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FINANCIAL MANAGEMENT OF THE COMPANY THROUGH THE CAPITALIZATION OF FINANCIAL-ACCOUNTING INFORMATION

Empirical study

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Abstract

This article aims to highlight the role of financial-accounting information for the use in the financial management of the company, starting from the most recent writings in the field. Although it is hard to imagine that the financial management uses individualized financial-accounting information, attributed solely to a particular activity within the enterprise, still we tried to address the information according to the main activities that produce and use information, respectively: of investment, of exploitation and of financing.
A proper management, at the company's level, contributes to better products at lower prices, a higher salary and at the same time, to achieve higher incomes for those who contributed with capital in that company.
Therefore, the financial management is a subsystem of the overall management of the company, aimed at ensuring the necessary financial resources, their profitable allocation and use, increasing the company's value and of the safety of patrimony.

INTRODUCTION

Proper company management contributes to the achievement of better products, at lower prices, higher wages, and at the same time, to the development of higher revenues for those who have capital included in that undertaking.

The financial side of the management is to be found in all of the components of managerial activity within the undertaking, namely:

- in all the functions of the management act: forecast, organization, coordination, training and control;
- in all the elements of the management system: the organizational system, the information system, the decision-making system;
- in the whole structure and materialization of the functions: research and development, production, personnel and the financial-accounting one.

Therefore, the financial management is a subsystem of the overall management of the company, aimed at ensuring the necessary financial resources, their profitable allocation and use, increasing the company's value and of the safety of patrimony (Bogdan, 2002).

The financial management is based on information. Accounting is the source that will provide the information that will be used for economic decision-making, while the main functions of financial management is to plan, provide and use financial funds.

All the operations of the undertaking also have an equivalent in financial terms. The operations belong to the successive phases of three categories of cycles: the cycle of investment, the cycle of exploitation and the cycle of financing, cycles that require organizing and conducting for the purpose of attaining the objectives of the enterprise policy.

2. MATERIALS AND METHODS

2.1. Financial management of the investment cycle

A cycle, in an economic sense, is defined as the sequence of phenomena which appear in the economic evolution of an economic process. The investment cycle corresponds to the acquisition of real estate required to maintain or increase the productive capacity. It is divided into two phases: purchase, representing the initial expenditure and recovery, evidenced by the establishment of depreciation, as a result of physical and moral wear. Investments are the expression of the decision selection from several variants of projects aimed at developing the activity of the undertaking. Their financing is ensured by capital which is able to meet expenditure over the entire period of immobilization resulted.

2.2. Financial management of fixed assets

All modern undertakings functions in order to produce profit, but also in order to produce a sufficient cash flow for its activities, but also to avoid the situation in which they aren't able to make payments.

According to the financial policy, a part of the revenue made by the undertaking may be used for the purchase of durable fixed assets.

Unlike the current assets, the long term durable fixed assets are purchased by the enterprise in order to be kept durable, while aiming at other purposes other than immediate consumption or sale.

If an asset does not meet the cumulative conditions of duration and minimum value, it shall be considered as a current asset. Even if the goods fulfill the conditions of duration and minimum value set for fixes assets, in order to be recognized as such, they must meet, in addition to this, the following criteria:

- the future economic benefits criterion – the asset is recognized and presented in the financial statements only if it will generate future economic benefits for the enterprise;
- the credible evaluation criterion - the cost of the immobilization can be determined in a credible manner;
- the ability to control criterion - it represent a resource that can be controlled by the enterprise, both physically and from the point of view of future economic benefits;
- the possibility for identification criterion - applicable in the case intangibles assets, involving the separate identification from the goodwill.

Specific to fixed assets in general, and of the corporate one's in particular, is the big offset that exists between the date of purchase, which involves a output of financial resources, and the date of the full recovery value through costs, namely by selling prices, which means an entry of resources. The recovery time of the value of fixed assets, by cost or by the sale price, are determined by the operating lifetime of the assets.

The company's management can determine a smaller lifetime than that provided by normative acts, also known as useful lifetime, aiming at faster recovery, by cost or price, of the value of fixed assets.

Useful lifetime are meant to mitigate the effects of moral wear, as a result of technical progress, or market effects, which require other kind of products or services, and which, in most cases, require changes in technology.

If the undertaking does not take into account these aspects, is likely to be surpessed by competition, which uses performant technoly, with a lower consumption of energy and workforce with high productivity and a low cost of production or of the services.

Also, in many cases, the undertaking does not have sufficient sources of financing for rapid change of technology, because the amount of fixed assets that require to be replaced have not been recovered in full by priming such being forced to establish smaller recovery times.

