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THE IMPORTANCE OF MANAGING CASH FLOWS IN CONDITIONS OF GLOBAL ECONOMIC CRISIS

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Abstract: *In conditions of recession and global economic and financial crisis is crucial set up a good system of managing cash flows. The enterprise needs the cash for payment its obligations, investment and management its business. In Serbia, the obligation of preparing the statement of cash flow in accordance with IAS 7 have medium and large enterprises. The statement of cash flows shows following segments: cash flow of operating activities, cash flow of investment activity and cash flow of financing activities. Management of the enterprise, through this report gets the informations on basis which the activities is realized the inflow of cash in the enterprise and on basis which the activities is realized outflow of cash. The information from the statement of cash flows if are adequately linked with the information from other financial statements (balance sheet, income statement) assist to management of the enterprise, but and external users to gain the insight in liquidity and solvency of the enterprise, the quality of profit, capital expenditures, returns of cash flow, free cash flow etc. The main objectives of this paper are: 1. shows the contents of statement of cash flows and 2. explains cash flow analysis of the enterprise „X" which is importance for business, financial and investment decision. In this paper are used the following research methods: comparative method, classical and modern methods of analysis, ratio analysis, mathematical method, method of synthesis.*

Keywords: *Statement of cash flows, IAS 7, cash flow analysis, global economic crisis, management.*

1. Introduction

In Republic of Serbia is with the adoption of the Law on Accounting and Auditing from 2002nd year was introduced obligation preparation of the cash flow statement in accordance with IAS 7 for medium and large entities, as well as banks and insurance

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companies and other financial institutions. The Cash flow statement, also known as Statement of cash flows has three segments or parts: a) cash flow from operating activities, b) cash flow from investing activities c) cash flow from financing activities. This method of segmenting the cash flow statement helps management of enterprise that he affect on the amounts and timing schedule of cash flows order to adapt to the circumstances surrounding in the environment.

Operational activities include the production, supply of products and provision of services. Investing activities are long-term acquisition and alienation of assets and other investments not included in cash equivalents. Financing activities are activities that result in changes in the size and composition of the equity and liabilities by taken loans.

International Accounting Standard 7 (IAS 7 - Cash flow statement), offers builders of the cash flow statement possibility that they use: direct or indirect method. The direct method starting from the operating revenue from the Income statement and the indirect method of net profit. Provided that is correct prepared the cash flow statement both methods show the same amount of net cash flow from operating activities and the total net cash flow. For inflows and cash outflows from investing activities and financing obligatory is the application of the direct method.

2. Contents of Cash Flow Statement Toward IAS 7

Content of the cash flow statement is defined with IAS 7 - Cash flow statement, which published the Committee for the International Accounting Standards Board in december in 1992nd year. The Cash flow statement is presented three separate cash flows under IAS 7 as follows: 1. cash flows from operating activities, 2. cash flows from investing activities and 3. cash flows from financing activities. Adding all the three cash flows receives total cash flow for accounting period and the amount of cash at the end of the accounting period. The classification (grouping) of the cash flows and cash equivalents by type of activity (Radovanović, R., 2001, 91) allows users of the report to identify based on which activities is the percentage the highest share outflows and inflows cash and cash equivalents, as well as to determine the impact of these activities the financial position of the enterprise. Permanent access in the cash flows enable the finding alternatives for rehabilitation potential deficit or use of the surplus of cash to finance the growth and development of the enterprise or pay off debts, so that is in a function of management decision-making in the enterprise.

Cash equivalents (Stevanović, N., 2000, 245-246) include the purchased securities issued by others that reads on a very short time, usually up to 90 days, which can be quickly and easily converted into a known amount of cash on the open the market cash or at commercial or central banks (for example, government bonds with a maturity of 90 days, the state bills, etc..). Cash equivalents are held not for investment, but for the settlement of short-term cash commitments.

