

# THE RESULT ACCOUNT – DATABASE USED IN FINANCIAL ASSESSEMENT

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*Abstract: The performances of a society depend both on operational management (of production, of human resources) and on the financial management. In the economic specialists' opinion the objectives of the financial management are both profits maximization and maximization of shareholders' wealth.*

*The management process in a company means the assembly of stages, processes through which its objectives and those of the incorporated systems are determined, work resources and processes necessary to their achievement and their executors, through which they register and control the staff's work using a complex of methods and techniques in order to achieve most efficiently the reasons that determined the setting up of the company .*

*Key words: the financial management, the result account, the operational management*

## Introduction

To conduct this analysis we chose the „SALAMANDRA” S.R.L. Trading Company of Baia Mare, and we performed the analysis based on the data provided by the balance sheet and by the profit and loss account for the period 2003 – 2006, with the data expressed in lei – ROL to ensure their compatibility.

In the field of services the company provides its services through catering in the restaurant S.C. SALAMANDRA S.R.L. of Baia Mare, 6 Unirii boulevard. In the field of production the company manufactures a very wide range of meat products and by-products, processed meat, salami and sausages.

This study aims to uncover the potential of the economic agent S.C. SALAMANDRA S.R.L. for producing profit both through its current activity and through its perspective one, and to watch the behaviour of the economic agent in the case of changes in the structure of the capital, entailed by an increase of the fixed assets and of the company's indebtedness.

## 1. LIQUIDITY INDICATORS

These indicators allow an assessment of the financial status of the trading company and provide potential creditors with a minimum of data with regards to the way the company disposed and disposes over the period that is analyzed.

The capacity of the S.C. SALAMANDRA S.R.L. trading company to pay its obligations is illustrated through several indicators that are established based on various elements of the patrimony. The liquidity indicators and their evolution are presented in table no. 1.

**Table no. 1.**

*Liquidity indicators*

No.	INDICATORS	2003	2004	2005	2006
1	CAPITAL LIQUIDITY %	318.71	83.38	445.82	388.76
2	IMMEDIATE LIQUIDITY %	261.79	48.98	348.36	253.85
3	CAPITAL SOLVENCY %	0.00	81.38	93.85	84.30
4	NET ACCOUNTING CAPITAL (thousands lei)	1645450	7434280	21166590	388206813

**Capital liquidity and immediate liquidity:** the dramatic increase in the value of these indicators (except for the year 2004), well above 100%, reflects the high degree of both overall company liquidity and short term liquidity.

The evolution of the capital liquidity is presented in figure no. 1, and that of the immediate liquidity, in

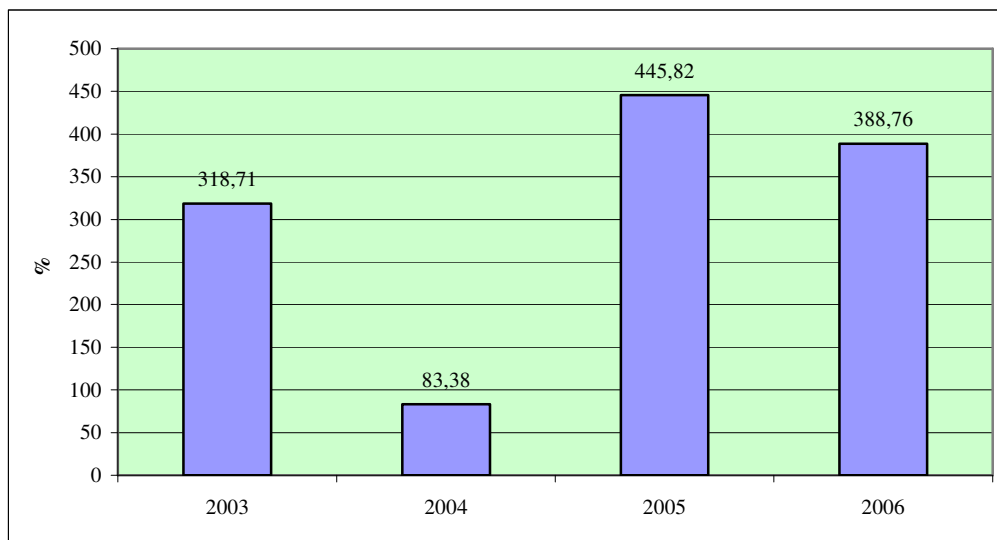
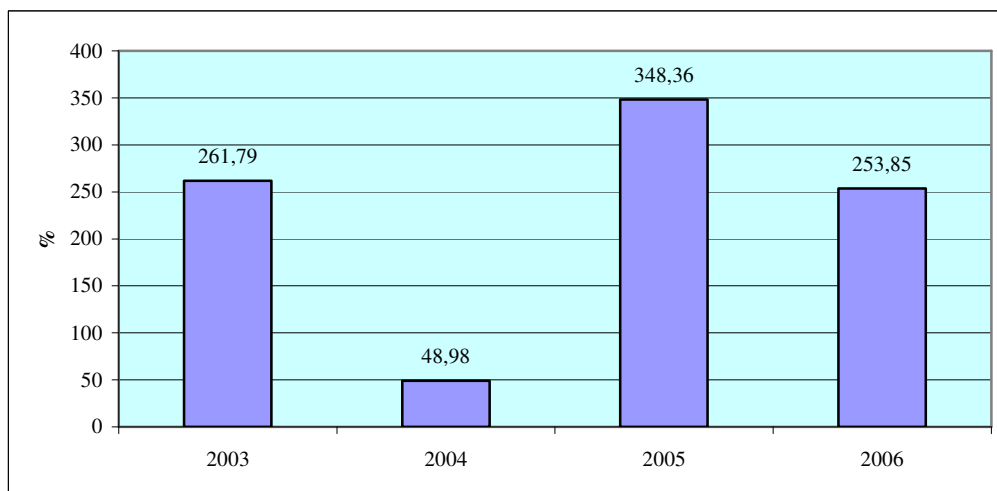