2.3. Methods of priming the fixed assets

The decision made by managers regarding the investment policy is dependent on the financing sources to which the undertaking has access. A correct decision for investment will take into account maintaining a permanent financial balance, by ensuring compliance with its fundamental rules, namely:

■ the permanent needs for purchasing fixed assets must be financed from permanent sources, i.e. equity and liabilities on the medium and long term;

■ the current needs must be met from current sources;

■ the working capital must be greater than the demand for it in order to release a positive cash flow.

Maintaining financial balance influences two important decisions: the investment decision and the financing decision.

Funding may come from external sources of the business: contribution to social capital, bank loans, leasing, suppliers' credits, credit loans, foreign financing, or from domestic sources (self-financing).

Self-financing (internal financing), it is determined, mainly, by the size of the undistributed profit, of the priming and of the calculated and unused provisions. With the exception of social capital, other domestic sources are not onerous.

Because priming of fixed assets is an important element of profits, influencing their own sources, affecting directly the ability of self-financing of the undertaking.

According to the aim pursued, the company's management sets out the appropiat method of priming, able to bring about a surplus in the financing of the undertaking at a sustainable cost.

The size of the value of priming is determined by three factors :

■ the priming value of fixed assets;

■ service life;

■ chosen method for priming.

The priming value of a fixes asset is allocated systematically, during the lifetime of the assets. The priming value corresponding to each period is considered an expense. The priming method used reflects how future economic benefits are going to be consumed by the undertaking.

There is no recommendation concerning the amortization method to be chosen. Methods of priming are selected on the basis of an estimate of generated future economic benefits associated with the assets. Therefore, the choice of the method of priming implies a high contribution of subjectivity.

Economic literature and practice have consecrated several methods for the priming of fixed assets, which may be used for the purpose of systematically allocating the value of assets during the lifetime. The method adopted takes into account the ability of the asset of bringing future economic benefits. The method, once chosen, must be kept from a period to another, with due regard to the principle of consistent methods. However, the method can be changed, in the event that the criteria that have been taken into account in its selection have undergone significant changes. In this case, is necessary detailed information from the financial statements (accounting policies and explanatory notes) in order to make the decision of changing the method and to determine the effect of the change of the method on the outcome.

Using the linear method, the priming is constant, and is directly linked to the operating time. This is, as a rule, less in the first year, when the fixed asset has been purchased during the course of the financial year, and in the last year.

Using the accelerated method, digressive, of descending quotas, in the first years of operation, the priming is higher, after which decreases each year, arriving in the final years at values below those recorded by the linear method. The methods are preferred when management seeks a quick recovery of the value of fixed assets.

The increasing quotas method is characterized by low priming at the beginning of the activity, which increases, reaching to record the highest level in the last year of operation. This is a method less used, due to the fact that does not take into account the moral wear of fixed assets, which, in many cases is superior to the physical wear.

The production method is closer to the linear method. The priming varies in proportion to the volume of production. In the event that the volume of production is linear, the two types of priming may overlap.

Priming, as an element of the cost, increases in line with physical or moral wear of the fixed assets and represents an element of the profit and loss account, and is inversely proportional to the net value of fixed assets, which is an element of the financial position. Each undertaking may choose the method they consider to closely match their chosen strategy. Most of the enterprises opt for the linear method, more easily to calculated, and which proportionally splits the value of the assets for the entire duration of service, on the cost of the enterprise. From the study of the reference works results the panel for the priming methods most commonly used: (Table 1).

2.4. The investment decision

Managers are faced periodically with major decisions, involving cash flow. The importance of the financial management results, primarily from its strategic role, which consists in the participation in the decisions of general policy (acquisitions, disposals, use of financial resources), but also from the operational one, referring to activities of financial management and financing of the operation of the enterprise.

In the management of a business, accounting information and techniques are often used in the making of a decision. The decision is a product of information processing and choosing the appropriate solution. The decisions related to investments, frequently uses financial and accounting information. For this purpose, it is necessary to call upon past results, in order to be oriented toward the future, and to give a plus of credibility to the estimates. The investment decision is based on information taken from within the enterprise, information taken from outside the undertaking, but also on forecasts and diagnostics. Frequently used information by financial management, originating within the area of the undertaking may be classified in financial-accounting information and non-financial information, which together, set up the database needed to take decisions.