Unlike of the balance sheet and income statement which is obtained a conclusion of general ledger, the cash flow statement is prepared on basis of the data included in: balance sheet, income statement and on the individual ledger accounts and notes to the balance sheet and income statement for the analyzed period. The preparation of cash flow statement is the process that involves several consecutive steps:

1. determine net change in the balance sheet between two points in time (the difference between the same positions between balance sheet date the beginning and end of observed period and their classification on sources and uses of cash);
2. classification of position balance sheet with terms of the impact on cash flow - on the ones that cause a reduction in cash;
3. integration of data on sources and use of cash in the cash flow statement.

On based the information contained in the difference of state on the end of the period than at the beginning it is possible to determine the cash flows and categorize them according to the activities of which are came out on the business, investment and financial. Business (operational) activities are the main business activities of the enterprise which generating income enterprises and other activities, other than investment and financial activities. Cash flows from operating activities should show how much cash is generated from this activity and what are the needs for cash caused by business. Transactions and business events that result from these activities are responsible for the creation of profit or loss. Examples of cash flows arising from operating activities (SRRS, 2007, 862) are:

1. Cash receipts from sales of goods or services;
2. Cash receipts from returns on loans, other debt instruments of other entities, and equity securities –interest and dividends;
3. Cash payments to acquire materials for manufacture or goods for resale;
4. Cash payments to employees and on behalf of employees;
5. Cash payments to other suppliers and employees for other goods or services;
6. Cash payments to governments for taxes, duties, fines, and other fees or penalties;
7. Cash payments to lenders and other creditors for interest.

For expected that the company achieves the most cash from the regular activities, as this is a key indicator on achieved extent of cash to preserve business ability of enterprise. Otherwise, it can be a good indicator for examining the causes and consequences of such a situation.

Investing activities are long-term the acquisition and alienation assets (long-term assets), and other investments that are not included in cash equivalents. Cash flows from investing activities are expenses based on the resources that are intended for achieve future profits and cash flows. Examples of cash flows arising from investing activities (SRRS, 2007, 863) are:

1. Cash payments to acquire property, plant and equipment, intangibles and other long-term assets;
2. Cash receipts from sales of property, plant and equipment, intangibles and other long-term assets;
3. Cash payments to acquire equity or debt instruments of other entities and interests in joint ventures;
4. Cash receipts from sales of equity or debt instruments of other entities and interests in joint ventures;
5. Cash advances and loans made to other parties (except advances and loans made by a financial institution);
6. Cash receipts from the repayment of advances and loans made to other parties which are given other parties (except advance and loans of a financial institution);

7. Cash payments for futures contracts, forward contracts, option contracts and swap contracts;
8. Cash receipts rom futures contracts, forward contracts, option contracts and swap contracts.

Financing activities are activities that result in changes in the size and composition of own capital and borrowed debt. Cash flows financing indicates the amount of inflow to the debt or ownership basis from the environment and outflows which arising by based discharge or returning the role of the owners. The separate disclosure of cash flows arising from financing activities is important because it is useful in predicting claims on future cash flows by providers of capital for the entity. Examples of cash flows arising from financing activities are:

1. Cash proceeds from issuing shares or other equity instruments;
2. Cash payments to owners to acquire or redeem the entity's shares;
3. Cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short or long-term borrowings;
4. Cash repayments of amounts borrowed;
5. Cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease.

Transactions in investing activities and financing activities that does not require the use of cash or cash equivalents are not included in the cash flow statement. This are a non-cash transactions. Such business transactions should be disclosed elsewhere in within the financial statements. This are an investment and financial activities which not have direct impact on cash flow, but they affect the capital structure and corporate assets. Examples of non-cash transactions are (SRRS, 2007, 868):

1. acquisition of the asset through finance lease,
2. acquisition of businesses (entities) through the issuance of capital,
3. conversion of debt in equity.

Net cash from operating activities is a major element of sustainable cash flow enterprise in the future, because are business activities the primary activities of the companies in which comes to the creation of products and providing services and that have a recurring character. Cash flows from investing and financing activities do not take part in the creation of sustainable cash flow, because they are not continuous (Rodić, J., and others, 2011, 297).

