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# DIAGNOSIS BASED FINANCIAL FLOWS BALANCE

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***Abstract:*** *In economics, accounting makes an outstanding contribution as the entire contents of his blends abstract theory with reality analyzed information. Through the system of accounts, accounting information system provides correlated and verified, leaving no room subjectivity and promoting rigor and accuracy in reflecting economic and financial phenomena. Over time accounting information were imposed both by increased cognitive value and the share that they hold in total economic information so far accounting is fundamental in knowledge and comprehensive analysis of economic phenomena and processes actually constitute basis for decisions.*
***Key-words:*** *financial position, balance sheet, annual financial statements, financial balance.*

## 1. CONCEPTUAL FACTORS ON THE BALANCE SHEET AND AFFECT THE FINANCIAL POSITION

Analysis of underlying financial position of an enterprise of assessing the cash flow generation and the need to anticipate the possibility of lending distribution of profits, and to honor financial commitments due, the ultimate objective of economic decision making of users.

The concept of financial position and its multiple meanings are related, most often balance by defining it as a situation that reflects a company's financial position at a given time.

Financial position can be defined as a situation that provides information on assets, liabilities and equity of an economic entity and relations between: the financial structure of asset liquidity and solvency economic values, the rotation of assets and liabilities, as reflections of economic resources on one hand, and financing structure, on the other hand, springing from the needs of users and the ability to adapt to changes in the environment in which they operate.

Obtaining an accurate picture of the financial position, performance and changes in financial position is the fundamental objective of accounting.

In a simplified form, financial position, relating to net equity firm date determined as the difference between assets and liabilities.

Under Romanian regulations in force specifies that the official documents for the presentation of financial-economic status of an enterprise are the annual financial statements must give a true and fair view of the financial position, financial performance and other information related to the entity.

Based on the accounting regulations harmonized with international standards, no more talk about the balance sheet as a summary calculation that reflects the image of the business assets, but it expresses the financial situation or the financial position of the company.

The evolution of financial position resulting from information relating to the conduct of operating, financing and investment in the reporting period.

The financial position is affected, favorably or unfavorably, by a number of factors, divided into the following categories: technical and economic factors, legal factors, strategic factors and circumstances.

In financial terms, given the determination of financial position, the incidence of factors on the financial situation can be measurable pecuniary.

The financial statements are the basic elements of accounting, because they are the primary means of communicating accounting information to users. It is necessary to address these reports as business models. Audited financial statements, usually independent accountants are often the only source of information available directly from the company.

Financial statements are the most important part of the process of financial reporting, accounting while the main source of financial information.

However, like any other model, the financial statements are not perfect representations of reality, but rather the best result of the efforts of an accountant to present reality.

Both representatives contribution accounting thinking and practical needs, accounting led to the creation of opportunities for systematization and generalization of accounting information, of which the most important process is named balance.

Balance sheet summary document represents the current and capital provided by liquidity merged company, the nature and destination, or after the chargeability of the nature and origin at the end of a financial year, and at times found in the regulations.

The balance sheet can be characterized as a national model and accounting information, but also a model of material and financial management. In terms of information, balance sheet highlights causal relationships between goods and values as objects of rights and obligations, on the one hand, and the rights and obligations of the holder of the property, on the other hand, the allocation of values and their funding or between use and their production values. As a management model, the balance, the information provided serves to substantiate decisions on allocation, financing, use and recovery of funds and control over decisions materialize. Also, the balance is used as a tool for knowledge management and how to ensure the integrity of the property.

Balance, defined as the synthesis accounting simultaneously present at a given time, expressed in money, orderly and synthetic economic and financial situation of a perimeter value movements putting in front active liability allows, first, an analysis static. It can achieve a dynamic analysis only if information is presented in financial flows panel. Static analysis determines the financial structure so that we can appreciate the financial stability of the company. However, to analyze the financial stability of a company, we must view the restated balance sheet containing significant indicators.

Balance on current design acceptable to the users of financial accounting information is that it reflects the company's financial position at a point in time and allows issuing opinions on past activity that may constitute a basis for shaping future work. An interesting opinion on the purpose of the balance sheet is expressed by AC Littleton, who believes that with the requirement to audit the financial statements were drawn up objective has shifted from emphasizing financial position (the balance) to eliminate misunderstandings, the limits on the publication and while strict delimitation of events and transactions.

In accordance with legal requirements set out in International Accounting Standard 1 (IAS) 'Presentation of Financial Statements ", the primary objective thereof is to provide as accurate information about the financial situation of the company, and especially about its adaptability to implement changes environment based on the assets and capital through liquidity and solvency indicators.

To complete this picture, clear and true wealth of an enterprise at a time, the balance must be preceded by the entry in the accounts of all economic and financial operations specific term of preparation so that, finally, to be able to determine the correct balances thereof.

Systematized information sheet underlying the determination of a series of indicators (using accounting data), either as they are or after a prior processing. Under accounting principle on the intangibility of the opening balance sheet, this summary document is the culmination of a period accounting work and accounting cusp thereafter.