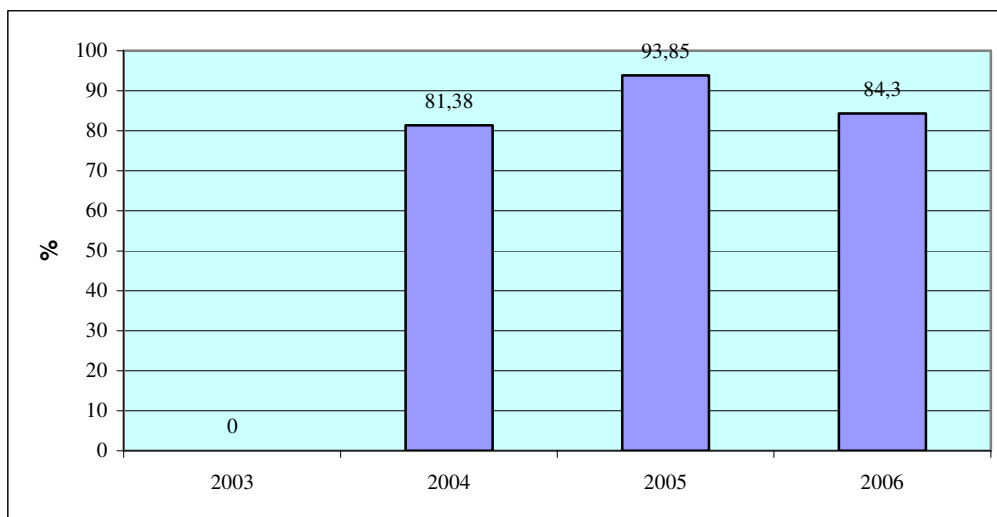
figure no.

**Figure no. 1. Evolution of the capital liquidity over the period 2003-2006**



**Figure no. 2. Evolution of the immediate liquidity over the period 2003-2006**

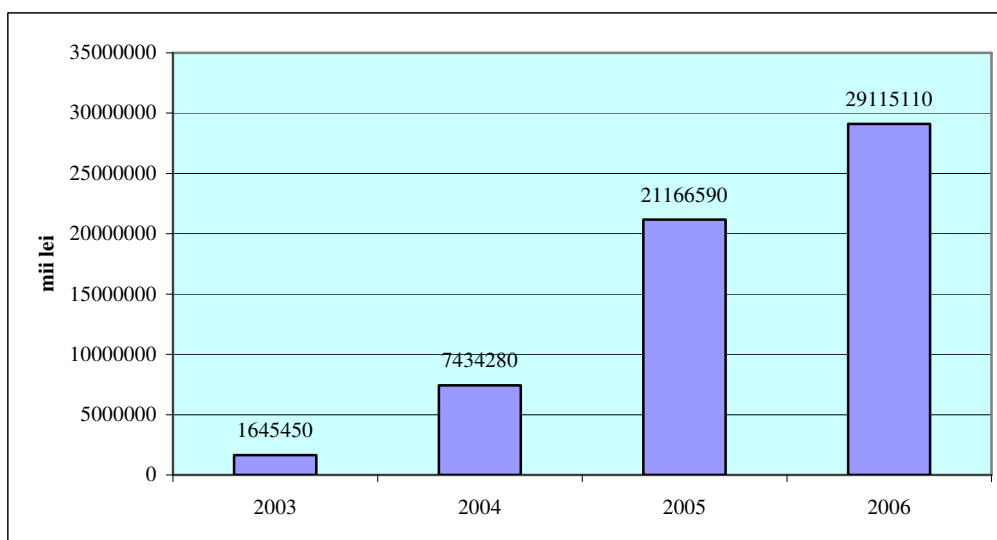
**Capital solvency:** based on specialist opinions, the minimum acceptable value for this indicator is of 30%; at over 50% the status of the company is considered as normal from the point of view of capital solvency, and at over 70% it is deemed to have a high degree of solvency. The evolution of the capital solvency is presented in figure no. 3.



