USING INFORMATION ON THE CASH FLOW SITUATION IN SUBSTANTIATING ENTITIES' DECISIONS

UTILIZAREA INFORMATIILOR DIN SITUATIA FLUXURILE DE NUMERER ÎN FUNDAMENTAREA DECIZIILOR ENTITĂTILOR

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Abstract: *The situation of the cash flows is a component of financial situations and it represents the modality in which a certain entity generates and uses cash and cash equivalents. The situation of the cash flows illustrates the image of all incomings and payments within a certain period of time. Based on the situation of the cash flows, decisions can be made in order to plan incomings and payments or various variants to modify the terms of certain payments can be suggested, so that those payments should match the incomings.*

Key words: *cash flow, information, decisions, cash*

INTRODUCTION

The Public Finances Ministry Order No. 3055/2009 regarding the approval of Accounting Regulations complying with European Directives defines the situation of the cash flows as being a component of annual financial situations, together with the balance sheet, profit and loss account, the situation of the modifications of capitals and the explanatory notes referring to the annual financial situations. Thus, the entities present the situation of cash flows for every period of time to which the annual financial situations relate.

The cash flow situations present the way in which a certain entity generates and uses cash and cash equivalents.

In the context of drawing this situation:

- cash flows are cash and cash equivalents inputs or outputs
- the cash contains the money availability and sight deposits;
- cash equivalents are short time financial investments, extremely liquid, easily convertible into amounts known as cash and which undertake an insignificant risk of value modification.

Information referring to cash flows afferent to an activity is useful since they represent, for the users of the financial situations of the entity, an evaluation base of the entity's capacity to generate cash

Users want to know details on the entity's capacity to generate cash flows, as well as on the modality the entity uses them, in order to be able to make decisions regarding the entity in question.

MATERIALS AND METHODS

The theoretical aspects of the cash flows, constituted the starting point of research work and they imposed the necessity of completing with practical aspects, resulted from the market study with the theme „Use of information on the cash flows situation in the substantiation of the entities' decisions".

Through this investigation, we have been interested in attracting respondents: managers of some companies in Timisoara. We also focused on analyzing the managers' attitude regarding the utility, the quality and quantity of information released by the cash flows in the decision making process.

As a research method we used questionnaires, which were e-mailed to several respondents (60). The rate of answers can be considered good, the total number of respondents who answered the questions was 46, of which, only the correctly filled in questionnaires were selected, 35.

Most of the entities who answered belong to the category of small and middle entities.

The structure and the contents of some of the questions are illustrated below:

1. Who do you think the information in the financial situations is addressed to?

☐ Management
☐ State bodies
☐ Shareholders or associates
☐ Auditors
☐ Banks
☐ Potential investors
☐ Business partners
☐ Other users of financial information, such as: Put in the order of importance from 1 (the most important) to 8 (the least important)

2. Which are the accountant information useful to you in making your decisions?

☐ Clients' situation
☐ Debts to banks
☐ Debts to the budget
☐ Cash flow
☐ Performance indicators

3. What purpose is information about financial situations used for within the entity ?

☐ Operational management of the company
☐ Analysis of the financial position and the company's performance
☐ To prove financial stability in view of getting credits
☐ To report the financial situation of the company to its owners.
☐ To report to state bodies statistic data, for taxes and other purposes.

4. In what degree is information regarding the cash flows situation useful in making management decisions?

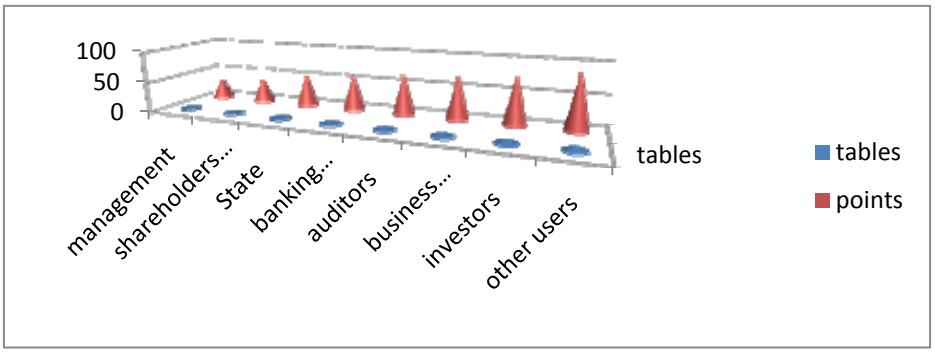
☐ Every decision
☐ Only partially
☐ Not useful
☐ I use personal information, registered in my personal agenda.
☐ Other comments as
☐ Profit
☐ Others

