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Financial Control and Treasury Budget in Entities

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Abstract:

Research undertaken for the formulation of the conceptual framework of accounting shows that an objective of the financial statements is to provide information to assist investors and creditors to predict future cash flows of a company. These cash flows are the source of interest payments and dividends, elements that, in turn, influence the actions. Cash flows used for analyze "relationship between the ability to make profits and the ability to generate cash, so give clues about the quality of profit. Financial analysts and other users can develop models for assessing and comparing the current value of future cash flows" produced by different companies. All operations performed by enterprises can be found immediately or within the form of cash flows. Maintaining balance cash flow is a necessary undertaking for sustainability.

Key words: Cash budget, preventive control, IAS/IFRS

JEL Codes: M41

1. Treasury control of the companies

Knowledge of the Company's cash position, its capacity to generate profits, business or bankruptcy of solvent that can find a trader at a time, is provided with financial control, responsible organized and exercised. Control is the act establishing the accuracy of material operations performed prior to their execution, together, or to conduct short-range actions. Subject to financial control are the operations and the composite acts issued or performed by operators. During the inspection, inspection teams to monitor whether the acts and transactions under consideration meet the requirements of legality, efficiency, effectiveness, economy and reality.

Financial control is done by certain forms which combine, complement each other and together constitute the integrated, unitary and generally all areas of economic and social sectors. To conduct all financial activities in accordance with the directives set is practical: while the preventive financial control and financial control after. The preventive control is a specialized, involving review and analysis of economic and financial activity in terms of legality, appropriateness, necessity acts and operations, efficient use of funds and materials and money to ensure their integrity. This review is intended to prevent negative phenomena and failure record in the economy through infringements. Preventive financial control is exercised by the head of the financial-accounting or authorization by the head unit and other people from financial accounting, but usually do not participate in preparation and accounting for controlled documents. Are subject to preventive financial control documents and transactions that relate to property rights and obligations of the establishment phase of employment and pay in relation to other legal and natural persons.

Operations subject to mandatory financial control are:

1. the conclusion of contracts with domestic and external receipts;
2. payments and foreign currency of any kind made in cash and banking transactions with natural or legal persons;
3. passing on costs, funding and results with amounts that lead to diminishing profits or capital;
4. employment, rental or concession supplies, sub-components or units;
5. opening credits.

Documents checked can or cannot receive a visa; those who were not concerned could not be recorded in the accounts. Organizing preventive financial control unit has a great importance to avoid double or even triple payments with concurrently used different means of payment, cash, check, etc. In order to right exercise such control, financial accounting department head from each circuit will produce a graph of documents containing controlled operations, which will include heads of departments of specialized accountability empowered to sign documents, which are responsible for the facts and accuracy and legality of transactions recorded data, presenting them within the legal deadline in the schedule, instructions for making payments and their correct issue. Therefore, by exercising preventive financial control can avoid double payments illegal, ineffective or timeless.

Another form of control is to be exercised concurrently during the economic and financial processes, while carrying out acts and operations related to these activities, in order to intervene to correct or reduce, eliminate deficiencies and irregularities. This review is intended operational knowledge of how to carry out tasks and heritage. While control is exercised within the unit and the data collected during the inspection are recorded in a register. Financial control are not limited to finding negative results, deviations, shortcomings, but he is considered completed when deficiencies are eliminated, taking a series of measures to establish and improve the business situation in their desire to achieve performance results. The industry must apply more efficient management of cash, of the plan, to establish fair and synchronize input and output cash liquidity required to ensure continuity of economic and financial activities. Increased liquidity and profitability even necessary to establish the sources and destination of cash, knowledge development and cash surplus/deficit of cash, timely delivery of cash reserves, cash analysis and control, to take effective measures based on cash position.

Cash control should cover the collection, settlement and cash management to prevent losses of error, fraud or waste. Internal financial control can be considered as one of the most important forms of control to prevent monetary losses. Among the requirements for effective internal financial control note:

1. do not entrust complete control of a single person on the firm's cash operations,
2. to ensure the physical protection of cash by depositing it in controlled areas and to use safety devices,
3. to separate tasks collection and distribution of accounts recording cash transactions and storage,
4. to keep careful and to be regularly informed on the situation of cash management,
5. to conduct periodic surveys to examine the accounts relating to cash,
6. to ensure recovery of damages by the organization a guarantee scheme to employees managing liquidity.

2. Cash budget

Cash policy objective is mastery of financial flows, timing of revenue payments to permanently ensure the company's ability to pay. If the balance cannot be achieved in acceptable conditions (high degree of leverage, for risk discovery etc.), then you can review all annual budgets and, often, credit policy reviews, investment rate, etc.

Operating budget has to forecast cash receipts and payments from expenditure planning, which excludes the unpaid (such as depreciation and proviso calculated) planning and excluded the revenue forgone (i.e. stored production, sales credit etc.). The budget aims to ensure continuous cash payment capacity of the enterprise by synchronizing with payment receipts. Failure of this objective, in acceptable conditions, lead to changes in overall annual budgets, the rate of investments, policy loans - customers, etc.