**2. TYPES OF BALANCE USED IN DIAGNOSTIC ANALYSIS OF FINANCIAL FLOWS OF THE COMPANY**

Balance is the main document that underpins economic assessment of the company. Maintaining equality between the total amounts recorded in its assets and liabilities is a principle that must be respected in the development of balance, regardless of the time the end of this summary document. Gender balance sheet is actually fundamental financial principle which supports the establishment of assets of an undertaking, requiring as it transposes important identity between assets and liabilities, which are two different representations of the same economic size. Delimitation and capital assets balance is carried by certain principles based on objective research, entailing over time appearance of several models of balance: balance patrimonial (financial) economic balance (functional) balance "Pool fonds" etc.

Changes in the financial and balance sheet have led to the replacement of tabular type (horizontal analysis of financial position), with the balance covered list of rules issued in accordance with European directives. According to Order no. 3.055/2009 amended through Order no. 2.869/2010 for the amendment of certain accounting rules, the balance sheet is the most appropriate to meet the requirements of economic analysis and financial management activities directed towards, being both a practical balance that facilitates development of cash flow statement, is focused on business operation and the achievement of financial balance overall.

**3. DEVELOP FINANCIAL BALANCE (ASSET)**

Financial statement prepared in patrimonial conception - Liquidity and chargeability - is necessary to highlight the relationship between the resources available to the company and its financing needs and is a foundation of traditional financial analysis, which aims at giving all the rights and obligations economic value needed to assess the property, whose beneficiaries are the shareholders and claims against.

Reasoning financial balance sheet liquidity criterion is considering increasing the assets and the increasing chargeability of capital.

Increasing liquidity of assets refers to the possibility of becoming their biggest transformation in means of cash to cover the needs of the enterprise.

Leading assets Fixed assets are recorded at less "liquid" or intangible, tangible and financial called permanent needs or uses the invested capital due to slow rotation, while at the end of the balance sheet are recorded current assets (availability) which have a much higher degree of liquidity than assets being called needs or temporary use.

Structuring cost items (resources) as chargeability high degree means that liability for a source of funding is linked to maturity, first entered the equity positions, from associates and the reinvestment of previous accumulations (reserves, retained earnings) and then capital from public sources (grants, provisions and other regulated funds), payable slower resources and resources that can be referred to as permanent or permanent equity. Medium and long term debts registered in the category of permanent capital is medium and long term loans with maturity exceeding one year.

In the passive stations, are the last elements rapid outstanding (consisting of liabilities whose maturity is less than one year, as the current activity of the economic entity in the form of bank loans current revenues in the short term advance; including long-term debt maturing debts are treated as short-term) called temporary resources.

In other words, the financial balance sheet exposure table defines two distinct sides horizontally: the first part of the financial balance sheet by identifying the components that form (needs to be funded and permanent capital), and the second part of the balance sheet that describes the requirements financed with maturity of 30 days and temporary funding resources.

Accounting rules in force (Order no. 3.055/2009 amended through Order no. 2.869/2010 amending and supplementing certain accounting regulations) in accordance with European directives proposing to use balance list because it keeps the principle of increasing the liquidity of assets, as opposed to order to aggregate the capital, highlighting first the chargeability immediate funding sources, and towards the end of chargeability balance with slow sources.

The preparation of financial accounts requires the achievement of certain adjustments of assets and capital elements following certain requirements for evaluation and reorganization sheet items as appraisals based on their age, more than one year or less than one year.

The balance sheet presented vertically helps users of accounting information in financial analysis activity balances of balance sheet adjustments are not necessary because the indicators used are found to position the balance sheet (as expressed by the working capital position E 'net current assets or net current liabilities ").

Therefore reflects the financial statement, based on an equality of time exists between the activities funded and specific funding means two fundamental principles of finance: the permanent is always covered in permanent capital, especially equity, while temporary needs will normally financed temporary resources. Failure to comply will result in a financing situation and the emergence of financial imbalances adverse conditions to which the company will have to find solutions.

Renunciation of the principle of classification of items in the financial statement led to functional balance that group asset and liability positions after the function performed in cycles of activity, namely: investment, mining, finance, treasury.

**4. FINANCIAL BALANCE FINANCIAL ACCOUNTS**

For most businesses, financial resources represents a restriction in achieving strategic goals. In this context, an essential goal of the analysis is to evaluate the extent to balance the financial structure of the company, namely, financial resources, cover the funding needs reflected in the balance sheet. This is done by analyzing the horizontal sheet known as financial equilibrium analysis.

The concept of equilibrium, the literature has multiple meanings. In a general form, the economic-financial equilibrium of the company is achieved when fully recovered resources consumed or if the revenues are equal to expenses without additional flows to be generated, or a stable equilibrium means a situation a combination of the components of a system which involves harmonizing financial plan financial resources to the financial needs of the company.

