

The impact of financial balance indicators on the companies - Analysis on economic sectors

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Abstract

The paper presents the result of a financial balance analysis of some companies, which are grouped in three economic sectors: manufacturing, construction and tourism.

The main focus consists in the impact of the three financial balance indicators have (floating capital, necessary working capital, net treasury) on the activities that underline each economic sector.

The applicative part of this paper is materialized in a scientific approach that includes a number of 27 companies, grouped after the domain, from Timis County, Romania, which has in view to obtain useful and perspective information concerning the financial balance, based on the specific behavior of the activity they perform, aiming also the possibility of taking useful and correct decisions.

This approach represents our own vision about the differences of achieving a financial balance state within each economic sector analyzed.

Keywords: financial balance, floating capital, necessary working capital, net treasury.

Introduction

In the process of knowledge, analysis is an indispensable research method, through which is created not only the possibility of research things and phenomena, but is discovered the structure, are checked and established causal links, factors that generates them and so decisions can be made for future activities. In all fields of science, the analysis plays a necessary means of knowledge as a research method.

Financial analysis is a tool of financial management. It consists of the evaluation of the financial condition and operating performance of a business firm, an industry, or even the economy, and the forecasting of its future condition and performance. It is, in other words, a means for examining risk and expected return. Data for financial analysis may come from other areas within the firm, such as marketing and production departments, from the firm's own accounting data, or from financial information vendors. [3]

The skills of financial analysis are important to a wide range of people including investors, creditors and regulators. But nowhere are they more important than within the company. Regardless of functional specialty or company size, managers who possess these skills are able to diagnose their firm's ills, prescribe useful remedies and anticipate the financial consequences of their actions. [4]

The present research is performed in order to identify solutions within the economic sector, based on financial balance indicators that can facilitate making the correct decisions on the settlement of existing problems and improve this system, taking into account the current economic context.

Economy, as it is presented nowadays, is the result of an evolutionary process of mutual exchange development of activities, from lower forms to higher ones. In such a framework are developed and operate companies that will approach, regardless of their activity profile, financial management issues whenever performing an operation for purchasing, holding or disposing titles of money.

For determining the correct financial balance of companies within one or more economic sectors, it is necessary to know that along with monetary and economic balance, the financial balance has functionality and a distinct form of expression due to objective essence of finance, the manifestations functions of money, financial institutions, banking and insurance.

At the level of companies this financial balance is based on economic relations specific to market economy which by some methods, techniques and characteristic forms, participate in the formation and allocation of funds that are available to economic agents, aiming to achieve economic processes.

Literature review

The term of balance is more and more used in various fields, especially in economics.

The word “balance” is present in our daily vocabulary of each of us. The question is why and what is the meaning of this word.

Etymologically, the word itself comes from Latin "aequilibrium" (*aequs* = equal; *libra* = balance), expressing the idea of equal forces, the weights placed on the two plates of the balance. [6]

In a general sense, balance means stability of a situation, a harmony between the components of a system, which in a financial plan involves harmonizing the financial resources with the financial needs of a company and therefore equality between assets and liabilities. [1]

Among the many definitions of the financial balance, we believe that the most pertinent is the following: The financial balanced analysis of a company patrimony aims to reflect the equality relations between the financing sources and use of financial resources, between revenues and expenses related to carry out the company business activity on long, medium and short term. [5]

The objective of financial balance analysis is to follow on the one hand, the correlation, coordination of financial sources used in terms of duration, and on the other hand, the insurance that payments are done from receipts. Practically, the state of financial balance does not exist; it is just a trend that is constantly moving, dynamic. Namely, the state of harmony and stability in the relations of the structure elements is not given once and for all. There are a lot of states that come under the influence of others who have suffered from imbalance factors. [7]

Within an economic sector, at a level of a company, the static analysis of the financial balance can be done on three levels:

A. For measuring the *long-term balance* it is used the **floating capital** indicator, when permanent resources are compared with permanent uses. In other words, the indicator represents the part of permanent capital that exceeds the value of net immobilizations and can be destined to financing circulating assets.

