ANALYSIS OF A COMPANY'S FINANCIAL BALANCE

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Abstract: The accounting activity has an important contribution to the economy through its content, which harmoniously combines abstract theory with the reality of the studied phenomena, because it provides a correlated and verified information system, leaving no room for subjectivism and promoting rigor and accuracy in reflecting economic-financial phenomena. Maintaining financial balance is an essential condition for the survival of the company. Moreover, balance evokes the idea of harmony between the different elements of a system, which in the financial field represents the harmonization of resources with needs.
Keywords: financial balance, short-term balance, current balance, long-term balance

INTRODUCTION

The balance sheet and the income statement are two accounting summary documents based on which it is possible to analyze the financial balance, using two important indicators: the working capital and the working capital requirement.[1]

An analysis of the financial balance sheet provides information on the *financial balance* of the entity and allows establishing the degree of financial independence according to the financial structure.[2]

If an analysis of the patrimony requires a separate examination of the company's assets and liabilities, an analysis of the financial balance implies the study of the correlations that exist between its assets and liabilities.

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[1] Medinschi, Silvia, (2003). „Performanțele întreprinderii și gestiunea financiară". Orizonturi Universitare Publishing House, Timișoara, p.101

[2] Trif, Viorel. Nagy, Cristina Mihaela. (2009). „Situațiile financiare ale întreprinderii". Mirton Publishing House. Timișoara. p. 52

The analysis of a company's **financial balance** aims to reflect the balance between funding sources and the use of financial resources, and the correlation between revenues and expenses related to its activity on different terms (long, medium and short term), but also globally.

According to some authors[3] **financial balance** can be assessed by using the following balance indicators: net balance, working capital, the need for working capital and net treasury.

The analysis of the financial balance has the following objectives:[4]

- *„short-term balance*: when comparing working capital with the need for working capital (treasury);
- *current balance*: when comparing capital current assets with short-term obligations (WCR);
- *long-term balance*: when comparing permanent capital with fixed assets (WC)".

"The analysis of a company's financial balance can be performed with the help of balance indicators and funding rates."[5]

The financial balance can be analyzed in several directions, one of them being the kinematic one, that is[6]: static, based on the financial and functional balance sheet; and dynamic, based on flows.

1. Static analysis of the financial balance

Static analysis of the financial balance[7] "requires an analysis of the working capital, when comparing permanent assets with permanent capital; of the required working capital, when comparing current assets with the short-term debts; and of the treasury, when comparing the cash availability with the level of the temporary loans, thus, taking into account the long-term financial balance, the short-term financial balance, respectively, the current financial balance of the analyzed company".

The correspondence between the chargeability of liabilities and the liquidity of assets is the most important aspect of the financial balance. This implies that fixed assets (which have a liquidity of more than one

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[3] Iosif, Gh. N. (2014). „Analiza echilibrului financiar pe baza bilanțului contabil". Tribuna Economică Magazine, nr. 39. Tribuna Economică Publishing House. București. p. 62

[4] Sabău, C., Medinschi, Silvia, Buzilă Nicoleta (coordonatori). (2011).„Ghidul antreprenorului privat". Mirton Publishing House, Timișoara, p. 162

[5] Dănulețiu, Adina Elena. (2006). „Analiza echilibrului financiar al întreprinderii". Annals of the Universityof Oradea, vol. II, p. 491

[6] Rotărescu, Vasile. (2007).„Analiza echilibrului financiar–metode clasice și moderne". Orizonturi UniversitarePublishing House. Timișoara. p.10

[7] Cristea, I., Talpoș, I., Corduneanu, C., Lăbuneț, A., Pirtea, M., (2001). „Gestiunea financiară a societăților comerciale vol.3". Mirton Publishing House. Timișoara. p.117

year) are financed from permanent resources (which have a chargeability of more than one year).

