ASPECTS REGARDING THE ACHIEVEMENT OF FINANCIAL-PATRIMONIAL DIAGNOSIS WITHIN ECONOMIC ENTITIES

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Abstract: *As proved by the financial theory and practice, the patrimonial analysis of an enterprise is a fundamental stage in its financial diagnosis. It works with a set of methods and techniques which, operating with specific instruments, transform the data from the summary accounting documents into relevant information for the assessing of the financial-patrimonial situation of the company, more precisely of how the leadership succeeds (or not) in achieving the primary objective of financial management, namely maximizing enterprise value.*

***Key words**: patrimonial analysis, financial diagnosis, maximizing enterprise value*

INTRODUCTION

Patrimonial analysis revolves round a nucleus formed of three economic-financial concepts which show indicators with a great synthesis power: **working capital, need for working capital and net treasury**. These indicators are calculated on the basis of balance sheet data and emphasize the way in which the enterprise allocates its capital available for financing the fixed assets and circulating assets (working capital), as far as the short-term debts cover the company's circulating assets (need for working capital) and annual treasury surplus generated by the overall activity of the enterprise (net treasury).

MATERIALS AND METHODS

Working capital represents an essential coordinate in the analysis of the company's financial balance. The reason to exist of this indicator has at basis what is known in financial theory as "sound financing principle": the long-term assets (usages) of the enterprise (in short the *fixed assets*) must be financed from *permanent resources* (which the enterprise has at disposal on long term), while the *circulating asset* is financed from temporary available resources, respectively from *short-term debts*. Working capital shows us to what extent the company observes this legitimacy of the good development of its activity from a financial point of view.

RESEARCH RESULTS

Financial assessment of the enterprise through the interpretation of the WORKING CAPITAL indicator

a) A positive working capital constitutes a validation of the sound financing principle at the company's level and it is the consequence of some superior permanent capital in comparison with the company's fixed assets. The long-term financial resources of the enterprise, either personal or borrowed, achieve their primary mission to finance the long-term usages of the company and more, provide also the partial financing of circulating assets which can not have but a positive impact upon the company's activity.

The positive working capital is equivalent to a circulating asset bigger than the company's current debts which is the same thing with a net positive circulating asset. Again, this represents a favourable situation for the company because its liquidity is good: the realization of circulating assets allows it more than the total reimbursement of short-term debts[1]. Consequently, the company disposes of an additional margin of solvency given by the surplus reserve potential generated by the positive working capital. This represents a genuine oxygen reserve for the enterprise which can continue undisturbed its activity also on conditions of appearance of some unfavorable events as for example the deterioration of sales or of debt collection. Besides the additional trust presented to its creditors (either financial-banking companies, other companies or individuals), the company enjoys also a relative financial autonomy, the positive working capital releasing it from the burden of short-term loan contraction which can't always be obtained on favorable conditions.

b) The situation in which the working capital is negative is presented in a diametrally opposite way. The company's permanent capital doesn't succeed to cover the long-term assets totally which brings on the violation of the sound financing principle: the company's management has to resort to short-term debts to finance its fixed assets. In a similar way, we can say that the company's circulating assets are unsufficient as against the current debts which shows the enterprise's financial dependence upon temporary resources. Thus, the company's liquidity has to suffer because the current operational flow of the company can not provide the total coverage of short-term debts. On the hypothesis of a deterioration at the level of debt collection and/or of an payment acceleration to suppliers, the company is in danger not disposing of the security margin (and finally of confort) which could have been provided by a positive working capital. Another important aspect is related to the fact that in case the working capital is negative, the company has to obtain short-term financing and sometimes in a short time. Now the problem is to find the most efficient financing alternative (from the point of view of costs, granting conditions etc.), but in the negociation of conditions of these financings, the company starts with a certain obstacle determined by its critical financial balance. Many times, this obstacle is translated in high financing costs which influences negatively the company's treasury but also its profitability.

The latent financial unbalance generated by the negative working capital can be sometimes only apparent. In financial practice, there are many companies which have good performances (or even very good) on conditions of a negative working capital. This is the case of companies which activate in the trade domain (either of wholesale or of retail – hypermarkets, for instance), in whose balance sheet the debit item to suppliers has significant values. The main characteristic of these debts is their virtual *permanence* (because they are renewable on short intervals and continuously), which makes that the debts to suppliers can be subordinated to permanent resources. Also, the negative working capital doesn't absolutely represent an indicator of the financial unbalance in the case in which the reimbursement duration of circulating assets is smaller than the exigibility of current debts, the company having thus the capacity to reimburse in time the short-term contracted debts.

