

INSTRUMENTS FOR THE IMPROVEMENT OF CASH FLOW AND FOR THE RATIONALIZATION OF SHORT-TERM FINANCIAL INVESTMENT APPLIED BY MULTINATIONAL COMPANIES

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Abstract:

The cash flow of the company is an essential element for the application and development of a fluency activity where the payment terms are considered according to the agreement and contracts.

Concerning the multinational companies, it is the finance controller's task to perform a strict, realistic and predictive record regarding the subsequent cash flow of the company. The most important items that influence the existence and the assessment of a realistic operational cash flow are the following: accounts receivable, external open credit lines, headquarter treasury approved amounts, accounts payable, wages.

Another tool to improve the global performance of the company is the cash-pool that can be used only for same currencies for the main countries involved in.

Key words: cash flow, cash pool, overnight, balance, processes, structure

JEL classification: M4, M41

The “table of inflow and outflow” is used in order to clearly and accurately define the company status. The table of inflow and outflow illustrates the assets between the opening and the closing balance of the fiscal year, the functional balance being maintained. The elaboration of the table of inflow and outflow supposes a difference between the equity cash flow, financial cash flow and profit/loss cash flow.

In order to draw a table of inflow and outflow, the change of balance-sheet items must be determined between two consecutive balance sheets, which compose an adjusted balance or a changes balance.

The cash flow table contains two parts: In the first one the elaboration of the structural balance between the inflow and outflow of the functional balance sheet is set, meaning the working capital change. This part of the cash flow total underlines the financing method and the investment policy applied by the company.

The second part of the table of inflow and outflow underlines the change of the working capital requirements, due to the change of the items composing the current assets and the short-term debts, change that deeply affects the elaboration of the financial balance. This part illustrates the way in which the working capital requirements was used in order to cover the financing requirements, ensuring on one hand the functional balance between inflow and outflow, and the cash flow balance between proceeds and payments, underlined by the net treasury.

Table 1. Table of IN-OUT cash structure

Inflow	Outflow
Collected credits Accounts receivable Overnight interests	Taxes Accounts payable Forward funding interest Profit sharing Other short-term liabilities Other long-term liabilities Salaries Energy
Cash flow=Cash IN – cash OUT	
Factors that influence positively or negatively the cash flow	
negative evolution	Positive evolution
↗ Stocks ↗ accounts receivable ↘ supplier ↘ salaries	↘ Stocks ↘ accounts receivable ↗ suppliers ↗ salary liabilities
Additional financing= Inflow change- Outflow change	

Cash flow table

The cash flow table allows assessing the dependency degree of the company when managing its ratio, fact which impacts decisively its financial statement.

The advantage of this table, in comparison to the table of inflow and outflow, is that it allows underlining the influences of the storage phenomena and the results generated by the gaps between proceeds and payments.

According to Ovidiu Megan, Anca Elena Schmidt, Bogdan Coteș, the cash flow is frequently considered the most accurate synthesis document in the financial statements structure¹.

The table of treasury cash flow illustrates the manner in which the company treasury is used, as a result of the activity developed after deducting the mandatory decrease, especially for the investment financing².

The main items of this table are the following:

- operational cash flow
- investment cash flow
- financing cash flow

¹ Ovidiu Megan, Anca Elena Schmidt, Bogdan Coteș , Utilitatea fluxului de numerar pentru utilizatorii situațiilor financiare din România in perioada crizei, Proceedings of the 5th WSEAS International Conference on Economy and Management Transformation (Volume II) pag. 508

² www.bursierul.ro ,Conținutul gestiunii financiare a întreprinderii, 4 februarie 2007

Operational activity – covers the cash flow (proceeds and payments) of the company's current operations that lead to the cash operating result; according to IAS 7 standard, these are the cash flow from the main activities generating incomes.

*The information regarding the treasury cash flow generated by the operational activity is a key-figure in order to assess the company's capacity to generate enough ratios for being able to refund loans, to maintain its manufacturing capacity, to pay dividends and to perform investment without making appeal to external financing sources.*³

A negative net cash flow from the operational activity presents a disruption of the company's treasury, as the proceeds from sales related to the main activity of the company are not enough to cover the current payments. In such a case, the financing of the current activity will be performed by making appeal to external sources (that require additional costs) or to disinvestment actions (that may decline the manufacturing output of the company).