But, due to the disparity between the *liquidity of current assets*, which is realized with certain difficulties (non-receipt at term and in quality conditions, dimensions and other conditions established in acquisition contracts concluded with suppliers, difficulties encountered in the production process, in the delivery activity and then collecting from customers) and the *chargeability of short-term liabilities*, which are imperatively required to be paid on time, part of the current assets (which have a liquidity of less than one year) must be covered by permanent resources (which have chargeability of more than one year). This requirement is expressed by the relation:

$$FA < PC$$

where:
FA- represents fixed assets;
PmC – permanent capital.

Therefore, some of the current assets have a stable use character, like fixed assets, being referred to as stable assets.

Working capital (WC) is an important criterion for assessing the financial balance, allowing short-term evaluation of the inability to pay.

"The working capital represents a company's margin of safety, determined by the differences between the receivable amounts and the amounts to be paid, as well as the difference between the average term for converting current assets into liquidity and the average duration in which short-term liabilities become payable."[8]

The working capital can be determined in two ways, namely:
a) as the difference between permanent capital and net fixed assets:

$$WC = PmC - FA$$

This method, reflecting the origin of working capital, allows knowledge and analysis of the economic and financial operations which cause them to fluctuate, either in a downward or upward direction.

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[8] Costea, S., (2009) „Analiză economică financiară", Eurostampa Publishing House, Timișoara, p. 44.

b) as the difference between current assets and short-term debts:

$$WC = CA - StD,$$

This method of calculation reflects the following: destination of the working capital, financing stocks, payment of payable commercial effects, financing other current receivables.

The working capital can be represented graphically using the financial balance sheet, according to Figure 1.

If Permanent Capital > Net Fixed Assets, FR> 0, then permanent capital covers part of the need to finance current assets, equal to the size of the working capital.

When Permanent Capital < Net Fixed Assets, FR < 0, we have a financial imbalance.

Permanent Capital = Net Fixed Assets, FR = 0, it is very unlikely that such a total harmony of the resources structure with the needs of their allocation will appear in practice.

Assets of financial balance sheet	Liabilities of financial balance sheet
Fixed Assets (FA)	Permanent Capital (PmC)
Current Assets (CA)	Short-term debts (StD)

Figure 1: *Graphical representation of net working capital*

The working capital requirement "is the main component of the short-term financial balance, it highlights the quality of the operating activity".

The need for working capital "represents the difference between temporary needs and temporary resources, respectively the amount needed to finance the gaps, which occur in time between the actual flows and the cash flows determined in particular by the operating activity."[9]

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[9] Spineanu-Georgescu Luciana (2013). „Analiză economico-financiară. Note de curs", Spiru Haret University, București, p. 138-139

It follows that working capital covers (finances) part of the current needs of the enterprise (stocks and receivables). But, the company needs a certain level of working capital, called the working capital requirement (WCR), which represents the difference between current assets that are not cash available and short-term debts that are not current bank loans (for up to one year), namely:

$$\textbf{WCR = (CA – Ca) – (StD – CbL)}$$

where:
Ca – represents Cash availability;
CbL – current bank loans.

The working capital required can be determined using the following relationships:

WCR = Current assets excluding cash availability - Short-term debts, excluding short-term loans,

or:

WCR = (Stocks + Receivables) – Short term bonds.

The calculation of the working capital requirement is presented graphically in Figure 2.
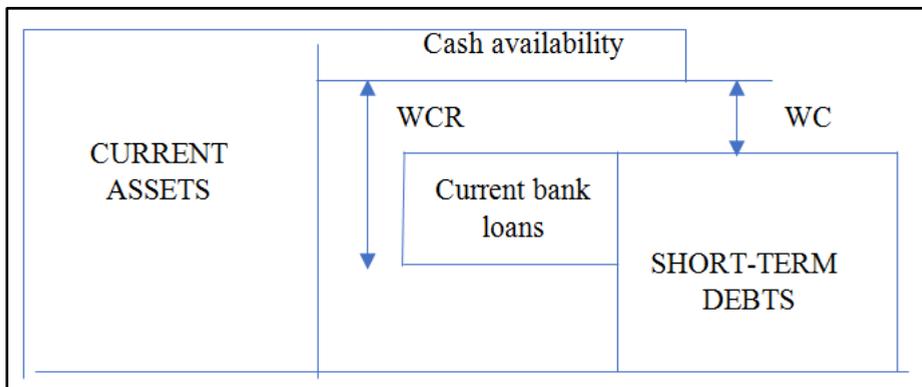

Figure 2: *Graphical representation of the working capital requirement*

Therefore, the working capital requirement measures the coverage of the needs of current assets (stocks and receivables) with non-bank loans (mainly with commercial loans).

