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Contents

Streszczenia

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INFORMATION ASPECTS OF THE CASH FLOW OF A PRODUCTION COMPANY

Summary: Development of business entities in the contemporary system of market economy depends on many factors. The basic element of future activity of enterprises and enhancing continuous development is maintenance of proper level of financial liquidity. This paper presents theoretical and practical aspects of the cash flow statement as a source of financial data, on the basis of which liquidity of a given enterprise is calculated.

Keywords: cash flow statement, liquidity analysis, inflow and outflow of cash.

1. Introduction

Accounting is a system of collecting and providing data about financial situation and financial result. To be an objective source of data, the system must be systematically structured according to specific rules. Information provided by the accounting system is used by managers who manage a company.

The main objective of financial statements is to fulfill the requirements of external and internal users by providing information about a business entity. External users need information about the financial position of a company, financial results and cash flows [Olchowicz, Tłaczała 2004, p. 16].

Stockholders and creditors are examples of people outside a company who want and need financial accounting information. These outside people make decisions on matters pertaining to an entire company, such as whether or not to extend credit to a company or to invest in a company. Consequently, financial accounting information relates to a company as a whole.

2. Idea of the cash flow statement

Decisions taken by the recipients of reports require the assessment of the knowledge of financial funds. Money is needed to repay liabilities, loans, dividends as well as pay wages of employees and taxes. Liquidity and solvency determine company's financial situation. The financial situation consists of information on the results worked out by a business unit and on cash flows. The financial result is needed to assess changes inside a company and data about the efficiency of using these resources. Data of all cash flows are also required.

Because the balance sheet and the income statement are prepared under the accrual basis of accounting, reported revenues may not have been collected. Similarly, reported expenses on the income statement might not have been paid. You could review balance sheet changes to determine facts, but the cash flow statement already has integrated all that information.

There are a few ways the statement of cash flows is used. The cash from operating activities is compared to the company's net income. If the cash from operating activities is consistently greater than the net income, the company's net income or earnings are said to be of a "high quality". If the sum of cash from operating activities is smaller than net income, a red flag is raised as to why the reported net income is not turning into cash.

The cash flow statement identifies the cash that is flowing in and out of a company. If a company is consistently generating more cash than it is using, it will be able to increase its dividend, buy back some of its stock, reduce debt or acquire another company. All of these actions are perceived to be good for stockholder value.

Information about cash flows enables users of financial statements to evaluate the sources and volume generated by cash and cash equivalents and the direction and size of their use [Śnieżek 2007, p. 4].

The information contained in the statement of cash flows also allows one to correctly predict future cash flows and check the accuracy of previous predictions. They are also useful to analyze the relationship between profitability and net cash flows of a company [Kiziukiewicz 2000, p. 11].

In practice, especially when providing information for external users, simplified methods of calculating cash flow are applied, i.e. the cash flow statement. For a proper report, appropriate grouping of data in the accounting records is important. This is required by the cash flow statement, which is based on a cash basis principle. According to this principle, incomes are calculated when cash is paid. This is contrary to the principle of accrual basis whereby revenues and expenses are recorded when they were achieved or occur, not at the moment of impact or cash flow. These revenues and expenses are recognized in the financial statements of periods in which they were created [Bień 2000, p. 107].

Cash and cash equivalents in each entity are in constant motion. This movement begins with the capital raised from owners or from lenders. Funds obtained in this way are then spent on projects involving the purchase of buildings, machinery and equipment, means of transport and the materials for production, salaries and general overall expenses. As a result of the manufacturing process or services, finished products or services are produced that are sold for cash or on credit [Sobolewska 2006, p. 8].

Liquidity management means control of deposits and withdrawals. This is possible thanks to the foresight and planning of cash flows.

