.200	180.200	257.200	262.100	305.000	631.500	761.700
7	Interests - CTS	0	0	0	0	0	0	0
8	Interests - CTM/CTL	51.400	51.400	51.400	51.400	51.400	51.400	51.400
9	Other financial expenses	0	0	0	0	0	0	0

No.	Specification	Years						
		2010	2011	2012	2013	2014	2015	2016
E	Profit before tax (D-7-8-9)	109.800	128.800	205.800	210.700	253.600	580.100	710.300
10	Profit tax (%*E)	17.568	20.608	32.928	33.712	40.576	92.816	113.648
F	Net profit (E-10)	92.232	108.192	172.872	176.988	213.024	487.284	596.652
11	Losses	30.000	30.000	30.000	30.000	30.000	30.000	30.000
G	Net practice cash flow (F+11)	122.232	138.192	202.872	206.988	243.024	517.284	626.652
H	Other sources (12+17)	232.539	0	0	0	0	0	0
12	Prime sources	32.539	0	0	0	0	0	0
13	Short-term loans	0	0	0	0	0	0	0
14	Long-term loans	200.000	0	0	0	0	0	0
15	Budgetary allocations	0	0	0	0	0	0	0
16	Residual value (asset sales)	0	0	0	0	0	0	0
17	Other resources (donations, dividends etc)	0	0	0	0	0	0	0
I	Total gross cash flow (G+H)	354.771	138.192	202.872	206.988	243.024	517.284	626.652
J	Outflows (18+21)	224.000	24.000	24.000	24.000	24.000	24.000	24.000
18	Capital expenditure	200.000	0	0	0	0		
19	Working capital expenditure	0	0	0	0	0		
20	Drawback of short-term loans	0	0	0	0	0		
21	Drawback of long-term loans	24.000	24.000	24.000	24.000	24.000	24.000	24.000
K	Cash flow (I-J)	130.771	114.192	178.872	182.988	219.024	493.284	602.652
	Debt Service = (Net income + losses + interest) / (interest CTM / CTL + rates CTM / CTL)	2,30	2,51	3,37	3,43	3,90	7,58	9,04

6. Conclusions

Business is essentially an integrated cash flow system led by management decisions. Underlying cash budget investment decisions, business operation and financing. It is also an economic and financial analysis tool by which those decisions are responsible for helping to make the right decisions using relevant information.

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