3. Example - Analysis of the Cash Flow Statement of the Enterprise

According to IAS 7 Serbian enterprises report about cash flows from operating activities using one of the following methods (SRRS, 2007, 864):

1. Direct method, whereby are disclosed major classes of gross cash inflows and gross cash outflows segmented at: cash flow from operating activities, cash flow from investing activities and cash flow from financing activities. Since the fact that the cash flow statement made by the direct method, information rich and user understandable report, recommended for enterprises in our country;

2. Indirect method, whereby net profit or loss adjusted for the effects of changes in non-cash nature, any passive or active accruals, on the basis of previous or future inflow or outflow of cash from operating activities and for items of inflows or outflows which related to the cash flows from investing activities and financing activities.

For a hypothetical example of business of the enterprise "X" will be the shown analysis of the Cash flow statement. In this analysis we will use data from the Cash flow statement drawn up by the direct method, Income statement and balance sheet of the observed enterprise. Accordingly, the first follow display the Cash flow statement for the observed enterprise "X" the Cash flow statement for the observed enterprise "X" contains only amounts current period. In accordance with IAS 1 - Presentation of financial statements, in Cash flow statement should be shown and comparative amounts for previous year. Accordingly, the Cash flow statement for the observed enterprise "X" looks like the following:

Table 1. Table caption: Cash flow statement of the enterprise „X“ in the period since 1.01. until 31.12.2012. year – the direct method

in 000 RSD

POSITION	VALUE	%
A. Cash flow from operating activities		
I. Inflows cash from operating activities (1until 2)	516.800	**90,48**
1. Inflows cash from the sale of products to customers	499.800	**87,50**
2. Inflows cash from other operating activities	17.000	**2.98**
II. Outflows cash from operating activities (1until 3)	(425.000)	**74,41**
1. Outflows cash for operating expenses (payments to suppliers and employees)	(370.600)	**64,88**
2. Outflows cash for interest (paid interest)	(10.200)	**1,79**
3. Outflows cash for income tax (paid income taxes)	(44.200)	**7,74**
III. Net cash provided by operating activities (I – II)	91.800	**16,07**
IV. Net cash used in operating activities (II – I)		
B. CASH FLOWS FROM INVESTING ACTIVITIES		
I. Inflows cash from investing activities	10.200	**1,79**
1. Inflows cash from long-term financial investments (securities)	10.200	**1,79**
II. Outflows cash from investing activities	(47.600)	**8,33**
1. Outflows cash on based purchases of property, plant and equipment	(47.600)	**8,33**
III. Net inflows cash from investing activities (I – II)		
IV. Net outflows cash from investing activities (II – I) CAPEX	(37.400)	**6,55**
C. CASH FLOWS FROM INVESTING ACTIVITIES		
I. Inflows cash from investing activities	44.200	**7,74**
1. Inflows cash from issue and sale of new shares	44.200	**7,74**
II. Outflows cash from financing activities (1until 2)	(105.400)	**18,45**
1. Payment of the principal of on long-term debt	(85.000)	**14,88**
2. Payment of dividends	(20.400)	**3,57**
III. Net inflows cash from financing activities (I – II)		
IV. Net outflows cash from financing activities (II – I) CAPEX	(61.200)	**10,71**

D.	**TOTAL CASH INFLOWS**	571.200	**100,00**
E.	**TOTAL CASH OUTFLOW**	(578.000)	**101,19**
F.	**NET CASH INFLOW (D – E)**		
G.	**NET CASH OUTFLOW (E – D)**	(6.800)	**1,19**
H.	**CASH ON BEGINNING ACCOUNTING PERIOD**	34.000	**5,95**
I.	**POSITIVE EXCHANGE DIFFERENCE ON TRANSLATION OF CASH**		
J.	**NEGATIVE EXCHANGE DIFFERENCE ON TRANSLATION OF CASH**		
K.	**CASH ON ENDING ACCOUNTING PERIOD (E – F + G + H – I)**	27.200	**4,76**

Source: author's calculation

The relative amount, ie. percentage (%) = (The value of each item in the report/Total value of all cash inflows) * 100 (Žager, K., and others, 2008, 288). Statement of cash flows is an essential source information on inflows and outflows cash in a period of time. On based previous report to are make a recap segments of cash flows:

- The achieved is a positive net cash flow from operating activities in the amount of 91.800 thousand RSD;
- Part of the net cash flow from operating activities is was used to pay dividends 20.400 thousand RSD, and the rest along with the influx from emissions the shares is used for the discharge - returning the long-term loan in the amount of 85.000 thousand RSD and for the purchase of new property, plant and equipment in the amount of 47.600 thousand RSD;
- The achieved is a negative cash flow from investing activities in the amount of 37.400 thousand RSD;
- The achieved is a negative cash flow from financing activities in the amount of 61.200 thousand RSD;
- In relation to the initial accounting period the achieved is a net decrease in cash flow in the amount of 6.800 thousand RSD.

Follow display for observed enterprise "X":

Table 2. Table caption: Income statement of the enterprise "X" in the period since 1.01. until 31.12.2012. year

in 000 RSD

POSITION	VALUE
1. **Operating revenue (Net revenue from sales)**	**523.600**
2. Other revenues (payment of disputed claims)	17.000
I. Total revenues (1+2)	**540.600**
3. Variable costs sales	285.940
4. Costs administration and sales	125.460
5. Depreciation	27.200
6. **Operating expenses (3+4+5)**	**438.600**
7. Interest expense	10.200

II. Total expenses (3+4+5+7) or (6+7)	**448.800**
III. Earnings Before Taxes or EBT (I-II) (Total gross profit)	**91.800**
IV. Income tax	34.000
V. Net profit or EAT(III - IV)	**57.800**

Source: author's calculation

Follow display for observed the enterprise "X":

Table 3. Table caption: Balance sheet of the enterprise "X" per day 31.12. 2012. year
in 000 RSD

POSITION	**VALUE**	
Fixed assets	**Current year**	**Previous year**
1. Cost of property, plant and equipment	224.400	176.800
2. Correction values fixed assets	(88.400)	(61.200)
3. The present value of facilities and equipment	136.000	115.600
4. Long–term investment	129.200	139.400
Total fixed assets (3+4)	265.200	255.000
Current assets		
1. Supplies	13.600	23.800
2. Customers (Short–term receivables)	91.800	68.000
3. Cash and cash equivalents	27.200	34.000
Total current assets	132.600	125.800
TOTAL ASSETS	**397.800**	**380.800**
Own capital		
1. Shareholders' equity	108.800	64.600
2. Accumulated profit (retained earnings)	173.400	136.000
TOTAL OWN CAPITAL	282.200	200.600
Long-term reserves and liabilities		
1. Long-term reserves	44.200	20.400
2. Long-term liabilities	-	85.000
Total long-term reserves and long-term liabilities	44.200	105.400
3. Liabilities to suppliers	47.600	40.800
4. Liabilities for income tax	23.800	34.000
Total short-term liabilities	71.400	74.800
Total long-term reserves and liabilities	115.600	180.200
TOTAL LIABILITIES	**397.800**	**380.800**

Source: author's calculation

Note: Neither the Income statement, Balance sheet are not presented in accordance with the requirements for disclosure and presentation from other International Accounting Standards.

The information from the Cash flow statement, if are on properly way linked with information from other financial statements (Balance sheet, Income statement) assist management of the enterprise, but also external users to have access to liquidity and

solvency of the enterprise, the quality of earnings, capital expenditures, cash flow and return on free cash flow. Financial ratios which are based on cash flow can be classified into the following groups:

1. *The racio liquidity and solvency (assesing liquidity and solvency)* – used to determine the grade of security business and demonstrates on the ability to cover liabilities in the short or long term. The liquidity of enterprise determined on based of the balance sheet is a static indicator, because it shows the ability to settle obligations on a particular day. The ability to settle obligations on a particular day is not an indicator of purchasing power during the accounting period. In contrast, liquidity determined on based cash flow is an indicator of the dynamic liquidity, because for based has cash flows generated in a given period. The most common indicators are:

- Cash coverage of the cost interest (Cash flow from operating activities + Interest expense / Interest expense). Cash coverage of the cost interest shows how many times the interest expensecovered by cash flow from operating activities before interest and taxes. What is the ratio the greater it is coverage the interest, and thus the financial strength of the enterprise the greater.

