STUDY ABOUT EVOLUTION OF CURRENT ASSETS PERFORMANCE FROM PERSPECTIVE OF STRUCTURE AND MANAGING INDICATORS

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Abstract:
The funds have great importance in current assets and, in particular, within the activity of a company. Moreover, holding cash involves a reason for caution in order to meet unforeseen events. Thus, the role of money is to be managed properly to current requirements and be provided for contingencies. Any business needs receivables. There are various reasons why a firm performs these receivables: to penetrate and establish themselves on the market, increase sales, to get more customers, to help customers, depending on the wealth of society is conditional.
The structure and management indicators like indicators of liquidity, indicators of leverage, rotation (in days and the number of circuits)
Key words: *economic performance, structures indicators, management indicators.*

INTRODUCTION

In the financial analysis of the company, we use financial liquidity ratios that establish the financial position of the company at a time, allowing us then to draw conclusions on their evolution. Financial liquidity coefficients which we will analyze are divided in two categories:

- ✓ Structure: Short-term liquidity ratios;
- ✓ Leverage indicators.
- ✓ Management: Speed of rotation in days;

Speed of rotation in number of circuits. (Creţu et al 2003, Albu & Albu, 2003, Verboncu & Zalman, 2005)

Financial liquidity indicated by these coefficients is the ability of the company to turn in cash the assets available to ensure a normal circuit of funds and implementation an efficient activity (Ceocea, 2010).

Next we analyze structure indicators of the aforementioned company that characterizes its economic and financial situation and for their calculation we use data from balance sheet of analyzed company.

CONTENT

We calculate the short-term liquidity ratios using three variants, each with a degree of expressiveness, and intended to measure the company's ability to pay: general liquidity ratio, reduced liquidity ratio and immediate liquidity ratio.

In order to analyze the general liquidity ratio we summarized balance sheet data in table 1, using the formula.

$$R_{GL} = \frac{Current \quad assets}{Current \quad liabilitie\,s}$$

(Manolescu & Petre, 1999)

Table 1. General liquidity ratio

Indicators	2009	2010	2011
Current assets	79.471.076	86.601.167	77.618.259
Current liabilities	54.779.027	69.238.510	138.454.625
General liquidity ratio	1,45	1,25	0,56

Source: data collected and calculated by the author based on data from the balance sheet

From table 1 shows that the company presents a downward trend over the three years analyzed for general liquidity ratio, an unfavorable situation that illustrates an activity in decline, creditors must be cautious in granting new loans.

Analyzing each individual year, we see that in 2009 and 2010 general liquidity ratio presents a value higher than one, 1.45 and 1.25, values which prove that at least in the short term the company is able to pay its debts on short term.

This means for the bank a degree of safety in granting new loans, resulted in the existence of a financial revolving fund that allows the analyzed company to deal with incidents occurring in the movement of current assets, or with deterioration in their value.

Since the ratio is greater than 1, the company is set to cover cash shortages, which could be caused by debts repaying at the creditors request.

This can't be claimed in 2011 when the general liquidity of the company has changed and become

less than unity, i.e. 0.56. This is the fact that short-term liabilities are not covered by capital assets, so that financial working capital became negative. However this situation notifies that the company has immobilized some of the funds from short-term bank credits, contrary to the rules of finance.

But not all current assets since numerator of fraction to this indicator can be liquid enough, meaning that they may not be sufficiently liquid in case of urgent needs, therefore, by eliminating the value of stocks from numerator we get a new indicator, namely the reduced liquidity ratio:

$$R_{RL} = \frac{Curent \quad assets - Stocks}{Current\ pe \quad liabilitie\ s} = \frac{\text{Re}ceivables + \quad Cash}{Short \quad - \quad term \quad liabilitie\ s}$$ (Brezeanu, 2002)

In order to analyze the reduced liquidity ratio we synthesized data from the balance sheet in Table 2:

Table 2. Reduced liquidity ratio

Indicators	2009	2010	2011
Current assets	79.471.076	86.601.167	77.618.259
Stocks	13.424.697	28.107.494	10.300.371
Current assets – Stocks	66.046.379	58.493.673	67.317.888
Current liabilities	54.779.027	69.238.510	138.454.625
Reduced liquidity ratio	1,20	0,84	0,48

Source: data collected and calculated by the author based on data from the balance sheet

According to table 2 we see that just as in the general liquidity also reduced liquidity ratio presents a downward trend from year to year. The year 2009 presents a value higher than one, i.e. 1.20, a situation that shows that stocks are not financed by current liabilities.

In 2010, the rate is between 0.8 and 1, respectively 0.84, this is an optimal situation regarding partial solvency of the company. In 2011, reduced liquidity ratio is 0.48, sub unitary ratio, which captures that stocks are financed by short-term loans.

