INTERFERENCE BETWEEN PROFIT AND CASH-FLOW IN EVALUATING ECONOMIC PERFORMANCE

HADA IZABELA DIANA,
PH.D STUDENT, „1 DECEMBRIE 1918” UNIVERSITY OF ALBA IULIA
e-mail:izabela_hada@yahoo.com

BURJA VASILE,
PROF. PH.D, „1 DECEMBRIE 1918” UNIVERSITY OF ALBA IULIA
e-mail:vasileburja@yahoo.com

ABSTRACT: *Performance represents the main target for stakeholders interested in the activity of the companies. To deal with all challenges, and to be prosperous, attractive, efficient and promising development, a company must obtain a profit. In addition to profits, the cash-flow represents the substrate vital for development, sustainable financing and the survival of an entity in a dynamic business environment, being a true indicator of performance measurement. The purpose of this article is the evaluation of performance of an entity, seen from the angle of profit and cash flow, as essential indicators in the assessment of the health status of the entity. The research is based on a comparative analysis of performance through indicators of profitability, on the one hand, and of the balance indicators, on the other hand. The research results confirm the hypothesis that the profitability and economic balance are inseparable components of performance and shows us that a good performance requires a high profit and positive cash-flow, guaranteeing economic balance.*

Keywords: *profit, cash flow, performance, added value, economic balance*

Classification JEL: L25, M40, M41

1. INTRODUCTION

Under the terms of a business environment in a constantly changing, with competition in the marketplace increasingly closer, imperfect legislation and in constant motion, a series of social imbalances and economic circumstances which make their presence felt more and more often, the term "performance" represents the main target for users of accounting information: investors, customers, suppliers, employees, state, and others. The performance includes the ability to gain access to resources, to allocate and optimum use, in order to ensure sufficient remuneration to cover risks and maximize results. In addition to obtaining profits, as an essential indicator of financial performance measurement of the health status of an entity, the cash-flow has a real importance, representing in our opinion, the substrate vital for development, sustainable financing and the survival of an entity in a dynamic business environment, being a true indicator of performance measurement. The survival of an entity in a dynamic economic environment and its development involves recourse to financial resources. The profit was and continues to be considered today the main indicator for evaluating the performance of an entity. Did we talk about a relationship between profit and cash-flow? But between performance and cash flow? We can consider that an entity which obtains profit has sufficient financial resources in the form of cash flow? In our vision, there is a big difference between the profit achieved by the entity and cash flow. Profit is determined as the difference between the income of the entity and expenses incurred by it. Cash flow reflects cash transactions, totaling the amounts remaining after deduction of the amount of revenue of payments made. Of these two relationships, we can form a first impression about the relationship between profit and cash flow. Profit and cash-flow would be proportionate if the income would be equal to the proceeds, and expenses of equal payments. In practice, the principle of accrual-based direct relationship cancels any proportionality between profit and cash flow. There are numerous situations where an entity obtain profit, but doesn't have enough liquidity; or situations where cash is sufficient, but the entity recorded a loss. This divergence between profit and cash flow is generated by the criteria for the recognition of revenue and expenditure, the recognition of impairment charges and depreciation expense, which do not involve a stream of cash balances because they have already been paid at the time of acquisition of assets subject to depreciation. In addition, the revenue does not necessarily involve cash and an entry, these reflecting mostly a promise or a commitment of paying customers, and that turns into money only at the time of receipt of the equivalent goods, works or services provided. According to a study, the actors are interested in financial information flow organization activity and, in particular, its capacity to ensure adequate speed of liquidity; in this context, theorists and practitioners have focused attention on the outcome of the treasury or treasury, considered vital information for an organization, because through ensures sustainability (Ştefãnescu,Turlea,2006).

With the main goal to evaluating performance, the purpose of this article is the evaluation of performance of an entity, seen from the angle of profit and cash flow, as essential indicators in the assessment of the health status of the entity, through a comparative study using on one hand profits obtain by an entity to calculate intermediate balances management and value added, and, on the other hand, cash-flow for calculation of the balance indicators. The research is based on the comparative evaluation of performance measured from the angle of profit and cash-flow, taking into account the period of the two financial years during which the company recorded significant profits and cash-flow.

