ASPECTS OF THE ANALYSIS OF CASH FLOWS IN A DECISIONAL CONTEXT

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The flow chart, a generic name for different models of this financial document, provides a dynamic representation of the financial situation of the enterprise, filling up the balance and the result account and allows the appreciation of the occurrence of the operations performed by the economic agent on the financial structure and its treasury. It is considered that the flow chart meets two main objectives: it represents an informing document of the third parties and it shows how the enterprise financed the lack of funds. The paper presents a comparative analysis of the main types of flows, the content and interpretation of the cash flows chart in a decisional context.

According to the change of the world economic conjuncture, the increase of the complexity of markets and financial risks, it increased the interest to find new financial instruments in order to supervise the enterprises' financial situation, such an instrument being a flow chart.

The balance reflects the financial position of the enterprise at a certain moment, being a static document emphasising the balances as a resultant of the flows recorded in the accounts, reflecting operations which affected the patrimony during the previous periods and which have not been finalised as the monetary aspect is concerned.

The result account reflects the flows determining the result, understood, mainly, as a variation of the shareholder's equity determined by the operations of a certain period, without being able to explain though the variations of the other segments making up the patrimony, the size of the result depending on the accounting methods used.

The chart of the cash flows provides the user the most detailed image of the major events, happened during the period analysed, grasping the changes occurred in its financial position.

1. Types if flows

Generally defined, the flows represent the circulation of the physical, immaterial and financial elements transiting the enterprise and its environment or lead to some internal movements. From the assembly of economic flows of an enterprise, the financial analysis studies only the financial flows, expressed in monetary units, transiting the enterprise and its environment, without taking into consideration the internal moves within that particular enterprise.

The financial flows are generated by the procurement of the resources necessary to finance the activity of the enterprise, on one side, and by the use of these resources to purchase the material elements necessary to unfurl the activity.

The high diversity of the financial flows has determined their classification according to several criteria, out of which the following raise the interest:

- according to the way in which flows are followed during an accounting financial year:
  - treasury flows, computed as a difference between the cashing and the payments of a certain period, representing the sum of cash flows emitted in that period;
  - the funds flows representing the assembly of real flows connected to the activities of the economic agent, no matter the moment of cashing or of the payment, being called potential treasury flow; they are capitalised in the increase or diminishing of an asset or liability element;
  - result generating flows determining the result of the financial year, understood, mainly, as a variation of the shareholder's equity determined by the operations of a certain period.
- according to their function or the activity cycles which determine them, the treasury flows can be grouped into:
  - flows afferent to running operations, which express, in point of monetary aspect, the effect of the transactions connected to the unfurling of the current activity of the enterprise;
  - flows afferent to financial operations through which the financial resources are obtained necessary to the unfurling of the activity, bringing about changes in the volume and structure of the shareholder's equity and of borrowed capitals;
  - flows afferent to investment operations, generated by the purchase and sale of fixed assets.

The results of the comparative analysis of the main types of flows, of the result generating flows respectively, fund flows and treasury flows are presented in Table 1.

Table 1. Comparative analysis of the main types of flows

Nr crt	Specification	Result generating flows	Fund flows	Treasury flows
1.	Principles of analysis	To obtain the balances of the result account	Uses: asset increases and liability diminishing; Resources: asset diminishing and liability increases	Reconstitution of the cashing and payments flows
2.	Sources of information	Profit and loss account	- Differential balance sheet - Information from the explanatory notes and extra-balance information (cessations of assets, credit reimbursement, etc.)	1. Detailed internal analysis of the reserve accounts 2. External analysis - Flow chart; - Result account; - Other information (from the explanatory notes).
3.	Analytical significance	1. Increases or diminishing of the net situation determined by: - running operations; - financial operations; - extraordinary	- Fund (resources) origin obtained by the enterprise - The nature of uses afferent to funds It emphasises information about solvability,	- Cashing - Payments It emphasises information regarding the solvability of the enterprise as an expression of the

		operations 2. It emphasises the performances of the enterprise	autonomy, financial risk.	periodical synchronization between cashing and payments.
4.	Characteristics and limits	It does not take into account: - external contributions determining the increase of the net situation - cashing and payments determined by the operations inventoried.	1. It allows the integration of - results' analysis; - adjustment analysis; - flows of uses and resources 2. It does not take into account the effective circulation of cash (cashing, payments) determined by uses and resources.	It allows the integration of: - the analysis of results, uses and resources; - the analysis of the treasury's variation.
5.	Indicators emphasised	1. Main system: - result of operation; - financial result; - extraordinary result; - result of the financial year 2. Developed system: -administration intermediary balances	Fundamental financial flows: - variation of circulating funds; - variation of the need of circulating funds; - variation of net treasury.	- Treasury's variation; - Justification and explanation of treasury through the operation, investment and financing flows.

