ANALYSIS OF THE COMPANY FINANCIAL BALANCE

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Abstract

Creating a company, maintaining market position and support its growth requires resources to ensure optimal deployment, development activities..

For best company must have equity because they represent a set of resources likely to provide future income streams.

Choosing an optimal structure of capital is a strategic decision, which must be harmonized with the overall strategy of the firm. Through its funding policy, the company must ensure, at any time, the appropriate volume of foreign equity in relation to its needs.

The decision for a particular capital structure the company should take into account a number of risks associated with indebtedness, risks that may offset or even cancel its positive effects.

Keywords:liquidity, financial balance, equity capital, solvency, financial autonomy.

Classification JEL: M40, M41

1. Introduction

Company capital formation is performed from different sources, so financial structure, the average cost of capital used in the operation and management mode of enterprise financial mechanism, of particular importance for this.

At company level, capital structure, together with human resources and information, have a significant impact on the efficiency of economic activity and financial flows, present and future.

To ensure a financial balance sustainable management of the company must achieve a correlation while the liquidity of assets and chargeability liabilities so that the permanent capital to finance assets (balancing long-term) and liabilities to be paid within a period of up to a year to finance current assets (short-term financial balance).

The role of managers is to establish an optimal combination of various resources available so as to minimize its weighted average cost of capital and maximize the value of investments made by shareholders.

2. Analysis of working capital

Working capital is considered a pool of resources likely to provide cash flows and future income streams, contributing to the creation and optimal functioning of a company. Formation of the company is realized capital from different sources, so financial structure, the average cost of capital used and how effective functioning of the management company, of particular importance for this.

Financing the assets of a company incurs costs and risks. Financially, equity indicates whether the company was profitable up to a point, because the capital is not repayable, depending on the performances of the company's remuneration, ie good management. If funding is achieved at the expense of borrowed capital increases the risk of the firm, mainly because the interest and financial expenses they generate important to her.

The balance sheet is the tool of reflection of the company's financial balance at year-end, of material reflection (by assets), of the use of equity and borrowed capital[6].

Firm's leaders in the making decisions process have in mind the nature and structure of resources used because they have a direct influence on the risks that the company must overcome in a very dynamic and complex environment[2].

To create a stable financial balance, managers must provide information on financial flows, leading to ensure the financing of current assets in order to obtain liquidity to honor obligations and at the same time to avoid bankruptcy.

The working capital is a safety margin to the firm, being the result of economic and financial decisions and policies established by management.

A first balance arises from the confrontation of liabilities on long-term (permanent capital) with the permanent need (fixed asset) as shown at the top of financial balance.

Working capital = Permanent capital – Current assets

This method emphasizes financial balance on long-term, the working capital representing part of the permanent capital remaining after financing the current assets that the enterprise uses for financing[5].

With the increase in working capital, increases also the safety margin of the company and consequently a big part of the current assets are financed by permanent capital.

The decrease of working capital is caused by the decrease of permanent capital (repayments on long-term loans or bonds) and increase of net assets (investments) [7].

Working capital is a concept often used in financial analysis. In absolute size, the working capital is calculated as the difference between current assets and cash resources (short-term liabilities):

Working capital = Floating assets - Cash resources

This relationship enables company management to conduct an analysis of the structure of current assets and current liabilities, providing information about real and monetary flows from previous and current period. A positive value reflects a potential surplus liquidity on short term because the value of current assets is higher than short-term debt. A negative value reflects a surplus of debts as potential liabilities are not covering the potential chargeabilities[3].

Both calculation methods lead to the same result, except that the first method creates the possibility of appreciating the method of financing investment, while the second method creates the possibility of assessing short-term financial balance.

Determine an optimal capital structure is an important decision for the firm as it should be at all times an adequate amount of foreign equity to meet its short-term obligations and long term.

Sizing the size of capital in relation to business needs is an important issue and a strategic decision because any failure decisive influence on the solvency of resources, liquidity and its results.

The net asset value is identified, usually, by the size of equity. Inside the permanent capital the share of borrowed capital must not be excessive in relation to the equity (not to exceed 50%) which requires determining the own working capital fund (FRp) and foreign working capital (FRs) [7].

The working capital highlights the degree of financial autonomy of the firm and it is determined as the difference between equity and current assets:

FRp = Equity – Current assets

If working capital is positive then the assets of the firm are financed by equity, leading to an optimal financial structure as it corresponds to the minimum cost of capital. In this situation the financial balance ensures itself through equity, reflecting the company's financial autonomy.

The working capital (FRs) reflects foreign medium and long-term debt used to finance the firm.

FRs = working capital – own working capital

The existence of a foreign working capital greater than working capital reflects the company's dependence on the financial market, entailing a risk of insolvency.

Solvency refers to the availability of cash to use on a longer period of time to honor outstanding financial commitments[4].

As an indicator of financial balance and liquidity, the working capital highlights the way to ensure financing activity undertaken by the firm and enables assessments of the possibility of financing current assets (of permanent capital, which is why it is also called indicator of financing current assests or indicator of capital immobilization) and financing of working capital (equity which is why it is called the coverage degree of current assets to equity - has a role to information on the financing of current assets):

- indicator of capital immobilization represents the financing of permanent capital.

- the coverage degree of current assets represents the existing equity in the circuit of a firm, fixed in the mass of current assets.

In lending to commercial financial companies, a special role has also the determination of economic solvency that allows to draw conclusions on the economic and financial situation.

In analyzing the financial liquidity it should be distinguished, among indebtedness, which represent loans used to be procured liquidity repayment, according to maturity and capacity of unsaturated leverage or open credit lines, which represent unused loans, that the enterprise has access to.

Indebtedness decreases financial liquidity while the open credit lines (limits approved) increase financial liquidity[2].

Measuring indebtedness is necessary to draw conclusions about the state of the company's financial liquidity. Indicators used to measure indebtedness are:

- solvability (the ability of the company to meet its commitments in the event of liquidation or the ability of firm to pay their long-term liabilities):
- financial autonomy is contributed own resources to finance economic resources of the enterprise

3. Net cash

Treasury is painting cash money and investments in the short term, arising from the current trend of receipts and payments or placing surplus cash.

Treasury plays a fundamental role in an enterprise because it characterizes the size of the cash reserves available to it at a time.

Patrimonial balance sheet, net cash is calculated as follows:

• net cash is determined as the difference between cash and cash equivalents and treasury loans, relationship calculation is as follows:

Net cash = Cash- Treasury credits

• Treasury is determined as the difference between working capital and working capital requirements:

Net cash = Working capital - Working capital requirement

The positive difference between working capital and working capital requirements Underlines the available funds in bank accounts and in hand, and the treasury is positive.

Treasury negative reveals a weakening of the financial year-end accounting, monetary deficit covered by hiring new short-term loans.

4. Conclusions

Choice of adequate sources of financing business activity requires a balanced analysis of several factors: the period for which funding sources are needed, the cost of funding sources, the flexibility of the contract, the impact of taxation on financing policy of the company, the cost of warrant issue information asymmetry.

One side of financial management is the procurement and use of capital company to achieve a quantitative and qualitative productions as object of activity and a profit source for present and future self-financing.

The level of capital affect the entity's ability to pay dividends, so how to manage capital is to users, important factors to consider in assessing risk and its ability to cope with unexpected negative events.

Determining the optimal size of capital is a matter of utmost importance in the financial management of the company as a possible insufficiency of resources for long-term influence on the solvency, liquidity and profitability.

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