At company level, static analysis can achieve financial balance at three levels as follows:

- long-term equilibrium when using pointer analysis "revolving fund" through which resources are put face to face permanent use;
- balance short-term realized using indicator "working capital needs," which compares the temporary resources to temporary use;
- current balance, when considering the treasury, by comparing the availability of temporary bank loans.

Enforcement of financial stability analysis must be followed by the processing of the balance sheet as a list in sheet patrimonial / financial, with asset and liability positions located in front in the form of account.

Thus, by studying the balance sheet in tabular form the internal analysis is carried horizontally pointing out existing relationships with important meanings in assessing the financial position of the entity.

Failure to comply with the principle of financial equilibrium by funding temporary property resources, such risky triple, namely:

- interest rate risk, resulted in the fact that any increase in market interest rates applied to new loans affect company performance;
- refinancing risk, related to the possibility for banks to refuse loans to businesses, given that a company has financial stability is risky for the bank;
- risk of loss of decision-making autonomy înreprinderii against bank failure related to business loans recontracted absolutely necessary for its operation.

The preparation of financial accounts is favored format required by Order no. 3.055/2009 for the approval of accounting regulations compliant with European Directives, as amended by the Order no. 2.869/2010 for the amendment of certain accounting rules that provide short-term debt group for the medium and long term, regardless of resources, subject to reclassification and restatement of items.

In conclusion, the characterization of the situation in which a firm in relation to the subject purpose financial stability analysis. Classic indicators by which to study and characterize the financial balance are: state net working capital, working capital requirements and net cash.

**5. DEVELOPMENT OF FUNCTIONAL BALANCE (ECONOMIC)**

The analysis involves the transformation of functional balance in the balance sheet balance sheet is designed primarily functional external analysis.

Balance is a functional economic balance established by the Central Bank balance sheets from France to explain the economic operation of the company by the bankers.

Preparation of functional balance must be achieved at the expense of principles aimed at highlighting the uses and resources of each operating cycle of the economic entity, separation sheet items are correlated with origin, destination or function.

In developing functional balance, making its first criterion reflects expression from baseline-gross assets, including amortization and provisions on own resources, the economic resources of self-financing entity. The balance can be considered functionally not have the same functions as the financial balance in assessing heritage stations, but it is a starting point for the dynamic analysis of flow fluctuations on the stock.

Another principle of functional balance refers to the stability or the heritage stations during a long-term loan is treated as financial assets, while debt with maturity greater than one year are not included in current liabilities, regardless of maturity thereof.

BSI aims criterion of grouping, which involves presenting enterprise driven cycles and achieve financial balance results of its activities. In this way, preparing functional balance flow dynamic analysis performed using financial cash flow. Consequently, the analysis of these principles that the functional balance sheet assets are positioned uses stable, corresponding investments. They groups: intangible assets in operating and non-operating.
However, in the balance sheet are recorded in different functional uses of cash consist of: short-term investments, home and bank accounts.

Under liabilities functional differ sustainable resources specific financing function, ie own resources and financial liabilities stable. Resources cyclic related operations, including: total operating and non-operating debts. Cash resources recorded under liabilities functional are the short-term bank loans.

Unlike financial statement is drawn through the liquidation of the balance sheet items, the balance is shown in optical functional enterprise business continuity and performance of its functions.

Relevance of functional balance in the analysis is that it allows balance approach based on the entity's financial position and net cash reflects interacting between financial structure and origin of its business.

**6. FINANCIAL BALANCES BASED ON FUNCTIONAL BALANCE**

Analysis of business needs and ways of financing means addressing balance sheet items in a specific manner through functional balance.

While equilibrium analysis based on the financial balance sheet is an external, addressing more, lenders by obtaining data required for soundness property which credited and businesses about their creditworthiness, and according to these claims against setting conditions lending and ensure against the risk of insolvency of their clients equilibrium analysis based on functional balance is an internal review carried out by managers of enterprises under the entity's business is conducted continuously.

Operation of investment is made in order to establish and develop the production capacity of the company, directly related to its strategy. Function properly is that all property investments made as a result of its exercise is the material and technical basis of operating cycle and is created in a long time. The operation of the company is exercised on the basis of operating cycle (supply-production-marketing). Operations operating cycle is repeated daily, with immediate impact on the financial structure and, particularly, the company's treasury. The functionality of an enterprise depends largely on how they are managed: stocks and their storage period, clients and range of collecting their suppliers and their payment period, which determines the average cash recovery.

Given the inter-relationships between companies and financial institutions to purchase minimal cost of resources to finance investments in fixed assets is exercised finance function.

Analysis based on functional balance (economic) is a functional analysis is more in line management forecasting, financial analysis complementing the state through funding switchboard used as the main tool for dynamic analysis of financial balance. Balance underlying functional analysis and functional balance used to determine the sufficiency or insufficiency of the cyclic sustainable resources to finance related uses. In this context, the analysis involves the determination and interpretation of some significant indicators, namely: functional working capital, working capital requirements for operational needs in non-operating working capital and net cash.

**7. CONCLUSION**

Accordingly, the description of the situation in which a firm in relation to the subject purpose financial equilibrium analysis.

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