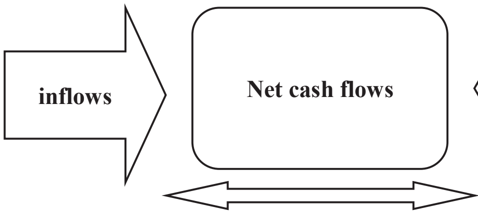

Figure 1. Idea of cash flow statement

Source: own elaboration.

The first important issue for the analyst is to determine the overall balance between how much cash is generating by a company and how much is consumed during the accounting period. If an enterprise is able to get more cash than it needs, it can be "cash generator". In contrary, "cash absorber" is a company whose cash needs are greater than its ability to create cash.

Cash flow statement plays a very important role not only in the financial analysis of a company. The information derived from it allows examining the efficiency of investment projects and forecast cash flows.

Despite the existence of many standards, describing the structure of cash flow, the basic principles of its construction are the same for everyone. The main principle of cash flows statement construction is to show the actual sources and expenditures of cash, regardless of the date of income or expense in terms of their registration. In addition, it presents a summary of other types of revenue and expenditure, such as shares issue, repayment of liabilities, which are recognized differently from income and expenses in the income statement.

The cash flow statement shows revenue and expenditure streams in a given period, but it uses information contained in the balance sheet and income statement. In order to properly interpret data contained in this statement, one should properly and accurately define the concept of "cash"; and further define the information capacity of cash flow statement segments.

The first section relates to operational activity, which generates a major part of cash. It covers the main activity of a business entity (for example manufacturing, services, trade) and other activities not classified as investing or financing activities. An example of this activity may be remuneration paid or expenses for the purchase of goods and materials, and examples of such inflows may be cash received from sold goods.

The stream of net operating flows is a key indicator of the ability of creation cash to pay debts, maintain operating capacity, pay dividends and make new investments without applying for external financing sources.

The second part concerns investment activity. It shows the size of expenditures that were incurred to increase the resources that generate future profits from their core competencies. Cash flows from these activities include expenditures for the acquisition of tangible fixed assets, intangible assets and other assets as well as proceeds from the sale of these components. Examples of impacts from this activity may be funds from the sale of shares, fixed assets, and expenses are purchases of securities, machinery, equipment.

The next segment covers the expenses and receipts from financial activity. Their structure and size is important for predicting future expenditure arising from the relationship investor–company. Flows from this activity are mainly due to acquisition of own and foreign sources of financing in the form of issuing shares and bonds, loans, subsidies shareholders, loans and their repayment and service.

The cash flow statement ends with a block of information on the initial state of cash flow growth and their final level. The function of this section is the formal confirmation of compliance calculations cash flow from different segments with the cash value from the balance sheet or with the increase of the cash value of specified off-balance amounts. This second case shows a need for accurate documentation of information supporting financial statements and values observed in the cash flow to allow this arrangement.

Operating cash flows are related to the core business of an enterprise. They include inflows and expenditures not included in other activities. The cash flow statement, in contrast to other parts of financial statements (balance sheet, profit and loss statement), is based on the information on a cash basis. One reports here cash and cash equivalents, and not, as in the case of accrual accounting, revenues, which a company does not have physically [Śnieżek 2007, p. 26].

Cash flow is the element of the financial statement, which represents actual inflows and outflows of cash in a company. This statement, in contrast to the profit and loss statement, informs about the actual cash flows of a company. It allows you to answer the questions: What amount of cash was in our company? What were the sources of its origin? How were they used? The cash flows statement, as a part of financial analysis, completes the picture of financial situation outlined in the balance sheet and profit and loss statement.

The main purpose for which the cash flow statement is prepared is to obtain information about possessed cash in the period considered from what sources these funds came from and what was used. Analysis of cash flow, as well as other elements of the financial statement, can be divided into two parts [Dynus, Kołosowska, Prewysz-Kwinto 2005, p. 111]:
– a preliminary analysis, which is also often called the analysis of eight cases,
– ratio analysis, which is carried out based on detailed financial ratios.