Cash budgeting is the last stage of the company budget and treasury will be, naturally, the resultant forecasts of other budgets: the sales of supplies, personnel expenditure, investment, administration etc. However, cash balance of receipts and payments is mandatory and the other provisions determined necessary adjustments in budgets.

Cash budgeting, through the method proceeds „cash-payment" involves two major phases, namely:

1. forecast receipts and payments;
2. determining coverage and cash balances resulting from the comparison of receipts to payments.

Flows of receipts and payments can be grouped into four broad categories:

1. service flows generated by current operations which include earnings from operations (earnings from core business and other activities, operating grants, other revenue operating) and payments for operating activities (purchases of raw materials, taxes, wage costs and other operating expenses);
2. outside the operating cash flows, including receipts and payments not directly related to operating activities. Payments out of operation include the annual flows of „sharing"; of profits between direct participants in the company of its economic life: the state (tax profit), employees (profit sharing) and shareholders or (dividends);
3. financial flows easily related to operations on long-term business loans and support of shareholders to increase capital;
4. investment and disinvestment flows, which include proceeds from sale of fixed assets and payments for purchase fixed assets or purchase securities.

All these flows change daily bank accounts of the company resulting in a series of decisions of the company treasurer. It must be constantly concerned about cash balances coverage. This operation (the second phase of budget preparation) involves short-term loans to cover the cash deficit or investment of excess cash.

3. Treasury forecast horizon

It varies depending on the maturity proceeds and payments business and its interests. Thus, if the receipts and payments are quarterly, and aims to balance the company's annual Treasury budget periodicity may be a year. If maturity is the monthly receipts and payments and the company aims to optimize the structure of financing short-term forecast horizon may be several months. Finally, most frequently, the time horizon is the order of days to a month compiling is, in this case, the daily schedule of receipts and payments with maturities semidecadale, decades and wages.

4. Forecast receipts and payments. Cover cash balances

Payments forecast are based on forecast annual expenditure of staggering and predictable payments for such expenses. In principle, forecast payments is similar to that of revenue, taking into account the different nature of expenditure which will determine a number of peculiarities, both in their annual forecast size and phasing of the payment due dates. For example, material supply planning based on existing stocks of supplies and forecast production schedule and marketing of goods. Due date supplies shall be similar to that of earnings. Personnel costs (salaries plus social security charges) are planned according to company policy on employment, financial objectives pursued in the context. Maturity of net payroll is usually wages, while social spending is the monthly payment. Tax liabilities are determined by size of income (profit) company. Payment terms are usually monthly. The forecast will take into account payments and due dates of payments expected from other budgets (investment, production etc.). Cash balance, receipts of payments resulting from the comparison may be surplus or deficit. Treasury forecast deficit to be covered in new loans or cash discount, selected depending on the size of their actual cost. Before resorting to new loans being taken necessary measures include: promotion of revenue (or reduce the duration of the customer credit application in advance of sales receipt) and legal delay of payment (credit extension-provider), a temporary reduction payments by removing (for now) has incurred expenditure, achieving exceptional earnings from work, etc. Surplus cash may be predicting the result of working capital caused by hiring too much long-term debt without an immediate use (being, in principle, prohibited long-term capital raising to be placed in the short term). Second, surplus cash may come from a need of working capital working capital less than. This need is driven by greater maturity of payments arising from operating activities, than earnings (for companies active in trade). Treasurer will seek an investment company's cash surplus in terms of high profitability, low risk and high liquidity.

Employed to cover the cost of credit cash balance increased generate additional payments necessary to finance and treasury investments are generating revenue that increased earnings. Therefore, in determining the final cash balance will also consider the influence.

If the investment of excess liquidity is a goal of special importance in the work of treasurer, then reduce financial expenditures, cash loans are one of its basic task, accomplished through:

1. hiring credits only when necessity justifies them
2. choice of the credits which are best adapted to the concrete situation of the enterprise,
3. the most favorable conditions for granting credit regarding cost, maximum ceiling and flexible credit, etc.

In conclusion, the activity of the treasurer in determining funding forecast can be summarized in three main directions:

1. to assess the actual cost of each credit (depending on length of service) and establish a hierarchy of loans,
2. to quantify the effects of their nature,
3. to select the source of funding that generates the lowest cost financing.

It is prudent to compare the scheduled time period set out in balance with the statement given in the account balance 512 “Current accounts with banks”. This comparison is a *score* that helps to identify and justify bank differences between the statement of account balances and account held by the company.

