

# FINANCIAL BALANCE ANALYSIS FROM A PATRIMONIAL PERSPECTIVE IN A BAKERY-TYPE COMPANY

**Cristina Mihaela NAGY**  
**Claudia Adina GLIGOR-MAȘCAȘ**

**Abstract:** *The assessment of the financial structure in terms of financial balance is a concern of great interest to both the entity and its economic partners. Given the diversity of users and their varied information needs, the entity aims to identify the strengths and weaknesses of the management of the financial structure, highlight the causes of financing difficulties and evaluate its ability to cover its financial needs. In this context, the main objective of any entity is to maximize its value, which can only be achieved by supporting an optimal financial structure and financial balance.*

**Keywords:** *Financial balance in patrimonial, net position, working capital, working capital requirement and net treasury*

## 1. INTRODUCTION

“Financial Balance expresses the equality and correlations between the need for financial resources and the possibilities of collecting these resources. This balance is ensured by the manner in which the entity’s assets are used.

The analysis of the financial balance of the company’s patrimony aims to reflect the equality relations between the sources of financing and the uses of financial resources, between the income and expenses related to the conduct of the company’s activity in the long, medium, and short term.”<sup>7</sup>

“Financial balance is based on three main rules:

a) The minimum financial balance rule requires that the resources used to finance the assets remain at the disposal of the company for a period that must correspond at least to that of immobilization.

b) The maximum indebtedness rule implies the existence of two limits: the amount of term debts must not exceed the amount of equity, and

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<sup>7</sup> Ciumac, Maria - Echilibrul financiar al întreprinderii, [https://ibn.idsi.md/sites/default/files/imag\\_file/209-211\\_6.pdf](https://ibn.idsi.md/sites/default/files/imag_file/209-211_6.pdf), accesat 18.11.2022 (The financial balance of the enterprise, [https://ibn.idsi.md/sites/default/files/imag\\_file/209-211\\_6.pdf](https://ibn.idsi.md/sites/default/files/imag_file/209-211_6.pdf), accessed 18.11.2022)

the amount of medium and long-term debts should not exceed the average self-financing related to a period of 3 years. These limits make indebtedness take place under certain conditions; the banks will not be able to accept the exceeding of these indebtedness limits in order not to increase unjustifiably the risk of insolvency of the bank's clients.

c) The maximum financing rule is based on the principle that for any investment operation, undertaken by the company, the use of debt must not exceed a percentage of the amount of the planned investment, and, in practice this percentage can be between 50 and 75% of the investment value without VAT, which corresponds to 85,5% of the amount including VAT.”<sup>8</sup>

“For most companies, financial resources are a constraint in achieving strategic goals. Considering this fact, an essential goal of the balance sheet analysis is the assessment of the measure in the financial structure chosen by the company, namely, the financial resources, cover the financing needs reflected in the balance sheet asset. This is achieved through a horizontal balance sheet analysis known as financial balance analysis, from which several classical indicators for the balance sheet study are born: *net position, working capital, working capital requirement and net treasury.*”<sup>9</sup>

## 2. ANALYSIS OF THE FINANCIAL BALANCE IN PATRIMONIAL OPTICS AT ZETA COMPANY SRL

ZETA SRL is a micro-enterprise established in 2016, having a share capital of 200 lei, and the main NACE code is 1071 - “Fabrication of bread, manufacture of cakes and fresh pastries”. The products are traditional Serbian (Burek). The administrator and associates in the company are all Serbian citizens, who learned the Romanian language, and opened their business in Oradea.

The analysis of the financial balance of ZETA SRL company will be conducted based on some indicators determined using the information from the balance sheet, namely:

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8 Grigorescu, Dana Luiza (2019). Model de analiza poziției financiare a întreprinderii. Revista Română de Statistică - Supliment nr. 8. Disponibil [https://www.revistadestatistica.ro/supliment/wp-content/uploads/2019/08/rsss\\_08\\_2019\\_A04\\_RO.pdf](https://www.revistadestatistica.ro/supliment/wp-content/uploads/2019/08/rsss_08_2019_A04_RO.pdf) p. 88-89 (Model for analyzing the company's financial position. Romanian Journal of Statistics - Supplement no. 8. Available [https://www.revistadestatistica.ro/supliment/wp-content/uploads/2019/08/rsss\\_08\\_2019\\_A04\\_RO.pdf](https://www.revistadestatistica.ro/supliment/wp-content/uploads/2019/08/rsss_08_2019_A04_RO.pdf), pp. 88-89)