2. PAPER BODY

Methodology of research: In this article, literature review (document method) aims at presenting the current state of knowledge, through recourse to citations, highlighting current concepts regarding the notion of performance, profit, cash flow, interference between profit and cash flow. At the same time, theoretical documentation of allowed presentation of concepts considered significant in relation to the topic studied as well as the existing relationship between profitability, profit and cash flow. Study of the synthesis documents as research method was chosen as the basis for the case study on the evaluating of performance. The case study is aimed at illustrating how appreciation of the economic performance of a company based on interference between profit and cash-flow, through a comparative analysis using on one hand the profit obtain by entity as an element of calculation of intermediate management balances and added value, and, on the other hand, cash-flow in calculation of financial balance. Participatory observation was used for the analysis and interpretation of the results of the study case, grounding some opinions in the light of the results obtained and the achievement of the objectives proposed.

Literature review: The performance is a complex notion, whom he met in the literature a number of definitions. Many of these have tended to focus on the size of financial results showing efficiency as a primary measure of performance. In economics, the concept of performance covers different horizons, such as: growth, productivity, profitability, profit, value, efficiency, progress, success. Entity level, performance means success. At the macroeconomic level, an entity to be efficient should cover the information needs of all participants in economic life of it. In view of this consideration, according to opinion of some authors (Pintea, Achim, 2010), performance is an adequate representation of the various categories of interest data users, helping to improve the cost-value torque. In agreement with the opinion presented in the literature (Olu Ojo, 2011), for an organisation to be effective, the goals, the standards and the action plans need to be planned well in advance, thus, performance appraisal facilitates the achievement of organizational goals, and facilitates the optimal use of the organizational resources. Performance represents a reflection of future results, a state of competitiveness which ensures a sustainable companies on the market. Most often, the performance is associated with obtaining by each entity in part of the desired results, in accordance with the objectives set. In addition, achievement of the objectives involve harnessing the plasmid production, reduce losses and increase the financial results of the entity. In this sense, some authors (Briciu, 2006) present the three performance variables: profitability, efficiency and effectiveness, profitability means purchasing resource at the lowest cost; efficiency involves maximizing the outcome-minimizing resource quantities for a predetermined outcome; and effectiveness of the results obtained through translated.

World financial and economic crisis has imposed rethinking the concept of company performance, and maximizing the wealth managers retools shareholders (Balteş, Dragos, 2015). Some authors (Petrescu, 2010) believes that the major goal of the entity is both the size of the property in its participants (shareholders, employees, creditors, State), and increasing its value. In our view, the fundamental objective of an entity is and will remain the production of profit, as the main indicator in the assessment of performance and health. Of course, in addition to obtaining profit entity must also channel attention to meeting the needs of the various categories of stakeholders. Considering these issues, we believe that this assertion is correct, ever more present in the literature, according to which the performance measurement seems to be the never-ending story of managers, consultants and academics(Wagner, 2009). Companies have understood that for competing in continuously changing environments, it is necessary to monitor and understand firm performances, using a dynamic system that enables support of decision-making processes by gathering, elaborating and analyzing information (Taticchi Cagnazzo, Tonelli, 2010). On these grounds, performance management is a broad set of activities aimed at improving employee performance, focuses on ways to motivate employees to improve their performance (DeNisi, Pritchard, 2006). In addition to the above opinion, we can say that performance management should aim at improving the performance of all categories of participants in the life of the entity, which contributes to the achievement of a global performance, guaranteeing the establishment results hardly challenged or called. In agreement with the idea presented by some authors (Pintea, 2011) performance measurement should help the economic entity to understand and assess the effectiveness of processes implemented in the economic entity and its strategic properties, playing the role of coordination, monitoring and diagnosis of economic entity's activities.