RESULTS AND DISCUSSIONS

The results of the research are illustrated below:

1. Users of financial accountant information

The respondents were asked to grade on a scale from 1 to 8 every user of financial accountant information:

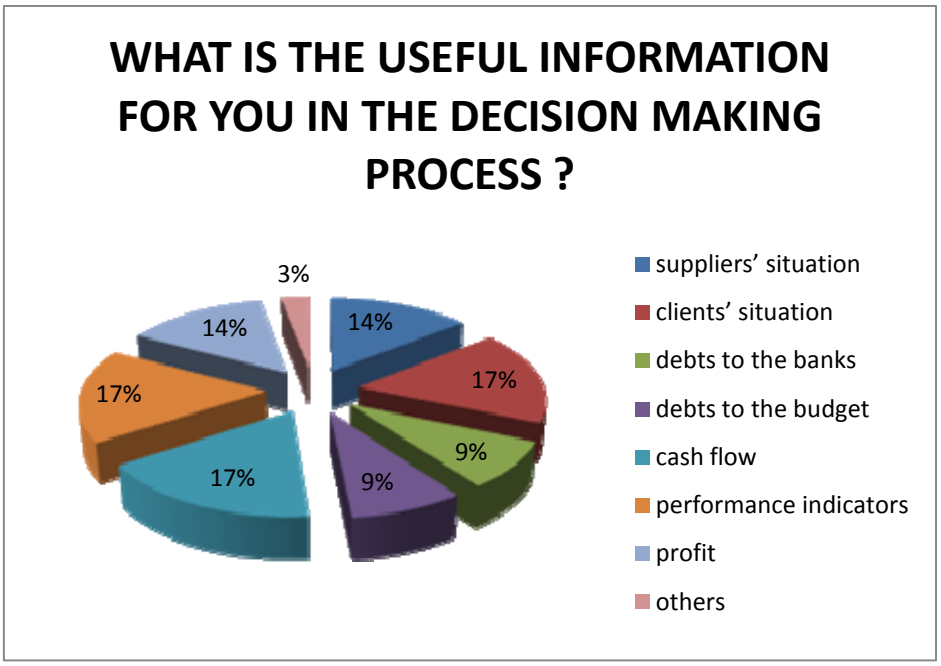


By adding up the points granted we were able to establish a classification of the users, based on the respondents' answers. As it can be seen, the most important users of financial information given by the financial situations are the managers, followed by the shareholders / associates. The state comes on the third place followed by the banks. On the fifth place there the auditors, who are major consumers of financial information and who outclassed in importance the entities. The role of the auditors is well known and clearly defined among the users of information, because they are those who establish the degree of credibility of financial situations and they are also the guarantors of the truth of the accountant information presented in these situations.

Business partners are on the sixth place among the users of information, closely followed by the potential investors.

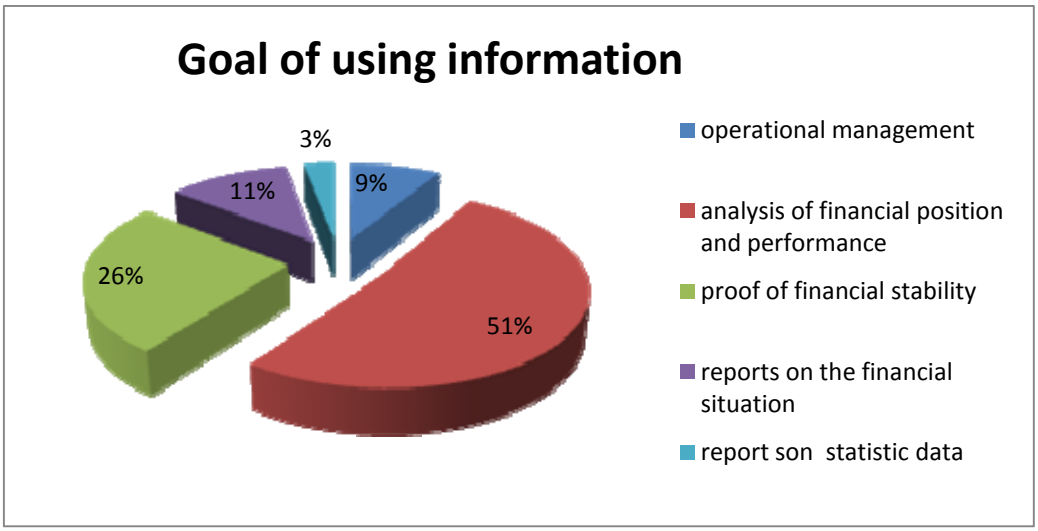
2. Accountant information in making decisions

In order to find out which information is useful, we asked the question illustrated in the below figure:



Regarding the utility of accountant information in making decisions, 17% stated as important the performance indicators, cash flow and the clients' situation and 14% mentioned the suppliers' situation and profit. Only 9% are interested in bank debts or the state budget.