9 Țușu, Ștefaniță (2016). Analiză economico-financiară-Curs pentru învățământ la distanță, Universitatea „Ștefan cel Mare” Suceava. Facultatea de Științe Economice și Administrație Publică, p. 126 (Economic-financial analysis – Course for distance learning, University “Ștefan cel Mare” Suceava. Faculty of Economic Sciences and Public Administration, pp. 126)

- Net situation (NS)
- Working capital (WC)
- Working capital requirement (WCR)
- Net treasury (NT)
- Cash flow (CF)

### 2.1. Determination of the net situation of ZETA SRL company

With the help of the total assets and total debts indicators, we will be able to calculate the net situation of the ZETA SRL company in the period 2019-2022, which is presented in table 1.

Table no. 1 NET SITUATION – calculations

	DESCRIPTION	PERIOD OF ANALYSIS			
		2019	2020	2021	2022
<b>1</b>	Total assets (At)	208.184	481.619	215.946	699.231
<b>2</b>	Total debts (Dt)	170.742	739.107	350.625	981.362
<b>3</b>	<b>Net situation (1-2)</b>	37.442	-257.488	-134.679	-282.131

*Source: Annual financial statements and own calculations*

From the table presented above it is noted that the net situation of ZETA SRL is positive only in 2019, with a value of 37.442 lei, this being the highest value recorded. Starting with 2020, the value of this indicator becomes negative, decreasing from - 257.488 lei to - 134.679 lei in 2021, marking a decrease of 122.809 lei. At the end of the analysis period, the negative value of the net situation increases by 147.452 lei, thus reaching the highest negative value.

The negative value of the net situation reflects a state of pre-bankruptcy as a result of closing the previous fiscal years with losses.

### 2.2. Determination of the working capital of ZETA SRL company

In the following table we present the indicators used for the calculation of the working capital within ZETA SRL company from 2019-2022, calculation which is performed in two ways.

We observe from Table 2 that the working capital of ZETA SRL has a permanent regressive trend and positive values only in the first half of the analyzed period: 115.052 lei in 2019 and 114.527 lei in 2020 (decreasing by 0,46% compared to the previous year), and in the second half of the period negative values (-212.528 in 2021 and -520.399 lei in 2022, being in regres-

sion with -307.871 lei compared to the previous year). The most significant changes of this indicator are the decrease of 333.258 lei registered in 2021 and the decrease of 316.721 lei from 2022.

Table no. 2 WORKING CAPITAL – calculations

	DESCRIPTION	PERIOD OF ANALYSIS			
		2019	2020	2021	2022
1	Equity	37.442	-257.488	-134.679	-282.131
2	Medium- and long-term debt	106.399	624.850	115.888	76.647
3	<b>Permanent capital (1+2)</b>	<b>143.841</b>	<b>367.362</b>	<b>-18.791</b>	<b>-205.484</b>
4	Provisions	0	0	0	0
5	Subsidies for investments	0	0	0	0
6	Fixed assets	28.789	252.835	193.737	314.915
7	<b>Working capital (3+4+5-6)</b>	<b>115.052</b>	<b>114.527</b>	<b>-212.528</b>	<b>-520.399</b>
8	Current assets	179.395	228.784	22.209	384.316
9	Deferred expenses	0	0	0	0
10	Deferred income	0	0	0	0
11	Short term debts	64.343	114.257	234.737	904.715
12	<b>Working capital (8+9-10-11)</b>	<b>115.052</b>	<b>114.527</b>	<b>-212.528</b>	<b>-520.399</b>

Source: Annual financial statements and own calculations

We can conclude that the positive value of the working capital of ZETA SRL, from the first half of the analyzed period (2019-2020), reflects a favorable characteristic for the company, allowing it to reach an optimal level of current assets vital to its activity (minimal stocks, minimum cash fund), short-term debts being lower than the current asset (Net circulating asset > Debts under 1 year).

The negative values of the working capital in the second half of the period (2021-2022) indicate that a percentage of the fixed assets are financed from current debts, this shows an incapacity of permanent resources to finance the permanent need.

The causes of the negative result are the decrease of the permanent capital, as a result of the repayment of loans, or the decrease of the equity.