In terms of financial performance, optimum financing of the business entity, identifying and capitalizing on the available financial sources and efficient use of them in order to create a monetary surplus represents the coordinates of the financial performance. We subscribe to the idea presented by some authors, that financial performance constitutes an amendment to the overall efficiency of the entity, reflecting the way in which the entity is worth the resources entrusted to it, the ability financing of the company, namely the ability to attract new resources, and in the end, an essential stake for its relations with the enterprise, as well as internal relations (Barbuță-Mișu, 2009). In this sense, some authors (Syed, Vijayesvaran &al, 2013) suggest that the financial performance refers to the extent to which the organization performs in relative sales value, sales growth and gross profit / profitability. Following the above, we can appreciate the following: performance is a priority, a purpose of an economic and social game that has as main actors entities; an assurance of future cost-effective results and value creation as a result of the performance of process-is a point of interest to participants in the social life of the establishment. We conclude that performance is the most complex and difficult to achieve gauge.

Result and discussion: To survive, economic entities have to balance revenue with payouts. It's not always profitable companies have sufficient cash flow. Behind the profitability, entities hide the serious imbalances of Treasury (Ștefănescu,Turlea, 2006). Performance evaluation solely on the criterion of profitability is not sufficient unless it is proposed and the company's liquidity (Tabără, Vasiliu, 2013). We consider it necessary to the performance evaluation that meets the interests of the stakeholders, of the health status of an entity both from the prism of the profit and cash-flow, showing the financial equilibrium and offers a guarantee of maintaining market conditions competitive. In order to assess the economic performance of the company analyzed we compiled intermediate management balances switchboard (table no.1).

Evaluation of performance based on the intermediate management balances

Table no.1

Nr	CALCULATION	2016	2017	2017-2016	%
1	Sell goods income (707)	942.201	1.469.159	526.958	55,92
2	Goods expenses (ct 607)	666.416	854.526	188.110	28,22

3	Commercial Margin (1-2)	275.785	614.633	338.848	122,86
4	Sell Production (ct 701-706+708-709)	82.569	83.594	1.025	1,24
5	Change in stocks (ct 711 +/-)	-	-	-	-
6	Stock production income(ct 721+722)	-	-	-	-
7	Exercise productions (4+5+6)	82.569	83.594	1.025	1,24
8	Third expenses (gr.60-607, gr.61, gr.62-621)	249.773	418.278	168.505	67,46
9	Added value (3+7-8)	108.581	279.949	171.368	157,82
10	Tax expenses (gr.63)	-	5.833	5.833	-
11	Wage expenses(gr.64+621)	4.984	117.726	112.742	2.262,07
12	Gross operational surplus (9-10-11)	103.597	156.340	52.743	50,91
13	Other operational revenue	36.409	23.790	-12.619	-34,65
14	Other operational expenses	15.191	84.145	68.954	453,91
15	Depreciation Expenses	2.880	26.531	23.651	821,21
16	Operational result (12+13-14-15)	121.935	69.454	-52.481	-43,01
17	Financial revenue	153	755	602	393,46
18	Financial expenses	3.388	10.482	7.094	209,38
19	Financial result (17-18)	-3.235	-9.727	-6.492	-200,68
20	Gross result (16+19)	118.700	59.727	-58.973	-49,68
21	Tax	21.905	12.282	-9.623	-43,93
22	Net result (21-22)	96.795	47.445	-49.350	-50,98

Source: Indicators were calculated using data from the profit and loss Account of the company analyzed

