CONSIDERATIONS ON THE FINANCIAL EQUILIBRIA OF ROMANIAN ENTERPRISES TOURISM

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Abstract

Financial equilibria of an enterprise is constantly a target of any manager as it depends on the viability and prosperity of the business. If in the past financial equlibria were seen only through comparison of static working capital and working capital requirements and its resultant net tresaury with the adoption of IAS and especially after the adoption of IFRSs, requires a new approach to namely a dynamic approach balances seen in terms of short-term liquidity, long term solvency terms and by linking performance with the company's cash flow. That is why in this paper we present the three components of the dynamic balance of tourism enterprises, namely: the liquidity balance, equilibrium and balance the performance solvency and cah flow.

Keywords*: liquidity, solvency, financial equilibrium, performance, cash flow, equilibria*

JEL classification: *D57, G33*

1. Literature review

Financial reporting in general, especially in tourism enterprises is an important part of determining how financial resources are managed an economic entity to ensure financial balance and prevent the risk of bankruptcy.

Balance, regardless of presentation, constitutes the "picture" economic entity and should answer a number of user-specific questions. These questions arise from the way in which the gender-balance sheet assets and liabilities, equity transposing a fundamental identity between two different representations of the same economic size: sources of funds (origin) must

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match the requirements (needs) which have been affected. Furthermore, dynamic analysis of the correlation between current assets and liabilities, the remaining assets and long-term debt and the correlation between profit and cash flow based on financial ratios, can generate enough information about the general financial equilibrium of an economic entity.

SMEs prepare financial statements usually for external users, primarily to meet tax regulations and legislations. Internal reports, on the other hand, are under-represented or non-existent. This means that accounting information is insufficiently used in decision-making processes and management of small and medium- sized enterprises. The more intensive explanation of internal reports could intensify financial position and business performance. They are one of the prerequisites for long- term growth and development of enterprises. In that sense, the importance of financial statement analysis needs to be stressed. Principal tools and techniques of financial statement analysis are well recognized. However, financial statement analysis is certainly not confined to horizontal and vertical analysis. Financial ratio analysis is of extreme importance. They are widely accepted in business practice of large companies, primarily because of the simplicity of its calculation and use. Bearing that in mind, the subject matter and objective of this paper is to indicate the trends and dynamics of some of the most important financial ratios of financial position and business performance of SMEs in the Republic of Croatia. Based on the obtained results, the quality of business performance will be evaluated for this important economic discipline.(Žager, Sačer, Dečman, 2012)

To rate corporate bonds, rating agencies usually use statistical models based on a set of financial ratios. Some academic studies have also highlighted the use of artificial intelligence techniques of neural networks for corporate bond ratings. In recent years, operational research techniques such as data envelopment analysis (DEA) and its applications to financial decision making have attracted the interest of researchers and practitioners. (Malhotra, Malhotra, Russel, Philip, 2010, p.58-76)

Financial statements are a summary of the operating, financing, and investment activities of a firm over a period of time. Financial statements are supposed to contain enough information to help investors and creditors make an informed decision about investing or lending money to the company. Financial statement analysis is the ultimate key that will help investors and creditors gain enough insight into the company to make an informed decision about the company. Financial statement analysis is also used by management to make decisions about the firm in a more informed manner. Financial statement analysis helps identify a firm's strengths and weaknesses so that management can take advantage of a firm's strengths and make plans to counter weaknesses. The strengths must be understood if they are to be used to proper advantage and weaknesses must be recognized if corrective action needs to be taken. From management's viewpoint, financial statement analysis is useful both as a way to anticipate future conditions, starting point for planning actions that will influence the future course of events or to show whether a firm's position has been improving or deteriorating over time. (Malhotra, Malhotra, 2008, p.330-335)

The challenge facing credit pros is the sheer number of types of ratios that can be performed (see below for a partial list), as well as the reality that no single ratio typically reveals enough information on which to base a sound credit decision. The four areas that ratios measure are:

