



RATES OF FINANCIAL BALANCE. ASPECTS OF ECONOMIC PRACTICE. CASE STUDY

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Abstract

For the enterprise, the financial balance rates represent rates of synthesis embodied in instalments of liquidity and funding rates, which represent the expression of achieving financial balance in the long and short term. These rates of synthesis emphasize the existence or absence of the net treasury of the company, the need for working capital of the business and the working capital.

Liquidity ratios are determined based on information provided by company's financial statements expressing the company's payment capacity, respectively the solvency on short-term of the company. Through a system of rates we can establish the measure in which a firm can cover its short-term debt. Rates of financing of the enterprise highlight the financing methods of the investments of the enterprise.

Key words:

Financial statements, synthesis rates, financial indicators, liquidity ratio financial ratios.

JEL Codes:

G22

I. The relevance of financial indicators in the calculation of financial ratios

The fundamental objective of enterprises is represented by the maximization of the enterprise profit, maximizing shareholder value, maximizing the gain in terms of risk minimization. To achieve this objective, those charged with governance and management in exercising the functions assigned to them in decision-making, they use as working tool a system of economic and financial indicators. The indicators system enables a comparative analysis in time, quantity and value, planning and forecasting, patrimonial analysis, structure analysis, financial analysis, financial diagnosis, making decisions about the balance of financing needs and resources. In consequence-indicators "will serve to develop a diagnostic of profitability, risk and value" (Stancu, I. (2002:779).

The system of economic and financial indicators, resulted from the totality of indicators obtained from the processing of all data and information, represents the source for diagnostic and analysis in the decision making process of the enterprise.

Related to the cost of capital at the enterprise level, using indicators, rates can be built rates, patterns, work techniques and procedures for financial structure based on which decisions can be made for purchasing, increase, allocation, planning, forecasting and control of

its funds. Only in this way, it is possible to know, intervene, correct and achieve the financial optimal, by acting on the capital inflows.

"In order to know at one point the method of setting up and the use of the enterprise capital we use as a basic informational source its balance sheet. Information regarding the manner in which the constitution is made, is provided by the balance sheet liabilities, and those concerning procedure for use, placement are offered by its assets. Both types are of particular importance for financial decisions regarding long-term financing and short-term business activity, for its financial management viewed as a whole." (Trenca, I., 2007:237-249) The balance sheet shows results at two financial years, offering the possibility to evaluate each structural component, as its potential being seen as a maximum possibility of the company. The aim is to obtain the maximum effect with a certain limited volume of financial resources allocated, reported to decreased financial effort per unit of useful effect.

„Whatever its economic structure would be, a company must not have financing problems. The issue of its financial structure does not arise since the return on its industrial and commercial assets is higher than the rate of return required by the financial market. Conversely, whatever the financial structure would be, a company whose investments are not profitable will know sooner or later working difficulties. If it is less

indebted, the value will decrease, instead, if it is heavily indebted it will incur a double penalty. On the one hand, lowering the cost of borrowing will accelerate its return on equity. On the other hand, the company will have difficulties in getting its renovation loans.” (Manolescu, Ghe., 1994:107).. “Indicators are needed not only to leaders of the company but also to third parties in a contract, more or less closely with the firm they are forced to

appreciate it with a view to adopting the decision whether to continue or not relations with it (referring here especially to banks , but not only). (Giurgiu, A., 2001:77)