If WCR > 0, CA > PmC. It signifies that there is a surplus of cyclical assets in relation to current liabilities, for which the entity must allocate resources.

If WCR > 0, CA > PmC. The working capital requirement is negative, reflecting the existence of a surplus of temporary resources in relation to the cyclical assets.

Net treasury "is the indicator that expresses the correlation between the working capital and the working capital requirement, reflecting the company's financial situation, both medium and long term, as well as in the short term, and is calculated as the difference between working capital and the working capital requirement", also referred to as net treasury balance (NTB),

$$NT = WC-WCR.$$

A positive treasury is the result of the financial balance, when the working capital is greater than the required working capital. The negative treasury shows a financial imbalance, when the working capital requirement cannot be financed entirely by permanent resources. This monetary deficit leads to short-term credit contracts.

Graphically, the net treasury (net treasury balance) can be represented as in Figure 3.
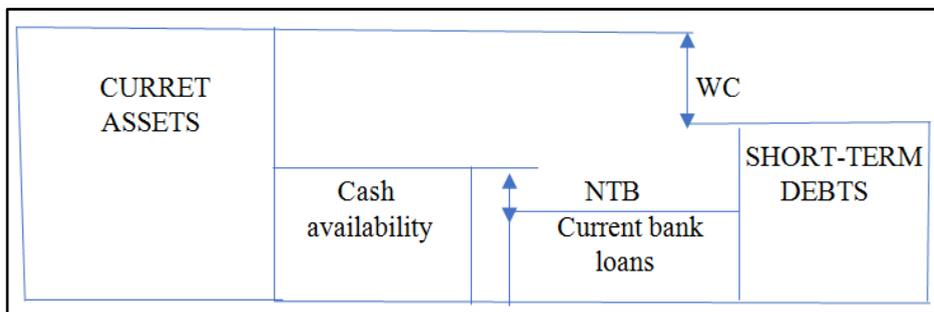

Figure 3: Graphical representation of the net treasury balance *(NTB)*

2. Financial balance analysis using rates

"For the synthetic expression of the multiple correlations implied by financial balance, the literature offers a lot of indicators (sometimes calculated differently or with different names)."[10]

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[10] Nancu, Dumitru (2012). „Evaluarea economica si financiara a intreprinderii". Ovidius Univeristy Faculty of Economics. p. 52

Another way of assessing the financial balance is to analyze the correlation between net working capital and current assets.

In this regard, a series of "rates" can be calculated, such as:

- the financing rate of current assets = (WC / CA) *100
- the financing rate of the stocks (FRS) [11] or the stock coverage rate = (WC /St) *100

"Liquidity and financial solvency represent the company's ability to cope with outstanding payments. *Liquidity* targets the *short-term* payment capacity while *solvency* refers to the *long-termcoordinates*."[12]

"Liquidity analysis - chargeability called in practice in Western countries the patrimonial analysis, has the merit of highlighting the company's risk to insolvency. This is the inability of the company to honor its commitments towards third parties."[13]

"The purpose of the analysis of liquidity and solvency is to identify the state of a commercial company at a given time, in order to prevent its insolvency and to take the necessary measures to ensure the settlement of obligations and restore the financial balance."[14]

The financial balance of the financial position reflected in the balance sheet, receives new valences and takes the following *forms*. It is reflected by the degree of assurance of the company's ability to pay in the short term first and then in the long term, quantified with the help of *liquidity and solvency indicators.*

The solvency of the company represents its possibility to pay all its debts, after the full capitalization of the assets, in a certain period. "Solvency is the ability of a legal person to pay its debts to creditors at maturity."[15]