Preliminary analysis of cash flow should allow for:
– identifying the main sources of obtaining cash and ways to manage them,
– determination and assessment of accuracy in the management of cash flow,

– suggesting the main directions of the detailed examination of the cash flow analysis.

All three areas of cash flow – operating, investment and financial – can both generate and consume cash. Depending on the direction and scale of financial transfers, including the current financial position of a given company, it will assess the different monetary policy. Flowing a large part of the cash surplus from operating activities to investing activities is evaluated positively, especially if there is a high degree of depreciation of the machine park [Kusak 2003, p. 5].

Change in net cash value included in the final section of the statement can have positive or a negative value (indicating a reduction in cash, which poses a threat of losing financial balance and seeking external funding).

3. Liquidity analysis

Liquidity is one of the most important criteria for assessing company's financial strength. Liquidity means company's ability to fully discharge current liabilities, which is absolutely essential to ensure company's activity in terms of complexity of business processes and increased competition, characteristic for a market economy.

If liquidity is too low, a company may become long-term insolvent and go bankrupt. Then one can speak about the loss of liquidity. Excessive liquidity, called excess liquidity, reduces possibilities of development of a company, since it reduces the profit which usually finances development.

Solvency determines whether a company is perceived as credible and capable of conducting future business. A company, even unprofitable, but solvent, may exist for some time. However, a profitable company may have financial difficulties, because the moment of revenues and expenses is not identical with the moment of realization of cash inflows and outflows.

Liquidity is therefore the particular interest of business executives, because the existence and development depends on this basic requirement.

Measurement and analysis of liquidity in a competitive and complex business processes are the most important areas of company's financial analysis, because the ability of companies to meet its dues is essential to ensure its existence [Machała 2001, p. 403].

There are many measures of liquidity. They are constructed in order to determine accurately current or expected level of liquidity. There is a widespread belief that the level of liquidity cannot be measured under one synthetic or analytic indicator, because the level of liquidity is an extremely complex economic category, so it is recommended to use many different measures of liquidity, adjusted to current needs and situation.

Methods of liquidity measurement can be divided into two groups: static and dynamic [Michalski 2005, p. 56].

To provide liquidity at a certain point, it is sufficient to have its static understanding. The basis for this type of analysis is the balance sheet and the information contained in it.

In the assessment of static liquidity there are very essential horizontal linkages in the balance sheet. The need for liabilities to creditors requires the placement of such ingredients in their property, which can be quickly converted into cash, thus allowing the return of capital. Proper or otherwise satisfactory financial situation and the correct construction of the balance sheet occurs in companies in which the liquidity of assets corresponds to the estimated periods of capital in liabilities. The foreign capital repayment terms shorter, the company should maintain better liquidity of assets and *vice versa*.

To monitor the static liquidity at a given moment, the first group of ratios is used:

Current ratio. The current ratio is the most basic liquidity test. It signifies company's ability to meet its short-term liabilities with its short-term assets. A current ratio greater than or equal to one indicates that current assets should be able to satisfy near-term obligations. A current ratio of less than one may mean that a firm has liquidity issues.

current ratio = (current assets)/current liabilities

Quick Ratio. The quick ratio is a tougher test of liquidity than the current ratio. It eliminates certain current assets such as inventory and prepaid expenses that may be more difficult to convert to cash. Like the current ratio, having a quick ratio above one means that a company should have hardly any problems with liquidity. The higher the ratio, the more liquid it is, and the better ability of a company to ride out any downturn in its business.

quick ratio = (cash + accounts receivable + short-term or marketable securities)/ (current liabilities)

Cash Ratio. The cash ratio is the most conservative liquidity ratio of all. It only measures the ability of firm's cash, along with investments that are easily converted into cash, to pay its short-term obligations. Along with the quick ratio, a higher cash ratio generally means that a company is in a better financial shape [Sierpińska, Jachna 2004, p. 146].