The importance given to the analysis of financial flows was emphasised by the Committee for International Accounting Standards, which drew up a separate standard IAS 7 "The situations of cash flows".

2. The relation of the flow chart with the balance sheet and the profit and loss account

The relation of the flow chart with the balance sheet and the result account can be rendered as follows (Figure 1).

In the case of the balance sheet – treasury flow chart relation, the flows are delimitated on types of activities, operation, investments and financing respectively, concomitantly with using some elements both from the balance sheet as well as from the profit and loss account to determine those particular flows.

The relation of the treasury flow chart with the profit and loss account is made through the result before taxation, as a starting base to determine the treasury flows afferent to the operation activity through the indirect method.

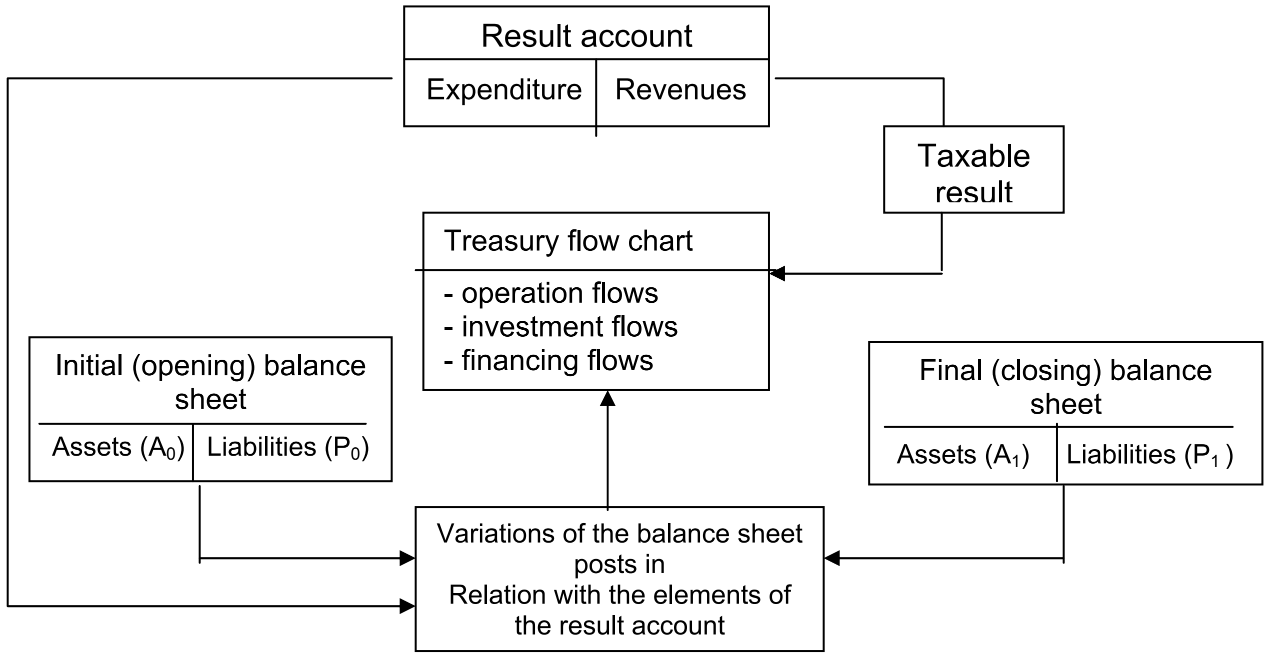

Figure 1. The relation of the treasury flow chart with the balance sheet and the result account

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3. The content of the cash flow chart

To achieve the objective regarding the supply of some relevant information referring to cash and cash equivalents during the financial year and the facilitation for different users of accounting information of the analysis of the enterprise treasury, the treasury flow chart must present the occurrence on the treasury of the operation, investments and financing activities, as well as the increase or diminishing of treasury.