1. From the category of financial-accounting information are part :

■ the structure of fixed assets;

■ the accounting value, the value amortized and the remaining value of assets;

■ the value of fixed assets acquired:

◘ The purchase price;

◘ Customs taxes and fees;

◘ Transport costs;

◘ Installation charges and fitting;

◘ Other expenses done with fixes assets up to the time it was put into service;

■ costs during the realization of the investment for its own purposes;

◘ Costs of materials;

◘ Costs of wages;

◘ Social costs;

◘ Costs with the external benefits;

Amortization costs with the fixed assets;

◘ Interest costs related to loans contracted to finance investment;

■ the possibilities for the financing of investment while maintaining financial balance ;

◘ Sales forecasts;

◘ Costs forecasts;

◘ Cash flow forecast.

2. From the category of non-financial information, are part:

◘ The policies for the estimation of service life of fixed assets, the priming methods used;

◘ The production capacity;

◘ Labor force;

◘ Products;

◘ Current and potential customers, etc.

Information from outside the enterprise processed by the accounting system is required in addition to the internal information, for the correct estimate of future reliable values to stand to the basis of decisions:

■ the cost of the investment in the case of purchase;

■ technical and economic performance of the future investment;

■ the duration of the investment life;

■ the evolution of the demand and supply of products on the specific market;

■ the main competitors;

■ statistical information:

◘ Inflation rate;

◘ Interest rates;

◘ Average rate of return at the level of branch;

◘ The rate risk, etc.

The investment decision is based on information resulted from the calculation and substantiation of several indicators with different economic complexity, as well as on estimates of financial flows, information that are provided by accounting.

To accept or reject a project of investment is a decision that the company's management must make, taking into account many parameters, such as:

■ profitability of the project;

■ different types of risk it presents;

■ the availability and the cost of the capital intended to financed it;

■ qualitative consistency of the project with the business strategy.

These decisions must be taken when managers need to decide whether to promote a project of capital investment.

The estimation of an investment project, from the point of view of efficiency, is made by evaluating the monetary flows released by it *(*Cristea& Pirtea, 1999*):*

■ output treasury flows;

■ input treasury flows;

■ payments econimies, due to the mode of action of the business taxation;

■ in the initial phase (implementation of the project);

■ during the period of exploitation;

■ at the end of exploatation.

Accepting or rejecting an investment project is done according to the expected results to be obtained, as a result of the new investment. These decisions are based on several criteria for the selection of investment, influenced by the type, the objectives and sources of finance for the investment.

CONCLUSIONS

The importance of financial management result, primarily from its strategic role, which consists in the participation in the decisions of general policy (acquisitions, disposals, use of financial resources), but also of the its operational one, referring to the activities of financial management and financing of the perations of the enterprise. Therefore, the financial management is a subsystem of the overall management of the company, aimed at ensuring the necessary financial resources, their profitable allocation and use, increasing the company's value and of the safety of patrimony.

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Table 1 -The content of the procedures for priming

No.	Method	Method Content	The relationship of calculation
1	**Linear**	The allocation of priming value of fixed assets, evenly throughout the service life of the assets.	$A_{year} = V_I * N / 100$ $N = 100 / D_n$
2	**Digressive**	The priming charges on the costs with decreasing amounts. The priming rate is applied to the value remaining to be amortized.	$A_{year} = V_{amr} * N_{ad} /100$ $N_{ad} = 100/D_{n*} K$ $K = f(D_n)$ $V_{amrt} = V_{amr\,t-}$ THE $_{ant-1}$
3	**Accelerated**	It consists in the inclusion in the costs of priming of 50% of the input value in the first year of operation and for the remaining value is applied the linear amortization method .	$A_{year1} = V_I * 50\%$ $A_{an\div n}(V_{am} - A_{an1})x\frac{N_{al}}{100}$ $N_{al} = 100/ D_n\text{-}1$
4	**Production**	The production method is based on the hypothesis that priming is the result of exploitation, and the duration of the service is of no importance in the calculation of priming.	$A_{year} = N_{ap} * Q_r$ $N_{ap} = \frac{V_{am}}{\sum Q_{pl}}$
5	**Softy – the variant of descending quotas**	The priming rate is calculated by reporting the number of order of the year on the scale of normal life service taken in a decreasing direction to the sum of the years from the normal service life.	$A_{an} = V_{am}x\frac{n \div 1}{\sum n}$ n= number of years of operation
6	**Softy -the variant of increasing quotas**	The priming rate is calculated by reporting the number of order of the year on the scale of normal life service taken in an increasing direction to the sum of the years from the normal service life.	$A_{an} = V_{am}\,x\frac{1 \div n}{\sum n}$ n= number of years of operation

Source: processing by authors