Yet, the negative working capital represents an alarm signal in case of corporations from industrial department (machine-building industry, for example), in whose case the insufficiency of permanent capital (own capital and long-term debts) can generate the most ill-fated effects, taking into consideration the important volume of the fixed asset to these companies and their dependence from a more reduced number of clients than in case of trading companies.

c) The third possible case in which the working capital is null corresponds to the perfect egality between the balance sheet stocks with the same duration of asset and respectively of liability: on one hand, it is about the fixed assets and permanent capital and on the other hand about the circulating assets and short-term debts of the enterprise. In this situation,

[1] To see Livingstone and Grossman (ed.) (2002), pag. 16.

the company's long-term capital covers the fixed asset totally and the realization of current assets allows it the payment of short-term debts without contracting new treasury loans, although it doesn't dispose of the security margin given by a positive working capital.

Although considered by many authors as the most important analysis indicator of the financial balance, the working capital can't say itself all the truth. This is the reason for which the financial theory and practice operate with another indicator, that is the need for working capital through which it is emphasized the financing necessary of circulating assets of the enterprise towards the working capital of which this one disposes ideally.

Financial assessment of the enterprise through the interpretation of the NEED FOR WORKING CAPITAL indicator

a) It is estimated that the positive need for working capital can be considered justified when the company's management pursues an expansionist policy (which aims at the turnover's growth and implicitly of the market share). It is right we register a growth of the raw material inventory and /or of debts to clients (that is an increase of the financing need of the operating cycle) when the production volume and the turnover rise.

Yet, there are cases when the positive need for working capital indicates an undesirable situation at the company's level. A classic example in this sense is given by Stancu (2007)[2] : if a growth of the company's activity volume doesn't occur, a positive size of the need for working capital can be the consequence of an adverse correlation between the current assets liquidity (stock and debts) and the exigibility of operating debts which is equivalent to the receipts delay and payment acceleration. Obviously, such a scenario raises serious problems to the enterprise's treasury.

b) A negative need for working capital is equivalent to a surplus of temporary resources controlled by the enterprise as against its circulating assets. The situation in which the need for working capital is negative involves also two possible interpretations depending on the causes which generate it; thus, it seems justified if it is the consequence of the rate growth of circulating capital turnover and of debt contraction with longer maturity date. In this situation (especially specific to great gamblers from hypermarket market), it appears an acceleration of receipts and a payment relief which can't have but a positive impact upon the enterprise's treasury and the need for working capital becomes a valuable resource which supports the working capital and treasury financially. On the other hand, if the negative need for working capital is the result of the slow renewal of circulating assets (problems at the level of stock supply cycle or at the level of production cycle) and/or of the diminution of debt maturity date, the situation gets an unfavorable connotation.

Although important for the enterprise's balance emphasis, the financial-patrimonial analysis on the basis of the working capital and of the need for working capital must be completed with the study of the net treasury determined as a difference between the working capital and the need for working capital.

Financial assessment of the enterprise through the interpretation of the NET TREASURY indicator

a) A positive value of the indicator corresponds to a working capital superior to the need for working capital at the enterprise's level. This means that the potential surplus reserve represented by the working capital will be found under the form of liquid assets and in bank accounts[3] which generates the treasury's growth. The positive impact is materialized

[2] To see Stancu (2007), pag. 713 – 714.
[3] According to Vintilă (2005), pag. 44.

in the company's capacity to reimburse a part from debts (and implicitly to reduce the dependence on its creditors) and even to make different investments on the monetary/financial market. The positive net treasury is maybe the most pertinent expression of a sound and efficient financial management, able to provide the general balance and financial autonomy to the enterprise. The reiteration of such a situation during many financial periods legalize a high profitability of the enterprise, being at the same time the proof of an efficient policy of treasury resources placement which generates capital accumulations under the form of interests, dividends etc.

b)Symmetrically, the negative net treasury is the result of a working capital smaller than the need for working capital which means that the enterprise is forced to appeal to new short-term loans to finance its current activity with all the aspects involved for the obtention of these financings and which have been discussed within the working capital analysis. The negative net treasury represents a financial unbalance which limits the short-term financial autonomy of the enterprise and if it is reiterated during many financial periods, it compromises the company's solvency. Despite all these, as it is mentioned in the specialty literature[4], the recording of a negative net treasury should not be regarded necessarily as a significant growth of the insolvency risk, given the fact that the company's debtors accept the conservation of treasury resources assigned to the company for its activity financing.

c)Finally, in practice we can meet (quite rarely, it's true) also the situation in which there is egality between the working capital and the need for working capital, a case in which the treasury is perfectly balanced. Working capital provides the total financing of the need for working capital and it is not necessary anymore for the enterprise to appeal to other short-term loans for current activity financing. A null net treasury doesn't limit the short-term financial autonomy of the enterprise.

CONCLUSIONS

The analysed indicators have a great importance for the analysis of financial-patrimonial balance of the enterprise, of its financial autonomy and ultimately of the way in which the fundamental objective of the financial management is achieved, that is the maximization of shareholders' property value.

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[4] To see the disccusion from Vintilă (2005), pag. 45.