(91.800 + 10.200 + 34.000) / 10.200 = 136.000/10.200 = 13,33 times;

Answer: Observed enterprise is had a high coverage the interest. The cost interest are covered cash flow from operating activities before interest and taxes 13,33 times in during 2010^{th} year.

- Cash coverage of current (short-term) liabilities (net cash flow from operating activities / current liabilities). This the liquidity ratio of the enterprise shows how many times net cash flow from operating activities cover the amount of current liabilities of the enterprise. The numerator of this ratio will be the net cash flow from operating activities, whose the amount was taken from the Cash flow statement. The denominator of this ratio can makes the average short-term liabilities determined from the balance sheet two consecutive periods (the previous and the current accounting period). What is the higher the amount of this indicator, it can be concluded that the enterprise in the short term actually able to meet its current liabilities. According to the results of research in the USA (United States of America) this ratio should be a minimum of 40%.

91.800 / (74.800+71.400) / 2 = 91.800/73.100 = 1,2558 or 125,58%;

Answer: Liquidity ratio in the amount of 1,26 is very good. Therefore, can be concluded that the observed enterprise in short time able to fulfill its current liabilities.

- Cash coverage of total liabilities (Net cash flow from operating activities/Total liabilities (long-term and short-term liabilities)). This indicator solvency of enterprise use to for determine the ability of the enterprise to meet all its liabilities from the Cash inflow from business activities of the enterprise. The denominator of this ratio can make the average total liabilities determined from the balance sheet two consecutive periods (the previous and the current accounting period). According to the results of research in the USA (United States of America) this ratio should be a minimum of 20%;

91.800 / (85.000 + (74.800+71.400) / 2 = 91.800/158.100 = 0,5806 or 58,06%;

Answer: Since is the value of the solvency above 0,20 very good is the security situation of creditors. Therefore, can be concluded that the observed enterprise able to meet all its liabilities from the cash the secured from business activities of the enterprise.

2. *Indicators quality (quality of income)* – are used for the assessment of business performance. The most common indicators are:

- Quality of sales (Cash inflow from the sale of products to customers / Revenue from sales). It shows how much the cash flows realized with each unit of the revenue. Only by comparing the inflow and incomes that are exclusively related to the current period can get quality of sales for curent period. If the indicator of the quality of sales (revenue) is greater than 1, it means that the cash inflows from the sale of products to customers the greater than revenue from sales of observed period. If the indicator of the quality of sales (revenue) is less than 1, it means that the revenue of the period the higher of cash flows. In practice, this case is more common, because there is a gap in the payment of accrued revenues.

  499.800 / 523.600 = 0,9546 or 95,46%;

Answer: The indicators of quality of sales for observed enterprise is less than 1 (0,9546), this means that the revenue in observed period is higher than cash flow, since there is a gap in the collection of accrued revenue. Observed enterprise on every unit revenue from sales achieve 0,9546 unit cash inflow from the sale of products to customers.

- Quality of profit (Net cash from operating activities/Operating profit (EBIT)). This indicator shows how it takes to achieve cash flow from operating activities for 1 unit of the profit. Operating profit represents the difference between revenues and expenditures of the current period.

  91.800 / 85.000 =1,08 or 108%;

Answer: Observed enterprise on unit of business profit achieve 1.08 unit net cash flow from operating activities, which can be considered very good.

Systematic analysis of the quality of profit requires interpretation of indicators to measure the degree of deviation rate growth stope rasta operating profit (Operating profit or Earnings before interest and taxes) / Operating revenue (Net revenue from sales) * 100) and Rate growth net cash from operating activities (Net cash from operating activities/Operating revenue (Net revenue from sales) * 100).

This ratio is called the excess cash margin and this ratio calculated follows:

Direct way: Excess cash margin = (Net cash flow from operating activities – Operating profit (EBIT)) / Operating revenue (Net revenue from sales).

Operating profit (Earnings before interest and taxes or EBIT) = Operating revenues - Operating expenses = 523.600 – 438.600 = 85.000 thousand RSD.