cash ratio = (cash + short-term or marketable securities)/(current liabilities)

Using static liquidity ratios cannot determine fully the ability of payments of a company, so it is suitable to use dynamic methods, based on figures from cash flows. The cash flow statement shows the amount of generated cash which can be used to regulate current liabilities. This statement may characterize future cash flows, resulting in a statement, of little value in determining the future cash flow. That is why more and more companies draw up cash flow forecasting to determine future revenue and expenditure, findings of a possible shortage of funds and sources of their coverage [Gabrusewicz 2005, p. 261].

To assess the monetary policy of companies two groups of ratios are used:
- cash efficiency ratios,
- cash sufficiency ratios.

Cash efficiency ratios illustrate the relation of the operating cash to the rotation and profits generated by this rotation and to company's assets. The relation of the cash from operating activity to the total assets or only to the current assets demonstrates the level of its financing from the cash [Sierpińska, Wędzki 2005, p. 52].

Using cash efficiency ratios to evaluate the company's financial position, we must remember that the desired direction of change is an increase in their levels in time. A good base for comparison of these indicators is average data. Comparison of the average cash relationship with analogous cash relations of a company shows its position on the market in comparison with its competitors. However, when comparing obtained ratios, it allows drawing conclusions about changes in the current controlling of finances of companies.

Another group of indicators based on cash flow are cash sufficiency ratios, which inform about the relationship in which cash from core operations intended to cover various expenses and obligations incurred by a company is generated.

The overall sufficiency of the operational cash ratio measures the ability of companies to regulate payment of annual contributions to the long-term loans and the payment of dividends and also the purchase of fixed assets. If this ratio is equal to or higher than 1.0, it means that a company has to cover its needs in this area and does not need to use other financial instruments. Sufficiency ratio of operational cash for purchase of fixed assets tells you how much cash a company has in relation to the needs of the renewal of fixed assets.

The analysis of cash flow highlights cash flows streams, which gives the possibility to control their behavior in maintenance of liquidity. The use of this analysis in the evaluation of liquidity simultaneously with the examination of the financial result will give an objective picture of the analysis of financial condition of a company and will enhance the correct conclusions needed to run a business.

4. Practical aspects of liquidity

Company X began its activity in 1994. It is a company specializing in the manufacture of shoes, a wide range of plastic products. For the record business by PKD, the company is classified as a wholesaler and company selling textiles, footwear and leather goods. The company also rents property on their own account. It delivers its products to markets all around the country.

The mission of the company was successfully implemented till 2007. In 2008 there was a deterioration, in the next two years even collapse.

Marketing activities in the business unit are mainly based on deferred payment for goods sold from 30 to 90 days, discounts for regular customers and the ability to negotiate prices, as well as individual treatment. Marketing activities undertaken by the company in the field of promotion strategies are aimed at regular customers and wholesale consumers.

In 2008 the company suffered a loss of total activity. Adjustments to cash flows from operating activities were positive in nature, and were influenced not primarily depreciation and a decrease in loans and interest paid on financial activities. There was a decrease in receivables and an increase in current liabilities was relatively low compared to a decline in receivables. The increase in inventories contributed negatively to the value adjustments. Positive cash flows from operating activities, plus the profit from the sale of tangible fixed assets were invested in fixed assets of 84.5%.

The high level of cash at the beginning of the year, covered in equity, and cash surplus from operating activity at 81.5% were taken by the owner.

At the end of 2008 in the company a positive cash level and positive equity were performed. Cash and cash equivalents at the end of the year were covered with a 20.8% subsidy on purchase of fixed assets

In 2009 the company also suffered a loss of total activity. This loss was covered by the equity held at the beginning of the year. Adjustments to cash flows from operating activity, influenced not primarily depreciation and interest paid on financial activities, were positive in nature. The increase in inventories and prepayments have negatively affected the value of adjustments. There was a decrease in current liabilities, but it was in relation to the decrease in receivables 90.9%. Adjustments to net loss was covered in 42.9% and cash flow from operating activity were negative in consequence.