The floating capital (FR) is calculated based on the financial balance sheet, as the difference between permanent capital (CP) and net immobilizations (Ain):

$$FR = CP - A_{in}$$

Therefore, the floating capital constitutes a prerequisite to maintain solvency of a company, namely its financial independence from creditors. [2]

B. For measuring the *short-term balance* it is used the **necessary working capital** indicator, defined as the part of circulating assets that has to be covered by permanent capital. In other words, the net working capital is what would be left over if the company had to pay off its current obligations using its current assets. The relation for calculating the necessary working capital (NFR) is:

$$NFR = \text{Current Assets} - \text{Current Liabilities}$$

or

$$NFR = (\text{Inventories} + \text{Receivables}) - (\text{Short term debts} - \text{Short term loans})$$

Therefore, the necessary working capital designates the financial needs generated by the execution of repetitive operations that compose the current exploitation cycle (purchases, sales, payroll payments) whose total must be covered at least partially by stable resources (net working capital). This indicator represents the money that has to run within a company in order to ensure its operation (after financing the immobilizations), which requires expenses that will be recovered when the customers will pay the bills. [9]

C. For measuring the *current balance* it is used the **net treasury** indicator that represents the image of money availabilities and short-term investments, occurred from the current evolution of receipts and payments, respectively the placement of monetary surplus. [8]

The net treasury (TN) can be determined based on the difference between floating capital (FR) and necessary working capital (NFR):

$$TN = FR - NFR$$

Therefore, the financial stability of the company results from the confrontation large masses of the balance sheet: floating capital with necessary working capital, from which results the net treasury. Treasury is the most meaningful expression of carrying out a balanced and effective activity. Treasury shows the quality of the company's overall financial balance both long term and short term. Registering a treasury

in several successive exercises, demonstrates the company's success in economic life and the possibility of placing profitable cash in order to strengthen its market position.

Material and methods

In the next case study, the financial balance analysis is performed through a static approach, namely the indicators are calculated based on information within the financial balance sheet and profit-and-loss account.

By calculating these indicators we aim to identify the weaknesses of these economic sectors and formulate suggestions regarding their remedy.

The data to which we refer within the undertaken study are out of a sample of 27 companies from Timiș County, Romania, and are grouped into three economic sectors (manufacturing, construction and tourism) to identify the particularities of each sector, on a reference period of four years (2008-2011), from the financial balance point of view.

Sector 1 - Includes the *production* activity of enterprises;

Sector 2 - Includes the *construction* activity of companies;

Sector 3 - Includes the *tourism* activity of firms.

Results and discussion

Based on the data held and calculation of financial balance indicators, I have obtained the following results:

- For sector 1 – Production, situation is as follows:

- Floating capital

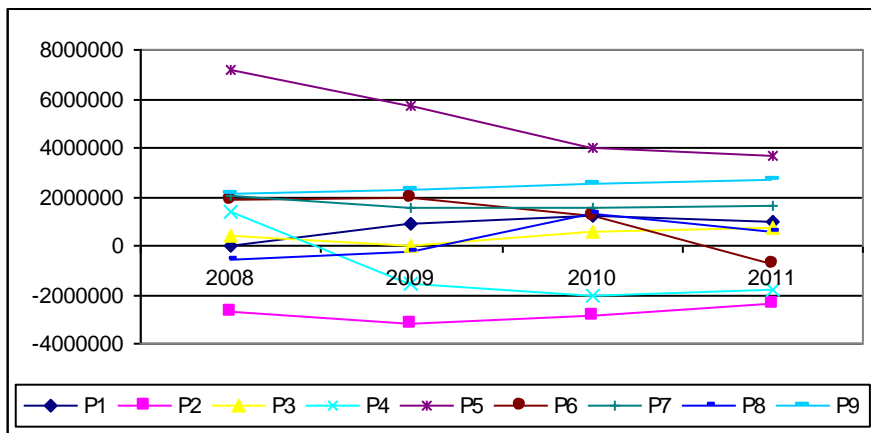
Table no. 1 The results of floating capital in the period 2008 - 2011 for enterprises in the production sector

