

**BALANCE SHEET - SOURCE OF INFORMATION FOR
DETERMINING THE FINANCIAL POSITION OF ECONOMIC
ENTITIES**

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Abstract:

In introduction, different views on the relationship between the balance sheet and the financial position of economic entities are presented, as well as the aim of this study. Furthermore, a case study is presented by using the balance sheet items in a commercial company. Based on the balance sheet data of the 2007 - 2011 period, the following indicators were determined: the structure rates of the asset balance sheet, the structure rates of liabilities. Then, an analysis of the financial equilibrium of the entity under discussion has been performed. In addition, the financial equilibrium was analyzed through the indicators of the working capital, of the need for working capital and the treasury. Conclusions focused on quantifying, based on the balance sheet items, the financial position of the presented economic entity.

Keywords: patrimonial balance sheet, financial position, structure rate, financial position equilibrium.

JEL Classification: E43, M41.

1. Introduction

The object of this study is to quantify, based on the patrimonial balance sheet data, the financial position of economic entities, and their deviations from the normal range of the indicators determined.

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The case study was performed within an economic entity, which has both industrial and trade activity. In addition, the data are real.

The research methods used are documentation, data comparison and financial analysis.

References at the end of the study show the cognition study in quantifying the financial position of economic entities based on patrimonial balance sheet items.

“Patrimonial balance is the symbol of accounting and the financial analysis centre”(Maria Berheci, 2010, p. 316).

Most authors make the connection between the balance sheet and the financial position of the company.

Thus:

- Maria Berheci in *Valorificarea raportărilor financiare*, CECCAR Publishing House, Bucharest, 2010, on page 317, “establishes the relationship between financial position and influencing factors (size of the entity, legal and economic factors, relations with external partners, incidental factors, the entity’s strategy, techno-economic factors (type of activity)). According to the author, each factor is specific to the enterprises, of which the company is part of;

- For Iulia Jianu (Iulia Jianu, 2007), “The balance shows the company’s financial position at a certain time only, namely at the end of the financial year, but this financial position is the consequence of the results achieved by the company since its establishment until the balance sheet date. The balance sheet shows how the manager invested the money and where they came from. Also, the balance sheet provides information about rates of return, capital structure, liquidity and the company’s flexibility”;

- Ion Stancu says that “the balance sheet summarizes the financial position of the company at a certain time”(Ion Stancu, 2002, p. 780).

Monica Violeta Achim in *Analiza economico-financiară*, Risoprint Publishing House, Cluj Napoca, 2009, on page shows that “In purposes of the IAS/IFRS approaches, the financial position of an entity is given by the relationship between assets, liabilities and equity of its own”.

It follows from the above that the financial position is determined by the actual size of the asset balance sheet items, which vary from one branch to another, depending on the type of enterprises (large, medium, small), from one country to another, and on the size of the entities’ equity.

In the following, we shall present the structure of the balance sheet as

Assets = Liabilities over a period of 5 years. We process the financial statements as follows:

Balance sheet in the period 2007 – 2011(Data are real):

Table 1: Balance sheet -lei-

Indicator	Period/Years				
	2007	2008	2009	2010	2011
A. Total fixed assets, of which:	66468135	66128734	60436835	64499427	57932692
- tangible assets	76190	53986	39911	59281	127218
- intangible assets	66391745	65994548	60316724	64272514	57621678
-financial assets	200	80200	80200	167632	183796
B.Total current assets, of which:	59732695	90688497	113371309	140598813	151850973
B ₁ .Stocks, of which:	100364045	16883246	14672055	16396332	21173606
- raw materials and consumables	6769424	8625033	7946366	7608837	6354202
- ongoing production	849995	2955949	3075886	4003441	4017900
- finished products and goods	1380123	2392079	2985466	3955710	8133822
- advances for purchases of stocks	1364503	2910185	664337	828344	2667682
B ₂ .Total receivables:	26626814	45541167	54853128	45207735	58326768
- commercial receivables	21300302	40576414	44318472	34908558	54416107
- amounts to be collected from related	4934620	3554278	9100881	7600000	900000

