The cash flow panel instrument for reporting and analysis of activity of the economic entities

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Cash flow arising from relationships with third party entity that occur in connection with fighting money mutual rights and obligations are known as cash flows. Accordingly to the three types of specific activities of economic entities, we find three of its essential functions, namely: operating, investing and financing, each of these features contribute to the variation in cash. In Romania, the cash flow statement is considered part of the annual financial statements since 2001, with the entry into force of the Gazette 94/2001 for approval of accounting regulations harmonized with the Fourth Directive of the European Economic Community and International Standards Accounting.

Keywords: *financing, investing, operating, cash flow panel*

JEL Classification: *M1, M5*

Introduction

Any economic entity is an open system that has multiple and complex relationships with both its structural components and the outside environment, generating, real flows and cash flows.

Treasury,s flows arising from the relationship with a third party entity that occur in connection with fighting money mutual rights and obligations are known as cash flows (Onofrei, 2006).

According to the three types of specific activities of economic entities, we find three of their essential functions, namely: operating, investing and financing, each of these features contributing to the variation in cash.

The continental accounting system, applied in our country and in the Anglo-Saxon countries as well, recognize three categories of cash flows, classified by the type of what they generate in: cash flows from operations, cash flows from activities investment, cash flows from financing activity.

Treasury of economic entities

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 (Halpern, P., Weston, J. F., Brighman, E. F., 2000: 78).

There are three essential functions, namely: operational, investment and financing, which correspond to all three types of activities specific to an economic entity, 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, classified according to type of activity that divides them into: treasury flows from operation activities, treasury flows from investment activity, treasury flows from financing activity.

For liquidity management, used a document called cash flow forecast which will highlight future cash flows on the three types of activities of the economic entity.

In Romania, the cash flow statement is considered part of the annual financial statements since 2001, with the entry into force of the Gazette 94/2001 for approval of accounting regulations harmonized with the Fourth Directive of the European Economic Community and International Standards Accounting.

Current regulations in force, respectively Gazette 3055/2009 approving accounting regulations consistent with European Directives repealed Gazette 1752/2005 which was made a number of changes in accounting reports did not contain specific provisions related to its preparation, which allows enforcement existing international practice. International Accounting Standard IAS 7 Cash flow statement, cash flow sets (the context of our work and cash flows) as the entrances or exits of cash and cash equivalents and cash flow by drawing panel is intended to provide a base of users of financial statements to assess the economic entity's ability to generate cash and cash equivalents and its needs to use those cash flows.

In the cash flow statement, according to the functional approach to the economic entity's activities, flows are grouped together, as I said, in three categories:

- flow generated by operating activities (operating);
- investment flows from the activity;
- flows generated from financing activity.

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.

Statement of cash flows can be made, in accordance with IAS 7, using either direct method, that information relates to receipts and payments in their rough sizes or indirect method that the net result is corrected with influence monetary transactions with nature, with elements. Revenue and expenses associated with cash flows covering investment or financing activities, to influence changes in working capital items required for the treasury.

Economic entities are encouraged to report cash flows from operating activities using the direct method, since it provides information useful in forecasting future cash flows and are not available, the indirect method.

Although IAS 7 should use the direct method, especially for informational needs of investors who can make a better forecast of future cash flows, most economic entities prefer using the indirect method because the method of calculation closer to accounting reporting format and to the more discreet in the publication of financial statements required by the cash flow statement direct method would not benefit image entity.

We propose, for example, developing cash flow statement using direct method, for 2011, SC TELEDIGI S.R.L Constantza, based on data from financial statements (Table no.1):

The cash flow panel
Source: annual accounts of economic entity SC TELEDIGI S.R.L Constantza

Element name	**Financial year**	
	Previous 2010	**Current2011**
Cash flows from operating activities:		
Receipts from customers	7.166.698	6.688.848
Proceeds from short-term loans	-	-
Payments to suppliers and employees	5.537.580	4.949.235
Interest paid	22.287	17.307
Payments to consolidated budget	80.959	206.168
Proceeds of insurance against earthquakes	-	-
Net cash from operating activities	1.525. 872	1.516.138
Cash flows from investment activities:		
Acquisition of shares	-	-
Purchase of tangible fixed assets	838.028	470.111
Proceeds from sale of tangible	61.612	62.943
Interest received	10.831	31.409
Dividends received	-	-
Net cash from investment activity	- 765.585	- 564.463
Cash flows from financing activities:		
Proceeds from issue of shares	-	-
Proceeds from long-term loans	-	-
Payment of financial leasing liabilities	247.861	121.044
Dividends paid	131.917	143.900
Net cash from financing activities:	- 379.778	- 264.944
Net increase in cash and cash equivalents	380.509	686.731
Cash and cash equivalents at beginning of period	-	380.509
Cash and cash equivalents at end of period	380.509	1.067.240

Conclusions

Although IAS 7 should use the direct method, especially for informational needs of investors who can make a better forecast of future cash flows, most economic entities, from Romania, prefer using the indirect method because the method of calculation closer to accounting reporting format and to the more discreet in the publication of financial statements required by the cash flow statement direct method would not benefit image entity.

The presence of the cash flow statement helps not only to improve information for users but also to strengthen the prime source of accounting information, due to the basis of any strategic and financial analysis.

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