But neither the reduced liquidity ratio has any absolute economic expression, whereas some receivables remaining at the numerator can be as heavy liquids, such as stocks, which is why we calculate another indicator that gives a more accurate picture of short-term liquidity, i.e. immediate liquidity ratio:

$$R_{IL} = \frac{Cash \quad availabilities}{Short - \quad term \quad liabilitie\ s}$$

In order to analyze the immediate liquidity ratio we synthesized data from the balance sheet in table 3:

Table 3. Immediate liquidity ratio

Indicators	2009	2010	2011
Cash availabilities	37.007.091	15.875.455	4.953.836
Short-term liabilities	54.779.027	69.238.510	138.454.625
Immediate liquidity ratio	0,67	0,22	0,03

Source: data collected and calculated by the author based on data from the balance sheet

From the above table it is observed that evolution of immediate liquidity ratio is descending. Thus, if in 2009 the rate is greater than 0.3, respectively 0.67, a value considered appropriate by the economic theory, which captures the company's capacity for instant repayment of short term liabilities, given the existing revenues; in 2010 and 2011 this rate is below 0.3, respectively 0.22 in 2010 and 0.06 in 2011, which captures that the analyzed company is unable to repay short-term debts instantly.

Another indicator of the structure, the leverage indicator that captures the importance of indebtedness on the financial management of the company, whose commensuration is necessary to draw conclusions about the state of financial liquidity, because indebtedness represents credits used by the company analyzed, that require to procure cash for repayment depending on the maturity. Thus we compare the external financing through debts with own funds using the following rates:

- total debt ratio (leverage ratio): $L = \frac{Total \quad debts}{Equity}$
- rate of financial independence: $R_{FI} = \frac{Equity}{Permanent \quad capitals}$

In order to analyze leverage indicator, we summarized balance sheet data in table 4:

Table 4. Leverage indicator

Indicators	2009	2010	2011
Total debts	127.886.442	142.413.180	160.115.945
Equity	67.040.167	106.937.898	77.160.325
Permanent capitals	140.287.327	180.390.286	99.039.938
Total coefficient of indebtedness	**1,90**	**1,33**	**2.07**
Rate of financial independence	**0,47**	**0,59**	**0,77**

Source: data collected and calculated by the author based on data from the balance sheet

According to Table 4 we see that the total coefficient of indebtedness is greater than 1 each year, the highest value recorded it in 2011, i.e. 2.07, so each year the company depends on its receivables, this over-unit rate of also reflects the fact that the equity provides financing of the company in a lesser extent than total debts.

The table also highlights the rate of financial independence, that is higher every year or at least 0.5, thus equity share is about 50% in permanent capitals, and this is beneficial to the company since it corresponds to banking regulations imposed in credit relations with firm.

Next we analyze the firm's management indicators, indicators which characterize certain aspects of financial management related to business exploitation, for their calculation we use balance sheet data of the analyzed company.

Thus through the speed of rotation of current assets which is expressed by two indicators: the number of rotations (rotations coefficient) and length of a circuit (speed in days), we will analyze successive and continuous transformation of current assets, and respectively effectiveness of the current assets of the company are used.

We analyze the speed of the current assets using the following indicators:

$$\text{Rotation coefficient} = \frac{Turnover}{Current \quad assets};$$

$$\text{Length of a circuit} = \frac{Current \quad assets}{Turnover} x360$$

Table 5. Speed of current assets

Indicators	2009	2010	2011
Turnover (T_O)	81.464.307	111.760.311	85.079.877
Current assets	79.471.076	86.601.167	77.618.259
Rotation coefficient	1,02	1,29	1,09
Length of a circuit (days)	351	277	332

Source: data collected and calculated by the author based on data from the balance sheet

According to table 5 we see that the coefficient of rotation performed each year little over one circuit, respectively 1.02, 1.29, and 1.09 of current assets to obtain or to achieve the volume of production (turnover) from that year. Duration in days of one rotation is about one year in each year, and 2010 is accelerating, i.e. 74 days, because in this year there is a reduction in the duration of rotations, a beneficial acceleration for the company.

Also in 2011 there is a slowdown of the coefficient rotation because circuit length has increased by about 45 days; unfavorable appreciation to the firm since its purpose is to accelerate the speed of rotation to increase the overall efficiency of business.

Therefore 2010 presents the highest speed of rotation thus the volume of current assets required to achieve production of that year is lower, however 2011 presents lowest speed of rotation; the volume of current assets required to achieve production of that year is high. We will further analyze speed of rotation of stocks, customers and suppliers.

In addition to the speed of rotation stocks, which expresses the movement of the entire stock of the company, we analyzed the speed on different groups of stocks, because the calculated speed for all stocks is the average of rotation speeds of different categories of stocks and, like any environmental indicator, can hide plus or minus deviations of the component elements. In order to analyze the speed of rotation stocks, we calculate the average stock for all stocks and for each item of stock, average stock is required in the calculation formula of rotational speed and is calculated using the following formula:

$$\text{Average stock} = \frac{Initial \quad stock + \quad Final \quad stock}{2}$$

Table 6. Average stock

Indicators	2009	2010	2011
Average stock of inventories	14.226.336	20.113.454	18.577.645
Average stock of raw materials	8.210.410	12.966.252	13.038.812
Average stock of production in progress	5.988.613	7.123.768	5.528.698,5
Average stock of finished products	27.312,5	232.674,5	10.134,5

Source: data collected and calculated by the author based on data from the balance sheet

The data in the above table will be used in the following table, in order to calculate the speed of rotation of the stocks.