It is expressed using the accounting net assets (AnA), calculated as the difference between Total assets and Total liabilities, which must be greater than zero, meaning:

$$AnA = TA - TL > 0$$

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[11] Nancu, Dumitru (2012). „Evaluarea economica si financiara a intreprinderii". Ovidius Univeristy Faculty of Economics. p. 52

[12] Achim, Monica Violeta. (2009). „Diagnostic economico- financiar", FSEGA-UBB, Cluj-Napoca, p. 172

[13] Medinschi, Silvia, (2003). „Performanțele întreprinderii și gestiunea financiară". Orizonturi Universitare Publishing House, Timișoara. p. 75

[14] Iosif, Gh. N. (2013). „Diagnosticul lichidității, solvabilității și al capacitații de plata". Tribuna Economică Magazine nr. 51-52. p. 123

[15] Gostin, Cecilia. (2018). „Elemente de economie și analiză financiară a întreprinderii pe bază de bilanț". Project "Abordarea provocărilor generate de noua legislație a muncii și a dialogului social în România" p.25

Immediate solvency, also called the payment capacity, expresses the situation of the financial means available at any given time or for a short period of time (15-30 days), in relation to the payment obligations outstanding during the same period. It is calculated as follows:

$$IS = Ca - Ob$$

where:

IS – represents immediate solvency (payment capacity);

Ob – current obligations, consisting of: debts to suppliers, personnel, budget, banks and other creditors outstanding during the period considered.

In relative terms, solvency can be determined using two coefficients, namely:

- solvency coefficient $Sk = [(Ca + R + C^{'}) / Op']*100$

- payment capacity coefficient $Pk = [(Ca + C) / Ob]*100$

where:

Ca – represents the actual cash availability, existing in the bank accounts and in the cash register of the company;

I – the receipts that will be made during the analyzed period;

C'– the credits that will be obtained during the analyzed period;

Ob – immediate outstanding payments;

Ob' – payments that will become outstanding during the analyzed period.

The company will have a balanced financial position if these indicators have a value of at least 100, meaning Sk (Pk) ≥100

Liquidity is the property of patrimonial elements (the material part of the capital) to convert into money, and the "*liquidity coefficients* that can be calculated are the following: general liquidity, reduced liquidity and immediate liquidity".[16]

The following liquidity indicators are used in the economic assessment studies:

a) *general liquidity coefficient* (GL), general liquidity coefficient (GL), which is calculated as a ratio between total current assets and short-term debts, as in:

$$GL = CA / StD$$

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[16] Buglea, Alexandru. (2010). „Diagnosticul și evaluarea întreprinderii". Mirton Publishing House, Timișoara p. 76

b) *reduced liquidity coefficient* (RL), which is calculated as a ratio between current assets (less stocks) and short-term debts, as in:

$$RL = (CA – St) / StD$$

c) *immediate liquidity coefficient* (IL), which is calculated as a ratio between cash availability and short-term debts, as in:

$$IL = Ca / StD$$

In order to have a good liquidity situation all these coefficients must have values greater or equal to 1.

"The **degree of indebtedness** is the ability of a company to maintain its financial balance and is dependent on the capital structure"[17] and expresses the relationship between borrowed capital and equity. It can be calculated using the following indicators:

- *the fixed-term indebtedness ratio (FtIR)*, as a ratio between long-term debt and permanent capital, as in:

$$FtIR = MLtD/PmC$$

where:
MLtD– represents medium and long-term debts;
PmC – permanent capital.

The value of this indicator must be $\leq 0,5$.

- *the coefficient of global indebtedness (GIR)*, as a ratio between short-term debts and permanent capital, that is:

$$GIR = StD / PmC$$

The value of this indicator must be $\leq 0,5$

CASE STUDY

1 Analysis of working capital, working capital requirement and net treasury

For the analysis of the working capital, the data presented in table 1 are used.

