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## Management of Dues and Taxes Flow of Economic Entities

**Authors:** **Mihaela BEBEȘELEA, Paula Cornelia MITRAN**  
Spiru Haret University, Constanta, Romania  
mihaelabebeselea@yahoo.com,  
mitran\_paula\_cornelia@yahoo.com

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*Dues and taxes, as a component part of cash flows can be managed according to general procedures of payment; this is the **hypothesis**, from which it starts, in what follows, in the assessment of payments management. A technique that characterizes especially the qualitative aspect of payments management is based on the formation of certain indexes, in terms of other numeric variables (patrimony value, turnover, equity ownership, profit etc.) that express, in relative expression, the correlation between payments and limits taken into consideration. These indexes form the analysis of rotation of patrimony elements by creating a link between balance sheet and profit and loss account. This analysis has as purpose establishing the necessary time to cover all steps of the economic circuit by capitals involved by the economic entity.*

**Keywords:** economic entity, cash flows, dues, taxes, treasuries

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### Treasuries of economic entities and taxes and dues flow

To understand better the aspects related to treasury operation, a concept analysis from two points of view, that is organizational and structural, is necessary [5].

*From an organizational point of view, treasury is a service, a component part in an economic entity organization chart, tasks and duties*

to which they belong, that has specialized personnel and which functions by well-established rules.

*From a structural point of view, the treasury must be analyzed according to its constituent elements. In specialty literature, we find numerous definitions given to the concept of treasuries, but what we have to keep in mind is the fact that most definitions are based on the liquidities an economic entity owns at some certain point. Generally, the treasury is the amount of cash available from the payments and collections game and has to meet the expenses [2].*

In real terms, the treasury of an economic entity is the resultant of collections and payments assembly determined by cycles of operation actions and separate to operation (of investments and financials).

The content of the economic entity treasury is a more and more extended one, fact that requires an analysis of it, through more approaches, that is:

1. Total cash values;
2. Liquid assets;
3. Net cash;
4. Potential treasuries.

*The approach of treasuries through the total cash value* represents its restricted content, referring only to the means of immediate or quasi-immediate payment and to investment related to excess cash:

- cash in lei and foreign exchange in the pay desk of economic entity;
- cash in lei and foreign exchange in current accounts;
- checks and commercial bills to collect;
- commercial bills submitted for discounting;
- other values in pay desk ( postal stamps, trip tickets, repose and treatment tickets etc.)

*Treasury approach through available assets* comprises, besides quasi-immediate means of payment also loads of money related to excess cash:

- Loads of money in stocks and shares (financial investments on short term: stocks; bonds, other assets;
- Treasury money and cash vouchers bonded by other economic entities through which the entity grants short terms credits;
- Time bank accounts.

In this approach, the treasury corresponds to the Anglo-Saxon conception of cash or equivalent cash.

*The approach of the treasury as net treasury* corresponds to the functional balance sheet analysis, in which the net treasury results as the difference between the working capital and the need of working capital:

$$NT=WC-NWC$$

Basically, it compares the difference between operating assets and operation liabilities, namely the need of working capital to long-term capital surplus, remained after the financing of fixed assets, working capital respectively.

Functional conception of the balance sheet has the merit to offer an image over the economic functioning manner of an economic entity, highlighting in this respect the stocks and resources corresponding to each operating cycle. Likewise, the approach of the balance sheet in functional optics is the new direction where the financial analysis deploys, whose priority objective becomes research on the impact of the different economic operations accomplished by the economic entities towards their treasury.

*The approach of the treasury as a potential treasury* widens even more the treasury sphere because it compares the active cash values (means of payment, investments of surplus treasury and proceeds from this investments), on one side, with treasury needs, on the other side.

Analyzing the treasury content, under all aspects reminded above, we can conclude that, from mathematical point of view, treasury of an economic entity can have **positive**, **negative** or **zero** on its balance on current account, resulting hereby, the concept of **positive**, **negative** or **zero treasury**.

*Positive treasury* is the result of all financial balance of the economic entity and takes shape in a cash surplus that represents an expression of net profit from balance sheet liabilities [3].

*Negative treasury* emphasizes a financial imbalance resulting in a deficit cash covered mostly in loans committed to high costs [3].

Any economic entity represents an open system that has multiple and complex relationships both with its structural element and with exterior environment, which generates real flows and cash flows.

*Cash flows coming from the relationships that the entity has with the third part occurring in connection with the termination of rights and obligations of mutual funds are known as treasury flows* [5].