- *The treasury flows generated by the operation activities* are, essentially, the consequence of the main activities generating revenues for the enterprise. Their size represents a key indicator to appreciate the capacity of the enterprise to generate, by its operation, sufficient cash and cash equivalents for other activities, respectively the reimbursement of loans and the payment of afferent interests, the maintenance of the capacity to function of the enterprise, the payment of dividends and the carrying out of new investments, without using expensive external sources of financing. Also, based on this information there are going to draw up provisions connected to the future treasury flows afferent to the operation.

- *The treasury flows generated by the investment activities* provide information regarding the way in which the enterprise ensures its perennial character and growth, reflecting the extent to which the payments were made for the purchase of assets destined to generate revenues and treasury flows in the future.
- *The treasury flows from the financing activities* are generated by those activities involving changes in the size and structure of shareholder's equity and borrowed capitals of the enterprise and allow the estimation of the future demand for cash flows from the enterprise's financiers.

To determine the net treasury flow afferent to the operation activities, in the international practice two methods were delimitated:

- the direct method, operating only with cashing and payments-like information; according to this method, the net treasury flow afferent to the operation activity is determined as a difference between the cashing and payments recorded during the period, reflected in the reserve accounts.
- the indirect method operating, mainly, with information of engagement accounting. The method consists in correcting the result of the financial year before taxation and of the extraordinary items with the expenditure and non-monetary revenues (amortizations, provisions, exchange rate differences), with the variation of the net circulating funds outfit (asset and liability items involving the postponing of cashing and payments) and with items of revenues and expenditure which are taken into consideration when determining the cash flows from the investment and financing activities (not to double the effects).

Te direct method is preferred by the investors because it uses only cashing and payments-like information, useful information for the estimation of future cash flows which represent the basis needed to establish the value of the enterprise. The disadvantage of the is that the information regarding the cashing and payments are not provided directly by the other financial statements, the reconstitution of those particular flows being a delicate problem for the external users, imposing the making of some adjustments by using some algorithms and taking into account a certain economic and accounting logics. For the producers of the accounting information the application of the direct method does not create important difficulties because the cashing and payments generally represent the crediting or debiting hauling times of the third parties accounts.

The indirect method is preferred by the enterprise's accounts to ease the computations, the data being able to be obtained easier by taking over information already presented in the balance sheet and in the profit and loss account, as well by the managers because it hides from the external users the real image regarding the enterprise's cash and solvability.

Even though IAS 7 recommends the use of the direct method, being easier to understand by the users and allowing the estimation of the future treasury flows, in practice the majority of enterprises apply the indirect method because the direct method is more difficult and more expensive if the engagement accounting is applied.

4. Interpreting the cash flow chart

From the decisional point of view, the functional scheme of the cash flow chart emphasises the contribution of three essential functions of the enterprise to the variation of the treasury's financial year: the operation, investment and financing functions.

a) The operation function emphasises the treasury flow resulted from operation activities in a large sense, that is operations that the enterprise performs currently (within the current activity) and which do not appear in the investment and financing functions.

The analysis of this first part of the chart reflects the enterprise's performance at the level of operation, capitalised in a cash surplus or its vulnerability, when a negative net treasury operation flow is obtained.

Therefore, the operation cash-flow is a key indicator in appreciating the capacity of the enterprise to generate enough cash in order to make new investments without using external sources of financing.

b) The investment function appreciates the investment effort of the enterprise both at the level of internal growth (purchase or sale of tangible assets and intangible assets) as well as at the level of external growth (financial assets).

c) The financing function emphasises the financing sources that the enterprise used to cover the needs for funds (capital increase through contribution of capital or loan contracting), as well as the treasury outputs afferent to these sources (interest and dividend payment).

The flow chart is a diagnosis instrument of the past situation of the economic agent and it help drawing up some norms or provisions regarding the financial balance, the factors determining its effects, thus obtaining apart the role of describing and understanding the financial situation of the enterprise, a normative role.

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