Despite the negative cash flows from operating activity, in the company investments in fixed assets were made – which, after taking into account the profit on disposal of fixed assets – absorbed 75.4% of cash at the beginning of the year.

The owner, despite the loss on operating activity and a large commitment of cash in investing activity, took 46.6% of equity held at the beginning of the year. Thus, loss of the total activity for the year 2009 was covered in the equity in 64.9% and at the end of 2009 there was a negative equity. Bank loan and subvention for the purchase of fixed assets resulted in the positive cash position at the end of 2009.

Economic activity in 2010 was effected with further loss, which increased the shortage of equity to finance the company's assets. Adjustments to cash flows from operating activity were positive in nature and resulted in positive adjustments for all positions, except the result of investment activity. Adjustments to loss from operating activity exceeded by 8.9% and resulted in positive cash flows from the operating activity. There was also a positive cash flow from investing activities.

Taking the cash by the owner, however, resulted in negative cash flows from financing activity and absorbed the whole surplus from operating and investing activity and part of cash and cash equivalents at the beginning of the year.

Despite many efforts to maintain the continuity of business activity, the company did not keep the liquidity.

The liquidity based on data about assets, liabilities and operating cash streams is shown in Tables 1–9.

Table 1. Ratios of current liquidity

Ratios	2008	2009	2010
Current ratio	0.70	0.33	0.06

Source: own elaboration based on company's data.

Current ratios inform about the ability to pay short-term liabilities based on current assets. Table 1 shows that in all the studied years the company had poor liquidity. Liquidity ratio in the examined periods did not exceed the values 1 and fluctuated below this value. In 2010, it amounted to only 0.06, in 2009 – 0.33 and 0.70 in the first period analyzed. Such a low, not exceeding even 1, level of these indicators means that current assets do not cover its current liabilities. This situation points to a bad financial situation, since the indicators deemed to be correct if they are at the level ranged from 1.5 to 2.0.

This state of the company's financial liquidity is a threat to future business and indicates imminent bankruptcy.

Table 2. Ratios of II level

Ratios	2008	2009	2010
Quick ratio	0.56	0.19	0.05

Source: own elaboration based on company's data.

Quick ratios in the analyzed period are also not satisfactory. Liquidity ratios at level 0.56 in 2008, 0.19 in 2009 and 0.05 in 2010 indicate that the liquid assets are so low that they are not able to cover current liabilities in the examined period. It should be noted that the indicators at the level from 1 to 1.2 are correct. Ratios at such a low level inform about a total lack of current assets.

Table 3. Ratios of III level

Ratios	2008	2009	2010
Cash ratios	0.20	0.06	0.02

Source: own elaboration based on company's data.

Cash ratios in the analyzed period were also very low and showed a downward trend. Tables 1–3 show that this is an alarming situation for lenders and creditors. Examined company did not meet the criteria for obtaining loans and obligations, as it is not able to cover their current liquid assets, which oscillate at the zero point.

In practice, there are no determined standards that relate to the level of this indicator. The company just has to compare it over time. In this case, in previous years, right conclusions were not drawn, which indicated the poor condition of the enterprise. There were no restructuring activities. Creditors proved too much trust in business and suffered the loss of their claims. Protective actions taken in the form of judgments and mortgages on businesses and private property of the owner may not be sufficient for recovery.

The main purpose for which the cash flow statement was drawn up in the tested company was to obtain information about what cash the company possessed in the period considered, from what sources these funds came from and what was used. The analysis of cash flow, as well as other elements of financial statements, is divided into two parts: a preliminary analysis, which accounts for cash flow analysis is often called the eight cases, a ratio analysis, which was based on detailed financial ratios.