In case when at the end of the period is found that 512 account balance “current accounts with banks” balance does not coincide with the statement contained in the differences that you may encounter are:

1. the company held year-end checks for suppliers but they did not have time to deposit checks at the bank before December 31,
2. undertaking bank checks received from customers but the bank has not had time to record these amounts in the statement issued on December 31,
3. bank account funds to the company account, such as claims against customers and dividends included in income statement but did not know this company that has not yet received the extract,
4. bank undertake certain amounts billed, like bank charges, which appears in the statement on December 31 but the company did not know it, because they didn't receive the extract.

5. Recipients information about cash flows

Statement of cash flows used in conjunction with the rest of the financial statements, bring information, allowing users to evaluate the net assets of a company changes, its financial structure (including liquidity and solvency) and the ability to influence the amount and timing occurrence of cash flows to adapt to changing circumstances and opportunities. Information about cash flows is useful in determining whether an enterprise to generate cash and cash equivalents and enables users to make the point models to assess and compare the present value of future cash flows of different enterprises. It also increases the comparability of reported results of operations between different enterprises because it eliminates the effects of using different accounting treatments for the same transactions and events.

Background information on cash flows is often used as an indicator of value, time of onset and safety of future cash flows. It is also useful in checking the accuracy of past assessments of future cash flows and analyzing the relationship between profitability and net cash flows and the impact of price change. Given the variety of cash management practices and banking facilities around the world and to be in line with International Accounting Standard IAS 1 Presentation of Financial Statements, the company emphasizes that the policy adopted in determining the composition of cash and cash equivalents. The effect of any change in policy for determining components of cash and cash equivalents, for example, a change in classification of financial instruments that are considered before the company's investment portfolio is reported in accor–dance with International Accounting Standard IAS 8.

The firm must submit, together with a commentary by management, the significant cash balances and cash equivalent held by the firm and who has access group. Other additional information can help users in understanding the financial position and liquidity of an enterprise.

Disclosure of this information, together with a commentary by management, is indicated and may include:

1. the amount of unused credit facilities available for operating activities and to settle future capital

commitments, indicating any restriction on use of these facilities,
2. accumulated values of cash flows from each activity: operating, financing and related holdings in joint ventures reported using proportionate consolidation,
3. the aggregate value of cash flows represent increases in operating capacity separately from those cash flows are required to maintain operating capacity;
4. the cash flows from operating activities, investment and finance sector reported geographical segment.

The separate disclosure of cash flows that represent increases in operating capacity of the cash flows necessary to maintain operating capacity is useful, allowing users to determine whether the company is investing adequately to maintain its operating capacity. A company which is not investing adequately to maintain its operating capacity may harm future profitability on current liquidity and distributions to shareholders. Highlighting segments of cash flow enables users to obtain a better understanding of the relationship between cash flows of the company as a whole and those of its component parts and the availability and variability of cash flows by segment.

A picture of cash flow should present *cash flows* from allegedly operations of investing or financing and the *net effect* of these flows on the liquidity and quasi liquidity period so you can compare the cash and end with quasi-liquidity those of the early period. When he presents the picture of the flows generated by operating activities, the companies are encouraged to reveal the main categories of gross receipts and gross payments and their arithmetic sum (net cash flow coming from the operation), which corresponds use the direct method.

Companies that decide not to provide information on various categories of receipts and payments by direct methods are required to determine net cash flow generated by mining operations under the indirect method, by adjusting net income.

Indirect method involves:

1. removal of the lagged effects of any operations while the receipts and payments for past mining operations, for example, changes in inventories during the period, the result of deferred and other similar operations and adjusted earnings and future payments corresponding mining operations as, for example, changes in debt and liabilities during the year,
2. eliminating the presumed effects of cash flows related to investing and financing operations and amortization for depreciation, ups or downs of the value found in the sale of land, buildings and equipment, disposals of operations (investment operations), gains or losses on debt settlement (finance operations).

6. Conclusions

Research regarding the conceptual framework of accounting shows that an objective of the financial statements is to provide information to assist investors and creditors to predict future cash flows of a company. These cash flows are the source of interest payments and dividends, elements that, in turn, influence the actions. Cash flows used for analyze "relationship between the ability to make profits and the ability to generate cash, so give clues about the quality of profit. Financial analysts and other users can develop models for assessing and comparing the current value of future cash flows" produced by different companies. All operations performed by enterprises can be found immediately or within the form of cash flows. Maintaining balance cash flow is a necessary undertaking sustainability. Treasury allows assessment of business performance, and having a strategic role in terms of its level of training and use. Release (training) treasury (cash flow) is proof of the company's strategic position in relation to its products, its markets, competitors and external constraints. This strategic satisfactory position generates significant financial flows that allow the company buying foreign capital, especially financial market or investment of excess cash. Also, Treasury is an instrument of action to the management company to achieve strategic objectives. Thus, the treasury can be used either to purchase equipment necessary internal growth or for purchase of equity to raise external. Treasury is flexible mortgage company. Its treasurer to be concerned by ongoing effective placement of excess global liquidity in the short term (in terms of cost and maximum liquidity and low risk) before it is committed to undertaking long-term strategic decisions.

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