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[17] Spineanu-Georgescu Luciana (2013). „Analiză economico-financiară. Note de curs", Spiru Haret University, București, p. 130

<div style="text-align:right">Table 1</div>

Analysis of working capital

Item no.	Indicators	Symbol	Values previous year	Values current year	Differences (+/-)
1.	Permanent capital	PmC	259.120	344.800	85.680
2.	Fixed assets	FA	132.138	230.569	98.431
3.	*Net working capital (rd. 1- rd. 2)*	*NWC*	*126.982*	*114.231*	*-12.751*
4.	Current assets – total, of which:	CA	153.334	181.619	28.285
	- stocks	St	70.678	101.142	30.464
	- receivables	Re	45.878	44.036	-1.842
	- cash availability	Ca	36.778	36.441	-337
5.	Short-term debts, total, of which:	StD	26.352	67.388	41.036
	- suppliers	Spp	18.861	22.479	3.618
	- other debts	Od	7.491	11.338	3.847
	- current bank loans	CbL	0	33.571	33.571
6.	*Working capital requirement [(r.4 – Ca) – (r. 5 - CbL)]*	*WCR*	*90.204*	*111.361*	*21.157*
7.	*Net treasury balance (r. 3-r.6)*	*NTB*	*36.778*	*2.870*	*-33.908*

From the analysis of the data presented in table 1 it is observed that the company has a positive net treasury balance (net treasury), both in the previous year and in the current year. But the evolution of this indicator is decreasing, from 36.778 lei, in the previous year, to 2.870 lei in the current year, so with -33,908 lei. This is presented graphically in Figure 4.
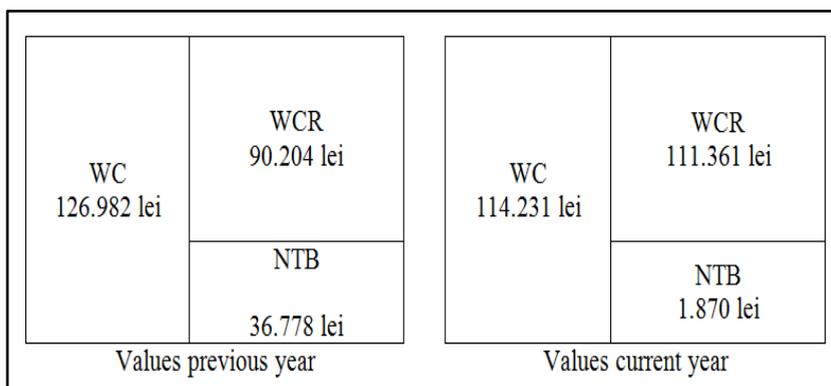

Figure 4: *Graphical representation of the evolution of net treasury balance*

The analysis can be further explored by quantifying the influence of factors on the modification of net treasury. To do this, the following calculation formula shall be used:

NT = NWC – WCR.

The total modification of the analyzed indicator will be:

$\Delta NT = NT_1 - NT_0 = 2.870$ lei $- 36.778$ lei $= -33.908$ lei.

In order to determine the influence of the two factors, the size of the net working capital (NWC) and the size of the working capital requirement (WCR), the chain substitution method will be applied in the case of sum or difference relationships between the factors of the analyzed phenomenon.

1. The influence of changes in the net working capital:

$\Delta NT_{(NWC)} = NWC_1 - NWC_0 = 114.231 - 126.982 = -12.751$ lei

2. The influence of changes in the working capital requirement:

$\Delta NT_{(WCR)} = (-WCR_1) - (-WCR_0) = -111.361 - (-90.204) = -21.157$ lei

$\Delta NT_{(NWC)} - \Delta NT_{(WCR)} = -12.751 + (-21.157) = -33.908$ lei $= \Delta NT$

Therefore, the algebraic sum of the partial influences of the influence factors is equal to the total modification of the analyzed indicator.

The analysis can be further developed by determining the influence of the indirect factors of the first degree.