### 2.3. Determination of the Working Capital Requirement (WCR) of ZETA SRL

The working capital requirement (need) is a financial value that reflects the volume of financial resources needed to cover the costs of the production cycle, future operational expenses, and debt repayments.

From Table 3 it can be observed that during the period 2019-2022 the cyclical assets of ZETA SRL have an oscillating trend and positive values. The most significant changes that they have undergone are the spectacular decrease of 98,44% since 2021 when the lowest value of 3.377 lei of cyclical assets is reached, and the colossal increase of 99,05% from the following year, when the highest value of 356.629 lei from the analysis period is recorded.

The cyclical liabilities present a permanent upward trend, as a result of which their value reaches from 64.343 lei in 2019 to 904.715 lei due to the important increases of 51,33% from 2021, and 74,05% from 2022.

It can be seen from the table presented previously (Table no. 3) that the working fund requirement shows a downward trend, having positive values of 113.756 lei (this being the highest value) in 2019 and of 101.898 lei in 2020, when a decrease of 10,42% occurs. Starting with 2021, the values of the working capital requirement (need) become negative, following dramatic decreases such as the 55,96% of 2021 and the 57,79% of 2022, when it reaches the lowest value of - 548.086 lei.

The positive values from the first half of the reference period (2019-2020) of the ZETA SRL company's working capital requirement reflect an investment policy, defined by the progress of the need to subsidize the operating period, and increase sales. Conjuncture that is beneficial if it reappears as a consequence of the advance of receipts, accelerations of the rotation of current assets and the relaxation of payments.

Table no. 3 Working capital requirement – calculations

	DESCRIPTION	PERIOD OF ANALYSIS			
		2019	2020	2021	2022
1	Current assets	179.395	228.784	22.209	384.316
2	Petty cash and bank accounts	1.296	12.629	18.832	27.687
3	Deferred expenses	0	0	0	0
<b>4</b>	<b>Cyclical assets (1-2+3)</b>	<b>178.099</b>	<b>216.155</b>	<b>3.377</b>	<b>356.629</b>
5	Short term debts	64.343	114.257	234.737	904.715
6	Current bank loans	0	0	0	0
7	Deferred income	0	0	0	0
<b>8</b>	<b>Cyclical liabilities (5-6+7)</b>	<b>64.343</b>	<b>114.257</b>	<b>234.737</b>	<b>904.715</b>
<b>9</b>	<b>WCR (4-8)</b>	<b>113.756</b>	<b>101.898</b>	<b>-231.360</b>	<b>-548.086</b>

Source: Annual financial statements and own calculations

The negative values in the second half of the analysis period (2021-2022) of the working capital requirement of ZETA SRL company reflect the fact that there is a shortage of temporary resources as a result of temporary needs that exceed cyclical sources.

**2.4. Determination of the net treasury (NT) of the ZETA SRL company**

The net treasury (NT) reflects the image of monetary availability and short-term investments arising from the current evolution of receipts and payments or the placement of monetary surplus.

Table no. 4 Net treasury – calculations

	DESCRIPTION	PERIOD OF ANALYSIS			
		2019	2020	2021	2022
1	Working capital	115.052	114.527	-212.528	-520.399
2	Working capital requirement	113.756	101.898	-231.360	-548.086
3	<b>Net Treasury TN (1-2)</b>	<b>1.296</b>	<b>12.629</b>	<b>18.832</b>	<b>27.687</b>

*Source: Own calculations*

In Table 4 we see that during the entire analyzed period (2019-2022) the net treasury of the company ZETA SRL presents a progressive trend and positive values ranging between 1.296 lei and 27.687 lei. The main transformations tolerated by this indicator are the impressive ascent of 89,74% in 2020, and 68,02% in 2022.

The positive values of the net treasury determine a convenient conjuncture for ZETA SRL considering the financial capitalizations acquired from fixed sources.

**2.5. Determination of the cash-flow (CF) of the ZETA SRL company**

Table no. 5 Cash-flow – calculations.

	DESCRIPTION	PERIOD OF ANALYSIS		
		2019-2020	2020-2021	2021-2022
1	NET TREASURY <sub>0</sub>	1.296	12.629	18.832
2	NET TREASURY <sub>1</sub>	12.629	18.832	27.687
3	<b>CASH FLOW = NT1 - NT0 (2-1)</b>	<b>11.333</b>	<b>6.203</b>	<b>8.855</b>

*Source: Own calculations*

We note from the table presented above that in the period 2019-2022 the cash-flow value of ZETA SRL is positive and shows an oscillating trend.