Production enterprise / Time span	2008	2009	2010	2011
P1	-36247	864101	1225573	1004791
P2	-2668268	-3198442	-2895364	-2364988
P3	401467	23113	543548	760117
P4	1377303	-1586240	-2014700	-1755407

P5	7161521	5707823	4029085	3703495
P6	1887293	1950212	1256081	-703256
P7	2000931	1543598	1514041	1636263
P8	-570377	-252150	1314835	556021
P9	2094876	2302383	2550787	2712226

Source: own compilation

Figure no. 1 The comparative evolution of floating capital in the period 2008 - 2011 for enterprises in the production sector



Source: interpretation after Table no. 1

Through the analysis of the existing data and their graphical representation, it is noticed that a number of 4 enterprises (P3, P5, P7 and P9) within this economic sector, recorded a positive floating capital during the entire period 2008 - 2011. The remaining enterprises register positive values, accompanied by negative values; except enterprise P2 which the entire analyzed period registers a negative floating capital almost constant, followed by a slight improvement.

➤ Necessary working capital

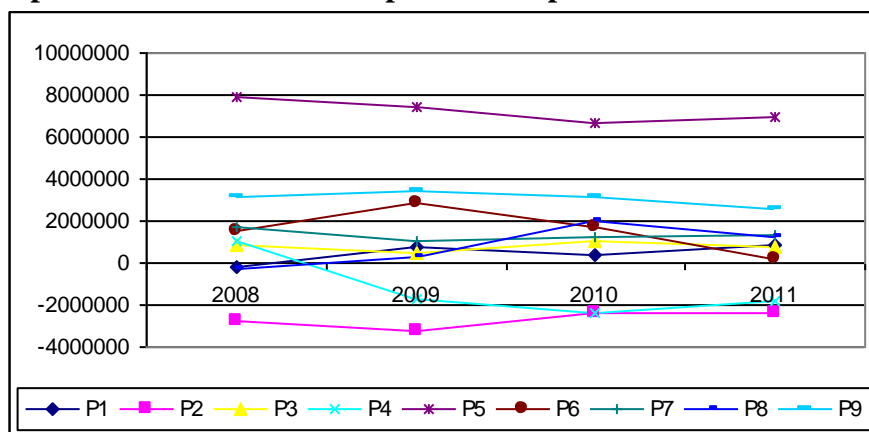
Table no. 2 The results of necessary working capital in the period 2008 - 2011 for enterprises in the production sector

Production enterprise / Time span	2008	2009	2010	2011
P1	-157645	777360	386681	857620
P2	-2743707	-3220104	-2396423	-2417048

P3	863998	485873	1014349	803010
P4	1045491	-1747921	-2419101	-1843416
P5	7926363	7436040	6619307	6917202
P6	1522000	2858360	1731310	158035
P7	1725098	1004253	1234295	1301518
P8	-253398	331642	2030973	1247599
P9	3099326	3387862	3186233	2524384

Source: own compilation

Figure no. 2 The comparative evolution of necessary working capital in the period 2008 - 2011 for enterprises in the production sector



Source: interpretation after Table no. 2

Based on the graphical representation is remarked that the 4 enterprises (P3, P5, P7, P9) which recorded a positive floating capital, also have achieved a positive necessary working capital (including P6) through the entire analyzed period 2008 - 2011. During all this time, P2 has a negative value in both indicators cases, and P4 in 2010 obtains a value approximately equal to it, in terms of necessary working capital.