All three areas of cash flow – operating, investment and financing – pointed to the sources of the generation and absorption directions of cash in a company. An evaluation of the company's cash policy and current financial position was made, depending on the direction and magnitude of financial transfers.

Cash flow streams in the tested company in three years are shown in Table 4.

Table 4. Cash flow streams in years 2008–2010

Streams	2008	2009	2010
Operating	+	–	+
Investing	–	–	+
Financial	–	+	–
Total	–	–	–

Source: own elaboration based on company's data.

In 2008, the company is the second version of the balance of three areas of activity. This indicates that the examined company has been active in the market for a long time. It is profitable, which means that it finances its investment activity and regulates liabilities by worked out financial surplus. Taking into consideration the position of the company in 2007, this thesis can be regarded as true. Moving a large part of the surplus cash from operating activity to investing activity of the same year should be viewed positively, especially that performed fairly high degree of depreciation of fixed assets (41.8%). This situation would mean the company's success, when the cash came from net profit and depreciation. The company, however, suffered a loss. Also a cash withdrawal by the owner of a large amount of money was not beneficial for the company. This situation could mean financial problems in the future.

In 2009, the balance of the three areas of activity (operating, investing, financial) takes the sixth variant of cash flows streams. Positive operating cash flows for the sixth variant should be a beneficial phenomenon. It should be noted that a negative phenomenon appears there – reducing of payables and increasing liabilities. Negative cash flows are derived from investment activity, even though their funding comes mainly from depreciation and asset sales.

Positive financial cash flows suggest that the company pays its obligations not with its own capital. That situation can mean that the company will conduct restructuring processes, getting rid of assets and repay debt. However, cash withdrawal by owner denies this assumption. In 2009 one can observe a nest financial fall, decrease in current cash and loss of equity.

Cash flows from operating activity and cash flows from investing activity take a negative value. The source of cash to cover the shortfalls are loans and partly owner capital. The owner capital, however, is at the end of the year of a negative value. Despite this fact, creditors and the bank are still not afraid to invest, although the analyzed situation points to the weak financial condition of the enterprise.

For the year 2010 the balance of the three business activities adopted the third variant. The company earns revenue from operating and investing activity. Positive operating cash flows for the third variant are beneficial phenomenon, but it should be noted that they come largely from the increase in liabilities, and revenues from current operations are not sufficient to cover these liabilities. Additional revenues are derived from investment activity with the sale of assets. The company sells assets to raise new funds. Negative cash flows informed that the owner took cash and failed to pay liabilities.

In the analyzed period of time, the company did not generate sufficient cash value. The activity was based primarily on their loans, and operational activity had little effect on generating cash or cash equivalents. In all these three examined years, the enterprise sells the assets, the revenue was spent on the acquisition of intangible assets that had no impact on operating activity. As a result, incomes from investment activity were lower than the expenditures and the result of investing activity was negative. With the above information, it appears that the examined company does not develop, and the money is spent on inappropriate investments. Financing activity primarily relates to obtaining a bank loan and payments to the owner.

Each analyzed year generates negative cash flow, which indicates bad decisions of the owner.

In order to assist the process of conclusions, a large range of financial ratios was built based on cash flow balances and balances of the various components of the cash flow statement. For the purpose of this research numerical approach to the condensed cash flow statement was also presented.

The size of cash flows streams for the examined years is shown in Table 5. They are expressed as thousands of PLN and show a decreasing trend of cash and cash equivalents in all the three years under study.

Table 5. The size of cash flows streams in years 2008–2010 (in thousands PLN)

Streams	2008	2009	2010
Cash flows from operating activity	539.9	−529.1	244.7
Cash flows from investing activity	−449.0	−457.4	135.0
Cash flows from financial activity	−17421	615.1	−514.3
Cash flows at the end of the period	606.3	234.9	100.2

Source: own elaboration based on company's data.