Investment activity – covers all outflow as a counterpart of the inflow of technological tangible assets and intangible assets.

The information related to treasury cash flow generated by the investment activity is important, as it shows if investment that can generate future economical benefits was performed. An investment supposes a capital output, and this one is mandatory to arise from other than from the operational working capital.

Once the cash output is performed, an important cost item for the profit and loss account, and for the performance of the company appears, but this cost item called „depreciation” does not affect the cash flow already affected during the investment period.

*The global treasury flow resulted from the purchasing and disposals of subsidiaries or other business units must be illustrated apart and classified as investment activities.*⁴

In case of such purchasing and disposals, the companies must present, cumulatively, during the concerned period, the following information: the entire consideration related to the purchasing or to the disposal; the consideration share related to the purchasing or to the disposal, collected as assets or asset counterparts from the purchased or disposed subsidiary or unity, synthesized on each main category.

The total amount of the assets paid or collected as a consideration of the purchasing and sales of subsidiaries or other business units is reported to the treasury flow statement at a net value, after deducting the assets and the asset counterparts purchased or sold. The effects of the treasury flows of sales must provide definite information related to purchasing, on one hand, and to the sales of subsidiaries and other business units, on other hand.

Financing activity – covers the cash flow results of the activities causing changes in respect of the adequacy and structure of the shareholders' equity and debts, such as collections from issued shares, liabilities, and other securities and payment of redemption fees for shares and loan stock, etc.

The information related to the treasury flow resulted from the financing activity is useful, as it allows to assess the amounts that are to be paid to the funds suppliers (external investors or lessors). A net positive flow generated by the financing activity shows that during the fiscal year, the company applied to funds provision (from internal

³ <http://www.focusfinanciar.ro/index.php/Standarde-Internationale-de-Raportare-Financiara/IAS-7-Situatia-fluxurilor-de-trezorerie.html>

⁴ <http://www.focusfinanciar.ro/index.php/Standarde-Internationale-de-Raportare-Financiara/IAS-7-Situatia-fluxurilor-de-trezorerie.html> IAS 7 (pag. 39-42)

or external sources) necessary either to cover its treasury revenue gap, or to develop an investment process.

Not only from the theoretical point of view, but also from the practical one, in order to improve the cash, the company may successfully use two instruments: a predictional one (cash flow) that may improve the cash sharing in time, and a present one (cash pool) consisting in summarizing the overnight cash or the cash surplus between two bank sessions and its depositing in a central treasury account in view of overnight deposits (using the advantage of bargaining power).

The role of the cash flow is very important in order to share the cash flow for the next months and to offer a possibility of reaction, in real time, to provide the cash necessary for payments according to the mutual agreements with suppliers, and to avoid the stoppage of the company's activity.

We should underline the fact that the cash-flow report should not be only mandatory. It must be followed by a strict controlling of the term receipts of the contractual obligations and by a proper management of payments.

A negative cash flow, always supported by the group's mother company may raise serious long-term problems to the local company, as the degree of indebtedness increases, in this case the solution being the incorporation of the credits received from the group within the registered capital, taking into account that the group is already the company's shareholder. Also, the swapping of some initial short-term credits from the mother company into registered capital improves the liquidity figures of the subsidiary. On the other hand, on long term, a balance situation, a self-funding from the working capital of the local company of the entire manufacturing flow-customers sales outstanding is to be reached.

Referring to cash pool, it is provided, from the procedural point of view, in the following way: at the end of the working day +/- two hours, the cash collected during the day, not forward paid to suppliers (case frequently encountered, a lot of multinational companies performing payments once a week), is sent to an invoice account at a leading bank, where the group is its client. This procedure is initiated by all affiliated entities. The money is collected in that central account, where an overnight interest, superior to overnight interests offered by the local banks, is revaluated.

The cash forecasting, and also the feedbacks, are important items for a good management of the economical organization. We may compare the management of a big company, which does not use the operational cash flow, to the empirical management based on memory and experience, and never on science. The cash flow is an item showing the level of the immediate financial resources that may be used.

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