parties					
- amounts to be collected from entities with participating interests	-	-	-	-	-
- other receivables	391892	1410475	1433775	2699177	3010661
B ₃ .Total short-term investments	867357	-	-	-	-
B ₄ .Cash and bank accounts	21874479	28264084	43846126	78994746	72350599
C.Expenditure in advance	9625	-	-	-	-
TOTAL ASSETS (A+B+C)	126210455	156817231	173808144	205098240	209783665
D. Debts: total amounts to be paid within up to one year, of which:	33606031	51146018	40312376	41180722	44386933
- amounts owed to credit institutions	-	8482785	9000028	9120505	9194792
- advances	-	-	-	-	201613
- commercial debts	28909580	35634253	25206644	26207190	26724555
- other debts (fiscal, social, etc.)	4696451	7028980	6105704	5853027	8265973
E.Net current assets	26136289	39542479	73058933	99418091	107464040
F. TOTAL assets minus current debts	92604424	105671213	133495768	163917518	165396732
G.Debts: amounts to be	-	50925113	44337949	35697849	25468181

paid within a period of less than one year, of which:					
- amounts owed to credit institutions	-	47362201	41250112	32675319	23753197
- other debts	-	3562912	3087837	3022530	1714984
H. Revenue in advance, of which:	6138052	5157635	4177018	3196400	2210888
- investment subsidies	6138052	5157635	4177018	3196400	2210888
I.Equities	86466372	49588465	84980801	125023269	133717663
TOTAL LIABILITIES (D+G+H+I)	126210455	156817231	173808144	205098240	209783665
Treasury (Availability – Treasury credits)	22741836	19781299	34846098	69874291	63155807

Taking into account all these considerations regarding FDI and due to the importance of FDI for the development of the countries and their economic relationship, our paper will analyze the relationship between the FDI flows, economic growth and the financial crisis which started in 2008, emphasizing the case of European Union.

The structure of the current paper is as follows: section 2 presents a short literature review on the relationship between FDI, growth and crisis. In section 3, we describe the methodology used, we show the data selection process and the characteristics of our sample and we report our results. Finally, we present our main conclusions.

2. Determining the structure rates of the assets balance sheet, of liabilities, the analysis of the financial position's equilibrium, the analysis of the general solvency ratios and the treasury of the business entity

2.1. Structure rates of the asset balance sheet (Maria Berheci, 2010, pp. 319-321)

Table 3: Structure rates of the asset balance sheet %

Rate	Calculation formula	Years				
		2007	2008	2009	2010	2011
A ₁ Rate of fixed assets	$\frac{\text{Fixed assets}}{\text{Total Assets}} * 100$	52,66	42,17	34,77	31,45	27,62
A ₁₁ Rate of intangible assets	$\frac{\text{Intangible assets}}{\text{Total Assets}} * 100$	0,04	0,02	0,03	0,03	0,06
A ₁₂ Rate of tangible assets	$\frac{\text{Tangible assets}}{\text{Total Assets}} * 100$	99,96	42,08	34,70	31,34	27,47
A ₁₃ Rate of financial assets	$\frac{\text{Financial assets}}{\text{Total Assets}} * 100$	0,05	0,05	0,08	0,09	0,09
A ₂ Rate of current assets	$\frac{\text{Currents assets}}{\text{Total Assets}} * 100$	57,83	65,23	68,55	72,38	72,38
A ₂₁ Rate of stocks	$\frac{\text{Stocks}}{\text{Total Assets}} * 100$	10,21	10,77	8,44	7,99	10,09
A ₂₂ Rate of trade receivables	$\frac{\text{Trade receivables}}{\text{Total Assets}} * 100$	29,04	31,56	22,04	27,80	27,80
A ₂₃ Rate of liquidity	$\frac{\text{Liquidity}}{\text{Total Assets}} * 100$	18,02	25,23	38,52	34,49	34,49
A ₂₄ Rate of expenditure in advance	$\frac{\text{Expenditure in advance}}{\text{Total Assets}} * 100$	-	-	-	-	-
Total		100,00	100,00	100,00	100,00	100,00