Answer: Excess cash of margin = (91.800 – 85.000) / 523.600 = 0,013 or 1,3%;

Indirect way:

Cash profit margin (cash ROS) = (Net cash from operating activities / Revenue from sales) * 100 = 91.800/523.600 * 100 = 17,53 % (Pendlebury, M., and others, 2004, 135);

Operating profit margin (ROS) = Operating profit (EBIT) / Revenue from sales * 100 = 85.000 / 523.600 * 100 = 16,23%;

Answer: Excess cash margin = Cash profit margin (cash ROS) – Operating profit margin (ROS) = 17,53 % – 16,23 % = 1,3%.

3. *The Indicators of capital expenditures* – provide insight into the "power" of the company that it can finance capital expenditures from their own and/or external sources of assets. If is the ratio between the net cash flow from operations and capital expenditures greater than 1, then it indicates the ability of firms to from internal sources (accumulated net income, depreciation, long-term provisions, etc.) finance not only capital expenditures but and a part of the use for payment of dividends, debt repayment or redemption of shares. In the reverse case necessary additional external sources of finance (issue of shares, sale of long-term bonds at a premium and so on.). The most common indicators are:

- Indicator of investments (Net cash flow from investing activities / Net cash flow from financing activities). This indicator shows how are the investment activities financed from external sources;

  37.400 / 61.200 = 0,6111 or 61,11%;

This indicator shows that 61,11% investment activities financed from borrowed sources.

- Indicator of financing (net cash flow from investing activities / net cash flow from operating activities + net cash flow from financing activities). This indicator shows how the investment activities financed from the total available assets (own and external), that gives an insight into the range of investment total available assets (own and external).

  37.400 / (91.800 + (- 61.200)) = 37.400 / 30.600 = 1,2222 or 122,22%;

Answer: Coverage investment of total available asets (own and external) is 122%.

4. *Indicators return of cash flows (cash flow returns)* – indicate the ability to generate cash flows and determine the return of cash on total assets (assets with no reported loss on the asset), respectively equity and total liabilities, and it are profitability indicators. The most common indicators are:

- Cash Return on invested asset (Net cash flow from operating activities + Cost (expenses) interest + Taxes /Average invested assets). This indicator shows how are the unit net cash flow from operating activities created by the embedded unit of total assets;

  (91.800 + 10.200 + 34.000) / (380.800 + 397.800)/2 = 136.000/389.300 = 0,3493 or 34,93%;

Answer: Observed enterprise on every unit invested assets achieves 0,3493 dinar net cash flow from operating activities.

- Return on invested capital (net cash flow from operating activities + Interest expenses) / Average invested capital (own capital and long- term liabilities). Indicators cash return on invested capital shows how the unit net cash flow from business activities generates per unit of invested capital.

Return on invested capital flows without excluding the impact of tax savings from cost of interest:

91.800 + 10.200 / (282.200 + 200.600) / 2 + 85.000 = 102.000/326.400 = 0,3125 or 31,25%;

Answer: Observed enterprise on every unit invested (invested) capital achieves 0.3125 dinar net cash flow from operating activities.

Return on cash invested capital excluding the impact of tax savings from cost of interest (Rodić, J., and others, 2007):

91.800 + 10.200 * (1 – 0,10) / (282.200 + 200.600)/2 + 85.000 = 100.980/326.400 = 0,3094 or 30,94%;

Answer: Observed enterprise on every unit invested (invested) capital achieves 0,3094 dinar net cash flow from operating activities.

- Cash Return on equity (Net cash flow from operating activities / Average equity).

  91.800 / (64.600 + 108.800) / 2 = 91.800 / 86.700 = 1,0588 or 105,88%;

Answer: Observed enterprise on every unit invested equity achieves 1,0588 dinar net cash flow from operating activities.