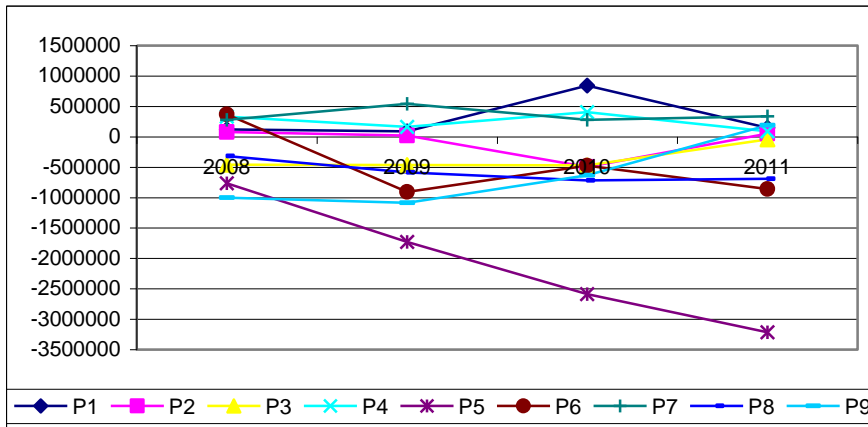
➤ Net treasury

Table no. 3 The results of net treasury in the period 2008 - 2011 for enterprises in the production sector

Production enterprise / Time span	2008	2009	2010	2011
P1	121398	86741	838892	147171
P2	75439	21662	-498941	52060
P3	-462531	-462760	-470801	-42893
P4	331812	161681	404401	88009
P5	-764842	-1728217	-2590222	-3213707
P6	365293	-908148	-475229	-861291
P7	275833	539345	279746	334745
P8	-316979	-583792	-716138	-691578
P9	-1004450	-1085479	-635446	187842

Source: own compilation

Figure no. 3 The comparative evolution of net treasury in the period 2008 - 2011 for enterprises in the production sector



Source: interpretation after Table no. 3

It can be seen that along the analyzed period, the net treasury registers a positive value at the following enterprises P1, P4, P7, and a negative one at P3, P5, P8 at which the necessary working capital can not be entirely financed through the floating capital. On the chart is observed the strong descending trend of enterprise P5 and also the significantly worsened situation from year to year.

On the whole observed enterprises and the entire period 2008 - 2011, it's found that only enterprise P7 obtains positive values at all three analyzed indicators, which gives her financial stability.

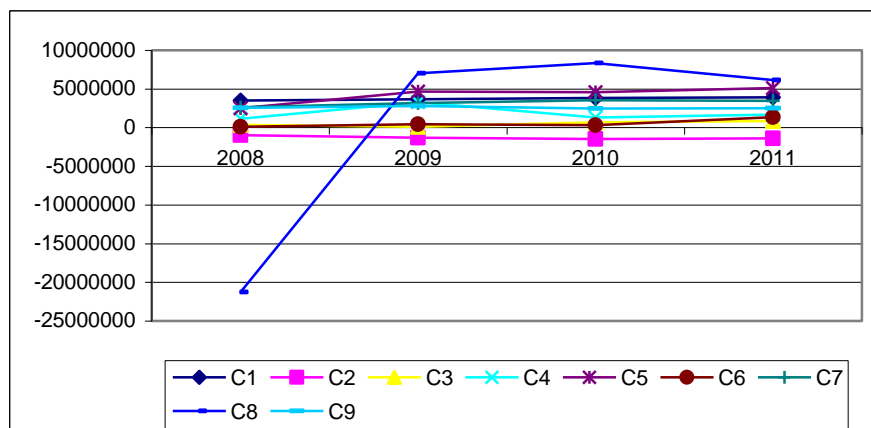
- For sector 2 – Construction, situation is as follows:
 - Floating capital

Table no. 4 The results of floating capital in the period 2008 - 2011 for companies in the construction sector

Construction company / Time span	2008	2009	2010	2011
C1	3482579	3669905	3813059	3894353
C2	-972967	-1321422	-1481721	-1401521
C3	342952	103032	683421	855988
C4	1123205	3289758	1307900	1690257
C5	2495792	4654982	4578281	5094605
C6	105462	450902	310622	1336601
C7	2607946	3174452	3556463	3456802
C8	-21262716	7018528	8345338	6157516
C9	2558050	2797705	2476599	2511726

