ANALYSE OF THE LIQUIDITY TIDE (CASH-FLOW), A MODERN FINANCIAL CONCEPT

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For any manager, cash-flow must to represent a permanently science in order to adopt a financial strategy which can mentain the firm in dealings. If the balance sheet illustrates the company's wealth, the profit and loss inventory account illustrates it's the efficiency, the treasury flows demonstrate the modifications in financial situation of the firm.

Inside and outside enterprise's medium are formed a lot of tides, but the ones expressed in currency form detain an important role and place, due the fact that is related to capital formating, increasing, and paying. An economic society could be lucrative,could achieve profit, but could not be solvent, due the liquidity's lack, thanks to differences between incomes and payments made inside the frame of financial cycle.

firm's strategy, absorb of liquidity, cashing, payments

The liquidity tide's analysis (cash-flow) allows to firm's management and to affair partners(the banks, the investment persons) to check if the money-goods-money channnel of circulation are developing normaly, respectively if the firm has the money possibilities needed in order to support the payments, representing same time a real support/plinth in ordering the treasury forecasts(available currency).

By cash-flow analyse are gathering relevant informations regarding the cash inputs and outputs(payments) (inclusively their equivalents concentrated in treasury inventory accounts predicament/category).

In financial practice is useful that cash-flow method must be applied both to current situation analysis and to firm's strategy.The cash movements are grouping on three different activities:

- proceeding/operational activities (of exploiting);
- investment activities;
- financial activities;

In all these activity types, the liquidity analysis serves to:

- connection of profit (losses) with the cash;
- spliting of activities which imply cash versus the activities which don't imply cash;
- valuation of firm's capacity to fulfill the cash payment obligation;
- valuation of cash flows for future activities (strategical cash-flow).

In exploiting activities (A) is necessary that cash-flow method to illustrate the transaction effects/results which have measured the profit or losses and modify (addition or minus) of working balance.

In investment activities (B) by cash-flow analysis will illustrate the cashing or payments made for acquisition or sales of fixed assets, thus beeing the variation of fixed/capital assets.

In financial activity (C) are illustrated the modification of debts and own capital.

Exploiting treasury cash-flows (operational cash-flow)

The firm's legal competence to produce cash from exploiting activity illustrates the manner of firm's function. The exploiting cash-flow is considered a major indicator of real financial „health ” of the firm. The exploiting cash flow is focusing on finance and not on profit measurement and, in consequence is adequate for valuation and shot-term liquidity forecast. Are known two methods in order to measure the exploiting cash flow:

- the direct method;
- the indirect method.

The direct method assumes to record all gross cash inputs and outputs regarding the exploiting activity. In this way is offering the cash measurements for both sides (inputs and outputs) and is offering details regarding the cash movements, also is taking notices concerning the places(posts) to which is possible to supervene a cash need.

The direct method illustrates the net profit as well as it has been computed on cash bases. In this sense could mention the following computation pattern :

Exploiting activity cash – Payments for expenses cash = Cash income before tax – Cash payments for tax = Cash derived from exploiting activity;

It could be reach to cash income before tax through the following pattern (which could be considered an replacing element for direct method):

Sales – Increasing in receivables inventory accounts – (Sales goods cost + Costs increasing + Decreasing of suppliers inventory accounts balance – Paid Interests, Exploiting expenses (which from are decreasing the fixed assets amortisation and the debts etc = Cash income before tax .

The indirect methods starts from net profit and depreciation considered as flow resources and are making increasing and decreasing based on variations which intervene in positions from final balance sheets versus the initiate ones and influence the money availabilities(cash). Is the most used method in firm's practice, due the possibilities to apply it both in execution phase and in liquidity flow forecast, by estimating first the level of future incomes..

A major place is engaged by the analysis of working balance from asset elements point of view (stocks,receivables and other operational assets), also from the passive elements point of view (suppliers, advance payments from customers, and other current debts).

