THE INFORMATIVE ROLE OF OTHER FINANCIAL STATEMENTS - INFORMATIVE SOURCES FOR MANAGERS

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Abstract

In the systemic conception, the enterprise is considered as an open system that involves inputs, processing, outputs and self-control. From an economic point of view, no activity can be carried out without financial support, often materialized in money, which leads to the idea that the company's treasury is the bridge between the supply, production, commercial, accounting and personnel. It is appreciated that the balance sheet study provides the analysis with a static view of the enterprise, because the variables contained in the balance sheet are presented in the form of stocks that characterize the situation at a given time.

Keywords: *functional balance, exigibility, liquidity, partial contribution of assets, economic information system*

JEL Classification: G3; G32; G34

1. Introduction

The economic agent is in permanent connection with the market and its components: the market of raw materials, the market of means of production, the labor market, the capital market, the market of goods and services. The exchanges carried out on these markets, meaning the sale-purchase and collection, respectively the payment of the exchange elements are called flows.

The information value of cash flows was little known and rarely requested by users in practice. The accounting profession was not interested in providing this type of information, as long as there was no methodology for setting up cash flows and no mandatory requirement in this regard. However, conceptual issues regarding the establishment of cash flows and the informational valences of this type of information have been the subject of academic debates and communications. In the first stage of the accounting reform, the French advisers presented the informational role of the Financing Chart, but the Romanian normalizers did not show interest in this document.

In conclusion, companies that prepare financial statements in accordance with the regulations implementing the Accounting Law are not required to draw up a table of cash flows. Instead, companies that prepare financial statements in accordance with international accounting standards are required to draw up a statement of cash flows, which must be included in the annual financial statements.

2. International cash flow regulations

In the conditions of globalization of economies, globalization of capital markets and an increasingly fierce competition, it is found that each country has its own practice and its own accounting system, which puts the user of financial statements in front of conflicting information, difficult to control and especially to compare.

The variety and complexity of the issues related to the good management of the treasury creates a wide field of analysis and debate for specialists and practitioners in the field, all the more so as this subject practically influences the activities carried out by all economic agents. In times of weakening of the financial market, of reducing the role of self-financing and increasing inflation, of limiting credit and raising interest rates, the role of the treasury in the life of an economic entity is becoming increasingly relevant.

The treasury is considered a main indicator for the financial analysis, because it provides information on the change in the basic values of cash, between the beginning and the

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end of a period, but also the structure of this variation generated by the specifics of the transactions carried out by the enterprise.

An enterprise that constantly generates significant cash flow is at the same time solvent, profitable and able to ensure its development. For this reason, the purpose of a treasury statement is to provide information about the company's ability to generate liquidity and about the use that the company has given them during the financial year.

In France, specialists have attached, in different contexts, several definitions of treasury: in a narrower sense, it designates the total liquidity or availability of the company; In a broader sense, the treasury includes debit balances with the bank and investment securities that can be converted into cash.

First, it includes in the contents of the active treasury, the debts, whose liquidity, respectively exigibility, are immediate. In detail, the treasury assimilates the following elements to cash: investment securities and current accounts receivable.

At international level, cash flows have been taken into account in the activity of standardization of accounting precisely out of the desire to make available to users of financial statements information about the company's capacity.

The statement of cash flows shows the flows, known as receipts and payments during the period. That being said, it shows where the liquidity came from and how it was spent, thus explaining the causes of their variation.

In the American literature, when analyzing the cash flow statement, it is usually stated that it serves the following purposes:

♦ allows the forecast of future cash flows;

♦ allows the evaluation of management decisions;

♦ allows the determination of the company's ability to pay dividends to shareholders, repay loans received from creditors and pay the interest due to them. The chart helps investors and creditors to predict whether the company in question can access payments on time;

♦ shows the relationship between the net result and the company's cash flows;

The format of the cash flow statement in the US accounting is based on the 1987 FAS 95 Standard, as amended by FAS 102. The corresponding international standard, in its revised form, IAS 7 of 1994, followed the American standard for most regulations.

The objective of IAS 7 is to draw up policies for the preparation, presentation and publication of these financial statements. The general classification of economic flows, according to the financial theory is as follows:

- flows that have an immediate or deferred impact on cash flows

- accounting movements without immediate or delayed impact on cash flows which have the role of correcting the financial result by adjustment records when performing inventory and the record of delimitation in time of the incomes and expenses and the time delimitation record of income and expenses

- accounting movements without immediate or deferred impact on cash that materialize in the records to correct the value of assets or liabilities: depreciation, provisions, revaluation differences.

3. Framework for organizing cash flows in Romania

The statement of cash flows provides useful information on the change in the company's financial position, allowing the assessment of the company's ability to generate future cash flows and cash equivalents in the operation, investment and financing activity and ensures their proper use.

An entity's treasury occupies the central place in the economic information system, as all operations under the financing, investment and operating cycles are expressed in value.