Source: own compilation

Figure no. 4 The comparative evolution of floating capital in the period 2008 - 2011 for companies in the construction sector



Source: interpretation after Table no. 4

After the calculations it is noted that the entire analyzed period 2008 - 2011 is marked by positive values of the floating capital, by most companies C1, C3, C4, C5, C6, C6, C7 and C9. Instead, C2 is the only company that records in all four years a negative value and it is worsening from one year to another. The same can not be said about company C8 which has a strong ascending trend in 2008 that starts with a negative value and reaches a positive one in 2009 and remains until the end of 2011.

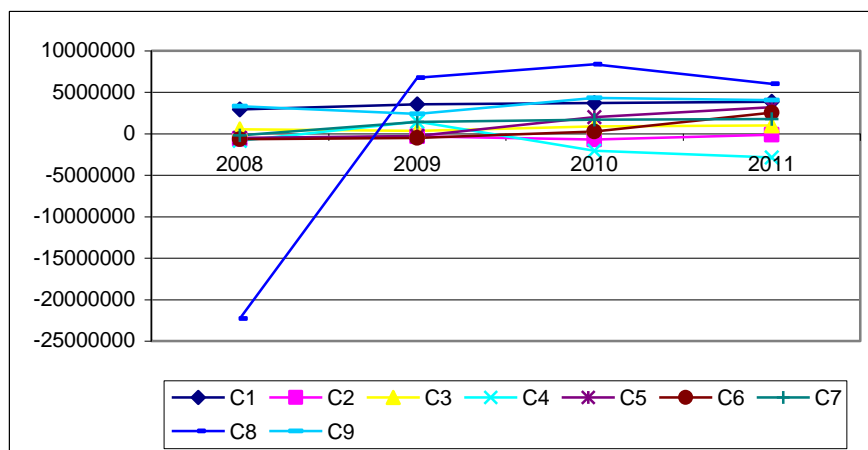
➤ Necessary working capital

Table no. 5 The results of necessary working capital in the period 2008 - 2011 for companies in the construction sector

Construction company / Time span	2008	2009	2010	2011
C1	2921039	3551173	3700294	3844987
C2	-625776	-317671	-685755	-120720
C3	550450	348217	877873	994334
C4	-842875	1467777	-2035145	-2846093
C5	-503884	-259240	2021081	3214488
C6	-672305	-497488	268606	2562403
C7	-210156	1421092	1712377	1756876
C8	-22302525	6751130	8390563	6026176
C9	3326608	2383184	4334578	4039363

Source: *own compilation*

Figure no. 5 The comparative evolution of necessary working capital in the period 2008 - 2011 for companies in the construction sector



Source: interpretation after Table no. 5

Based on the data presented (in table no. 5) and the graphical representation (figure no. 5) it can be seen that during 2008 – 2011 the necessary working capital registers preponderant positive values, except C2 which has a negative value during all this period. The same as in the floating capital case, the necessary working capital of company C8 has a strong ascending trend in 2008 that starts with a negative value and reaches a positive one in 2009 and remains the same until the end of 2011.

