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10. October 2008

Online at <http://mpra.ub.uni-muenchen.de/11238/>
MPRA Paper No. 11238, posted 23. October 2008 / 17:02

Treasury cash flows in the enterprise

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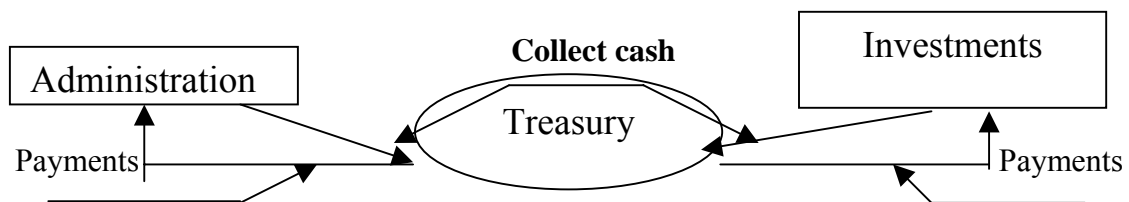
ABSTRACT

Treasury allows to appreciate the enterprise's performance, having also a strategic role in terms of its training level and usage manners. Release (training) of treasury (cash-flow) is the proof of the strategic position of enterprise in relation to its products, its markets, its competitors and external constraints. This strategic satisfactory position generates significant financial flows that allow the company to procure foreign capital, particularly on the financial market, or placing the treasury surplus.

Keywords: cash, payments, claims, investment, financing, treasury

All the operations that the company achieves immediately or in time, flows in the form of treasury. Maintaining balance flows treasury is a necessary condition for enterprise's continuity. An enterprise can be considered viable, if only to relieve the work on an ongoing basis, treasury.

In the course of a year, the **overall surplus of treasury** sets as the difference between receipts and payments generated by the entire business enterprise. This global treasury surplus comes from the following relationship:



—administration operations, mainly exploiting operations, also other adm.operations.

This category emits excess of treasury from operations management (ETOG) and excess of treasury from exploitation (ETE);

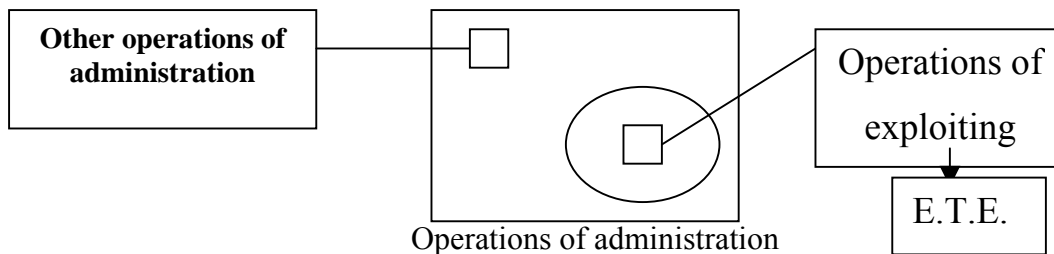
— finance and investments operations that generate excess of treasury operations, from investment and financing (ETOIF).

Excess of treasury from exploitation

In all operations of management, an important place it occupies the exploiting operations, respectively the cyclical operations which characterize the enterprise's activities.

This operations gather during the exercise an surplus(or loss) of treasury named:

Suplus (deficit) of treasury from exploiting (E.T.E)



Surplus of treasury from exploiting

Surplus (deficit) of treasury from exploiting is so cash treasury generated expression (or consumption) during the financial year only by operations concerning exploiting.

Surplus of treasury from exploiting can be computed two ways, thus:

a) As difference between the cash and payments of exploiting activity, accordingly to the relationship:

$$\text{ETE} = \text{Cah from exploiting} - \text{Payments for exploiting}$$

consisting of :

Cash from exploiting = Turnover – increase of customer's credits and

Payments for exploiting = Expenses fo exploiting – Increase of debts to suppliers – Increase of other debts of exploiting

By development of treasury surplus of exploiting this becomes:

$$\text{E.T.E} = \begin{array}{l} \text{Cash from sales} \\ - \text{Payments for purchase} \\ - \text{Payments for other exploiting expenses} \\ - \text{Settlements on the payment V.A.T} \end{array}$$