The entity's treasury represents the bridge between the three activities delimited above and plays the role of a flow regulation filter within the fundamental relationship: money-goods-money.

In the specialized literature, the basis for the grouping of flows are mainly two criteria:

➢ the patrimonial criterion - which defines the flows as rights and obligations that do not necessarily have an impact on cash;

➢ the functional criterion - corresponding to the three types of activities specific to an enterprise.

Within the entity's information system, the treasury comprises all decisions, rules and procedures that have as their main objective the maintenance of the financial balance and the increase of the financial value of the entity. The treasury of an economic entity should not be confused with the cash available to it at a given time, but it represents what remains of the stable resources, after the fixed assets have been financed and also the need to finance the current activity.

The treasury chart analyzes the variation of the treasury, which is the difference between the cash at the end and the cash at the beginning of the financial year. The treasury comprises cash and cash equivalents such as current accounts and financial investments that can be exchanged for cash in a relatively short period of time and without the risk of a significant change in value.

The flow chart provides a dynamic presentation of the financial situation, completing the balance sheet and the income statement and allowing the assessment of the impact of the operations performed by the economic agent on its financial structure and treasury.

The financing chart generally summarizes the variations in the size and composition of the financial statement that arise from the operations and facts that give rise to the interactions between the enterprise and its economic and social environment. It is a document with financial dominance, which reflects all the operations that have contributed to the evolution of the patrimony and the company, directly or indirectly over a given period, generally a set period of time.

4. The need for and benefits of cash flow information

The variety and complexity of the aspects related to the good management of the company's treasury create a wide field of analysis and debate for specialists and practitioners in the field, especially since this topic practically concerns the activities carried out by all economic agents.

Most users of accounting information are interested in the fluidity of the activity of an enterprise and in particular its ability to ensure an appropriate rotational speed for cash flows. Such a request cannot be met by the accounting information provided by accrual and profit-oriented accounting.

In this way, it is necessary to exploit the accounting information, therefore knowing the cash flows, these being the correspondent of the patrimonial flows that transit the enterprise, with immediate impact on the liquidities.

The specialized literature considers that as part of the task of cash flow accounting, the preparation of a summary accounting document, together with the balance sheet and the profit and loss account, with the role of highlighting them. If the balance sheet shows the financial condition of the enterprise at a given time and the profit and loss account reflects the transactions carried out during a financial year, the statement of cash flows has established its presence by the need for information on how to obtain and use cash and cash equivalents.

When used in conjunction with other financial statements, the statement of cash flows provides information that allows users to assess changes in an entity's net assets, its financial structure, as well as the ability of the enterprise to influence the value and timing of cash flows, in order to adapt to ever-changing circumstances and opportunities. Cash flow information is useful in determining an entity's ability to generate cash and enables users to develop models for assessing and comparing the present value of the future cash flows of different entities. This information also increases the comparability of reporting operating results between different entities, as it eliminates the effects of using different accounting treatments for the same transactions and events.

A statement of cash flows allows users of financial statements to:

- ❖ to assess the company's ability to generate liquidity;
- ❖ to determine cash requirements;
- ❖ to predict the maturities and the risk of future receipts;
- ❖ to compare the company's results by eliminating the effects of using different accounting methods for the same operations and events,

Cash flows are defined by the International Organization for Standardization as all cash inflows and outflows and their equivalents generated by operating, investing and financing activities.

In the case of small businesses, the need for this chart is often challenged, as accounting standards do not make it mandatory. But banks do require such information as part of the lending project, and managers are instructed to give an important place not only to profit and profitability, but also to cash flows.

In a market economy, the company must be seen as a system that exists and operates through its relationships with third parties, relationships that materialize through wealth flows. The extent to which these flows take the form of cash is of interest to both third parties and the management of the unit, because only in this way can the system function.

In conclusion, cash flow information is useful to enable users to develop models for assessing and comparing the present value of the future cash flows of different enterprises. Such information also strengthens the comparability of data on the operating performance of different enterprises, as it eliminates the effects of using different accounting processes for the same operations and events.

5. Conclusions

The treasury of an enterprise takes the central place in all representations of the economic information system, because all economic operations are expressed in value, and most of them involve internal or external transfers of money. At the same time, the treasury plays a filtering role for most of the operations that take place in its perimeter through the restrictions imposed by the financial coverage of these operations. The financial balance sheet provides support for a traditional financial analysis which aims at describing the patrimony in order to assess the patrimonial evaluation of the enterprise necessary for both the owners and the creditors. The study of the profit and loss account gives a dynamic view of the activity, because its variables are in principle flows, which derive from the operating cycle, allowing the understanding of how the result is formed: the income entered in the credit of the account constitutes inflows, and the expenses entered in the debit constitute outflows.

Users of financial statements want the best possible information about a company's ability to make payments, its cash flow needs, as well as the ability to compare the results of different companies, eliminating the impact of using different accounting methods for similar transactions.

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