➤ Net treasury

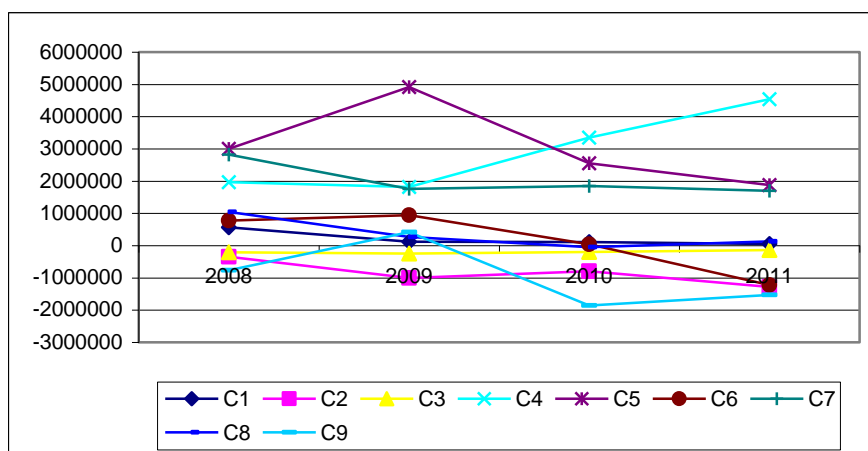
Table no. 6 The results of net treasury in the period 2008 - 2011 for companies in the construction sector

Construction company / Time span	2008	2009	2010	2011
C1	561540	118732	112765	49366
C2	-347191	-1003751	-795966	-1280801
C3	-207498	-245185	-194452	-138346
C4	1966080	1821981	3343045	4536350

C5	2999676	4914222	2557200	1880117
C6	777767	948390	42016	-1225802
C7	2818102	1753360	1844086	1699926
C8	1039809	267398	-45225	131340
C9	-768558	414521	-1857979	-1527637

Source: own compilation

Figure no. 6 The comparative evolution of net treasury in the period 2008 - 2011 for companies in the construction sector



Source: interpretation after Table no. 6

It can be observed that the companies C1, C4, C5 and C7 have a positive net treasury (TN) during the entire period 2008 - 2011 with an increasing and also a maintaining trend. This is because floating capital (FR) is higher than the necessary working capital (NFR), namely FR covers fully the NFR, remaining a surplus of permanent sources, materialized in positive treasury; whereas companies find themselves in a favorable situation in terms of financial balance, where they have the possibility of performing capital investments, holding cash and can handle payment obligations falling due short-term and also medium and long term. Also, it is observed that C1 is the only company that obtains positive values at all three analyzed indicators, which gives her financial stability.

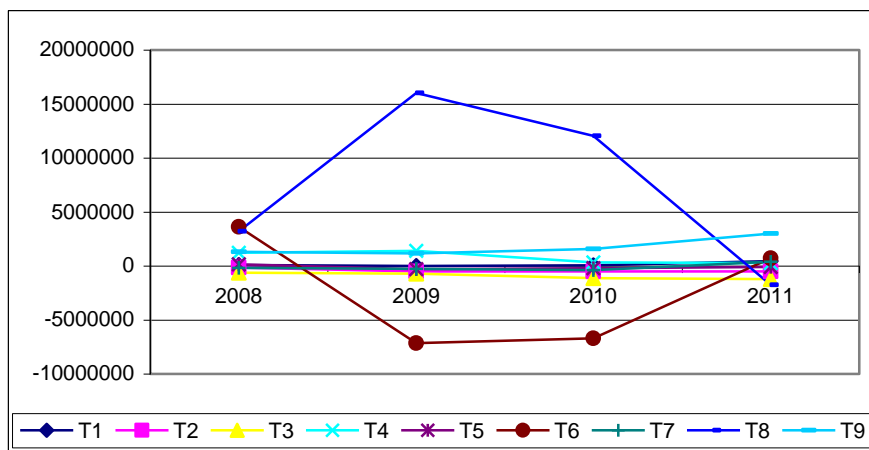
- For sector 3 – Tourism, situation is as follows:
 - Floating capital

Table no. 7 The results of floating capital in the period 2008 - 2011 for firms in the tourism sector

Tourism firm / Time span	2008	2009	2010	2011
T1	86864	8570	71455	456658
T2	-144059	-513048	-500051	-503953
T3	-625345	-716342	-1113224	-1230304
T4	1215670	1403317	333041	261228
T5	142676	-299960	-221409	-90107
T6	3606253	-7138246	-6714999	721137
T7	-190141	-261205	-381566	385867
T8	3201624	16033528	12061631	-1756772
T9	1294805	1156902	1569293	3000364