Table 7. Speed of rotation stocks

Indicators	Formula	2009	2010	2011
Coefficient of speed of rotation stocks	$\frac{T_O}{\overline{S_{stocks}}}$	6,00	5,85	4,57
Speed of rotation stocks in days	$\frac{\overline{S_{stocks}}}{T_O} x360$	62,86	61,48	78,60
Coefficient of speed of rotation raw materials	$\frac{T_O}{\overline{S_{rm}}}$	9,92	9,08	6,52
Speed of rotation raw materials in days	$\frac{\overline{S_{rm}}}{T_O} x360$	32,28	39,63	55,17
Coefficient of speed of rotation production in progress	$\frac{T_O}{\overline{S_{pp}}}$	13,60	16,53	15,38
Speed of rotation production in progress in days	$\frac{\overline{S_{pp}}}{T_O} x360$	26,46	21,77	23,39
Coefficient of speed of rotation finished products	$\frac{T_O}{\overline{S_{fp}}}$	2982	506,11	8395,074
Speed of rotation finished products in days	$\frac{\overline{S_{fp}}}{T_O} x360$	0,12	0,71	0,04

Source: data collected and calculated by the author based on data from the balance sheet

From data calculated in table 7, it is noted that with regard to the components of the stocks, the final products have the highest coefficient of the speed of rotation in days in each year, and the speed of rotation in day is lowest in each year, even less than one day, so that the speed of rotation of the final products is largest in the components of stocks.

The final products are followed by the production in progress that has the speed of rotation in days for about a month in every year, the lowest value being in 2010, and the speed of rotation coefficient is about 13, 16, 15 rotations.

Unfinished production is followed by raw materials that are on the last place with a coefficient of rotation about 9 circuits in the first two years, followed by a decrease in the coefficient in 2011, when reaching about 6 circuits, also speed of rotation in days is about a month in the first two years, with a slowdown in 2011, when it reaches about 2 months, because circuit length increases by about 15 days, an unfavorable assessment to the firm since its purpose is to accelerate the speed of rotation in order to increase the overall efficiency of business.

In conclusion, we can say that the first two years, speed of stock rotation is high and allows the business to make more operations without increasing its assets, so the amount of money locked in stocks is low, which improves liquidity, and in 2011 the speed of rotation is low.

A detailed study of liquidity requires calculation of the number of rotations in days for customers and suppliers credits, which will build on the relationships and calculations from table 8:

Table 8. Speed of rotations of customers and suppliers

Indicators	Formula	2009	2010	2011
Turnover	T_O	81.464.307	117.760.311	85.079.877
Average balance Customers	$\frac{Initial\ \ balance + Final\ \ balance}{2}$	23.376.861	21.152.423	24.498.298
Average balance Suppliers	$\frac{Initial\ \ balance + Final\ \ balance}{2}$	27.483.374	36.280.348	50.071.130
Coefficient of speed of rotation customers	$\frac{T_O}{\overline{AB_{Customers}}}$	3,48	5,56	3,47
Speed of rotation customers (days)	$\frac{\overline{AB_{customers}}}{T_O} x360$ (Dinu, 2004)	103,30	64,66	105,09
Coefficient of speed of rotation suppliers	$\frac{T_O}{\overline{AB_{suppliers}}}$	2,96	3,24	1,69
Speed of rotation suppliers (days)	$\frac{\overline{AB_{suppliers}}}{T_O} x360$	121,45	110,91	211,86

Source: data collected and calculated by the author based on data from the balance sheet

According to the above, we realize that the speed of rotation of customers is about 3 months in 2009 and 2011; in 2010 the indicator is lower than in the previous two years, approximately 2 months, but although in 2010, the speed of rotation is low, it is quite high in the three years analyzed, which is not beneficial for the company, as this indicator reveals that there are big problems concerning the control of credit granted customers, and therefore receivables are more difficult to collected.

So the firm must take appropriate measures to speeding their collection. Regarding the speed of rotation of suppliers, the longest period that the entity has obtained it from its suppliers is in 2011, i.e. 211 days, and the smallest period is 2010 when getting a credit period of 110 days followed by a slight difference in 2009 when the loan period is 121 days. Thus the most favorable years are 2009 and 2010, when the speed of rotation is lower, because it saves cash and increases liquidity of the business for the analyzed company.

CONCLUSION

Regarding financial means, the company has faced each year with a slow rate of revenues due to the gap between services, accepting the settlement statements for services and the payment thereof. Thus company's solution was to use permanent credit lines and loan for temporary needs.

Regarding the rate of current assets, it shows that current assets play an important role in assets, holding nearly one-third of the total, while this rate remains almost constant over the three years.

Regarding the liquidity of the company, it presents favorable values for 2009 and 2010, but in terms of 2011, the company has values that do not fit within a favorable situation, which does not bring benefits to company. The company presents a downward trend in liquidity from year to year, which captures a declining activity, which leads creditors to be cautious in granting new loans.

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