**Figure no. 3. Evolution of the capital solvency over the period 2003-2006**

**Net accounting capital:** the clearly positive and improving situation at the end of each accounting period indicates the existence of a net capital, therefore of an active framework that is free of debt, which is in fact the wealth of the two owners of S.C. SALAMANDRA S.R.L.

The increase by 17.7 times of the net statement is a consequence of having reinvested almost the entire profit obtained in the production process, and it is a proof of interest from the company's managers to develop and consolidate their own business. The evolution of the net accounting capital is presented in figure no. 4.



**Figure no. 4. Evolution of the net accounting capital over the period 2003-2006**

## 2. FINANCIAL DIAGNOSIS BASED ON THE RESULT ACCOUNT

The financial performances of the S.C. SALAMANDRA S.R.L. company are expressed through the income, expenses and profits obtained over the periods that were analyzed.

The purpose of the analysis is to draw a general picture of the evolution of the main indicators that characterize the economic and financial activity, and that are used as a base for future projections.

The structure of the operating expenses is presented in table no. 2.

Table no. 2.

*Structure of the operating expenses*

INDICATORS	SHARE
Merchandise related expenses	28.41%
Raw material related expenses	55.69%
Consumable materials related expenses	7.83%
Power related expenses	0.75%
Other material expenses	0.05%
TOTAL MATERIAL EXPENSES	94.32%
Third parties related expenses	1.96%
Tax and fee related expenses	0.27%
Staff related expenses	3.35%
Amortization expenses	1.69%
TOTAL	100.00%

The share of material expenses and merchandise related expenses out of the total operating expenses is very high, exceeding 90%. Under these circumstances the difference between the company's incomes and expenses is a decisive element for the newly created value.

**Value added:** this is a very important indicator in the factor analysis of expenses, as it actually expresses the added value that is obtained from utilizing the production factors (labour and capital) above the value of goods and services provided by third parties within the company's daily activity

The evolution of the value added over the period 2004-2006 is presented in table no. 3.

Table no. 3.

*Evolution of the value added*

No.	SPECIFICATION	2004 thousand lei	2005 thousand lei	2006 thousand lei
1	Mark-up	1271490	3208270	4001213
2	Production of the period	20183440	36650060	55552800
3	Daily consumptions	16662620	34357100	53498307
4	VALUE ADDED	4792310	5401230	6055707

In fact, the *value added* is the source of financial accumulations used for remunerating the factors participating in the company's economic activity.

The structure of the value added is presented in table no. 4.

Table no. 4.

*Structure of the value added*

No.	SPECIFICATION	2004 (%)	2005 (%)	2006 (%)
1	STAFF REMUNERATION	15.67	29.11	44.70
2	STATE REMUNERATION THROUGH TAXES	16.31	1.88	3.72
3	CREDIT REMUNERATION THROUGH INTEREST RATE	8.75	13.41	21.47

4	INVESTMENT REMUNERATION THROUGH LIQUIDATION	0.73	6.73	22.64
5	OWN CAPITAL REMUNERATION THROUGH DIVIDENDS	0.50	0.59	-
6	COMPANY REMUNERATION THROUGH CAF	58.04	48.28	7.47

The greatest share of this value is taken by the sources permanently available to the company, which constitute its self-financing capacity. The expenses related to the staff and those of financial nature are, along with liquidation expenses, the true cost of utilizing the production factors mentioned before.

**Self-financing:** this is the main element in financing companies, and for many of them (especially private companies) it is the only source for financing the production activity, the operating costs, but also for supporting the decisive or risky stages of the development.

The size of the self-financing in the case of S.C. SALAMANDRA S.R.L. plays an important role in indicating the company's performances. For potential creditors and investors this is a sign that the company is capable of efficiently using the capitals entrusted to it and to ensure an interesting remuneration for them.

The absolute size and the relative size of the self-financing certify the level of the reimbursement capacity and the level of the company's non-payment risk.

**The structure of the operating income:** for the year 2006, S.C. SALAMANDRA S.R.L. has earned the income presented in table no. 5.