Source: own compilation

Figure no. 7 The comparative evolution of floating capital in the period 2008 - 2011 for firms in the tourism sector



Source: interpretation after Table no. 7

It is ascertained that during the entire analyzed period 2008 - 2011, the floating capital is positive only at T1, T4 and T9, exception makes T8 which has a significant positive trend that registered only in 2011 a

negative value. From the chart results that at the opposite pole are T6 which has a negative value in the years 2009 and 2010, but the indicator has a significant ascending trend that returns to a positive value in 2011 similar to the one in 2008. A negative value registers firm T2 whose tendency remains constant and also T3 which has a descendent trend.

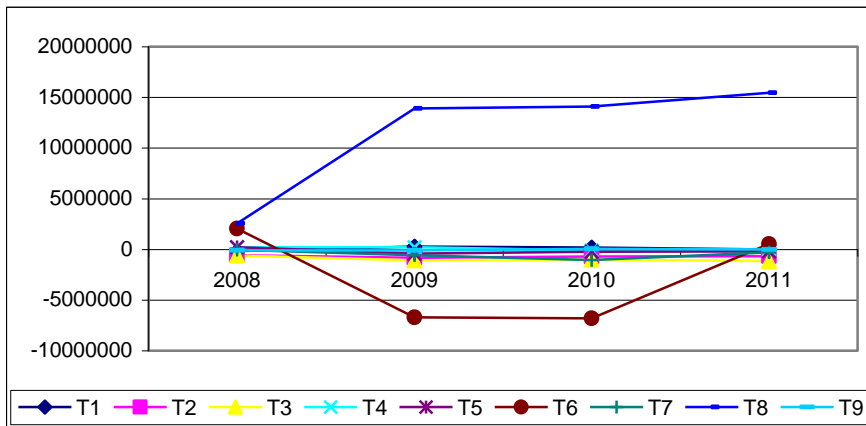
➤ Necessary working capital

Table no. 8 The results of necessary working capital in the period 2008 - 2011 for firms in the tourism sector

Tourism firm / Time span	2008	2009	2010	2011
T1	-174278	268149	194205	-16578
T2	-576760	-846189	-718535	-661756
T3	-613250	-1080870	-1019937	-1142844
T4	222701	198138	-100865	-17626
T5	204601	-425508	-230587	-187106
T6	2058147	-6707463	-6815333	513741
T7	-49672	-594444	-1065268	-308747
T8	2536034	13883919	14095026	15442993
T9	-98887	-91177	51018	3252

Source: own compilation

Figure no. 8 The comparative evolution of necessary working capital in the period 2008 - 2011 for firms in the tourism sector



Source: interpretation after Table no. 8

In the interval subjected to analysis, the necessary working capital registers at most firms (T1, T4, T5, T6 and T9) positive values, accompanied by negative ones; where T6 has almost the same graphical representation as for the floating capital; less than firm T8 that during the entire analyzed period registered a significant positive trend. Similar to the evolution of floating capital in the period 2008 – 2011 within firms T2, T3, also the necessary working capital registers negative values, to which is added and T7.

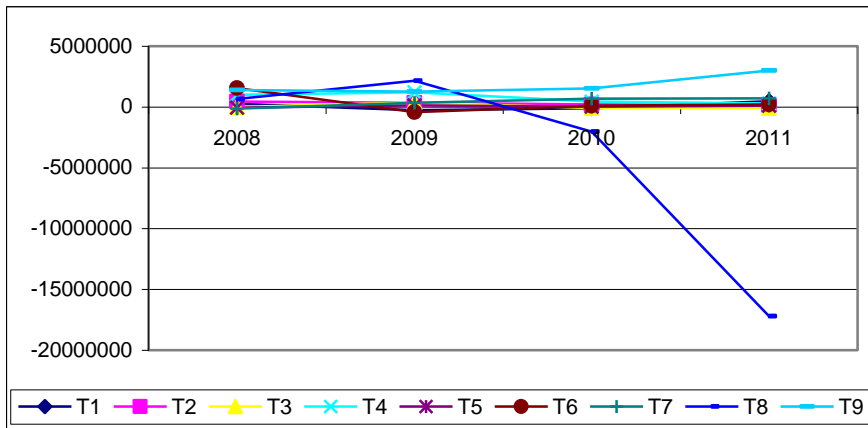
➤ Net treasury

Table no. 9 The results of net treasury in the period 2008 - 2011 for firms in the tourism sector