Corresponding to all three types of activities specific to an economic entity, we observe its three essential functions, namely: **operational, of investment and of financing**, each of these functions contributing to treasury variation. Both European accounting system, applied in our country, and the Anglo-Saxon system recognize the three categories of treasury flows, grouped according to nature of activity that divides them into: treasury flows from operation activities, treasury flows from investment activity, treasury flows from financing activity. Thus, treasury of economic entity may be analyzed in terms of flow, namely money collections and payments during a certain period, but also in terms of stock, that is the treasury of an economic entity, at a certain point, the connection between both variables being achieved like: *treasury at the beginning of period + collections of period – payments of period = treasury at the end of period.*

*Cash flows proceeding from operation activities* are the consequence of the main activities that produce the economic entity incomes, the first resulting from transactions that get together to give the net result. The value of cash flows that come from operation activities is a key indicator of the extent to which the economic activities of the economic entity have generated sufficient cash flow to repay loans, maintain the operating capacity of the entity, pay dividends and make new investments, without recurring to external financing sources. As well, used along with other information, values of cash flows related to operating activities may be useful for forecasting future cash flows related to operations. 7 IAS (International Accounting Standards) illustrates some of the cash flows generated by operating activities: cash receipts from the sale of goods and performance of services, cash receipts from royalties, fees, commissions and other income, cash payments made to suppliers of goods regarding taxes and charges, payments and cash receipts generated by the purchase / sale of securities purchased for speculative purposes (investment or trading), given that they are assimilated to stocks.

*Cash flows arising from investment activities.* Investment activities consist of the acquisition and transfer of long term assets. In this category appear: cash payments for acquisition of land and fixed assets, intangible assets and other such long-term assets, cash payments resulting from construction done for its own purposes, cash receipts from the sale of land and buildings, plant and equipment, intangibles and other such long-term

assets, cash advances and loans made to other economic entities not if the economic entity is a financial institution which grants an advance, proceeds from the repayment of advances and loans made to other parties (if not a financial institution).

*Cash flows arising from financing activities.* Financing activities are activities that consist of changes in the size and composition of equity and debt of economic entities. This category includes: cash receipts as a result of issuing shares, cash payments to shareholders to purchase or trade in shares of the economic entity, cash receipts as a result of the issuance of bonds, proceeds of loans obtained, cash repayments of loans.

## **Payment management**

In presentation of dues and taxes through the private finance, we have based on the consideration that they function as financing economic entities operating cycle of economic entities. Thus, starting from need and modality to manage short-term payments, from the structure of which, taxes and duties are part, I found it necessary to base theoretically this work on the assumption: Dues and taxes as part of cash flows can be managed under the general management processes payments.

Payment management refers to the totality of procedures, techniques, tools and instruments used by a specific economic entity to ensure the administration, in adequate conditions, of all cash withdrawals of cash flows, so it preserves and improves in time the position kept in relations established on different levels, with the third parties [5].

By the instrumentality of payments, it reflects those cash resources movements, representing cash and cash accounts, from the economic entity towards its external environment which embodies the operations related to settlement of debts, the creation of debt, or other operations that determine withdrawals of cash flows.

After conducting the whole payment transactions that give content to payment management, the entity seeks, as final achievement in this area also, similar to transactions relating to revenue, of major objectives that aim at knowledge of the following basic aspects: size, structure, ordering mode of payments and the correlation they have in relation to earnings. Such knowledge will enable to choose the most appropriate ways of managing the

withdrawals of cash flows that show the process of optimization different operations giving content to payment management. Taking decisions that aim to such objective is based on comprehensive analysis of indicators expressed as absolute values, average size and relative sizes.

Knowing the volume of payments has a particular importance because it allows an objective assessment of financial efforts dimensions which an economic entity must cope with, in a given period of time. Expression of dimensional elements of payments can be made with absolute, medium or relative volume.

Absolute volume of the payments is determined by adding the total payments or the homogeneous groups in a given period of time. Knowing the absolute volume of the payments is important for at least two reasons. Firstly, it allows its comparison with the receipts and determination in this way, of volume and sign of their differences, in order to determine actual ways to exploit the surplus of receipts or to purchase additional financial resources to cope with overdue payments, after case. Secondly, as for financial planning operations, it allows establishing an optimal proportion between them and receipts, be it by initiating actions that determine the increase of receipts volume, or be it by processes that reflect combinations of the two options mentioned above.