The preliminary analysis of the cash flow statement shall also examine the structure of individual inflows and outflows of cash, depending on the type of business activity.

Table 6. Ratios of cash flow structure

Ratios	2008	2009	2010
Net cash flow from operating activity ---. x 100% Total balance of cash	89.0	−225.2	244.2
Net cash flow from investing activity ---. x 100 % cash flow from operating and financial activity	−37.1	−531.9	−50.1

Source: own elaboration based on company's data.

The first of the indicators presented in Table 6 – ratio of the ability to generate cash from operating activities – determines the share of surplus of cash from operating activity in the total amount of revenues from all the types of activities. Its level depends largely on the industry in which the company operates and on the adopted strategy. The second ratio defines the share of surplus funds from investing activity in the amount of revenues from operating activity and financing activity.

In the first case and in the last considered period this indicator is positive, while in 2009, it takes a large negative value. This indicates that core business of the company generates a loss. The second indicator in the coming years is negative; however, it should be noted that in 2009 it again reached a very high negative value.

Net income participation rate in cash from operating activity determines the amount of cash possible to raise capital as a result of involvement in a particular type of economic activity. Operating activity generated a loss. On the basis of indicators of the structure, it can be observed that except for 2009, operating cash flows were negative, but in the last considered period it was the largest negative amount.

Table 7. Ratios of participation of net income and amortization in operating activity

Ratios	2008	2009	2010
Net income ---. x 100% cash flow from operating activity	−48.8	175.3	−1116.9
Amortization ---. x 100% cash flow from operating activity	76.4	−73.6	139.6

Source: own elaboration based on company's data.

The share of depreciation in operating cash flows in 2008 was at 76.4%, while in 2010 the share of depreciation doubled and amounted to 139.6%. It should be noted, however, that the balance of funds from operating activity was also very low. This increase should be interpreted negatively, as depreciation was much higher than investment expenditure, reflecting the lack of development. Depreciation was dedicated entirely to cover current liabilities.

Cash efficiency indicators are used to evaluate the cash flows generated from the point of view of their adequacy to cover capital expenditures and debt repayment.

Table 8. Ratios of cash efficiency

Ratios	2008	2009	2010
Net cash from operating activity ---. x 100% Revenues from sales	7.12	−10.93	−103.12
Net cash from operating activity ---. x 100% Average level of assets	19.7	−18.73	9.19

Source: own elaboration based on company's data.

In the analyzed period, the cash efficiency had a decreasing tendency. The ratio of cash efficiency from sales in 2010 decreased by as much as 107%, just like the ratio of cash efficiency of assets, which decreased by 50%. This means that every 1 PLN corresponds with less than the value of its sales generated by the operating cash flow. Reduction of cash efficiency is primarily due to high investments in working capital, which still meant that net flows from operating activity reached a negative value.

The overall cash from operating activity sufficiency ratios measures the overall of company's ability to regulate the annual expenditure of the cash received from operating activity. These indicators show the current policy of the company.

Table 9. Ratios of cash sufficiency

Ratios	2008	2009	2010
Net cash from operating activity --. x 100% Total liabilities	17	−14	4
Expenditures for purchase of intangible assets --. x 100% Net cash flow from operating activity	91	−98	0
Payment of liabilities + interest --. x 100% Net cash flow from operating activity	10	−49	9

Source: own elaboration based on company's data.

In 2008, 2009 and 2010 the overall cash from operating activity sufficiency ratios had a value of 17%, −14% and 4%, which means that the company generated funds from operating activity in 2008 and 2010, and they were sufficient to cover the basic expenses at minimal level, and at the end of 2009, they do not preserve the needs of the enterprise at all.

The ratio of investment purchases shows the extent to which the funds are burdened by expenditures for the purchase of tangible fixed assets or intangible assets. This ratio in 2008 was 91%, in 2009 was negative, and in 2010 there was no ratio.