**Table no. 5.**

**Structure of the operating income**

SPECIFICATION	VALUE (thousand lei)
Income from sale of end-products	55550787
Income from sale of merchandise	26941547
- retail trade	25199640
- public catering	1741907
Income from sale of packing materials	2013
Operating income	10044320
Income from interest rates	61547
Income from discounts obtained	41107
TOTAL INCOME	92641318

The income obtained from the actual production activity cover 60% of the total achievements.

The selling of over 25% of the manufactured products through the company's own network, respectively the two retail stores "Vlăduț" and "Turist", as well as through the company's public catering unit, have favourably contributed to the achievement of a mark-up of over 175 of the trading activity.

**Net result of the activity:** this expresses the absolute size of the profitability through which the owners are remunerated for their own subscribed.

The structure of the profit and loss account for the three types of activity (operational, financial, exceptional) allow the establishment of intermediary balances of administration (SIG), meant to remunerate production factors and to finance the company's future activity.

These balances are in fact consecutive levels in the forming of the final result. The net result of the activity is presented in table no. 6.

Table no. 6.

*Net result of the activity*

No.	SPECIFICATION	2004 thousand lei	2005 thousand lei	2006 thousand lei
1	VALUE ADDED	4792310	5401230	6055707
	+ Subventions from operations	195410	7435020	1004432
	- Taxes, fees, deposits	781650	101860	225627
	- Staff related expenses	751070	1572830	2707413
2	GROSS OPERATING OUTPUT	3455000	11161560	13166989
	+ Income from commissions	-	-	-
	+ Other operating income	-	-	-
	- Amortizations	35360	363860	1371440
	- Other operating expenses	-	-	-
3	RESULT OF THE OPERATIONS	3419640	10797700	11795549
	+ Financial income	500790	408130	102653
	- Financial expenses	419340	724380	1300173
4	CURRENT RESULT	3501090	10481450	10598029
	+ Extraordinary income	-	1000	-
	- Extraordinary expenses	8970	86240	-
	- Profit tax	-	-	-
5	NET RESULT	3492120	10396210	10598029
6	FINANCIAL PROFITABILITY	13.54	18.15	12.91

The **gross operating output** expresses the gross accumulations obtained from the operating activity, and it is the main resource of the company with decisive influence over its final profitability.

The size of the output and the increasing evolution in the case of the S.C. SALAMANDRA S.R.L. company allows the enterprise to renew its fixed assets through amortizations and ensures the conditions for the external financing that entails financial expenses.

The **result of the operations** reflects the absolute size of the operations, obtained by deducting the payable and calculated expenses (liquidation).

The **current result** is obtained from all the daily operations of the enterprise. The influence of losses in the financial activity varied between 2.38% in 2004 and 10.15% in 2006, relative to the result of the operations.

The **net result of the activity** expresses the absolute size of the company's financial profitability that, along with commissions, amortizations, and any existing differences between divestitures, represent the company's self-financing capacity.

The **financial profitability** is a relative value that reflects the results of the activity in all the stages of the circular flow both in the study of production and in the one of sales.

The variable value of this indicator, that is the increase from 13.54% in 2004 to 18.15% in 2005 and then the decrease recorded in the year 2006 reflect both the managers' interest and their ability in reaching their final aim, which is to increase the turnover and, by that, increasing the absolute value of the turnover, and by that, increasing the absolute value of the net earnings.

Table no. 7 presents the basic synthetic indicators.

Table no. 7.

*Basic synthetic indicators*

No.	ECONOMIC VALUES	2003	2004	2005	2006
1	Turnover (thousands lei)	7876920	28579440	59819960	82494333
	Number of employees	63	62	66	75
	Net profit (thousands lei)	1743990	3492120	10396210	10598027
2	Exchange rate leu/USD	17000	25780	29500	31500
	Turnover (thousands USD)	463.35	1108.55	2027.80	2618.87
	Net profit (thousands USD)	102.59	135.46	352.41	336.45
	Labour productivity (USD/person)	7354	17879	30724	34918
3	Variation of the turnover	0.00	139.25	82.92	29.15
	Variation of profit	0.00	32.04	160.16	-4.53
	Variation of productivity	0.00	143.12	71.84	13.65

## CONCLUSIONS

Financial administration may be defined as a system of decisions and activities that all contribute to adjusting and regulating financial flows and funds, to administrating the company's financial resources. Financial administration aims to regularly provide the company with the funds required for current equipment and operations, but also to verify the correct utilization of the funds and the profitability of the operations to which these funds are assigned. Financial administration serves several purposes, all within the scope of the company's survival, achievement of profit, and economic development.

The financial function of the company has an operational role, a functional role, and a political role. The main financial activities are as follows:

- Drawing up and applying the income and expenditure budget;
- Conducting studied and analyses on the formation;
- Appropriating and utilizing capitals;
- Establishing prices and fees;
- Taking measures to ensure liquidity and solvency;
- Maintaining financial balance and avoiding risks.

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