Payments volume can be expressed under relative form also, calculated in terms of other numeric variables that characterize the economic entity (patrimony value, turnover, equities, profit, etc.) in order to highlight the correlation between payments and sizes considered. In this way, a variety of indicators can be created, indicators through which the qualitative aspect of payments management is characterized in particular.

Payment structure can be studied from multiple perspectives, among which the most relevant, in terms of our approach, we consider to be two: in terms of their purpose and economic content and in terms of functional perspective. It is important that to each of the multitude of payments categories, to apply a specific treatment because it differs significantly from others, particularly in terms of due date and consequences implied by their failure to pay on time. Thus, in case of liabilities to suppliers, deferring the payment for a certain number of days, can be achieved without additional costs, through agreement of the supplier, in case of paying dues and taxes to the state and of obligations towards

personnel, the postponement of terms is no longer possible, because the specific debts have fixed payment terms. Exceeding the payment deadline of obligations to public funds, involves additional costs meaning increases in payments and default penalties. Regarding the payment entitlements of staff, exceeding its preset payment day may lead to protest movements from the unions. Simultaneously, however, the three categories of payments are also similar to each other meaning that they have a relatively uniform development in time, without major oscillations known from time to time, if there are no significant changes related to economic activity volume and operational technology used. If it is taken into account the economic entity function that triggered a particular category of payments, then they can be ordered in three groups (corresponding to the three functions: operating, investing, financing).

The analysis of multiple aspects referring to the payment structure is accomplished with the help of relative volumes of the structure. In order to make relevant, professional assessments, on the payment structure it is necessary to know it at all times as well as its evolution analysis over time. Such an approach allows the issue of value judgments with regard to the payment changes suffered over time, as well as the causes that led to them and the effects they have generated.

Another objective involved by payment management is knowing how the money debts order in time, so that, on this basis, it is possible to initiate and to implement appropriate policies that entail the procurement, which has as effect the procurement from various creditors, more relaxed payment terms and better correlation with the collections [5]. Regarding this aspect, it is of interest, mainly, the average period of time in which a particular debt becomes overdue.

To measure the period of time concerning payments, financial analysis activity operates with the indicator: „The average duration of payment "(Adp), expressed in days and calculated by the formula:

$$Adp = \frac{Avbo * 360}{T}$$

where:

*Avbo* - annual average balance of obligations

*T* - turnover

Distinct approach of both receipts and payments is necessary for each analytical research to reveal their own internal mechanisms. If we refer to an isolated study of each of the two categories of processes that give content to cash flows, it is necessary to treat the issue of taxes and dues as a component part of the economic entity payments. Thus, „The average duration of payment "(Adp) will become "The average duration of payment with dues and taxes" (Adpdt), expressed in days and calculated by the formula:

$$Adpdt = \frac{Aabddt * 360}{T}$$

where:

Aabddt - annual average balance of debts with dues and taxes;

T - turnover

The financial diagnosis of the economic entity can be used, depending on the type of expression, two additional installments, as follows:

- Installments that express the number of payment rotations. Level increase of this indicator expresses rotation speed accelerations.
- Installments that express duration in days of one rotation, namely the number of days required to make payments. Accelerating rotation speed is recorded when the level of this indicator decreases.

The level of these installments depends, mainly, on short-term debt structure, parts of which are: debt to suppliers, state budget, personnel, banks etc. Among these, the economic entity can act only on the rotation of the debt to suppliers by negotiating more distant payment terms, while payment terms for taxes and fees are set by law. Under these conditions, increase of debts payment period is assessed favorable, if it is determined by the moderation of payment terms to suppliers, namely, unfavorable if it was caused by failure to pay debts concerning dues and taxes.

Although VAT has incidence on consumers, the net deviation of the VAT cash flows, namely, the difference between the VAT collected on sales and VAT deductible on acquisitions produces impact on treasury.

In case where collecting bills from customers and the VAT related, come after the exertion of the right to deduct and pay the amount due to the budget, VAT related to goods sold and unearned, affects negatively the liquidity and balance state of treasury selling society. In contrast, when

paying bills to suppliers takes place after the exertion of right to deduct the purchasing company, VAT exerts a positive influence on the treasury.

In both cases, the intensity of the effects depends on the share of value of unpaid invoices in the total value of invoices issued and respectively, on the share of value of bad debt invoices in the total value of goods and services purchased within the legal timeframe provided for the planning of VAT deductions.

