STATEMENT OF CASH FLOWS FOR SMALL AND MEDIUM-SIZED ENTERPRISES IN ROMANIA

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INTRODUCTION

- The concepts underlying the balance sheet and profit and loss account are well known and clarified. These are: the measurement of the values or a snapshot of the resources and obligations of the entity at a given time, respectively a summary of the economic transactions and the performance in a certain period of time. The third important component of the financial statements is the cash flow statement, a newer concept, which has evolved substantially since its inception. What later became the cash flow situation had as a starting point the reconciliation of changes in the resources of the company throughout the period, but in a totally different way from the one presented in the profit and loss account.
- Today, a national and international consensus has been reached regarding the need for a cash flow chart in a complete set of financial statements.

LITERATURE REVIEW

The analysis of cash flows is useful for correlating profit (loss) with cash; separating activities involving cash from non-cash, evaluating the ability of the company to fulfill its obligations to pay cash, evaluating cash flows for future activities (strategic cash-flow).

According to some authors, cash flows denote the set of cash inflows and outflows and cash equivalents. Liquidity refers to cash and sight deposits. Liquidity equivalents are short-term financial investments with very high liquidity, which can be converted into cash and whose risk of change is insignificant.

The interest for the cash flow situation is analyzed in the study of N. Farcane, S. Căpușneanu and S. Briciu . The results show that there are differences between the opinions of the specialized personnel of the financial-accounting departments who have used the situation of the cash flows and those who have not used these situations, the difficulties encountered and the usefulness of the financial information provided in the decision making.

CASH FLOW ANALYSIS AND PERSPECTIVES

The benefits of presenting a statement of cash flows together with a statement of financial position (balance sheet) and a statement of income (or transactions) have been emphasized by IAS 7 as:

- provides an image as the financial structure of the company (including liquidity and solvency) and the ability to influence the value and timing of cash flows in order to adapt to changing circumstances and opportunities.
- The statement of cash flows discloses important information about cash from operations, investments and financing, information that is not available or which cannot be extracted from the balance sheet, nor from the profit and loss account. The additional disclosures used are either recommended by IAS 7 (such as those relating to unused credit facilities or cash that represents an increase in operating capacity) or required by users of financial statements (such as cash held that is unavailable to be used.). Taken together, the cash flow statement, presentation requirements and recommendations provide the user with much broader information than the balance sheet and profit and loss account, information on the entity's performance and position, as well as its likely future results.
- provides additional information to the users of the financial statements, for the assessment of changes in the assets, liabilities and equity of a company.

CASH FLOW ANALYSIS AND PERSPECTIVES

	Operational activities	Investment activities	Financing activities
Cash entries	- proceeds from the sale of goods and services - sale of loans, receivables or equity instruments classified as held for trading purposes - capital expenditure (dividends) - payment of suppliers of goods and services - payments for or on behalf of employees - tax payments - interest payments - the acquisition of loans, receivables or equity instruments classified as held for trading purposes	- collection of principal from loans and sale of other debt instruments issued by other companies - the sale of capital instruments issued by other companies and the profits related to these instruments - sale of land and equipment - loans made and purchase of debt instruments issued by other companies - acquisition of equity instruments issued by other companies - acquisition of land and	- proceeds from the share issue - loan receipts (short or long term) - payment of dividends - redeeming their own shares - payment of the principal in the case of loans, including those related to the lease

DIRECT VERSUS INDIRECT METHOD

DIRECT METHOD	THE INDIRECT METHOD
- cash flows from the operating activity - receipts from operating activity - payments to suppliers - payments for operating expenses - corporate tax payments - payments from the operating activity - cash flows from the operating activity	- cash flows from the exploitation activity -gross profit - adjustments for depreciation, unrealized gains from exchange rate differences - interest expenses - operating profit before the change in working capital requirement - Increase of trade receivables - decrease of stocks - the increase of the commercial debts - cash from operation - interest paid - tax on profit paid - cash flows from the exploitation activity

CONCLUSIONS

An important advantage of the direct method is that it allows users to better understand the relationship between the company's net profit (loss) and cash flows. For example, the payment of expenses is presented as a cash outflow and is deducted from receipts. In this way the user is able to recognize the receipts and payments of the period.

The major disadvantage of the indirect method lies in the difficulty of the user to understand the information presented. This method does not show how cash entered or was paid. Only adjustments to recognized income based on commitment accounting are presented, so in some cases these adjustments can be confusing.Regardless of the methods used, entrepreneurs want standardization, an indicator of the value for the safety of future cash flows as well as the impact of price changes.