Structure rates of the asset balance sheet

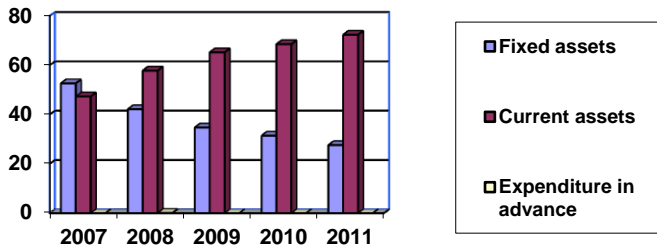


Figure 1: Graph on the structure rates of the asset balance sheet

From the structure rates of the asset balance sheet shown above, we distinguish that the rate of tangible assets decreased from 53.60% in 2007 to 27.47% in 2011, being much below 60%, the normal value registered in the industrial branch.

In addition, the rate of current assets recorded values from 47.33% in 2007 to 72.38% in 2011, well above the normal value of 40% in industry.

A favourable level registers the rate of liquidity reaching in 2011 to 34.49%, above the 25% favourable of industries, showing that liquidity is not used effectively, being kept in availability accounts.

2.2. Structure rates of liability balance sheet

Table 4 : structure rates of liabilities %

Rate	Calculation formula	Years				
		2007	2008	2009	2010	2011
B ₁ Rate of global assets	Total debts / Total Liabilities * 100	51,11	39,04	34,35		
B ₁₁ Rate of global debts	Current debts / Total Liabilities * 100	23,19	20,08	21,16		

B ₁₂ Rate of on-term asset	Long-term debts	0	53	36	23,73	16,73
	Permanent capital ²		* 100	34		
	Short- term debts					
	Equity	0			31,11	20,10
			113,10	57,09		
B ₂₁ Rate of global financial autonomy	Equity	68	31	48	60,96	65,65
	Total Liabilities		* 100	89		
B ₂₂ Rate of on-term financial autonomy	Equity	100	46	63	76,27	83,27
	Permanent capital		* 100	66		
B ₃ Rate of financial stability	Permanent capital	73	67	76	79,92	78,84
	Total Liabilities		* 100	81		
B ₄ Rate of revenue in advance without investment subsidies	Revenue in advance	-	-	-	-	-
	Total Liabilities		* 100			
Total		100,00	100,00	100,00	100,00	100,00

Structure rates of liability balance sheet

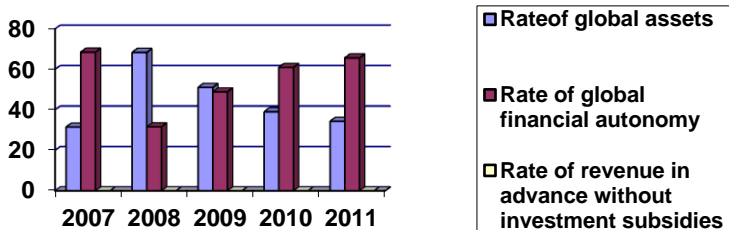


Figure 2 : Graph on the structure rates of liabilities

² Permanent capitals are equal to balance sheet, total assets less current liabilities under the Order 3055/2009 of the IMF

The rate of global liability had values below 66%, holding in 2011, 34.35% of the total liabilities showing the financial risk of the company.

The rate of current debts is below 33% (normal values in the industry branch) and does not affect too much the company's indebtedness. In addition, the rate of on-term debt registered values below 50% (normal values in the industry branch) reaching to 15.01% in 2011, except in 2008 when there was a percentage of 53.07%.

The rate of global financial autonomy has values greater than 33% (normal values in the industry branch), except for 2008 when its value was 31.62%.

The rate of on-term financial autonomy recorded values above 50% (normal values in the industry branch), except for 2008 when its value was 46.93%.