Although the profit or the net result of the year low in 2017, commercial margin, exercise production, added value and gross operational surplus increased by 2017 compared to 2016. Commercial margin has recorded a significant increase in quite in 2017, 338,848 (122.86 percent), mainly due to the increase in sell goods income which exceeded considerably the goods expenses. As regards production, this year has seen a relatively insignificant change in the form of an increase in the deficit, with 1,025 (1.24%) directly proportional to the modification of the sell production. In addition to the increase with 168,505 (67.46%) third expenses, commercial margin was unable to influence the positive contribution of the entity at the national wealth will, through the efficient use of resources, through funding and by default the remuneration employees, shareholders and the rule through increasing with 171,368 (157.82%) in added value in 2017 in relation to the previous year. In 2017 wage expenses had increased by 112,742 (2,262.07%), but on the whole, the gross operational surplus recorded an increase of 52,743 (50.91%) witch confirms the effectiveness of the entity's industrial and commercial, and generating the necessary resources to finance the repayment of loans, investments, capital and reserves remuneration. By this time, the balance tilts towards the year 2016, as one in which the company has recorded the highest profitability, if we take into account the profit compared to the year 2017. An element to be taken into account is the value added. We appreciate the fact that the added value, of the efficiency of industrial and commercial society, and generating the necessary resources to finance investments, improving intake brought participants from economic activity in 2017 society analyzed is a more advanced from a financial standpoint. In assessing the financial performance of the company's, we determined indicators of financial balance according to table no 2

Financial performance and financial balance

Table no. 2

INDICATOR	Formula	2016	2017	2017-2016
Working capital **(WK)**	Permanent capital – Fixed Assets	-38223	322526	360749
Working capital requirement **(WKR)**	(Stocks + Claims) – Short term debt	-183006	167208	350214
Net Treasury	WK-WKR	144783	155318	10535

The rate of funding of WKR	Working capital x 100 / Working capital requirement	20,88	192,88	172,00
The rate of funding of current assets	Working capital x 100 / Current Assets	-11,93	28,32	40,26
The rate of coverage of short-term debt	Working capital x 100 / Short term debt	-10,81	39,52	50,34
Funding rate of turnover (WK ratio)	Working capital x 365 / Turnover	-13,61	75,81	89,43
Duration of the rotation WKR (WKR ratio)	WK requirementx365 / Turnover	-65,18	39,30	104,49

Source: own screening

To characterize the financial equilibrium, we determined the specific indicators in principle for the year 2017 (as in the year 2016 WK and WKR have been negative, meaning that for this year fixed assets were financed from resources in the short term, as they are not sufficient permanent sources for financing). WKR financing rate calculated for the year 2017 exceeding the value of 100 (192.88) which denotes the fact that treasury entity is positive, she's evolving favorably from one year to another. Directly proportional to this increased and WK (as a result of a call to the credits on the medium and long term and the increase in indebtedness) as well as working capital requirement. By determining the rate of turnover, we can consider that the WK, which relates to the year 2017, ensures financing activity within days of 75.81. Analyzing company performance in terms of the indicators of financial equilibrium, we can say that, in the year 2017 working capital ensures the financing of the business through the effective use of available resources.

3. CONCLUSIONS

As a result of the research carried out, we can said that the performance represents the most complex and difficult to achieve gauge, being a trump, a trophy, a prize, a medal which may be obtained by any entity. A profitable entity must record both the profit (harnessing resources, efficient use of their potential loss) as an indicator of essential financial and performance assessment of health status of an entity, as and sufficient liquidity (a positive cash flow and thus balance indicators with positive values, a working capital and working capital requirement positive, confirming a significant funding capacity). In our opinion, cash-flow represents the substrate vital for sustainable development, financing and the survival of an entity in a dynamic business environment. Creating value as a result of the performance of process-is a point of interest for the participants in the social and economic life of an entity. It is recommended that any entity, in addition to a profitable activity, to channel the needs of investors (through value added), creditors (through payment of outstanding debt safety), employees (by ensuring stability at the workplace), the state (through budgetary income supplementation in the form of taxes and fees paid), but not the least, to increased productivity of production factors, remuneration capital labor and maintaining a monetary surplus. Evaluation of economic performance by studying the comparative profit obtained and cash-flow, gives us a perspective that a considerable profit can hide serious financial imbalances, a positive treasury determined as the difference between a working capital and working capital requirement negative. Research confirms the hypothesis that the profitability and financial stability are inseparable components of good performance, and a performance implies a considerable profit and a positive cash flow, which ensures balance financially.

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