Liquidity: Overall solvency: The more "liquid" the firm, the more easily it can either meet its short-term obligations as they come due or convert an asset into cash with little or no loss in value. *Efficiency of activity:* This is the speed with which certain accounts are converted into sales or cash. *Leverage or debt:* Debt allows for the generation of profits but also creates claims on earnings. Leverage describes the magnification of risk and return resulting from the use of fixed-cost financing, such as debt and preferred stock; measures the degree of protection of suppliers of longterm funds; and can aid in judging a firm's ability to raise additional debt. *Profitability:* This accounts for management's ability to control expenses and earn a return on the resources committed. A "common-size income statement," expressing each income statement item as a percent-age of sales, allows for easy evaluation of a company's profitability relative to sales. (Blakeley, 2009)

Financial ratio analysis techniques in the past have been developed either intuitively from practical experiences (e.g., *ad hoc* financial ratios in Wild *et al.* (2001)) or, as shown by Nissim and Penman (2001), based on a theoretical valuation model. However, neither approach was subject to systematic processing of the enormous amount of data commonly available in financial databases. (Cheh, Lapshin, Il-Woon Kim, 2006, p.405–429)

From that analysis hereunder balance sheet must be completed and external analysis aimed at interpreting financial ratios dynamic changes in assets, liabilities, profit and cash flow or liquidity ratios analysis, solvency and analyze the correlation between profit and cash flow, as we shall see below.

2. Method and results

The liquidity and solvability express the capacity of an entity to pay its due debts (on term). While the financial liquidity reflects the capacity to pay on short term (usually the duration of the financial exercise), the solvency aims at the medium and long term coordinates of payment of a company. The International Accounting Standard emphasize the fact that liquidity refers to cash availability in the near future, after taking into account the financial obligations for this period.

When planning entity need short-term funds or term must be considered first need cash for business development and secondly forecasting profitability. Although profit calculated as the difference between sales and expenses in a given period of time is a significant indicator of company performance, the profit is not automatically guarantee its development and survival of the less entity.

That is why we believe that many businesses may be limited or even eliminated due to a lack of liquidity and not because the entity does not profit. The main purpose of the cash flow statement is to highlight inflows and outflows of cash and cash equivalents over a period of time, usually during the financial year. Cash equivalents are represented by short-term financial investments, highly liquid and readily convertible into cash. It also has financial reporting entity scope to classify flows by type of economic activity in three categories: operating, investing and financing. Investing and financing activities not affecting cash are presented separately in other financial statements.

The role of cash flows in the financial analysis is at the same time, that provides unique information and information flows more accessible and convenient for the analyst. The information provided "cash flow statement" is based on data from the balance sheet and profit and loss account and has structured on three levels in a simplified manner, changes in the financial position of the entity.

In this respect, the cash flows reveal effects the operating, investing and financing over a period of time and shows the effects of previous decisions of the management of the issue of new shares or long-term bonds.

Status of cash flow - say professors Belverde E. Needles Jr., and James Henry R.Anderson C.Caldwell - is financial condition showing sources and uses of funds in a financial year. (Needles, Anderson, Caldwell, 1996)

Cash flow is a continuous cycle of transformation of money into products and services, using the money to finance production, sale of products, and then their actual collection", says Bryan E.Milling. (Milling, 1992, p.3)

At the same time we can not ignore the financial balance of the profit equation and the International Accounting Standards (IAS), define income as gross flows of economic benefits received by a company during its normal activities when these flows materialize by increases in equity, other than increases due to the contributions from equity. (IAS-18, 2000, p.401)

When items of income and expense in the profit or loss from ordinary activities are of such size, nature or impact so that their presentation is relevant to explain the performance of the company for that period, the nature and amount corresponding to these elements should be presented separately. (IAS-18, 2000, p.168)

Default resulting from those shown that for profit, the necessary condition is the existence of economic activity. Its result is calculated as the difference between the selling price and cost of obtaining the product or service provision to third parties.

From the short term financial equilibrium point of view it is important to measure the **Current Liquidity Ratio (CLR)** which reflects the capacity of the current assets (stocks, receivables, pre-payments, short term investments) to be transformed into cash, that would cover the due debts of the company.

In the oppinion of other specialists, the ratio of liquidity must be over 150%. (H.G. 364 from 10.05.1999) In the specialised british and american literature (Terry Gaskin, 1998, p.23) it is apreciated that the general ratio of liquidity has to be at least 200%.