The modification of the net working capital is determined by the change of permanent capital and of fixed assets, according to the relation NWC = PmC - FA. The influence of the modification of these factors on the change of the net working capital is determined as follows:

1) The influence of changes in the size of permanent capital:

$\Delta NWC_{(PmC)} = PmC_1 - PmC_0 = 344.800 - 259.120 = 85.860$ lei

2) The influence of changes in the size of fixed assets:

$\Delta NWC_{(FA)} = (-FA_1) - (-FA_0) = -230.569 - (-132.138) = -98.434$ lei

$\Delta NWC_{(PmC)} - \Delta NWC_{(FA)} = 85.860 + (-98.434) = -12.571 = \Delta NT_{(NWC)}$

So, the sum of the partial influences of the factors is equal to the total modification of the indicator.

The change in working capital requirement (WCR) is determined by the change in the size of current assets, cash availability, short-term debts and current bank loans, according to the relationship: WCR = (CA - Ca) - (StD - CbL). The influence of these factors on the change of the net working capital is determined as follows:

1) The influence of changes the size of current assets:

$$\Delta WCR_{(CA)} = CA_1 - FA_0 = 181.619 - 153.334 = 28.285$$

2) The influence of changes in cash availability:

$$\Delta WCR_{(Ca)} = (-Ca_1) - (-Ca_0) = (-36.441) - (-36.778) = 337$$

3) The influences of changes in the size of short-term debts:

$$\Delta WCR(_{StD}) = -StD_1 - (-StD_0) = -67.388 - (-26.352) = -41.036$$

4) The influence of changes in current bank loans:

$$\Delta WCR(_{CbL}) = CbL_1 - CbL_0 = 33.571 - 0 = 33.571$$

$$\Delta WCR_{(CA)} + \Delta WCR_{(Ca)} + \Delta WCR(_{StD}) + \Delta WCR(CbL_)) =$$
$$28.285 + 337 - 41.036 + 33.571 = 21.157 = \Delta WCR$$

Therefore, the sum of the partial influences of the factors is equal to the total modification of the indicator.

Changes in the size of current assets and short-term liabilities can also be broken down, in turn, into factors of influence. In this purpose, the following mathematical models will be used:

$$\textbf{CA = St + Re + Ca} \quad \text{and} \quad \textbf{StD = Spp + Od + CbL}$$

Applying the method of chain substitutions to the mathematical model of the relation $CA = St + Re + Ca$, the following influences of factors on the change of the size of the current assets are obtained:

a) The influence of changes in the size of stocks:

$$\Delta CA_{(St)} = (St_1 - St_0) = 101.142 - 70.678 = 30.464 \text{ lei}$$

b) The influence of changes in the size of receivables:

$$\Delta CA_{(Re)} = (Re_1 - Re_0) = 44.036 - 45.878 = -1.842 \text{ lei}$$

c) The influence of changes in cash availability:

$$\Delta CA_{(Ca)} = (Ca_1 - Ca_0) = 36.441 - 36.778 = -337 \text{ lei}$$

$$\Delta CA_{(St)} + \Delta CA_{(Re)} + \Delta CA_{(Ca)} = 30.364 - 1.842 - 337 =$$
$$28.285 = \Delta CA$$

So, the sum of the partial influences of the factors is equal to the total modification of the indicator.

Applying the method of chain substitutions to the mathematical model from the relation StD = Spp + Od + CbL, the following influences of the factors on the change regarding short-term debts are obtained:

a) The influence of changes in the size of debts toward suppliers:

$$\Delta StD_{(Spp)} = (Spp_1 - Spp_0) = 22.479 - 18.861 = 3.618 \text{ lei}$$

b) The influence of changes in the size of other debts:

$$\Delta StD_{(Od)} = (Od_1 - Od_0) = 11.338 - 7.491 = 3.847 \text{ lei}$$

c) The influence of changes in the size of current bank loans:

$$\Delta StD_{(CbL)} = (CbL_1 - CbL_0) = 33.571 - 0 = 33.571 \text{ lei}$$

$$\Delta StD_{(Spp)} + \Delta StD_{(Od)} + \Delta StD_{(CbL)} = 3.618 + 3.847 + 33.571 = 41.036 \text{ lei} = \Delta StD$$

Therefore, the sum of the partial influences of the factors is equal to the total modification of the indicator.