3. The goal of using information from financial situations

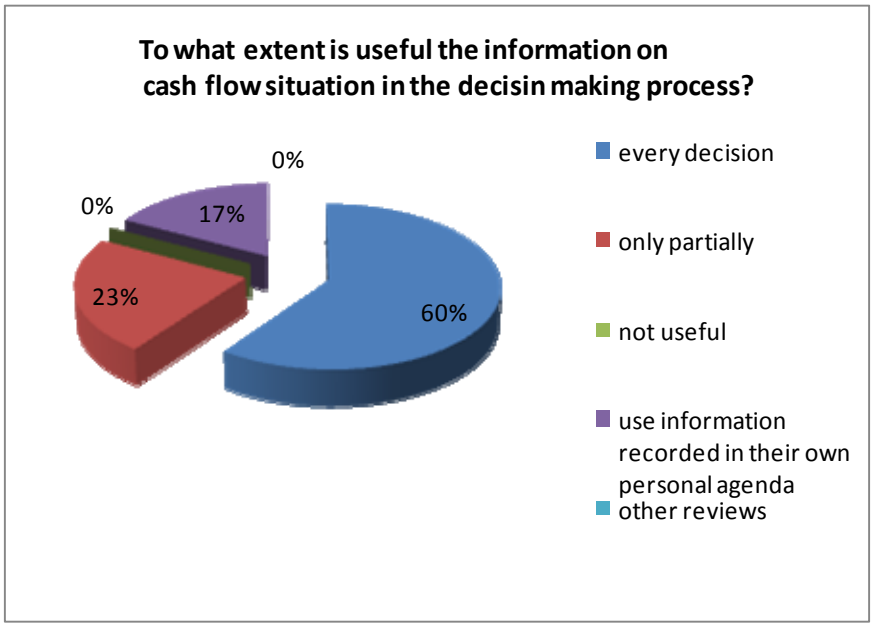


Consequent to the analysis of data, 51% of the respondents use information from financial situations in order to analyze financial position and performance of the entity; 26% use the data to prove the financial stability and the rest of them, for financial reports to the shareholders/associates and for operational management.

We can draw the conclusion that the goal of elaborating financial situations is complied with, that is the analysis of the financial position and the entity's performance.

5. Use of information from the cash flows in making decisions

In order to understand what the respondents' opinion on the utility of information from the cash flows in making decisions is, we asked the following question:



60% answered that this information is useful in most of the decisions; 23% answered that they use information only partially; 17% answered that they better trust their personal information.

CONCLUSIONS

Information offered by the financial situations remains, in the questioned respondents' opinion, important to the managers, shareholders, state bodies, banks. The reliability of the information offered to business partners and to the investors decreases**.**

Anybody who manages money needs cash flows. Of course the cash flows are not useful to everyone, in the same degree, but every person can use them in his particular situation, in order to have the clearest evidence on money circulation.

Taking into consideration that managers, at the entity's level, make decisions on a daily basis, which affect the cash flow, we present a synthesis of the reasons why cash flow is really important in business:

1. The situation of the cash flow represents the image of all incomings and payments in a certain period of time, underlining possible discrepancies that can appear in the mentioned period. Thus, the user can identify in advance the moments when there will be a shortage of cash and he will be able to try to obtain in time the necessary resources to cover the shortage.
2. The situation of the cash flow can suggest various variants to modify the payment terms, so that they could match the incomings.
3. The situation of the cash flow helps in planning incomings and payments on term. Depending on how it is conceived, it allows the user to quickly identify the periods when he will have liquidities in order to plan the payments for that moment. Moreover, the cash flows are important because they show all the incomings and payments on term, so that the user shouldn't forget any of them and find himself in an unpleasant situation.
4. The situation of the cash flow is an instrument which can be adapted according to the type of activity and to its utility in the decision making process. Daily, weekly, monthly cash flows can be generated, according to the frequency of the incomings and payments and according to their relevance.
5. The situation of the cash flow is important because it is an easy to update instrument. Any update of the amounts automatically leads to the modification of the provisions for the following period, allowing thus a quick identification of possible issues in the future.

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