The rate of financial stability recorded in all years, values above the normal range in industry from 50 to 66%.

2.3. Analysis of the equilibrium of the companies' financial position

The financial equilibrium within companies establishes the link between the company's assets and the way they are financed by the rule: "permanent capital funds fixed assets, and cyclical resources fund current assets". This balance is first highlighted by company's liquidity and solvency rates.

We shall show in the table below the calculation formulas during the analyzed period of this rate.

Table 5: Rates of financial equilibrium %

Indicators	Calculation formulas	Years				
		2007	2008	2009	2010	2011

1.Current liquidity (CLR)	$\frac{\text{Current assets}^3}{\text{Current debts}} * 100$	177,77	177,31	281,23	341,42	342,11
2.Immediate liquidity (ILR)	$\frac{\text{Current assets - stocks}}{\text{Current debts}} * 100$	146,90	144,30	244,84	301,60	294,34
3.Effective liquidity (ELR)	$\frac{\text{Treasury}}{\text{Current debts}} * 100$	38,07	21,81	30,74	49,70	41,59

Current liquidity in the period under review varies within the normal ranges (200%) except for the years 2007, 2008.

In addition, immediate liquidity is within normal limits, namely within the confidence interval (50% - 100%). Limits also record the rate of effective liquidity to the range of financial security (20% - 30%).

Overall financial solvency is “the entity’s ability to repay long-term debts from bank financial institutions (DFBL) of the entity’s asset (AB) remaining after payment of current liabilities”.

See in the table below the rates of overall solvency during 2007-2011.

Table 6: Level of solvency rates %

Indicator	Calculation formula	Years				
		2007	2008	2009	2010	2011
⁴ Absolute overall financial solvency	$\frac{AB - DCR}{DFBL}$	-	223,11	323,63	501,66	696,31

³ Current assets include the current assets of the balance sheet and the expenses in advance, and current liabilities include debts of less than one year and the income in advance without investment subsidies that are part of the capital employed (OMFP 1752/2005);

⁴ Monica Violeta Achim, *Analiza economico-financiară*, Editura Risoprint, Cluj-Napoca, 2009, pag. 292;

The level recorded by this rate is within the range of financial security (80% - 180%)

Next, we shall determine the indicators of financial equilibrium: the working capital, the need for working capital and treasury between 2007 -2011 according to the table below.

Table 7: Indicators of financial equilibrium %

Indicators	Calculation formula	Years				
		2007	2008	2009	2010	2011
Working capital	<ul style="list-style-type: none"> • Net current assets⁵ • Permanent capital (total assets minus current debts) • Fixed assets • Current assets+ Expenditure in advance- (Short-term debts+Revenue in advance) 	26136289	3954247	73058933	99418091	107464040
Need for working capital	Stocks+Receivables+ Expenditure in advance - Operating liabilities - Revenue in advance	3394453	19701180	38212835	29543850	44308233
Treasury	Liquidity - Cash loans NetWC-NWC	22741836	19781299	34846098	69874241	63155807

The evolution of working capital and treasury in the period under review shows that current assets are covered by the net working capital.

3. Conclusions

Quantifying the financial position of economic entities is a complex activity that can be done based on the elements of the patrimonial balance sheet. This is achieved by the structural indicators of asset, liabilities and by the indicator of financial equilibrium.

The data presented in this case study shows that the rate of tangible

⁵ Conform OMFP nr. 1752 / 2005, structura bilanțieră , poziția E , active circulante net

assets tended to decrease much below the normal value within industry than the rate of current assets, which recorded values 40% above the normal limit of industry norm.

In addition, based on the rates of liability structure were calculated the deviations from normal values of the industry entities.

As regards the rates of current liquidity, immediate liquidity, effective liquidity, there were also settled deviations from the normal values of these rates.

It was also appreciated that the positive values of working capital, in the period under review, cover by sources the need for working capital.

The rates calculated using data from the patrimonial balance sheet determine the financial position of the entity studied, by the fact that these indicators were compared with the normal values of these industry indicators.

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