The most important fluctuations being the marked decrease of 45,27% from the year 2020 (the moment when the lowest value of 6.203 lei of this indicator is recorded) and the major increase of 29,95% from the year 2022. The positive financial flow of the cash flow is determined by the company’s management operation, which represents a possible monetary fee that the shareholders of the company can benefit from.

### 3. ANALYSIS OF THE FINANCIAL BALANCE BASED ON LIQUIDITY AND SOLVENCY RATES

#### 3.1 LIQUIDITY ANALYSIS of ZETA SRL company

a) **General Liquidity (GLq)** expresses the relation between current assets and short-term financial liabilities.

Table no. 6 The general liquidity of ZETA SRL company – calculations

	DESCRIPTION	PERIOD OF ANALYSIS			
		2019	2020	2021	2022
1	Current assets (CA)	179.395	228.784	22.209	384.316
2	Short-term debts (STD)	64.343	114.257	234.737	904.715
3	<b>General liquidity (1/2) ≥ 2</b>	<b>2,79</b>	<b>2,00</b>	<b>0,09</b>	<b>0,42</b>

*Source: Annual financial statements and own calculations*

It can be observed from Table 6 that in the first two years of analysis, the general liquidity of ZETA SRL is above unit, namely 2,79 in 2019 and 2,00 in 2020, following a decrease of 0,79. In the last two years of analysis, the value of this indicator is subunit, decreasing drastically by 1,91 in 2021, at which point it reaches a value of only 0,09. In 2022, although its value is increased by 0,33, it remains far below the level.

The general liquidity values that are above the optimal threshold of 2 mean that ZETA SRL company has the ability to pay its monetary obligations, performed and removed, to third parties. However, the subunit values of the last two years reflect the inability of the company concerned to pay its debts.

b) **Current liquidity (CLq)** reflects the ability of current assets to translate into cash in a brief period to compensate eligible current debts, it is considered profitable when it is above unit (between 2-2.5).

It is noted from Table 7 that in the period 2019-2022, the current liquidity has subunit but positive values ranging from 0,053 to 0,251. The most remarkable changes being the 0,198 ascent in 2020 and the decline of 0,159 as of 2021.

The fact that in the period 2019-2022 the current liquidity of ZETA SRL company has values below the optimal level (which is 2 - 2,25) signifies the inability to pay without resorting to long-term resources or new loans.

Table no. 7 The current liquidity of the company ZETA SRL – calculations

	DESCRIPTION	PERIOD OF ANALYSIS			
		2019	2020	2021	2022
1	Current assets (CA)	179.395	228.784	22.209	384.316
2	Inventories (In)	175.959	200.065	690	299.332
3	Short-term debts (STD)	64.343	114.257	234.737	904.715
4	<b>Current liquidity (CA-In)/STD</b>	<b>0,053</b>	<b>0,251</b>	<b>0,092</b>	<b>0,094</b>

Source: Annual financial statements and own calculations

**c) Instant liquidity (ILq)** reflects the degree to which the company covers short-term debts from current assets.

Table no. 8 Immediate liquidity of ZETA SRL – calculations

	DESCRIPTION	PERIOD OF ANALYSIS			
		2019	2020	2021	2022
1	Investments	0	0	0	0
2	Cash availability	1.296	12.629	18.832	27.687
3	Short-term debts (STD)	64.343	114.257	234.737	904.715
4	<b>Instant liquidity (1+2)/3</b>	<b>0,02</b>	<b>0,11</b>	<b>0,08</b>	<b>0,03</b>

Source: Annual financial statements and own calculations

In Table 8 we can note that the immediate liquidity of ZETA SRL although it has the positive values, they are far below the optimal level (0,2 - 0,6), which reflects the critical state of the company, due to receivables with short collection period or inventories with high rotation speed.

The most significant changes in the immediate liquidity being the increase of 0,09 from the year 2020 and the decrease of 0,05 from 2022.

**d) Visible liquidity (VLq)**, also called payment capacity, determines the ability of the company to honor the debts due immediately, with the help of cash availability (including securities).