Tourism firm / Time span	2008	2009	2010	2011
T1	261142	-259579	-122750	473236
T2	432701	333141	218484	157803
T3	-12095	364528	-93287	-87460
T4	992969	1205179	433906	278854
T5	-61925	125548	9178	96999
T6	1548106	-430783	100334	207396
T7	-140469	333239	683702	694614
T8	665590	2149609	-2033395	-17199765
T9	1393692	1248079	1518275	2997112

Source: *own compilation*

Figure no. 9 The comparative evolution of net treasury in the period 2008 - 2011 for firms in the tourism sector



Source: interpretation after Table no. 9

The firms from the economic sector that register a positive treasury are T2, T4 and T9, where for T2 and T4 the trend is slightly decreasing and for T9 the tendency is growing. Note that there is no firm with negative treasury during the entire analyzed period 2008 - 2011, which results that the majority of firms have positive values, accompanied by negative ones. On short-term a positive net treasury means achieving financial balance, but long term can mean insufficient use of liquidities, with negative effects in remuneration of capital, where the purpose of the firm is not holding the cash, but their involvement in efficient activities.

Conclusion

Based on the data analysis and graphical representations of indicators, it can be observed that the manifestation of economic turbulence, taking into account the current context, is much more striking in the tourism sector compared to the production and construction sectors. Therefore, taking into account the analysis performed and evolution of indicators, is noticed that the most favorable situation within the economic sectors, taking into account the indicator (floating capital) that express a long-term balance, is found in the

construction sector followed by the production sector and finally by the tourism sector.

Starting from the results obtained, I consider that the key element how a company can maintain its financial balance is based on the developing of a consistent financial strategy, in correspondence with the company's strategy and also implementing a rigorous system of registration and management control along with an integrated financial planning system correlated on different terms.

Getting a positive floating capital can be achieved either by reducing the immobilized assets or by raising permanent capital. In this case, the companies that recorded a positive floating capital in all four years analyzed are as follows: in the production sector P1, P5, P7, P9, in the construction sector all companies less C2 and C8 and within the tourism sector only T1, T4 and T9. The balance can be ensured also with a negative floating capital only if the period of the commercial credit is less than the supplier credit, and, to achieve this correlation, the company must accelerate incomings and get more relaxed payment terms.

An issue of every company, no matter in which economic sector operates, is represented by the level and evolution of the necessary working capital. Therefore, I will mention a few directions of action, to improve and strengthen the financial balance, as follows:

- Inventory of total stocks in order to improve their management efficiency, which should lead to an increased real liquidity of current assets;

- To achieve an effective management of operating debts, the company must follow a higher average duration of payment as number of days;

- Must be carried out a better correlation between the average duration of commercial receivables and the payment of exploitation debts, in order to determine a favorable impact on the treasury;

- In order to obtain an efficient administration of current receivables the commercial policy of the company must be correlated with the practice of the competition.

The growth of net treasury, from one year to another, can be done by increasing the floating capital and by reducing the necessary working capital; in our case, during the entire period analyzed are companies C4 and T9.

In our opinion, for a company, a viable general policy, with operative and courageous adaptations to drastic market changes, represents the main condition of survival. Among the strategic objectives which are included in each economic unit development line, it can not be omitted the financial decisions, the desire of leading the company in order to achieve a financial balance based on consumption and production processes able to face competition, taxation and high levels of inflation.

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