5. *Free cash flow* **–** The ability enterprise to generate cash from its operations is a prerequisite to preserve its liquidity. Therefore, it is important to determine from which activity the enterprise generates free cash flow. Determination of free cash flow is characterized primarily by American and many other enterprise around the world. Such analysis because the confirmed the advantages in the application around the world, should find its place and in Serbian enterprises. Free Cash Flow – FCF is the amount of cash available for business owners after the necessary investments in fixed and current assets to maintain the current scope of activities and planning support.

Free cash flow to firm (FCFF) = Net cash flow from operating activities (CFO) – Funding necessary and /or cost-effective issuance in investment activity. It is the source for the payment of dividends, repayment of loans, purchase of own shares and to other issue in financial activities. (http://www.schweser.com/downloads/general/l2schwesernotes.pdf).

The direct method of calculation of free cash flow for the enterprise (FCFF) relies on data from the Cash flow statement. If the invested capital of a joint stock enterprise includes own equity, then we can infer the following relation: Free cash flow to firm (FCFF) = Net cash flow from operating activities (CFO) – Net investment in long-term (permanent) resources (CFI);

If is the invested capital of a joint stock enterprise in addition to its permanent **(**own) capital includes long-term debt, as is the case for our observed joint stock enterprise "X", then we can infer the following relation:

I. way (direct): FCFF = OCF + Interest expenses * (1 – Tax rate on income expressed in decimal number) – Investments in fixed assets (FCI_{nv});

FCI_{nv} (capital expenditures) = Gross value of fixed assets at end of period - Gross value of fixed assets to beginning of period (Schweser, K., 2008, 204).

Total capital expenditures = maintenance of existing capacity + new investments (additional investment); FCFF = 91.800 + 10.200 * (1 – 0,10) – 37.400 = 63.580 thousand RSD;

II. way (indirectly): FCFF the same result can be reached in an indirect way, respectively on based data from the balance sheet and income statement. In order to ensure this, we will first start with the presentation of operating cash flow: OCF = NI + NCC – WCI_{nv} (http://educ.jmu.edu/~drakepp/general/FCF.pdf);

Where is:

OCF – Operating Cash Flow,

NI – Net income,

NCC – Non - cash charges: depreciation, amortization, loss on sale of long-term asets, different fees and other,

WCI_{nv} – investments in curent asets.

OCF = 57.800 + 27.200 + 23.800 – 17.000 (WCI_{nv}) = 91.800 thousand RSD;

Followed by determination of FCFF:

FCFF = 91.800 + 10.200 * (1 – 0,10) – 37.400 (FCI_{nv}) = 63.580 thousand RSD.

We conclude that both methods of calculating FCFF shows the same result. Data on the movement of OCF is essential for financial managers, are omitted because capital expenditures (investments). FCF (Free Cash Flow) method encourages the transition with the accounting base valuation of the effects of the business entities on higher economic base. If is the FCF positive, from business sources we are managed that financed issuance investment activity, the excess can be distributed so that we will repay creditors and shareholders to pay dividends, or make a purchase of shares.

If is net income > free cash flow, especially if there is a significant difference, then there is a potential creative accounting. If net income < free cash flow, or if the same, then it is better quality earnings, because the enterprise makes the same or more money than the reported net income **(**http://www.wisewealthbook.com/how-to-use-free-cash-flow-and-net-income-to-detect-creative-accounting/).

Some more observations are: EBITDA (Earnings Before Interest, Taxes, Depreciation & Amortization) better accounting measure of EBIT (Earnings Before Interest and Taxes) when it comes to cash flow from operating activities, because earnings before interest and taxes (EBIT) includes investments by subtracting depreciation. (http://www.bionicturtle.com/how-to/article/cash_conversion_efficiency/). For this reason, cash conversion ratio is calculated as follows way: CCR (Cash Conversion Rate) = FCFF / EBITDA (earnings before interest, tax, and depreciation/amortization) *100;

CCR (Cash Conversion Rate) = 63.580 / 112.200* 100 = 56,67%;

Answer: Share FCFF in earnings before interest, taxes, depreciation and amortization (EBITDA) is satisfactory 56,67%. Respectively on every unit EBITDA comes 0,5667 unit free cash flow.