The level of indicators incurred for the repayment of liabilities and interest were minimal in 2008 and 2010 and accounted for 10% and 9% of operating cash at the end of the period, and in 2009 it had a negative value.

It can be observed that throughout the whole period the company should reach out for additional sources of cash from financial instruments. Cash flows from operating activity were low and did not cover, in all the examined years, both the cash flows from investing and financing activity.

To sum up, the company throughout the considered period did not have both static and dynamic liquidity ratios at a good level. Since 2007 equity capital has been negative. The company benefited greatly from other sources of financing which also demonstrates the company's insolvency. Net loss and depreciation is not sufficient to cover liabilities. The tables presented in the article indicate a poor level of corporate finance. This assessment is confirmed by the fact that workers in December 2008 went to the court competent for bankruptcy of the company. Employees and also the largest suppliers secured their claims by means of court judgments and mortgages on business assets and personal assets of the entrepreneur.

The assets of the company and the owner do not protect all their claims and recovering them in full in the bankruptcy proceedings is doubtful.

5. Conclusion

The most important area of the financial assessment is liquidity analysis. In the practice of liquidity measurement it is not enough to rely on the data coming from the balance sheet. It illustrates the measurement of liquidity at a specific moment of time for which the balance sheet statement was prepared. Accepted accounting principles distort the actual state of liquidity; therefore, the cash flow statement is extremely important in this assessment. The level of operating cash is used for the dynamic evaluation of liquidity.

The idea of the cash flow statement is to investigate the mechanisms that cause changes in inventory of the resources available to the company. Analysis of these mechanisms allows the estimated cash flows for the inflow and outflow from the company and, at the same time, examines the company's financial situation changes due to its ability to generate cash. This is a basic measure of financial strength, and its control in a market economy is a prerequisite for the proper functioning of a company, because the increase in the cash from operating activity that is higher than the profit is the financial strength of the enterprise.

What is more common is the conviction of the need to keep and control cash flow regardless of the specifics of business.

The division into operating, investing and financial activity used in the cash flow statement allows an accurately assessing which areas of business generate cash and which absorb cash, and thus the extent to which they affect the overall level of cash flow business. Information obtained from the analysis of cash flow are a valuable complement to the data needed to establish the real picture of the business unit paying capacity, level of economic efficiency, as well as funding sources are important for forecasting financial results and liquidity. It is very important and helpful in choosing a strategy of a company.

In assessing the financial strength of a company one cannot rely only on the positive or negative cash balance, which is presented in the cash flow statement. Ratio analysis improves cognitive value carried out by properly selected indicators. It sets out a clear and transparent view of the investigated areas of liquidity.

The presented case shows that company X is a company that is on the border of bankruptcy and insolvency.

Because of the fact that in the examined period the company had no obligation to prepare a cash flow statement, it was prepared only for the purpose of liquidity analysis. If it had been made in each year, and preferably on a monthly basis, a bad situation in the company would have been detected in a proper moment, and preventive measures could have been carried out, which – undoubtedly – together with the restructuring could have prevented the bankruptcy of the company.

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INFORMACYJNE ASPEKTY RACHUNKU PRZEPŁYWÓW PIENIĘŻNYCH PRZEDSIĘBIORSTWA PRODUKCYJNEGO

Streszczenie: Rozwój jednostek gospodarczych na współczesnym rynku zależy od wielu czynników. Głównym elementem przyszłej działalności przedsiębiorstwa i jego ciągłego rozwoju jest utrzymanie właściwego poziomu płynności finansowej. W artykule zostały przedstawione teoretyczne i praktyczne aspekty rachunku przepływów pieniężnych jako źródła informacji finansowych. Płynność badanego przedsiębiorstwa jest ustalana na podstawie rachunku przepływów pieniężnych.

Słowa kluczowe: rachunek przepływów pieniężnych, analiza płynności, przychód i rozchód środków pieniężnych.