II. Case Study. The actual calculation of rates

A. Potetic Balance sheet

SC EXE SRL		
ACTIVE	Year 0 12,2014	Year 1 12,2015
Fixed assets - total (1 to 3)	0	27.150
Total stocks (4 la 7)	0	0
Total receivables (8 la 10)	9.310	26.309
Circulating assets/Ca	115.778	143.046
Availabilities (cash flow surpluses)Db	6.488	18.737
Expenses in advance	0	0
TOTAL ASSETS (A+B+C+11+12+13)	115.778	170.196
PASSIVE		
Social capital	200	200
Revaluation reserves	100.000	100.000
Reserves	11.635	40.084
Reported result	0	0
Result for the year	50.257	28.449
Distribution of profit	50.257	28.449
Personal capital /Cpr (14 la 21)	111.835	140.284
Long-term financial liabilities / Dtml	0	23.042
Short-term financial liabilities /Dts	3.943	6.870
Suppliers /Fr	150	150
Other debts	3.793	6.720
Revenues in advance	0	0
Current debts (D.11)/Pc	3.943	6.870
Total debts (G.14+D.11)	3.943	29.912
Deficiency of availabilities (cash flow deficiency)		
TOTAL PASSIVE (D+E+F)	115.778	170.196
	Anul 0 12,2014	Anul 1 12,2015
REVENUES		
Sales of merchandise	0	0
The sold production	68.442	60.057
Turnover/CA	68.442	60.057
Total operating income	68.442	60.057
Total financial income	4	4
Total exceptional revenues	0	0
Total income	68.446	60.061
EXPENSES		
Cost of goods sold	0	0

Raw materials and material	6.428	13.097
Expenditure on energy, water	149	0
Other material expenses	1.687	1.166
Salary expenses	3.360	4.120
Social tasks	1.075	1.328
Total personnel expenses	4.435	5.448
Depreciation of property	0	0
Other operating expenses	4.463	8.896
Total operating expenses	17.162	28.607
Exploitation profit (A1-B1)	51.280	31.450
Interest on long-term loans	0	1.204
Interest on short-term loans	0	0
Total financial expenses	0	1.204
Total exceptional expenses of which:	0	0
Total expenses /Cht	17.162	29.811
Gross profit	51.284	30.250
Profit tax	1.027	1.801
Net profit (C1-C2), of which:	50.257	28.449
Dividends paid	0	0

Sursa: Bilanț contabil construit pentru exemplificare practică

SC EXE - INDICATORS IN STRUCTURE				
I. The structure of assets		Year 0 12,2014	Year 1 12,2015	
Rate of fixed assets =Ai/At		0,00%	15,95%	
The rate of intangible assets = Inc/At		0,00%	0,00%	
The rate of tangible assets = Ic/At		0,00%	15,95%	
The rate financial assets =If/At		0,00%	0,00%	
The rate of current assets =Ac/At		100%	84,05%	
The rate of stocks =St/At		0,00%	0,00%	
The rate of receivables =Cr/At		8,04%	15,46%	
The rate of available funds =Db/At		5,5%	11,01%	
II. Structure of liabilities		Year 0 12,2014	Year 1 12,2015	
	12,2014 12,2015			
Permanent capital Cpm = Own capital + Long Term debts		111.835	163.326	
The rate of financial stability =Cpm/Pt		96,59%	95,96%	
The financial autonomy rate =Cpr/Pt		96,59%	82,42%	
The financial autonomy rate on term =Cpr/Cprm		100,00%	85,89%	
Global debt ratio =Dt/Pt		3,41%	17,58%	
Short-term debt ratio =Dts/Pt		3,41%	4,04%	
The rate of long-term debt =Dtml/Pt		0,00%	13,54%	
III. Rates of management		Year 0 12,2014	Year 1 12,2015	
Rotation of current assets = Current Assets / Turnover x360		608,98	857,46	
Stock rotation =St/CA x360		0,00	0,00	
The duration of debt collection =Cr/CA *360		48,97	157,70	
Rotation Liquidity = Available /CA x360		34,13	112,32	
The duration of rotation of short-term debts =DTS/CA *360		20,74	41,18	