Free cash flow for ordinary shareholders (FCFE) => FCFF diminished for the issuance toward creditors; respectively for our observed enterprise valid: FCFE = FCFF – Costs interest * (1 – Tax rate on income expressed in decimal number) + Net borrowing (repayment of principal debt) (Schweser, K., 2008).

FCFE for ordinary shareholders = 63.580 – 10.200 * (1 – 0,10) – 85.000 (payment principal of long-term loans) = - 30.600 thousand RSD.

Answer: Free cash flow for shareholders is a negative value, is not sufficient for repay to the shareholders through dividends.

Change in cash and cash equivalents: - 30.600 (FCFE) – (-20.400 (dividends)) – (-3.400 (short-term liabilities: 6.800 – 10.200)) = - 6.800 thousand RSD (Net cash outflow);

Cash management is the function of providing liquidity and increase the profitability of enterprise. On the management of the enterprise is to find the optimal balance between liquidity and profitability, which will stimulating affect the course of business.

4. Conclusions

Since the Balance Sheet and Income Statement, because of the accounting basis on which rests, does not indicate on cash flow enterprise during the settlement period for these purposes is designed the Cash Flow Statement. Management of the enterprise, through this the report received informations by based which the activities in the enterprise is realized inflow, and by based which outflow, respectively what are the possibilities of the company to generate cash and cash equivalents. Any significant delay in the circulation of cash can cause finansing regular business from unfavorable sources, increased financial expenses and weakening profitability, deterioration in credit worthiness and declining liquidity. On the other hand, if cash flow exceeds the amount which is needed for regular business activities and their expansion, the enterprise will have to borrow money to expand the business. Excess cash flow (will be able to be used to reduce debt and improve its financial position. Discrepancy between cash flows and results has led to the need that is them its specifically define and present. For enterprise is essential that the net cash flow of operating activities to be positive, because from that depends and the investment and financing.

In reporting of cash flows required to be is issued net cash flow the current and previous years with order to see the changes and trends of motion the net cash flow. Greater free cash flow means and greater financial health of the enterprise, greater growth opportunities and increase future profits. In the interpretation of these changes and trends analyst needs to be associated with the results of the analysis of financial results, property status and financial position of the enterprise.

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ZNAČAJ UPRAVLJANJA TOKOVIMA GOTOVINE U USLOVIMA GLOBALNE EKONOMSKE KRIZE

Rezime: *U uslovima recesije i svetske ekonomske i finansijske krize je važno uspostaviti dobar sistem upravljanja tokovima gotovine. Preduzeću treba novac za plaćanje svojih obaveza, investiranje i upravljanje svojim poslovima. U Srbiji, obavezu pripreme Izveštaj o tokovima gotovine u skladu sa MRS 7 imaju srednja i velika preduzeća. Izveštaj o tokovima gotovine prikazuje sledeće segmente: gotovinski tok iz poslovnih aktivnosti, gotovinski tok iz investicionih aktivnosti i gotovinski tok iz aktivnosti finansiranja. Menadžment preduzeća, putem ovog izveštaja dobija informacije na osnovu kojih aktivnosti se realizuje priliv gotovine u preduzeće i na osnovu kojih aktivnosti se realizuje odliv gotovine. Podaci iz Izvještaja o gotovinskim tokovima ako su adekvatno povezani sa podacima iz drugih finansijskih izveštaja (bilans stanja, bilans uspeha) pomažu menadžmentu preduzeća, ali i eksternim korisnicima da steknu uvid u likvidnost i solventnost preduzeća, kvalitet dobitka, kapitalne izdatke, povrat gotovinskog toka, slobodan gotovinski tok itd. Glavni ciljevi ovoga rada su: 1. pokazati sadržaj Izveštaja o tokovima gotovine i 2. objasniti analizu gotovinskog toka preduzeća "X", koja je značajna za poslovne, finansijske i investicione odluke. U radu se koriste sledeće metode istraživanja: komparativni metod, klasične i moderne metode analize, racio analiza, matematički metod, metod sinteze.*

Ključne reči: *Izveštaj o tokovima gotovine, MRS 7, analiza gotovinskog toka, globalna ekonomska kriza, upravljanje.*