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Statement of Cash Flows - Concrete Aspect of the Convergence of Global Accounting in the Context of the Paradigm of New Economy

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Abstract
Statement of cash flows presents useful information about changing the company's financial position, allowing assessing the enterprise's ability to generate future cash flows and cash equivalents in the operating, investing and financing activities and their appropriate use. Treasury forecasts are intended to contribute to financial security and enterprise profitability by reducing financial costs. 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 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.

General Aspects

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:

– 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,

– providing additional information to users of financial statements to evaluate changes in the assets, liabilities and equity of an entity,

– 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.

Internationally, The FASB (Financial Accounting Standards Board) addresses the question of cash flow by accounting rule FASB 95, amended by FAS 102. In accordance with the FASB, the primary objective of the cash flow statement is to provide information on cash receipts and payments of a company, produced during the accounting year. A second objective of such a picture is to provide information on operating activities, investing and financing activities undertaken by a company during an accounting period. Under IAS 7, cash flow statement objective is to seek information on the history of the movement of cash and cash equivalents of an enterprise through cash flows during the period, on the three activities.

One can notice a similarity between the goals of a statement of cash flows between the two accounting standardization bodies: the U.S. one, i.e. FASB and international one, i.e. IASC.

Therefore, cash flow statement and general treasury presents exactly the situation of receipts and payments themselves, which were made up to a point, without taking into account the accrual – where of the exception occurred in IAS 1.

Specifically, however, it is a cash flow advantage that has in relation to the preparation of profit and loss account which complies with the principle of accrual accounting, because there are expenditures that do not involve an actual cash flow (depreciation and provisions) that the income take into account in determining the outcome of the exercise. However, the cash flow eliminates all income and expenses which do not affect directly the cash. Thus, to form a true and accurate view on the situation of an enterprise, financial statements must be examined because they are complementary.

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 is 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 treasuries (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 optimizes the placement of surplus cash on short time.

Other objectives of cash management include:

(1) avoid losses at the bank receipts and payments of the enterprise, in the days of settlement

(2) increasing the efficiency collection company claims, without affecting the policy to customers,

(3) balanced and relaxed staggering maturity of the liabilities of companies.

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, is 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.

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 assessing 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:

- Cash receipts from selling goods and services,
- cash receipts from royalties, fees, commissions and other income,
- payments to vendors of goods and services
- payments to behalf of employees
- payment of taxes and payments
- 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:

▪ 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:

▪ 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.

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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 is 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 1. Cash-flow statement (direct method)

Cash flows
Cash flows from operating activities +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)
Cash flows from investing activities *-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*
Cash flows from financing activities +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 2. Cash-flow statement (indirect method)

Cash flows
Cash flows generated by operating activities
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
Receipts and payments on associated with operating -Interest payments -Profit tax Payments +Net cash from extraordinary activities (difference between receipts and payments from extraordinary activities)
Flows arising from investing activities
+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
Flows generated by financing activities
+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

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.

Obviously, cash flow statement is a specific aspect of global convergence of accounting systems, detached from the research methods for the determination of cash flows. It is also clear that the treasury takes the central place in all representations of the economic system, as the transactions are expressed in value property. Treasury is in the center of the operating, investing and financial activities, systematic approach taking into account the cash flows generated for large enterprises, addressing conceptual spirit of global convergence of accounting systems.

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 represents the cornerstone in financial analysis of the economic entity.

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