Looking in dynamics, it is important to establish the gap in which Current Liquidity Ratios moves. In our opinion, based on the financial literature and other legal sources, consider the safety gap of this ratio is between 150% and 250%.

Table no.1. Calculation of liquidity and solvency ratios SC DORNA TOURISM SA

	S.C. DORNA TURISM SA	Fiscal Year									
	Financial Ratios	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
1	General Solvency Ratio = Working Capital + Fixed Assets/ Long Term Debts	547,97	475,77	371,97	229,97	2278,45	235,33	235,67	234,68	280,28	347,28
2	Current Liquidity Ratio= Current Assets/Current Debts	53,22	35,36	26,72	26,76	25,71	16,11	29,40	19,02	9,46	16,08

Source: Own calculations based on financial statements

Throughout the period under review we find that the entity has the liquidity to pay current liabilities, with the exception of 2010 when the entity was able to illiquid. It also notes that during the financial crisis, the entity has made significant depreciation of the state of liquidity, from 29.40% in 2008 to 9.46% in 2010. Since 2011 the company returns to steady state term financial short. Chart liquidity evolution is shown in the chart below.

Maintaining solvency as a form of long-term equilibrium rate is subject to timing of receipts of money related to currency conversion of assets mature pace mandatory payments related to the liquidation of debt maturing in this respect, a first assessment of solvency is achieved by comparing between liquidity remaining assets and long-term debt chargeability. The International Accounting Standards mention the fact that refers to cash availability on solvability of greater period of time that one year when the financial agreements is due.

Robert Higgins considers that solvability is the state of a company that expresses the ability of a company to pay its long term obligations.

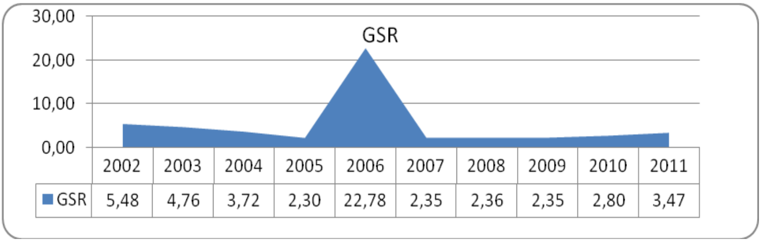
Other specialist define solvability by the ability of the entity to face its monetary obligations, of honoring its due payments, namely having the ability to pay.

Yves Bernard and Jean Claude Colli claim that solvability represents the capacity of a person to respect his commitment regarding the aggregate resources that make his asset.

General solvency ratio (GSR) shows the capacity of the firm to reimburse at maturity the current installments for the long and medium term credits that were not fully reimbursed. Range of financial security for this indicator is between 80% and 180%, as resulting from international banking practice.

In our case study we observe e high evolution of this ratio in 2006 and a decrease between 2008 and 2010, as the graphic bellow:

Fig.1



The effects of the liquidity and solvency of evolution balance will be found partly or wholly **correlation between profit** on the one hand **and** on the other hand **cash flow**, which is shown in the chart below.

The data analysis observed a balance in 2002, 2004, 2008 and 2011 and an imbalance in 2003, 2005, 2006, 2007 and 2010. In 2009 there is a general imbalance generated on the one hand the loss incurred on the other hand consumption of excess liquidity from the previous year. We believe that looked dynamic balance between profit and cash flow expresses an equilibrium if and only if the two indicators are positive developments, ie simultaneously generate profit surplus of cash. If the profit is recorded but this does not materialize in a cash flow properly speak of an imbalance because the profit made from the sale is not, but the fireworks accounting. Another reason may be lack of additional revenue as a result of third-party immobilized's cash in stocks. Finally one can speak of a short-term positive imbalance when generating a cash surplus, which covers financial losses. If action is not taken, this imbalance can be transformed into a general imbalance explained by loss and by a negative cash flow as recorded in 2009, when the previous imbalances have led to a general imbalance of the analyzed company.

3. Conclusions

From the presented throughout this research can draw the following conclusions:

● the financial balance of the entity can be identified through a static equality between elements of the balance sheet nor the aggregate;

● financial equilibrium dynamics can be measured by a constant evolution within the financial security of liquidity and solvency

● not least financial equilibrium may be evidenced by linking financial result with cash flow entity.

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