Table no. 9 Visible liquidity of ZETA SRL – calculations

	DESCRIPTION	PERIOD OF ANALYSIS			
		2019	2020	2021	2022
1	Cash availability	1.296	12.629	18.832	27.687
2	Short term bank loans	0	0	0	0
3	<b>Visible liquidity (1/2)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

*Source: Annual financial statements and own calculations*

We can see from the table presented above (Table no. 9) that during the entire period under analysis, the sight liquidity of the ZETA SRL company is zero, because the company does not have short-term bank loans.

### 3.2 SOLVENCY ANALYSIS of the company ZETA SRL

GENERAL SOLVENCY RATIO indicates the degree to which a company can meet its debts and constitutes the financial condition of the company’s survival.

Table no. 10 General solvency ratio – calculations

	DESCRIPTION	PERIOD OF ANALYSIS			
		2019	2020	2021	2022
1	Total assets (TA)	208.184	481.619	215.946	699.231
2	Total debt (TD)	170.742	739.107	350.625	981.362
3	<b>General solvency ratio (1/2)</b>	<b>1,22</b>	<b>0,65</b>	<b>0,62</b>	<b>0,71</b>

*Source: Annual financial statements and own calculations*

From Table 10 it can be seen that the general solvency ratio of ZETA SRL shows a downward trend in the first three years of analysis, with positive values between 1,22 and 0,62, but subunit (optimal level  $\geq 2$ ). In 2022, the general solvency ratio recorded a slight increase of 0,09, reaching 0,72, but still well below the ideal value.

The subunit values of the general solvency ratio within ZETA SRL company reflect the inability of the company to pay its debts without resorting to new loans or long-term funds.

EQUITY SOLVENCY RATIO defines the evolution of company assets compared to total debts.

Table no. 11 Equity solvency ratio – calculations

	DESCRIPTION	PERIOD OF ANALYSIS			
		2019	2020	2021	2019
1	Equity	37.442	-257.488	-134.679	-282.131
2	Total assets	208.184	481.619	215.946	699.231
3	<b>Equity solvency ratio (1/2) * 100</b>	<b>17,99</b>	<b>-53,46</b>	<b>-62,37</b>	<b>-40,35</b>

*Source: Annual financial statements and own calculations*

In Table 11, it is highlighted that in the period 2019-2022, ZETA SRL's equity solvency rate manifests a fluctuating trend, ranging from the only positive value of 17,99 (in 2019) to -40,35 in 2022. The most relevant changes of this rate being the eminent decrease of 71,45 from 2020 when its value reaches - 53,46 and the significant increase of 22,02 from the year 2022 as a result of which it reaches -40,35. The rate of equity solvency with values below the admissible limits highlights a financial imbalance that does not allow the company to cover the debts from the net asset, and the long-term liabilities from the equity.

#### 4. CONCLUSIONS

Financial balance is achieved when the need for financial resources matches the ability to obtain them. It reflects a harmony between the components of a system, and in the financial context, it refers to the alignment of available resources with financial needs.

The conclusions drawn from the case study converge towards the same result. The negative value of the net situation indicates a pre-bankruptcy state, resulting from losses recorded in previous fiscal years. The negative values of the working capital in the second half of the period (2021-2022) suggest that part of the fixed assets is financed by current debts, signifying the inability of permanent resources to finance permanent needs. The causes of this situation include the decrease in permanent capital, the economic crisis, and the emergence of chain stores in the area, such as Penny and Lidl. The negative values of the working capital requirement in 2021-2022 reflect a shortage of temporary resources, as temporary needs go beyond cyclical sources.

A company's treasury represents monetary availability and short-term investments generated by the evolution of receipts and payments, respectively by the placement of the monetary surplus. The operations of receipts

and payments reflect the activities of the company, being either inflows or outflows of cash.

Net treasury represents the cash available remaining at the disposal of the company after conducting its activity during a fiscal year. In the case of a positive treasury, the working capital and the working capital requirement are both negative, showing that operating resources cover an increased surplus of liquidity and only part of fixed assets.

The analysis of all indicators suggests that the company ZETA SRL has been severely affected by the pandemic and is experiencing imbalances since 2021.

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### *Notes on the authors*

**PhD Associate Professor Cristina Mihaela Nagy** - “Tibiscus” University of Timișoara, Faculty of Economics

**Student Claudia Adina Gligor (Mașcaș)** - “Tibiscus” University of Timișoara, Faculty of Economics