The analysis of elements composing E.T.E conducts to the following formula :

$$E.T.E = \begin{array}{l} \text{Sales tax free} \\ -\text{Purchase tax free} \\ -\text{Other exploiting expenses (stocks excluded)} \\ -\text{Exploiting claims (their variation)} \\ +\text{Debts of exploiting (their variation)} \end{array}$$

but, the surplus on the exploiting operations creating of financial flows in current exercise (E.S.O) is constituted from the sum of elements:

$$E.S.O = \begin{array}{l} \text{Sales tax free} \\ - \text{Purchase tax free} \\ -\text{Other exploiting expenses (stocks excluded)} \end{array}$$

Results the relationship between E.T.E and E.S.O:

$$E.T.E = E.S.O - \text{Exploiting claims} + \text{Debts from exploiting}$$

Difference: Exploiting claims — Exploiting debts, is called: Variation of commercial operation in progress

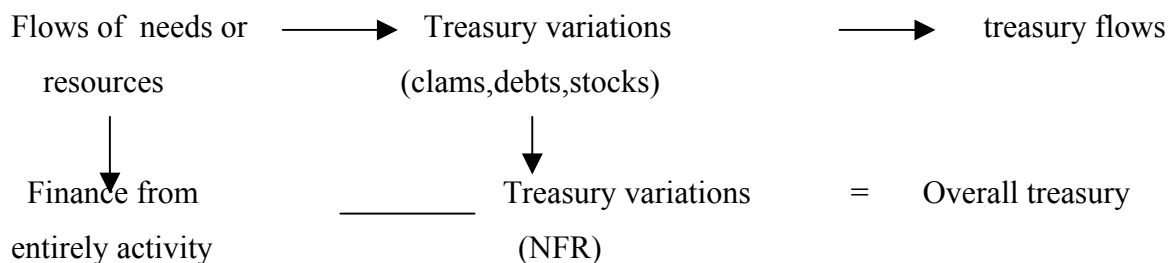
$$\text{so } E.T.E = E.S.O - \text{Commercial operation in progress}$$

This relationship highlights the role played in the capital of treasury computation, by the commercial policy (policy of buying and selling, credit of the enterprise).

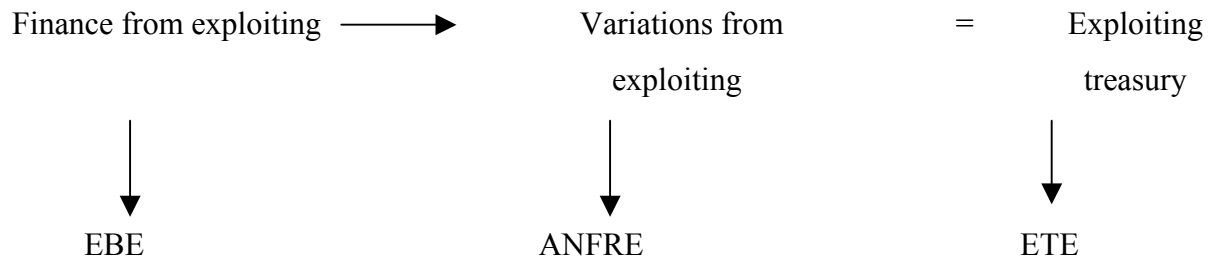
The first method of calculation of surplus treasury of exploiting is very well suited to a forecast approach (in treasury budget).

b) Through a relationship similar to that of surplus global treasury.

In this case, the treasury is determined by the flow generating needs and resources corrected by gaps appeared between birth financial flows and their effective implementation in the treasury.



This relation applied to exploitig operations becomes:



The link between the net excess treasury from exploiting (ETE) and gross excess from exploiting (EBE) is illustrated by the following relationships :

$$(1) \text{ ETE} = \text{Sales tax free} - \text{Purchase tax free} - \text{Other exploiting expenses} \\ - \text{Exploiting claims} + \text{Exploiting debts}$$

$$(2) \text{ EBE} = \text{Sales tax free} + \text{Production on stock } (S_f - S_i) + \text{Immobilized production} - \\ - \text{Purchase tax free} - \text{Stocks } (S_i - S_f) - \text{Other exploiting expenses}$$

$$\text{from (2)} - (1) \Rightarrow \text{EBE} - \text{ETE} = \text{Production on stock } (S_f - S_i) + \text{Stocks } (S_i - S_f) + \\ + \text{immobilized production} + \text{Exploiting claims} \\ - \text{Exploiting debts}$$

$$\text{Production on stock } (S_f - S_i) + \text{Stocks } (S_i - S_f) = \text{Stocks general variation } (S_t)$$

$$\mathbf{EBE - ETE = S_t + \text{Expl. claims} - \text{Expl. debts.} + \text{Imobilized production}} \\ S_t + \text{expl. claims.} - \text{expl. debts} = \text{NFRE}$$

So results the relation : **ETE = EBE — NFRE — Fixed/immobilized production**

This relationship is valid if the need for floating capital for operating increases (consumes treasury).