The influences of the direct and indirect factors on the modification of the net treasury are graphically represented as follows:
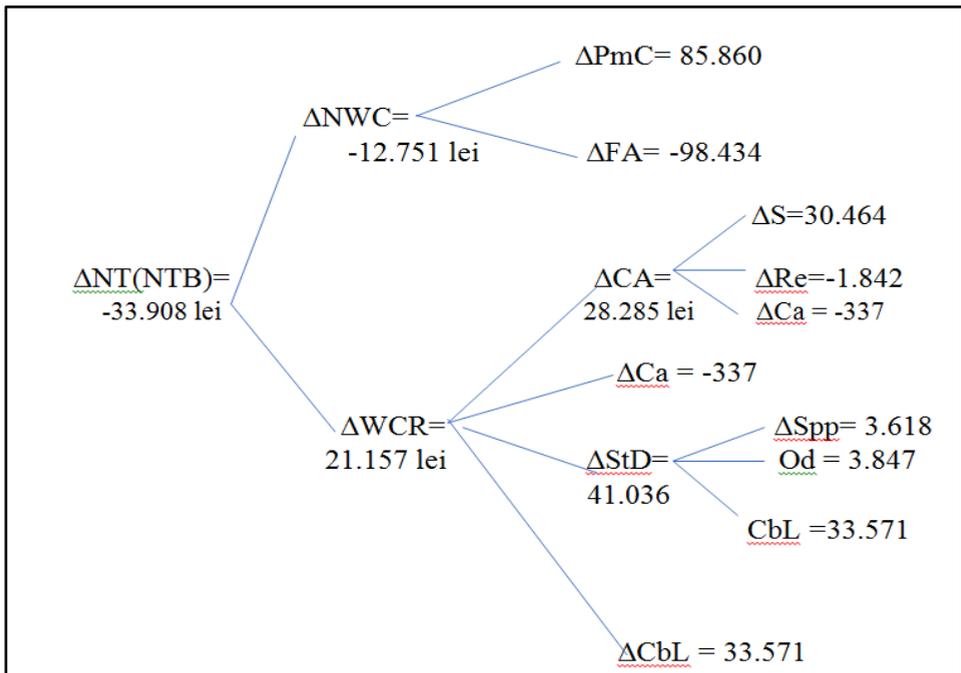

Figure 5: Graphical representation of influencing factors of the net treasury

Therefore, the decrease of the net treasury by 33.908 lei occurs both due to the reduction of the net working capital by 12.751 lei, as well as to the increase of the working capital requirement by 21.157 lei.

The reduction of the net working capital is due to the decrease of fixed assets by 98.434 lei, while the permanent capital increases by only 85.860 lei.

The working capital requirement increases by 21.157 lei, due to the growth of the volume of current assets by 28.285 lei and the decrease of the cash availabilities by 337 lei, on the one hand, and the increase of short-term debts by 41.036 lei, simultaneous with the growth of the current bank loans with 33.571 lei.

We can conclude that the financial balance of the analyzed company is maintained in the current year, but with a significant reduction of the net treasury, from 33.778 lei, in the previous year, to only 2.870 lei, in the current year, which means 92, 2% in relative terms.

For the analysis of the correlation between working capital and current assets in the case of the company under review, the data from Table 2 are used.

Table 2

Analysis of the correlation between working capital and current assets

Item no.	Indicators	Values previous year	Values current year	Deviations (+/-)
1.	Net working capital	126.982	114.231	-12.751
2.	Current assets	153.334	181.619	28.285
3.	Stocks	70.678	101.142	30.464
4.	The coverage rate of current assets (%) (r. 1/r.2) *100	82,81	62,90	-19,91
5.	The coverage rate of stocks (%) (r. 1/r.3) *100	179,66	112,94	-66,72

From the data calculated in Table 2 we can observe an unfavorable evolution of the two rates. Thus, the coverage rate of current assets decreases by 19,91%, and the coverage rate of stocks decreases by 66,72%.

The causes of this unfavorable evolution are both the decrease of the working capital and the increase of the volume of assets, on the one hand, and of the stocks, on the other.