The duration of payment of short-term bank loans = $\text{CrbTS}/\text{CA} \times 360$	0,00	0,00
The duration of payment of suppliers = $\text{Fr}/\text{CA} \times 360$	0,90	0,93
The duration of payment of other liabilities from operations = Other exploitation liabilities / $\text{CA} \times 360$	19,95	40,28
The duration of paying off other debts of exploitation = Other debts / CA	0,00	0,00
Short-term bank loans = CrbTS	0,00	0,00
Medium, long-term bank loans = CrbTM	0,00	0,00
IV. Indicators of financial balance	Year 0 12,2014	Year 1 12,2015
Revolving fund = Permanent capital - Fixed assets	111.835	136.176
Required revolving fund = $\text{Stock} + \text{receivables} + \text{Regular Assets} - \text{Current debts} - \text{Regular passives}$	111.835	136.176
Net Treasury = Global net working capital - Necessary revolving fund	0	0
Permanent capital = $\text{Personal capital} + \text{Long Term Debts}$	111.835	163.326
V. Liquidity indicators	Year 0 12,2014	Year 1 12,2015
General liquidity rate = $\text{Current Assets} / \text{Current Liabilities}$	29,36	20,82
Quick liquidity ratio = $(\text{Cash availabilities} + \text{Receivables}) / \text{Pc}$	4,01	6,56
Immediate liquidity rate = Db/Pc	1,65	2,73
Immediate liquidity rate = $\text{circulating assets} - \text{Stock} / \text{Current debts}$	29,36	20,82
Circulating assets – Stocks	115.778	143.046
VI. Rate of profitability	Year 0 12,2014	Year 1 12,2015
Income profitability rate = Pn/Vt	73,43%	47,37%
The rate of profitability of resources consumed = Pn/Cht	292,84%	95,43%
Gross margin rate = Ebe/CA	74,92%	52,37%
Commercial profitability rate = Re/CA	74,92%	52,37%
$\text{Ebe}/\text{Re} = \text{Operating profit}$	31.450	31.450
VII. Rates of profitability	Year 0 12,2014	Year 1 12,2015
Economic profitability of invested capital = RE/Cinv	45,85%	19,26%
Economic profitability of assets = $\text{Gross surplus of exploitation} / \text{Total assets}$	44,29%	18,48%
Financial profitability = $\text{Profit net}/\text{Cpr}$	44,94%	20,28%
Economic profitability = $\text{Gross profit} / \text{Permanent C.}$	45,86%	18,52%
Capital invested = $\text{Own capital} + \text{Long Term Debts}$	111.835	163.326
Permanent capital = $\text{Own capital} + \text{Long Term Debts}$	111.835	163.326

Rates are the result of reports between various indicators in order to reflect partially in terms of the company's total financial and economic aspects. Structure rates of assets and liability are calculated based on the balance sheet. Rotation rates help in establishing the manner of renewal of property items. Rates of synthesis aim at balancing on short-term and long-term the company. The results of the rates are compared with the scales laid down to assess whether corrective actions are required or the financial situation is good or very good.

CONCLUSIONS

The system of economic and financial indicators:

- Is given by all the indicators resulting from data processing, information and even indicators processing;
- Indicators are constructed on the basis of the balance sheet helping to plan and control financial activity;
- It assists in assessing the financial performance of the company;
- Analysis and synthesis in conducting economic and financial phenomena and processes;
- It represents the source for analysis and

decision making process of the company and to evaluate its synergistic ability;

- This is sitting at the basis of rates, patterns, working techniques and procedures to obtain optimal financial structure, on procurement, increasing the allocation, correction and control of its funds;

- It ensures comparative analysis between expected results and those obtained;

- It is based on a well-organized information system, and based on the data, information, on real indicators;

- It assists in the preparation of financial statements and annual reports and performance reports;

- It assists in planning and forecasting financial-economic activity of the enterprise;

- Knowing indicators allow their correction depending on the objectives that these had to answer, in order to achieve the objectives set and in consequence of the company's fundamental objective, that of maximizing profit;

- The use of simulation technology to create various scenarios with a view to choose the optimal variant, those enables the use of models and optimization methods ;

- It ensures a systemic vision;

- It creates opportunity to indicate better over time the moment of capital formation opportunity, in one way or another, and its exploitation;

- Achievements and financial constraints are expressed as rates.

- the selective financial indicators allow a comparative analysis, rate calculation, it provides information on enterprise performance and efficiency of use of financial resources.

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