Increasing of stocks, receivables etc. illustrates an absorb of liquidity,whereas a decrease of these active elements conducts to a liberation of available money.

From evolution of pasive elements point of view –suppliers, advance payments to suppliers and other current debt-is obvious that an increase illustrates a resources atractiing which influence favourable the liquidities, whereas a decrease of these conduct to a liquidity decrease.

The liquidities exploiting flow pattern by indirect method is as follow: Net result of the period [profit (+) or loss (-)] + Depreciation and costs included provisions, suppliance miscellaneous, customers – Creditors and other current operational pasive (+/-) – Stocks evolution (+/-), claims and other effective operational assets (+/-) = Net liquidity from exploiting activity.

The investment activity assumes both the sums from sales and capitalize of fixed assets, and the expenses made for acquisition or own resources/funds execution of the assets.

In a syntetic manner, the investments influence on the treasury flows could be illustrate through the variation of fixed assets (comparison of situation from the period's end to situation from the period's start).

Regarding the finance activities is necessary to pay attention to:

- variations of loans and assimilated debts;
- variation of other debts;
- variation of registred capital.

By algebraic add of all three flows categories flows (A, B and C) we obtain the total treasury flow(cash flow), which will be the same as the difference between available (treasury) from the period's end and the treasury from the period's start illustrate in balance accounts.

In cash flow analysis based on these three types of activities, the results evaluation takes into account the following demands:

A>0 means that the cash-flow derived from exploiting activities must be positive with an important value , due the fact that illustrates the expeditious informations of the firm;

B>0 means that the cash-flow from investment activities is positive. Such a situation could illustrate the intention of reorganization the firm's activity, which makes available fixed assets or has major commercial credits, given by the fixed assets suppliers;

B<0 means that the cash flow from investment activity is negative and conduct to investment achievements with value compensate partially from fixed assets capitalization ;

C>0 situation when the cash flow derived from finance activities is positive and it's made from extra financed sources in order to complete those derived from exploiting activity;

C<0 situation when the cash-flow from finance activity is negative and means that were made payments concerning capital decrease, repayment of loans, payment of financial leasing obligations, interests payment etc.

The algebraic sum of those three flows categories is normal to be positive, illustrates the liquidity's result of exploiting activity , that means a normal evolution of economic channel of circulation (money-goods-production-money) and allows the current needs cover , the cover of long terms needs and a financial equilibrium.

The total calculate flow must to be identically with the cash and cash equivalents from period's end minus the one from the period's start.

Using cash-flow method in firm's management are conditions to achieve the various goals related to good admnistration, thus we could mention:

- illustrate firm's capacity to generate liqudity(treasury), which demonstrates the efficiency of firm's activity;
- follow the variables which influence the cashing and payments, also taking/adopting the adequate measures;
- settlement of compulsory drawing sizes which affect the treasury and settlement of tresury flows which remains to firm's disposal;
- using the available liquidity in order to investments proceedings, following firm's development policy(otherwise, the un-investment policy);
- attracting of foreign sources (loans or credits) in case that the available liquidity is not enough for development;
- analyse of potential risk in manner how the firm achieves and uses the liquidities (cash) taking into account the influence upon firm's rewardings.

The cash-flow method is used in firm's financial strategy elaboration. In strategy elaboration intervenes a serie of various features, first beeing the forecasts, so it is working with probably variables and no sure variables. Too, an errors serie which had been made in a previous period are not forecast(deviations from proper proccedings of money- goods-money cycle).

The liquidity flows table are framing in an ensemble of methods and forecast financial methods. Thus, we mention: incomes and expenses budget, prevision balance and designed progress of efficiency and administration indicators. The starting point in financial strategy elaboration is the sails figure/turnover, which is based on market studies.

As a conclusion, the cash-flow is a continous investment process of money in an affair, which has as goal to obtain a money surpluss, beeing a firm's financial estate, which illustrates both the money funds formation and it's using, estimating the financial gains which can be obtained by an enterprising/business man from an affair.

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