But, the value of these two rates remains quite high, the coverage rate of current assets is 62,91% in the current year, and the coverage rate of stocks is 112,94%.

2 Analysis of the company's degree of indebtedness

The evolution of the indebtedness indicators is presented in table 3.

Table 3

Evolution of the indebtedness degree indicators

Item no.	Indicators	Values previous year	Values current year	Differences (+/-)
1.	Medium and long-term debt	544.179	535.907	-8.272
2.	Short-term debt	26.352	67.388	41.036
3.	Permanent capital	259.120	344.800	85.680
4.	Fixed-term indebtedness ratio (r. 1/ r. 3)	2,10	1,55	-0,55
5.	Coefficient of global indebtedness (r. 2/ r. 3)	0,10	0,19	0,09

The following conclusions can be drawn from the values calculated in Table 3:
- the fixed-term indebtedness ratio is above the optimum level of 0,5, which means a high degree of term debt;
- the global indebtedness ratio has values below the optimal level, so a small degree of global indebtedness.

3. Analysis of solvency and liquidity

The evolution of the solvency and liquidity indicators is presented in Table 4.

From the analysis of the indicators calculated in Table 4, the following conclusions regarding the solvency and liquidity of the analyzed company are derived:
- *accounting net assets* are negative, both in the previous year and in the current year, which means that the company is insolvent, because the total liabilities are higher than the total assets;
- *general liquidity* is higher than 1, so short-term debts can be paid from the capitalization of the total current assets, but the evolution of this indicator is unfavorable, its value in the current period being lower by 3,15 than in the previous period;
- *reduced liquidity* is greater than 1, so from the collection of receivables plus the existing cash availabilities, the company can pay its debts in the short term, the evolution of the indicator being unfavorable, its value being 1,95 lower in the current period compared to the base period;

- *immediate liquidity* is over-unity, in the basic period and sub-unitary in the current period (0,54), so the existing availability in the current period covers only 54% of the short-term debts.

Table 4

The evolution of solvency and liquidity indicators

Item no.	Indicators	Values previous year	Values current year	Differences (+/-)
1.	Current assets	153.334	181.619	28.285
2.	Stocks	70.678	101.142	30.464
3.	Receivables	45.878	44.036	-1.842
4.	Cash availability	36.778	36.441	-337
5.	Short-term debts	26.352	67.388	41.036
6.	Total liabilities	570.531	603.295	32.764
7.	Total assets	285.472	412.188	126.716
8.	*Accounting net assets (r.7-r.6)*	*-285.059*	*-191.107*	*93.952*
9.	*General liquidity (r.1/ r.5)*	*5,82*	*2,70*	*-3,15*
10.	*Reduced liquidity (r.1-r2) /r.5*	*3,14*	*1,19*	*-1,95*
11.	*Immediate liquidity (r.4/ r.5)*	*1,40*	*0,54*	*-0,86*

CONCLUSIONS

The size of the net working capital depends on the following factors:
- the size of the company's equity;
- the size of assets in the financial balance sheet
- the investment policy adopted.

An increase of the working capital can be obtained by:
- raise the share capital (by issuing new shares or by subscribing to additional capital);
- increase own funds (through self-financing);
- divestment of unused assets;
- increase borrowed capital in the long and medium term;

The increase of the working capital through these means becomes real only if these additional amounts are not used for new investments.

The working capital requirement depends on the following factors:
- the size of stocks;
- the value of receivables;
- the possibility of the company to obtain commercial loans from suppliers;
- the terms accepted for various payments of obligations to the state, personnel, shareholders/ associates, various creditors.

The greater the need for working capital, the more short-term financial resources the company needs, which are even more expensive. These require financial expenses that diminish the company's self-financing capacity by reducing the profitability.

The net treasury balance (net treasury) depends on the following factors:

- the volume of revenues obtained from sales;
- the rate of collection of receivables;
- the company's ability to negotiate trade effects;
- immediate payment needs;
- the firm's credibility with banks.

The financial balance is achieved when the company has a satisfying NWC, to ensure both the working capital requirement (WCR) and a positive net treasury balance (NTB).

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