VAT discourages the recourse of trade credit due to the influence on the treasury. VAT related to cash advances offered to suppliers for merchandise to be received, becomes deductible to the payers of cash advances, only from the moment of drawing up the bill by suppliers. Accordingly, VAT beside amounts paid as cash advances, diminishes treasury liquidities. VAT related to cash advances received from customers for merchandise to be delivered, increases the total amount of VAT collected upon receipt of cash advance. If drawing up the bill by the beneficiaries of the cash advances, interferes after planning the VAT deduction, the negative influence of VAT flow related to cash advances received, laps with the partially positive influence of the amounts (diminished by the VAT) received as cash advances. The final effect depends on all operations carried out.

Therefore, time intervals that occur when payments to suppliers take place as a result of invoice payments be it in advance, simultaneously or after transfer of property rights, and receipts from customers, be it as cash advance payments, either simultaneously or after transfer of property rights, in relation to the period in which the exertion of deduction right takes place and setting deducted VAT (payable or receivable), generates positive but also negative effects on the treasury. The final effect depends on the weight of the dominant effect on the treasury liquidity.

When the deductible VAT is higher than the collected VAT, then for the deducted VAT, the entity has a right to entitlement on the state budget. Increasing the period of time required by tax law, in which an entity can recover his right to entitlement, affects negatively the entity's treasury. Obviously, for the state budget this represents a temporary financing that is not interest bearing.

From all theories detailed above, results that the same tax produces a sum of effects on subjects of economy, in the sense that, until its final incidence, effects due to tax impact and repercussion, occur.

## Conclusions

In the context of the paper, we have referred to processes and techniques that a specific economic entity use, to ensure administration in proper conditions of short-term payments, in general, and of taxes and dues, as part of short-term payments, in particular, so it will preserve and improve in time the position concerning the relations established in various fields, with third parties. This approach was necessary to demonstrate the confirmation or contradiction of the **hypothesis**, which this work is theoretically based on: *Taxes and fees as part of treasury cash flows can be managed under general payments management processes*. One technique that characterizes, in particular, the qualitative aspect of payments management, is based on the construction of some indicators, depending on other numerical variables (patrimony value, turnover, equities, profit, etc.) that express in relative expression, the correlation between payments and sizes considered. These indicators create the economic analysis of patrimony components rotation by creating a link between balance sheet and profit and loss account. This analysis has as objective to determine the necessary time for overpassing all stages of an economic circuit by the capital employed by the economic entity.

We can thus say that the static information obtained by financial asset structure analysis, namely, by analyzing the financial balance is filled with information that reflects the dynamic manifestation of the financial balance.

Methodologically, such an analysis is based on rotation rates that synthetically express the efficiency with which assets and capital of the economic entity are used and that are expressed by the speed of their rotation. In the financial diagnosis of economic entities, there are two additional installments that can be used, depending on the type of expression, as follows:

- rates expressing the number of payments rotations. Increasing the level of this indicator expresses the rotation speed acceleration;
- rates expressing the period in days of a rotation, namely the number of days required to make payments. Accelerating the speed rotation is recorded when the level of this indicator decreases.

The level of these rates depends mainly on short-term debt structure, parts of which are: debt to suppliers, state budget, personnel, banks, etc. Among

these, the economic entity can act only on the rotation of the debt to suppliers by negotiating more distant payment terms, while payment terms for taxes and fees are set by law. Under these conditions, increasing the payment terms of debts is assessed favorable, if determined by payment terms relaxation to suppliers, namely, unfavorable, if it was caused by failure to pay taxes and fees.

**In conclusion**, we can say that the demonstration of our hypothesis is not confirmed, since payment terms for taxes and dues are prescribed by law, their rotational speed track cannot be expressed.

Therefore, our **proposals** include:

- accelerating the rotational speed of customer debts, namely the reduction of collection period, following receipt of bills from customers and of the VAT related, before exercising the deduction right and payment of the amount due to the budget, VAT thus influencing positively the liquidity and the balance state of treasury of the entity;
- existence and growth of time discrepancy between the moment of advantages completion and their payment is positive. If in addition, it is taken into account, the payment obligation of cash depending on results of previous period, then this tax stream presents a particular importance. When the entity is expanding and / or the economic environment is inflationary, the effect is positive. But when the company recorded persistent involution of the earned benefits, the effect on treasury amplifies, but this time against the entity as liquidity is affected;
- accelerating the speed rotation of debt to suppliers, namely increasing the payment duration, following paying bills to suppliers after exerting the deduction right, VAT thereby positively affecting liquidity and the balance state of the economic entity treasury.

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