In the event that need capital to fund operating reduction (liberate treasury) the relationship becomes:

$$\mathbf{ETE = EBE + NFRE - Immobilized production}$$

Treasury surplus of exploitation thus represents treasury liberal (or consumed) by operating activities of the company during a financial year.

This method of determining the surplus treasury operation of $\text{ETE} = \text{EBE} \pm \text{NFRE}$ (on the assumption that there is immobilized production) shows the flow of real treasury operation whose size should be cover for financing capital (EBE) and increasing the need for floating capital.

If the surplus treasury operation is negative, it means that the operation consumes treasury,

instead of create, that means, earnings are lower than payments. In this case, the company has no capacity to cope with the needs of self-investment (maintaining economic capital) to ensure its growth (investments) or payment of interest and repayment of financial debts, including all the payments for taxes and for dividends. This serious situation (long-term survival of the enterprise are compromised) may be a consequence of insufficient economic return (EBE insufficient), or an increase of irregular financing needs of the business of exploitation (a very large increase of NFRE). Such a situation can not be extended only to the extent that their company finds, in other operations, filling the necessary treasury to meet payments falling due.

Accordingly, gross operating surplus is an important concept in the diagnosis and the prevention of the enterprise's difficulties, the indicator becomes mainly in financial flows analysis.

2) Treasury surplus of all administration operations (ETOG)

Treasury surplus from all operations management, gather ETE and the surplus coming from other operations .

Can be called "the treasury surplus of current operations" (ETOC), or "surplus of Treasury operations management (ETOG), or yet" The liquid capacity of self financing "

We will retain the name of "surplus of treasury operations management (ETOG), and thus will present relationship of calculation (an analogue study that was done to ETE lead to this relationship):

$$\text{ETOG} = \text{CAF} - \text{NFR} - \text{Immobilized production}$$

The importance of this relationship is that it points a basic information, namely: the capacity of self financing can not be treated as an excess of treasury, that is a resource available to 100%, because ETOG depends on the ability of self financing and the need for substantive changes of floating capital (on the assumption simplified that there is immobilized production)

3) Treasury surplus of investment and financing operations (ETOIF)

The act that settle establishment of this excess is *Financing Picture –Part one*

$$\text{ETOIF} = \text{Durable resources (other then CAF)} - \text{Stable Utilizations} - \text{CAF}$$

$$\text{Durable resources} - \text{Stable utilizations} = \text{FR}$$

$\text{ETOIF} = \text{AFR} - \text{CAF}$
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This relationship is correct if there in not immobilized production.

Check the basic relationship of settled overall surplus of treasury :

Treasury surplus of administration operations (ETOG)

+ Treasury surplus of investment and financing operations ETOIF)

= Overall surplus of treasury TN = FRNG—NFR

So, is known that:

$$\text{ETOG} = \text{CAF} - \text{NFR} \quad \text{a)}$$

$$\text{ETOIF} = \text{AFRNG} - \text{CAF} \quad \text{b)}$$

Then (a+b) becomes:

$$\text{ETOG} + \text{ETOIF} = \text{FRNG} - \text{NFR}$$

But, the treasury surplus of investment and financing operations can be split in two elements:

- treasury surplus on investment operations,
- treasury surplus on financing operations

Also, treasury constitutes an instrument of action available to enterprise managers to achieve their strategic objectives. Thus, the treasury can be used either for the purchase of equipment essential to internal growth, or to purchase securities venture aimed at increasing foreign. Treasury therefore represents the pledge of flexible enterprise. Accountant treasury person must be constantly concerned about the efficient placement of surplus effective treasury in the short term (in conditions of maximum profitability and liquidity, also minimum risk) before it is engaged in the long term business strategic decisions.

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